



**REPUBLIC OF UGANDA
LOCAL GOVERNMENT FINANCE COMMISSION**

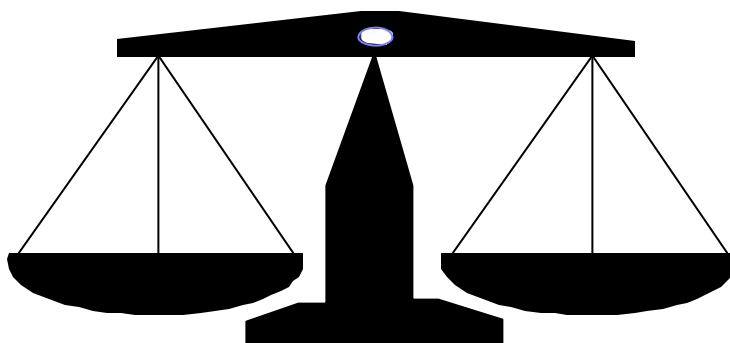


REVENUE SHARING STUDY

Sharing of Expenditure Responsibilities and Revenue Assignments

(Among Local Governments)

“Report on Findings and Recommendations”



**Tasks &
Responsibilities**

Revenues

THE LOCAL GOVERNMENT FINANCE COMMISSION.

Created by the Local Government (Resistance Councils) Statute No. 15 of 1993, Section 44.

Enshrined in the 1995 Uganda Constitution, Article 194.

Enacted in the 1997 Local Governments Act, Sections 75-77.

The Commission was inaugurated in February 1995 by the Minister of Local Government,

Hon. Jaberu Bidandi Ssali.

MISSION STATEMENT.

To establish an equitable system for allocation of financial resources from the consolidated fund to local governments and promote efficient and effective local revenue mobilisation.

ACKNOWLEDGEMENTS.

The role of advising the President on all matters concerning the distribution of revenue between Government and Local Governments; the allocation to each Local Government of money out of the consolidated fund as well as the amount to be allocated as equalization and conditional grants is vested in the Local Government Finance Commission as spelt out in Clause 4 of article 194 of the 1995 Constitution.

In fitting with this constitutional function, the Commission embarked on this study aimed at determining whether deficits exist at different levels of local government and if there is, make recommendations on how to close the fiscal gap. In performing this task, the Commission saw it fit to involve other stakeholders. These consisted of line ministries; ministries of Finance, Planning & Economic Development and Local Government, local government associations and selected local governments.

The Commission is grateful to all people whose involvement in this work contributed to its success. In particular, we would like to thank the representatives of line ministries whose commitment and work in the initial stages of the study contributed to its success. The Commission is also grateful to its group of technocrats led by the Secretary Mr. Lawrence Banyoya who shaped the big volume of data and information collected by this study into workable recommendations.

In particular, we would like to thank Mr. Musa Basajjabalaba, the team leader for this study, who co-ordinated the study, Mr. Adam Babale, Mr. James Ogwang and Mr. Johnson Gumisiriza, who did the analysis AND writing of this report. The Commission is also grateful to Mr. Jesper Steffensen, the International Consultant who provided most technical inputs to this study.

Without some knowledge of international best practices in revenue sharing among governments, this study would have proven a formidable task. In this regard, the Commission wishes to acknowledge with gratitude the role played by the various officials in Government Ministries, Institutions and Local Authorities in the Countries visited by the Commission study team namely India and Nepal. This is in addition to Swaziland, South Africa and Estonia which were visited in the first phase. The Commission also wishes to acknowledge with thanks the help that was extended to them by the host institutions. In particular, we would like to thank the Ministries responsible Local Government in the countries visited.

Thanks also go to all the Chief Administrative Officers, Town clerks, Chief Finance Officers, Sub-County Chiefs, other local government staff and members of LC I, LC II councils and parish development committees of the sample local governments for their co-operation during the data collection process. Similar thanks also go to the entire staff of the Local Government Finance Commission for the support they accorded to the research team during the study.

Last but not least I would like to express gratitude on behalf of the Commission to the Danish Agency for International Development (DANIDA) who funded this work. The Commission is grateful for their continued co-operation and support.

Dr. Dick Odur

Chairman: Local Government Finance Commission

Kampala, June 2002

EXECUTIVE SUMMARY.

Uganda as a country has made several attempts at decentralisation right from the time of independence with varying degrees of success. Previous attempts mainly took the form of decentralisation by deconcentration where lower tiers of government mainly acted as agents of the central government, implementing its programmes and priorities. However, the latest attempt at decentralisation conceived by the current government is different both in focus and depth.

It was conceived in early 1986 with the formation of the Commission of inquiry into the Local Government system. The committee's recommendations later adopted in a government white paper focussed on a devolved system of decentralisation. In this system, local governments would no longer act as mere agents of the central government but rather as separate tiers of governments with the power and capacity to plan for their constituents as well as mobilise and manage the resources required to implement these plans.

Since the time when the foundations of the decentralisation process were laid, a lot of progress has been made on many fronts. For instance, on the political front, political councils representing various political and social interests have been elected at all levels of subnational government through universal adult suffrage. These Councils have executive power and make all the political decisions within the realm of functions legislated as local government functions. At the administrative level, subnational governments have the power to "hire and fire" their employees. Subnational governments are also entitled to formulate plans and implement these in line with the priorities of their constituents.

On the financial front, a number of revenue sources were assigned to local governments as their own sources of revenue and these include among others graduated tax, market dues, property tax, parking fees, licences, fees and permits. Transfers from the central government as well as donor contributions supplement these local sources of revenue.

However, there have been consistent reports from the local governments that the revenues available to them are grossly inadequate and that they (local governments) are barely in a position to pay salaries of their employees, let alone deliver on their mandated functions. It has been argued that tasks and responsibilities have been transferred much faster than the accompanying resources.

In view of the financial limitations of local governments brought about by poor local revenue collection as well as apparent inadequate central transfers to them, it became necessary to study the adequacy of revenue to all levels of local government to perform their mandated functions. The study is divided into two phases. The first phase explored the sufficiency of the revenues at the top echelons of local government i.e districts, municipalities and town councils, whereas the second phase has explored revenue sharing within local governments themselves including administrative units. This report describes the key findings of the second phase.

The Commission is mandated in Article 194 (4) a of the Constitution to advise the President on all matters concerning the distribution of revenue between the government and local governments and the allocation to each local government of moneys out of the consolidated fund. It is on the basis of the premises above that the Commission, with the help of Danida, embarked on a major study aimed at finding out whether indeed there are genuine fiscal deficits at the sub-national governments' level. If there are, of what magnitude and how best resources can be shared among the different levels of government to reduce this deficit.

Objectives of the study

The mission of the Commission is to establish an equitable system for allocation of financial resources from the Consolidated Fund to local governments and promote efficient and effective local revenue mobilisation in order to balance the services devolved to the local governments and resources available to them.

Based on a developed method for measurement of expenditure needs and revenue potential, the second phase of the study has aimed to:

- 1. Clarify the distribution / allocation of revenue between the district/urban councils and the lower levels of governments, including analysis of the legal framework and the revenue sharing in practice.*
- 2. Analyse and compare the costs of services at various levels of government.*
- 3. Analyse the revenue raising capacity of the local governments.*
- 4. Analyse the fiscal gap between the expenditure needs and the revenue raising capacity of the local governments – is the existing fiscal package sufficient for meeting the future financial requirements of each level of local governments?*
- 5. Identify requirements of central government interventions, make conclusions and recommendations for possible changes to the present allocation of revenue sources/revenue sharing system.*

Methodology

The question of revenue sharing between levels of governments was addressed by use of :

Zero base budgeting (base-line), i.e. review of the costs of the present local government tasks if the local government should provide all the mandatory (legally defined) tasks to a certain (reasonable) minimum service standard level. These costs were compared with the potential revenues within the present assignment of revenue sources.

The findings from this review have been compared with evidence from the costing of services using the normative approach.

The estimation of the present local government service expenditure was constrained by the fact that there are only few sectors with clearly defined national standards on service provision in this country. Therefore, the analysis - to certain extent - was based on a qualified judgement from the local government officials of the minimum requirement needed to fulfil the present local government mandatory tasks as defined in the Local Governments Act, 1997 and other minimum service standards.

Certain control measures have been applied on the local governments' estimates. The cost estimates were based on valuation by the heads of departments in the sample local authorities, followed up by written justification and discussions with the staff from the Local Government Finance Commission. The data was also checked against the service levels in each local government, central government's estimates, and the related explanatory comments from the local governments. But again, it is based on "best estimates" from the respective local government level, where the previous budgets and accounts often were used as the basic point of departure.

The review of the costs was done sector-wise and the gross as well as net costs of the services were measured for each sector and for the total services.

The accuracy of these estimates were checked by the team using the need-based approach, for sectors like Health, Education and Roads.

Summary of major Findings.

1. *The study revealed that financial resource gap of USShs. 153.6 billion (US \$ 85.3 millions) exists at all levels of local government(even if local governments collected all their potential revenue).*

The origins of the deficit are rooted in:

- ?? *the absence of precise costings for the decentralised services at the initial stages of fiscal decentralisation. The amount of unconditional grants to be given to local governments was further entrenched in the Constitution without ensuring that the unconditional grant was sufficient for funding the decentralised services.*
- ?? *Absence of costed national standards of service delivery for most decentralised services.*
- ?? *A grant system with a big conditional grant element that has encouraged a sectoral approach to development with some sectors relatively funded more while others are seriously inadequately funded.*
- ?? *Over-bloated local government bureaucracies.*
- ?? *Unresolved issues surrounding the payment of pension and gratuity for local government staff (which is an example of an unfunded local government mandate).*

2. *All levels of local governments have a significant non-utilised revenue enhancement potential ,more than 50% of the potential is not realised. They can still realise a significant amount of money in potential revenue by improving the administration of their own revenue sources. This is especially true for graduated tax and property tax. The main reasons are lack of up-to-date tax databases and poor tax administration methods. This would however have no impact on the deficit that has been identified above since it is the total potential, not actual revenues that have been used in the calculations.*
3. *The higher levels of local governments (Districts and Municipalities) are not effectively sharing the revenue they collect with the lower local governments.*
4. *Local Governments finance tasks outside their mandate, Services such as security, law and order, programmes administered by the centre such as elections.*
5. *The local revenues are fragmented over many levels of local governments, to the extent that it is impossible to make meaningful investments in infrastructure and service provision especially for parishes and villages.*
6. *Some Sub-Counties receive more in form of salaries from the district than the they remit as 35% of the tax revenue.*
7. *The Local Government Act is not fully clear in all areas, especially concerning the lower levels of Local Governments. some areas like Production, Health, Gender and Community Development seems to have a more urgent need for legal clarification.*
8. *The Local Government Act does not specify tasks for Administrative Units and they perform similar activities like those of sub-counties.*
9. *The funds transferred to Administrative Units(Parishes and Villages) are not budgeted for but just transferred without a real budget and are not providing any kind of accountability on the use of these funds.*

Summary of major Recommendations.

General.

1. There is need to review the legal framework for Graduated Personal Tax and Property tax Rating decree.
2. There should be support to the local governments to implement the recommendations of the Task Force on local revenue Enhancement.
3. Better administrative procedures for tax collection should be developed, best practices , support from central government, training, information sharing.

4. Decentralise those tasks under defence, law and order that are local in nature and the centre remains with policy.
5. Set up local revenue sharing committee at the district and Municipal levels to review the sharing
6. Funds concerning parishes and villages should cover the allowances and other costs related to the politicians, other budget items should be informed of indicative planning figures.
7. Guidelines which clarify the responsibilities of lower local governments should be issued, linked to the guideline on planning and budgeting at lower local governments.

Districts.

Districts be allocated a further U Shs 84.5 Billion (US \$ 46.94 million) in unconditional and equalisation grants as an immediate step to help them meet their pressing recurrent expenditure needs.

Sub-Counties

A recurrent expenditure deficit of U Shs 48.7 billion (US \$ 27.06 million) has been identified for Sub-Counties and should be funded

Urban Councils (Municipal, Divisions & Town Councils)

1. A recurrent expenditure deficit of U Shs 20.3 billion (US \$ 11.28) has been identified for Municipal, Division and town councils and should be funded.
2. The formulae for remittance to divisions should be analysed and revised as part of the review under Fiscal Decentralization Strategy.

In conclusion, it has often been said that decentralization leads to increased efficiency as well as accountability. However, the full benefits are yet to be realised in the Ugandan system of Decentralization mainly because of

*?? the deficits that exist at all levels of local government as identified by this study and
?? the little relationship between local government expenditures and revenues both in size and appropriateness for funding a particular service.*

Therefore, it is recommended that before decentralizing further responsibilities to local governments, reviews to the present system should be made taking into account the recommendations made in this report, especially the deficit ((of U Shs 153.6 billion) (US \$ 85.3 million)) that needs to be financed. The budget negotiation Committee proposed in Phase I should form a good forum for negotiating such a review.

Secondly, the appropriate recommendations from Revenue Sharing Phase I and Revenue Enhancement Studies should be implemented and support to local governments to implement the recommendations of the task force on Local Revenue Enhancement.

Thirdly, better administrative procedures for tax collection (best practises, support from central government, training etc) and new feasible revenue sources should be explored.

Finally, procedures and mechanisms should be in place at the centre to monitor and supervise revenue sharing among local governments.

TABLE OF CONTENTS

THE LOCAL GOVERNMENT FINANCE COMMISSION.	I
MISSION STATEMENT.	I
ACKNOWLEDGEMENTS.	II
EXECUTIVE SUMMARY.	IV
CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND	1
1.2 OBJECTIVES OF THE STUDY	2
1.3 STRUCTURE OF THE REPORT	3
CHAPTER TWO	4
GENERAL PRINCIPLES OF REVENUE SHARING AND EXPERIENCES FROM OTHER COUNTRIES	4
2.1 GENERAL MODEL FOR MEASURING OF THE FISCAL GAP	4
2.1.2 Definition of major terms	5
2.1.3 Present Revenue and Revenue Potential	6
2.2 LOCAL GOVERNMENT SHARE OF THE TOTAL PUBLIC EXPENDITURE	6
2.2.1 Composition of Revenues	7
2.2.2 Characteristics of the System of Assignment of Revenue and Expenditures:	7
2.2.3 Transfer Systems	9
2.2.4 Revenue Sharing Across Levels of Local Governments - International Experiences	10
CHAPTER THREE	12
METHODOLOGY	12
3.1 KEY STEPS FOLLOWED IN THE REVIEW	12
3.1.1 Consultation with the Key Stakeholders on the Objectives and Design of the study	12
3.1.2 Review of International Experiences	12
3.1.3 Overview of the Legislation and National Minimum Standards	12
3.1.4 Development of a Questionnaire and Pilot Testing	13
3.1.5 Selection of Sample Local Authorities	13
3.1.6 Definition of the Present Mandatory Tasks and the Expenditure Needs (minimum requirements)	14
3.3 ASSUMPTIONS USED IN THE STUDY	15
3.4 ANALYSIS	16
3.4.1 Estimation of the Net-expenses (financial needs)	16
3.4.2 Extrapolation of the total financial needs for all local governments	16
3.4.3 Estimation of Local Government Revenue Capacity	17
3.4.4 Calculation of the Fiscal Gap	17
3.4.5 Possible Ways and Means to Address the Fiscal Gap/Surplus	17
3.5 REVIEW OF SHARING FRAMEWORK	17
3.6 OTHER ISSUES	17
CHAPTER FOUR	19
STUDY FINDINGS	19

4.1	OVERVIEW OF THE KEY FINDINGS IN EXPENDITURE AND REVENUE	19
4.2.	NET EXPENDIURE NEEDS	19
4.2.1	EDUCATION	21
4.2.2	MANAGEMENT	22
4.2.3	PRODUCTION AND MARKETING	22
4.2.4	HEALTH	22
4.2.5	ROADS	22
4.2.6	GENDER AND COMMUNITY SERVICES	22
4.2.8	Summary of Projected Recurrent Expenditure Needs	23
4.3	REVENUE	23
4.4	CALCULATING THE GAP	27
4.5	COMPARISON OF PER CAPITA EXPENDITURE, REVENUE PER CAPITA AND FISCAL GAP PER CAPITA	28
4.6	EXPERIENCES FROM REVENUE SHARING – PROBLEMS AND CHALLENGES	29
4.7	REVENUE SHARING AMONG THE RURAL LOCAL GOVTS. AND ADMINISTRATIVE UNITS	30
4.7.1	Revenue Sharing Among Rural Local Government and Administrative Units	30
4.7.2	Existing Practice of Revenue Sharing in Rural Local Governments	30
4.7.3	Sharing of Central Transfers	31
4.7.4	Views from Rural Local Governments on the Current Sharing Arrangement	31
4.7.5	Advantages and Disadvantages in the Current Revenue Sharing System	32
4.8	REVENUE SHARING AMONG THE URBAN LOCAL GOVERNMENTS AND ADMINISTRATIVE UNITS	33
4.8.1	Formula for Distribution of Grants from City or Municipal Councils to Division Councils	34
4.8.2	Existing Practice of Revenue Sharing in Urban Local Governments	34
4.8.3	Views from Urban Local Governments on the Current Sharing Arrangement	34
4.8.4	Advantages and Disadvantages in the Current Revenue Sharing System	35
4.9	LEGISLATIVE FRAMEWORK ON DIVISION OF TASKS	35
4.9.1	Response to Legal and Regulatory Description of tasks for all the sample local Govts.	36
4.9.2	Specific Level Responses	37
4.10	WAGE PAYMENTS AND SUB-COUNTY REMITTANCES TO DISTRICTS	40
4.11	FINANCIAL REPORTING	42
4.12	UTILISATION OF AVERAGE REMITTANCES TO LOWER COUNCILS	42
4.13	SUMMARY FINDINGS ON PRACTICE IN REVENUE SHARING	43
	CHAPTER FIVE	45
	SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS	45
	ANNEX 1	50
	ANNEX 2	51
	SPECIAL ISSUES	51
	Decentralisation of local forests	51
	CURRENT SITUATION	51
	STUDY OBSERVATIONS	53
	ANNEX 3	54
	CRITICAL ISSUES IMPACTING ON REVENUE SHARING	54
	1.0: Local Revenue Enhancement:	54
	IMPORTANCE OF LOCAL REVENUE	54
	1.2.0: Problems of Local Revenue and strategies to address them	55
	2.0: Fiscal Decentralization Strategy (FDS)	57
	2.1.0: Problems with the current Fiscal Decentralization System	57
	2.2: LGDP	59
	3.0: Proposed Review the of the grant system:	60
	4.0: Increased responsibilities by implication:	60

ANNEX 4 : LIST OF WORKSHOP PARTICIPANTS	61
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CHAPTER ONE

INTRODUCTION

1.1 Background

With the promulgation of the 1995 Constitution of the Republic of Uganda a new era dawned on the process of decentralisation. The assignment of expenditure responsibilities to local governments is governed by a legal framework - the Constitution of 1995, the Local Government (LG) Act 1997, Schedule 2 and Local Government Finance and Accounting Regulations 1998. A number of revenue sources were assigned to local governments (LG Act, Schedule 5) to finance these decentralised services and these include, among others, graduated tax, market dues, property tax, parking fees and permits. Transfers from the central government and donor contributions were supposed to supplement these local sources of revenue, but have over the years turned out to be the most important revenue sources.

In this arrangement, the central government has retained the high-yielding taxes while the local governments were left with minor taxes with poor yield and difficult to assess, collect and administer. In addition, the costs of the decentralised services were not costed right from the onset of the decentralisation. Therefore, it was not possible to determine the required resources for local governments to run the decentralised services; and to-date this has not yet been redressed.

In the view of the financial limitations to local government brought about by poor collection as well as the apparent inadequate assignment of revenue sources and central fiscal transfers, the Commission found it necessary to study the adequacy of the revenue available to all levels of local governments to enable them to effectively perform their mandatory responsibilities and the revenue sharing arrangements between levels of governments.

According to the 1995 Constitution (Article 194 (4)) The Local Government Finance Commission is mandated to: *"advise the President on all the matters concerning the distribution of revenues between Government and local governments and the allocation to each local government of money out of the Consolidated Fund"*.

It is on the basis of this premise that the Commission, with the support of Danida, embarked on a Major Study – the Revenue Sharing Study - aimed at defining whether there are genuine fiscal deficits at the various levels of local government. If there are deficits, of what magnitude are they, and can resources be more appropriately shared among the different levels of government to reduce this deficit.

The study has been divided in two phases. The first *phase* reviewed the expenditure needs and the revenue available for the districts, municipalities and town councils, and reviewed the relationship between central and local government levels. This study was completed in November 2000 and found a fiscal gap to the amount of approximately U Shs 76 billion for districts and U Shs 1.3 Billion for urban councils. The study contained a number of specific recommendations to improve the situation - most of which are under implementation and/or consideration.

The *second phase* – which is constituted by the present study reviews the revenue sharing between levels of local governments (LC I – V), the expenditure needs of each level, the available revenues, the fiscal gap and the appropriateness of the existing revenue sharing framework.

The Study has been carried out with the view that it is the responsibility of the central government to ensure that (with full effort) local governments are (potentially) able to mobilise sufficient resources to deliver the decentralised services. Otherwise, decentralisation of services without the requisite resources will simply be viewed as a tool for central authorities to contain fiscal deficits

(balance the budget) by transferring this deficit to lower levels of government, thereby putting service provision and the credibility of local governments at a risk. Sufficiency of local government revenues is also dependent on full exploitation of local revenue sources as well as a fair formula for the sharing of centrally collected revenue with the local governments that should be transferred to them using a suitable system.

In view of the financial limitations of local governments brought about by poor local revenue collection as well as the apparent inadequate assignment of taxes and/or central transfers to them, it became necessary to study the *adequacy* of revenue at all levels of local government to perform their mandated functions. When the size and the nature of the gap is known, the central government should decide upon and design its policy in respect of devolution of funds to the local governments.

The present Report should be viewed as an extension to the Report of the Revenue Sharing Study, Phase I: *Revenue Sharing Study – Sharing of Expenditure Responsibilities and Revenue Assignments*, November 2000.

1.2 Objectives of the study

The mission of the Commission is to establish an equitable system for allocation of financial resources from the Consolidated Fund to local governments and promote efficient and effective local revenue mobilisation in order to balance the services devolved to the local governments and resources available to them.

Based on a developed method for measurement of expenditure needs and revenue potential, the second phase of the study has aimed to:

1. *Clarify the distribution / allocation of revenue between the district/urban councils and the lower levels of governments, including analysis of the legal framework and the revenue sharing in practice.*
2. *Analyse and compare the costs of services at various levels of government.*
3. *Analyse the revenue raising capacity of the local governments.*
4. *Analyse the fiscal gap between the expenditure needs and the revenue raising capacity of the local governments – is the existing fiscal package sufficient for meeting the future financial requirements of each level of local governments?*
5. *Identify requirements of central government interventions, make conclusions and recommendations for possible changes to the present allocation of revenue sources/revenue sharing system.*¹

¹ As mentioned in the first part of the Revenue Sharing Study, the aim is to establish an efficient and equitable balance of resources within and between government tiers. Each layer of government should have access to resources roughly equal to its share of the public sector burden.

1.3 Structure of the Report

The report is structured in five chapters. Chapter One gives the background to the study. Chapter Two presents the general principles of revenue sharing and experiences from other countries. Chapter Three gives the methods used to carry out the study. Chapter four presents the findings, and Chapter Five summarises the findings and also states the recommendations.

CHAPTER TWO

GENERAL PRINCIPLES OF REVENUE SHARING AND EXPERIENCES FROM OTHER COUNTRIES

In the Report from the first phase of the revenue sharing study,² the basic theory on local government finance and revenue sharing was presented. A brief of the same is presented in this chapter together with experiences from other countries

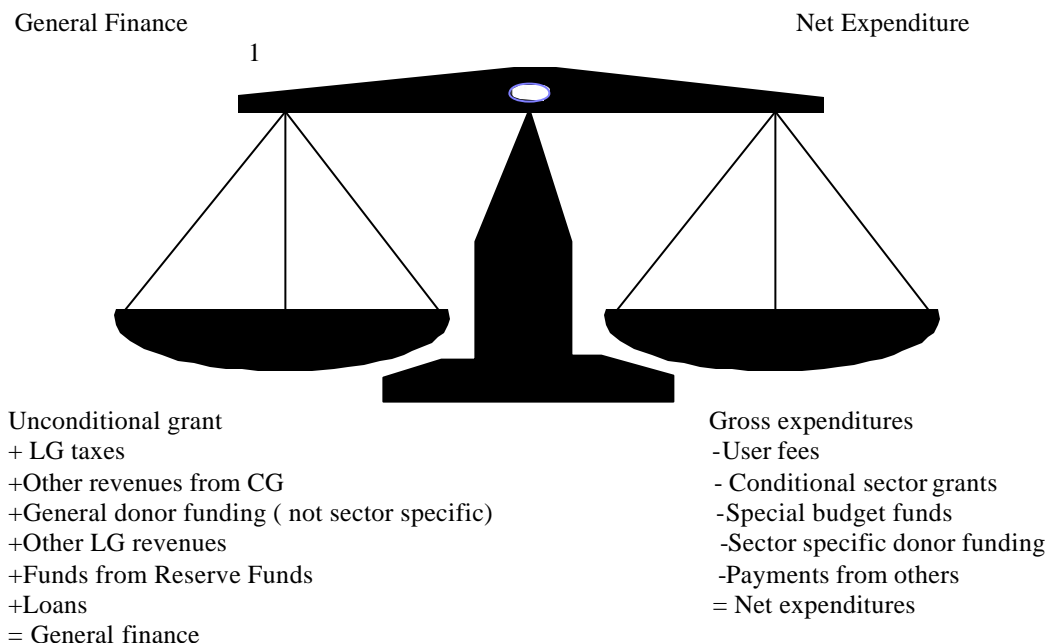
2.1 General Model for Measuring of the Fiscal Gap

The sharing of revenue across levels of governments has been a subject for heated debate in this country since the start of the decentralisation process. Firstly, tasks have gradually been transferred to various levels of governments without clear and detailed calculation of the costs of these services at the time of transfer of assignments, or any measurement of the future costs of local government service provision. Secondly, the system is characterised by lack of a common methodology for cost calculation of mandatory tasks as well as commonly accepted minimum standards for public service delivery.

This has had a great impact on the methodology chosen for this study, where a modified so-called "zero-sum base budgeting" method has been applied.³ The point of departure has been the present legislation on decentralised services and minimum standards of service delivery (where these have been elaborated). These standards are gradually being developed but are not sufficiently specific in most areas to establish a clear framework for costs calculations. The point of departure for the cost calculations have then been the costs of providing the minimum reasonable service level as per the LG Act and subsequently developed national service standards. These costs have been compared with the existing revenue raising potential at each level of local government. The basic model has been as follows:

The main **principles** of the investigation are shown in the illustration below:

BALANCE BETWEEN GENERAL FINANCE AND NET EXPENDITURES



² Revenue Sharing Study – Sharing of Expenditure Responsibilities and Revenue Assignments – Centre and Local Governments, Commission Recommendations, No. 4, November 2000.

³ A similar method has been used in other countries like Zambia, Latvia and Estonia.

2.1.2 Definition of major terms

It is crucial for the study to determine the **net** effect or burden of the local government tasks compared to the general revenue sources.

The net expenditure need concerning current expenditure is a key component in the investigation to evaluate the present need for local government finance.

The gross expenditure for the provision of the services have been defined as:

$GE = TE + NX - VE - BE$ where:

TE = The present total local government expenditure

NX = Extra need for local government expenditure to provide a reasonable minimum service level for the mandatory tasks, whenever possible based on minimum standard service level

VE = Expenditure on activities outside of the mandates of the local government

BE = Tasks provided at a level or quality above the mandatory on minimum service standard level.

The analysis provides for situations where the local governments provide services for each other and where payments are transferred across local governments.

The **net expenditure (NE)** is defined as the gross expenditures (GE) on the execution of the task, minus the activity/sector related revenues (AR) e.g. user charges [$NE = GE - AR$].

The **activity/sector-specific revenues** include:

- ?? User fees and charges related to specific service areas
- ?? Revenues, receipts from other local government, e.g. purchase of services provided by other local governments
- ?? Conditional grants
- ?? Other sector-specific revenues, e.g. donor funds related to a specific area.

The general elements of finance are:

- ?? The unconditional grants
- ?? Equalisation grants
- ?? The local government assigned taxes (especially graduated tax and property tax)
- ?? Other local government revenue sources, which are not related to specific tasks
- ?? Loans
- ?? Other revenue sources, e.g. donor funding not related to specific areas

Expenditures and revenues in the sector areas

To make a qualified estimate of the mandatory ordinary net expenditures of service provision it is necessary to distinguish between investment costs and current operating expenditures.

The investment costs and the needs for investments are not of a recurrent nature. Hence, it is important to isolate these from current operating expenditures. The Study has made an attempt at a separate evaluation of the most urgent investment needs (within year 1,2 and 3 and within the medium term, i.e. a period of 5 years), but the evidence from the field has shown that it is very hard for Local Government to make these estimates. Hence the analysis have mainly focused on the recurrent cost components.

Estimation of cost of service delivery

The estimation of the present local government service expenditure is constrained by the fact that there are only few sectors with clearly defined national standards on service provision in this country. Therefore, the analysis - to certain extent - has to be based on a qualified judgement from the local government officials of the minimum requirement needed to fulfil the present local government mandatory tasks as defined in the Local Government Act and other minimum service standards. The local government respondents have also been asked to evaluate the clearness of the present legislative framework in the various sector areas.

Certain control measures have been applied on the local governments' estimates. The cost estimates are based on valuation by the heads of departments in the sample local authorities, followed up by written justification and discussions with the staff from the Local Government Finance Commission. The data has also been checked against the service levels in each local government, central government's estimates, and the related explanatory comments from the local governments. But again, it is based on "best estimates" from the respective local government level, where the previous budgets and accounts often have been used as the basic point of departure.

The review of the costs is done sector-wise and the gross as well as net costs of the services are measured for each sector and for the total services.

The accuracy of these estimates was checked by the team using the need-based approach, for sectors like Health, Education and Roads

2.1.3 Present Revenue and Revenue Potential

An analysis of the revenue sharing and of the needed additional revenue sources has to include the present revenues as well as potential future revenue-raising capacity. It is assumed that tax/revenue legislation is kept unchanged. But to evaluate the extra potential it is assumed that: 1) the present tax rates are marginally increased within the existing legislative framework (better utilisation of the tax bands) and 2) tax administration (valuation, registration and collection) is strengthened. The focus has been on realistic short-term (1-2 years) improvements with a realistic additional effort in terms of tax administration. The analysis is based on estimates made by the Finance and Planning Department and other officials in the sample local governments. An example is the introduction of property tax in the town councils by application of a realistic rate (reasonable low rate in the first phase).

2.2 Local Government Share of the Total Public Expenditure

The Report on Phase I of the Revenue Sharing Study compared the revenue sharing arrangement in Uganda with other selected countries, some of them visited as part of the data collection exercise. Since F/Y 1998/1999 the local government share of total public expenditure in Uganda has increased from approximately 20 % to approximately 35 %. This brings the share of local government expenditure in Uganda up to level of local governments in most decentralised European countries, decentralised countries in other parts of the World, and far higher than most of the other Sub-Saharan African countries.⁴ It is important to keep in mind that this should be compared with the assigned responsibilities within various sector areas, where Uganda represents one of the most decentralised African countries and where local

⁴ Cf. Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Sub-Saharan Africa, Jesper Steffensen and Svend Trollegaard, NALAD, May 2000.

governments in Uganda have been assigned the responsibilities for almost all the key services related directly to the citizens, e.g. within health care, education, roads, agriculture, water and sanitation.⁵

2.2.1 Composition of Revenues

As documented in the report on Phase I of the Revenue Sharing Study, the share of the *own* revenue sources (taxes, charges, fees, and licenses) of the total local government revenue sources in Uganda was smaller than in most other countries, and the share of the central government transfers, especially conditional grants, was very high. This trend has continued with a further decrease in the own revenue-raising and increase in the central government transfers over the most recent years, bringing the local own revenue sources in Uganda down to approximately 5 % of the total local government finance. This is much smaller than the international average,⁶ and also smaller than the figures in all the countries visited (Swaziland, South Africa, Denmark, Estonia including **India and Nepal**) making Uganda local authorities some of the most heavily dependent on central government transfers.⁷

2.2.2 Characteristics of the System of Assignment of Revenue and Expenditures:

Table 1 : Characteristics of the studied countries on Assignment of Revenue and Expenditure

System of expenditure assignment	System of revenue assignment		
	Highly Decentralised	Medium	Low ⁸
Highly Decentralised	Denmark: Decentralised both in terms of expenditure and revenues: Most services are decentralised together with commensurable revenue sources, a clear system of compensation (safeguard for LGs) when tasks are transferred is designed and implemented – well developed system of clearance of interest and dialogue on the size of the central government transfers, although characterised by tough discussions between central government and local governments every year.	South Africa: Decentralised both expenditures and revenues for a limited range of functions. The costing for the devolved services were, however, not done at point of time of decentralisation and therefore the current revenue sharing arrangements are not in balance. India:- Decentralisation process gave a clear and detailed assignment of tasks between and among local governments on the one hand and the states and the union government on the other. The assignment of	Uganda: The revenue assignment is only partly decentralised and most revenues derives from central government transfers – no system of compensation when tasks are transferred – system of clearance of interest in budgeting and revenue sharing initiated but not fully developed.

⁵ This is different from countries such as Malawi and Tanzania, where this process has just started.

⁶ Please refer to OECD Revenue Statistics 1965/98, OECD 1999 and the above-mentioned publication.

⁷ There is a general agreement amongst local government financial specialist that this poses a significant risk on the efficiency of the service provision, especially the risks of blurred accountability. The problem is that weaker links between the service provision and the funding of the service may lead to weakening the accountability towards the citizens.

⁸ Centralised system of revenue assignments.

		ment of revenues is also provided. The economic and fiscal issues were not considered at the same time with the allocation of tasks.	
Medium		Estonia: In a process of decentralising expenditure and revenues: Major service delivery tasks transferred to the local level although not at the same scale as the Nordic countries. The local government has little discretion to increase the revenues, but has share in important national taxes (especially income tax).	
Low ⁹	Some of the Latin American countries (not included in the review) have decentralised revenues before expenditure assignments. This has caused various problems, especially in terms of over-spending and indebtedness.		<p>Swaziland: Centralised model: Few tasks are transferred to the local governments. Significant degree of own financing through property taxes but highly regulated by central government. The discussions on revenue sharing is on top of the agenda as local governments find that they are under-funded – lack system of clearance of interest in budgeting</p> <p>Nepal:- The centre still implements district-level programmes through their district offices. Most of these programmes relate to day-to-day activities of the local people. Those programmes implemented by the centre have some problems like lack of adjustment and harmony with local conditions, excessive investment and lack of people participation and sustainability. Services devolved to local govern-</p>

⁹ Centralised system of expenditure assignment.

			ments are clearly defined in the Local Government Act. However, at the onset of decentralisation, there were no linkages between the cost of these services and the funds decentralised. They are in the process of assessing the cost of these services, reducing overlaps and reviewing funding through transfers and setting up of a Local Authority Finance Commission to address these issues.
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2.2.3 Transfer Systems

The characteristics of the Ugandan system of central government transfers compared to systems in other countries are that the system:

- ?? Is rather stable and transparent (compared to many African countries like Zambia and Tanzania).
- ?? Has many conditional grants (compared to most other countries).
- ?? Has many reporting requirements and different modalities across the various grants (very few countries have the same high numbers of guidelines, reporting requirements etc. as the local governments in Uganda).
- ?? The grants have increased greatly over the years¹⁰ (opposite the case in some other countries, e.g. Zambia).
- ?? The grants do not constitute a fixed percentage of e.g. the central government public expenditure, revenues, taxes, etc, contrary to the case in some other countries, like Ghana, some of the states in India and the reform plans in other countries like Malawi. There seems to be an international tendency towards fixing of the transfers from central to local governments to a certain percentage of the public economy (taxes, revenues, etc.) in order to stabilise the local government finance system.¹¹
- ?? The transfers (grants) are directed towards specific levels of local governments (e.g. not to the lower levels of local governments, like the sub-county level) The international practice varies greatly, but central governments in many countries support all levels of local governments directly (e.g. the Scandinavian countries); others through the higher levels of local governments (some of the Eastern European and African countries).
- ?? A smaller part of the transfers are equalisation grants (e.g. not yet common in the African Region), but more significant in other parts of the world (e.g. Scandinavia, Germany and Japan).

Basically, there seems to be three overall ways to determine the pool of LG resources/revenues:

1. Ad hoc, as part of the budgeting process, either based on negotiation (e.g. Denmark) or set by central government in a discretionary way.
2. Fixed proportion of the central government resources (e.g. Ghana).
3. Formulae-driven, based on certain characteristics of the local governments and the expenditure needs, including transfers of new tasks and responsibilities (e.g. by calculation of costs of provision of the services to a defined standard and norm e.g. India and UK).

¹⁰ Except the unconditional and equalisation Grants.

¹¹ The total transfers under PAF to local governments have quadrupled between 1998/99 and 2001/02 from Shs. 110 billion to Shs. 450 billion, Muhoro Ndugu and Tim Williamson, "Financing Poverty Reduction in Uganda", May, 2002.

2.2.4 Revenue Sharing Across Levels of Local Governments - International Experiences.

The revenue sharing experiences across levels of local governments vary greatly and there are no general international applied rules for sharing of resources between higher and lower levels of local governments. The great diversity reflects the different constitutional bases, culture, competence of local governments and their responsibilities and autonomy in the various countries.

The Ugandan system is comparably simple, but the revenues rather scattered/fragmented, with a fixed percentage of the collected revenues assigned to several tiers of local governments. Some countries have only two (and some only one) layer of local government, which receive a certain share of the resources, and other countries have certain layers of local governments collecting the revenues at a higher level and then sharing the resources with the lower levels (e.g. part of the German system). Most systems with several tiers of local governments have a system where the higher level support the lower levels, often in form of equalisation systems and other grant systems, especially in the federal countries. Uganda is characterised by having a system where the taxes are collected at the lowest levels of local governments with own budget (sub-county and division levels) and transferred upwards to the district and municipal levels.¹²

International experiences on revenue-sharing were reviewed as part of phase I of the Study. In the second phase, the two Economists of the study team visited Nepal and India to learn from their experiences from local government finance and revenue sharing.

Listed below are a few examples on the revenue sharing between levels of local governments of various countries¹³:

TABLE 2 : EXAMPLES OF REVENUE SHARING BETWEEN LEVELS OF LOCAL GOVERNMENT

Country	Revenue-Sharing Arrangements
Tanzania	The districts receive the main share of the taxes. The village level collects the taxes and transfer them to the district after remission of a certain share, minimum 20 %.
Nepal	<p>The concept of assignment of revenues to local governments and sharing of sources among them was new and was started by LSGA. The sharing is done between the central government and DDCs in the following areas:</p> <p>?? Percentage of revenue from land/registration fee up to 90%.</p> <p>?? Percentage of loyalty from mines up to 50%.</p> <p>?? Percentage of loyalty from forest products up to 10%.</p> <p>?? Percentage of loyalty received by the government from hydro power plants up to 10%.</p> <p>?? Tourist entry fee received by government. Currently, it is the government which decides the percentages of taxation and fee in all the above.</p>
India	<p>In India, the volume and allocation of federal transfers among the states is based on the recommendations of the Finance Commission which is a statutory body set up after every five years for this purpose.</p> <p>Recommended percentages of specific taxes are shared with the states on the basis of state relativity developed by the Commission. Currently:</p> <p>100% of additional duties of excise in lieu of sales tax.</p>

¹² This is also the case with some of the taxes in Denmark, although each level sets its own tax rate (municipality, county and central government).

¹³ Most of the experiences drawn from the publication : *Regional and Local Governments in the European Union*, Committee of Regions, 2001.

	<p>77.5% of non-corporate income tax.</p> <p>47.5% of union excise duties are being transferred to states as per the recommendations of the Finance Commission.</p>
Denmark	<p>Each level - the municipality and county levels - have its own tax revenues. Each level, the central government, the county and the municipal levels sets its own tax level (rate); but they share the same tax base. The most important revenue source is the income tax (approximately 90% of all tax revenue). The corporate income tax is shared between the central and municipal levels.</p>
Ireland, Netherlands and United Kingdom	<p>Local governments have relatively low tax revenues and rely heavily on central government grants.¹⁴</p>
England	<p>The system is complex, some areas have two tiers of local governments, others one tier. Where the two tiers exist, they are independent of each other. A so-called council tax is the main tax source of the local governments, which is a capital value of residential properties (based on property-related, personal related and income-related components).</p>
Germany	<p>A large proportion of the key taxes are shared with several tiers of government. For Länder taxes, the motor vehicles, property transfer and inheritance are only sizeable sources of fiscal revenue under their control. For municipalities, own fiscal resources are generated almost entirely by a local business tax and real property tax. In addition, revenue sharing is practised concerning some of the key taxes, e.g. income tax: 42.5 % / 42.5% / 15 % between Federal government, Länder and municipalities, corporation tax : 50 % / 50 % between Federal Government and Länder.</p>
France	<p>Several of the wide range of regional and local taxes are levied by authorities on more than one tier of local government (commune, départements, regions). In such case the rate applicable to the individual taxpayer will be the sum of the rates determined at each relevant tier of government.</p>
Many of the Eastern European Countries	<p>Many of the countries in Central and Eastern Europe have two tiers of local government sharing the same tax base on certain taxes, e.g. part of the income tax and property tax with fixed percentages determined by the central government.</p>
Uganda	<p>The tax revenue is shared between the districts (35%), sub-counties (42.25%), parishes (3.25%), counties (3.25%) and villages (16.25%) in the rural areas and City/municipalities (50%), divisions (32.5%), ward (5%) and villages (12.5%) in the urban areas. In urban areas, the City/municipalities transfer 30% of the 50% to divisions as equalisation funds. These fixed percentages are determined by the Local Government Acts, 1997.</p>

¹⁴ *Regional and local government in the European Union*, Committee of Regions, 2001.

CHAPTER THREE

METHODOLOGY

3.1 Key Steps followed in the Review

The study has passed the following key milestones:

3.1.1 Consultation with the Key Stakeholders on the Objectives and Design of the study

A working group consisting of representatives from the key line ministries and departments, Ministry of Finance, Planning and Economic Development (MFPED), the Decentralisation Secretariat, the Associations of Local Authorities, representatives from local governments and the Local Government Finance Commission (LGFC) was established from the beginning of the study. At a first seminar in May 2001, the objectives and the methodology of the study were discussed with the working group and useful input for the further work was received and appreciated by the Study Team.

3.1.2 Review of International Experiences

International experiences from various revenue-sharing systems of local government finance were reviewed in order to draw lessons for the study. In the first phase of the Revenue Sharing Study, members of the Team visited Denmark, South Africa, Swaziland and Estonia. Experiences from similar researches in Latvia and Estonia provided valuable inputs to the present study as well. In the second phase, these visits were complimented by visits to Nepal and India in June 2001. In addition, numerous international publications concerning the issue were studied in great details.

3.1.3 Overview of the Legislation and National Minimum Standards

The Team reviewed and established an overview of all the mandatory local government tasks, including requirements stipulated in the Local Government Act. The review has also addressed the following questions:

- ?? Are there any available national minimum service standards?
- ?? Can international standards be applied?
- ?? What are the mandatory requirements in the laws/regulations and other binding agreements?
- ?? Is it possible to agree in the discussions between central and local government on the required level of services?
- ?? To what extent could the analysis rely on consultations with the local governments on the most urgent needs?

The problem in this country, as in many other countries, has been that the national minimum service standards for local government tasks are not yet fully developed. However, an effort to develop these standards has been initiated, and for key service areas such as Health, Water and Education the standards are emerging.

Nevertheless, the analysis focused first and foremost on the local government experts' evaluation of the present costs of providing services to the reasonable minimum level of service (conservative estimates have been used) considering the general requirement in the law and the population's expectation and basic minimum needs.

These estimates were compared with other analyses made at the central government level¹⁵ and using the normative approach for key sectors like Health, Education, Water and Roads where unit costs were available in the Line Ministries.

3.1.4 Development of a Questionnaire and Pilot Testing

As the fieldwork was of great importance for the findings, the Team invested a great effort in the development of a detailed questionnaire for the fieldwork. A fact-finding survey was conducted in Jinja District and Municipal Council by the team. The draft questionnaire was tested both at consultative workshops with invited stakeholders in October 2001 and furthermore during a field test in three pilot districts: Soroti, Kamuli and Bushenyi districts and their respective urban councils. Based on these findings, a final questionnaire was elaborated and applied for the final sample of local governments.

3.1.5 Selection of Sample Local Authorities

In order to collect data at the local level on costs and revenue, a sample of local authorities was selected for detailed analysis. In the rural areas, the sample included 9 districts and 18 sub-counties. In the urban areas two divisions were selected as a sample in each of the 5 sampled municipalities. For each sub-county and division, a parish and a ward were selected to represent the lowest levels of administrative units.

¹⁵ Earlier it had been noted by the various workshops that it was not a feasible way to measure the costs of the devolved services before and after decentralization. This is because it is not possible to extract the historical costs from the budget and accounting system; for the tasks have changed and the service standards have improved greatly. Use of international standards has also proved to be inappropriate, c.f. the Tanzanian experiences.

The samples included the following:

Table 3 : sample local governments

District	Sub-Counties	Urban Councils	Divisions
Lira	Dokolo Muntu	Municipal Councils Lira	Central Adyel
Moyo	Metu Dufile	Mbarara	Kakoba Nyamitanga
Jinja	Mafubira Busede	Masaka	Katwe/Butebo Kimanya
Masaka	Kitanda Kyanamukaka	Mbale Jinja	Wanale Northern Division Central Walukuba
Kisoro	Nyakabande Nyarusiza		
Mbale	Nakaloke Bududa	Town councils Moyo Kisoro Busia Kiboga	
Busia	Busitema Dabani		
Kiboga	Kapeke Bukomero		
Mbarara	Bubare Kanyaryeru		

These sample local authorities represent various categories in terms of: i) Size of their budget, ii) geographical size, iii) geographical regions and iv) new and old, types of services. Extrapolation of the results from these samples was done within each group of local governments.

Concerning the districts, the sample covered 22.5% of the population and 14% of the total area. For municipalities, the sample covered 38.5% of the municipal population and 4.2% of the population resident in towns. While sub-counties covered 0.025%.

3.1.6 Definition of the Present Mandatory Tasks and the Expenditure Needs (minimum requirements)

The local governments were asked to make conservative estimates of the expenditure needs, i.e. the analysis focused on the minimum costs of provision of the services to a reasonable standard level. Where set targets / standards were set by ministries, those were made available to the local governments. This is sometimes called zero sum budgeting procedure. This is a very demanding task and a "best estimate" has been the guiding principle.

As mentioned above, it is very important to discuss these mandatory tasks and the minimum requirements in a close dialogue between central and local governments, if clear minimum standards are not available.

The analysis focused on the net expenditure. The study also revealed that there is a lack of clear and common regulations and practices for user payments for local government services. This could probably be the cause of the very small percentage of total locally collected revenue obtained from user-charges.

The analysis focused on both recurrent and capital costs, with the key emphasis on the recurrent costs. The analysis covered the most recent actual account figures for 1998/99, 1999/2000 and 2000/2001 (as budgeted figures often differ significantly from the actual costs). The average figures were adjusted for inflation at a rate of 5.8% and 4.6% for 1998/1999 and 1999/2000 respectively to reflect the financial year 2000/2001.

Detailed questionnaires were administered in each of the sample local governments followed-up by interviews with the sample local authorities (head of the different departments) and discussions with experts at the central government level. A comparison of the costs per unit of the various services and the average amount shared by villages and parishes across the sample local authorities was also made to determine whether the proportions shared were significant for any meaningful development.

3.3 Assumptions used in the Study

The analysis is based on a number of **assumptions**¹⁶ of which the key assumptions are:

- ?? The respective levels of local governments know their mandate as provided by the legal framework. (However, the questionnaire contains questions to clarify the extent to which this is true)
- ?? The sample local governments adequately represent all local governments (districts, municipalities, town councils and lower levels of local governments (the sample cover approximately 22.5% of the population and 14% of the area for rural and 17.8% and 18% for urban respectively). It is assumed that this sample constitutes a reasonable share of the total population, expenditure and revenues to be applied as an appropriate sample for all districts, municipalities, town councils, sub-counties and divisions. The criteria used in the selection of sample local governments should ensure reasonable representation.
- ?? In the absence of costed standards of service delivery, estimates by local governments are the best for estimating costs of services.¹⁷

¹⁶ The analysis is based on what can be called "best estimates" – estimates, which can be improved through an ongoing dialogue between all involved stakeholders.

¹⁷ Where the figures seemed unreasonable, there was dialogue between the Team and the local governments to explore the reasons. As part of this dialogue, the sample local governments were asked to justify the high expenditure needs. The figures were also compared and cross-checked with the present budget and account figures in the sample local governments, before data entry.

- ?? The recurrent costs have a direct link to development costs.
- ?? The data provided by the local governments is reliable.
- ?? Revenue potential estimates are made in an objective and realistic way. (This is the perception of the team.) The local governments can collect 80% of their extra potential and the inefficiency loss when they set new rates of taxes.

To address the above-mentioned assumptions, there was a close dialogue between the centre and local governments on the preliminary results of this study.

3.4 Analysis

The analysis is divided in 3 key areas:

- 1) Estimation of the fiscal gap concerning each type of local governments, i.e. the gap between the local government expenditure needs and the revenue raising capacity¹⁸
- 2) Review of the existing revenue-sharing regime and the legislative framework; and
- 3) Special issues, i.e. statistics for service costs inter-governmental use of services and user payments.

3.4.1 Estimation of the Net-expenses (financial needs)

The net-costs in the sample local authorities were calculated as costs of the service provision minus sector specific revenue. This was done for each type of sample local government and for each sector area separately.

3.4.2 Extrapolation of the total financial needs for all local governments

Extrapolation of the financial needs of the sample local authorities to the total number of local governments within each category of local governments i.e. districts, municipalities and town councils, sub-counties were made. The following extrapolation factors were applied:

Table 4 shows the Extrapolation factors

Sector area	Rural	Urban
Finance and Planning	Population and Area	Population
Management Support Service	Population and Area	Population
Gender and Community	Population and Area	Population
Council, Committees and Boards	Population and Areas	Population
Education	Number of school pupils	Number of school pupils
Health Care	Population and Area	Population
Roads	Km of Roads and Area	Km of roads
Water	Population and Area	Population
Production	Number of farming households	-

¹⁸ This is different from what in the theory is called the vertical imbalance, caused by the fact that there might be some reasons for central government transfers and asymmetry in expenditure and revenue assignments. In the present study, the review focuses on the situation after these transfers have been made. The review is not intended to explore whether the local governments are spending too much or too little but rather aimed at measuring the fiscal conditions of local governments, also in relation to each other.

3.4.3 Estimation of Local Government Revenue Capacity

The point of departure for the analysis of the local government revenues was the present local government revenue. Four focus areas were covered: 1) tax revenues, 2) non-tax revenues (e.g. user charges and fees), 3) central government general grants, and specific grants and 4) Donor funds. The analysis investigated: A) the present revenues, B) the potential revenues, i.e. the realistic taxes provided that the local governments make an improved administration, improved utilisation of the user charges and initiate changes of the tax rates within the ceilings of present legislation.¹⁹ The sample local governments were asked to make the most realistic estimates for the revenue potential in the short term, i.e. within 1-2 years.

3.4.4 Calculation of the Fiscal Gap

The fiscal gap (total expenditure – total revenues) for all local governments and for each type (district, municipality etc.) is calculated.

3.4.5 Possible Ways and Means to Address the Fiscal Gap/Surplus

The following main possibilities exist to address the mismatch between expenditure needs and revenue-raising capacity:

- ?? Rationalise the expenditures by pursuing a more efficient service provision strategy, e.g. change the structure of the administration.
- ?? Strengthen the priorities among the sector areas
- ?? Reduce the minimum service standards (the quantity or the quality) and service provision expectations .
- ?? Focus on strengthening of the local government own revenue sources (policy administration and implementation).
- ?? Change the revenue sharing arrangements, e.g. by assignment of new taxes to the local authorities or introduction of reformed tax sharing arrangements.
- ?? Change the assignment of expenditures between the levels of government, centralise some of the functions.
- ?? Increase the external financial support, e.g. in form of an increase of the state transfers to local governments (conditional or unconditional).

These possibilities will be dealt with in more details in the last chapter of this Report.

3.5 Review of Sharing Framework

In addition to the quantitative estimates outlined above, the study also reviewed the revenue sharing arrangements in practice. The questionnaire covered questions concerning the local government opinion on the existing revenue-sharing arrangements, and a review of whether the practice in the local governments is different from the legal framework, especially the LG Act, viewpoints on the reporting and accountability requirements and the suggestions for improvements in the existing system.

3.6 Other issues

¹⁹ The Review Team also reviewed the findings from the Revenue Enhancement Study, LGFC 2001, which proved a considerable revenue-raising potential, but no fixed measure for the extra amounts in percentage or nominal figures for all LG taxes.

Finally, the questionnaire reviewed the challenges in the field of inter local governments' use of services and payment and the questions concerning of user fees and charges on certain services.

CHAPTER FOUR

STUDY FINDINGS

4.1 Overview of the Key Findings in Expenditure and Revenue

Before the main study commenced, a preliminary survey was conducted in four local governments in Jinja District:- Jinja District Council, Budondo Sub-County, Jinja Municipal Council and Walukuba Division. The finding was that development programmes must take a form in which the poor can participate. However, it was observed that due to inadequate locally collected revenues, the decision to spend should be limited to certain levels to avoid the problem of fragmentation of development funds (see **Annex A** for the findings).

After the preliminary survey, a questionnaire was designed and piloted in sixteen local governments in the districts of Kamuli, Soroti and Bushenyi.

The main objective of the pilot was to test the appropriateness of the questionnaire for the study. However, fragmentation of the inadequate locally-raised revenues was again noted during the pilot. (see **Annex 3** for the field findings of the Pilot Study).

After these pilot tests, the main study was conducted in the nine sample districts, 18 sub-counties, 5 municipal councils, 10 divisions and 4 town councils. The Key Findings are that there is still a substantial large fiscal gap in all the sample local governments and mostly in the rural local governments.

In addition, the local governments collected less than 50% of their revenue potential for F/Y 1998/99, 1999/00 and 2000/01 especially district local governments, which automatically affected their autonomy and service delivery.

The summary of the results for Net Recurrent Expenditure Needs for the sample Local Governments is as shown below:-

4.2. NET EXPENDIURE NEEDS

Net Expenditure Need

Net Expenditure Need is the amount local governments need to deliver the mandatory task after deduction of the sector-specific revenues.

The study focused on both the present local government expenditures on the various sectors and the estimated expenditure needs of providing the services to a reasonable minimum service level.

To calculate the needed current net expenditures in order to comply with the requirements in the legislation (the mandatory tasks) the following calculation was carried out within each sector:-

1. Total recurrent expenditure.
2. Recurrent expenditure from own revenue and unconditional grant.
3. Recurrent expenditure from conditional grant.
4. Recurrent expenditure from user charges.
5. Recurrent expenditure from donors.
6. Recurrent expenditure paid to other local governments.
7. Recurrent expenditure received from other local governments.
8. Recurrent expenditure on services outside your mandate.
9. Net present expenditure funded by own sources and general funding (1-3-4-5+6-7).
10. Extra Expenditure Need.
11. Total Net Expenditure Need (to be covered by general funding) (9+10-8)

The results of the calculation are shown in TABLE 5 below.

Table 5: The Net Recurrent Expenditure Needs²⁰

Department	Sample Net Recurrent Expenditure Need	National Recurrent Expenditure Needs	%age
Education			
Districts	16,654,467,081	77,859,239,272	94.1
Sub-Counties	451,845,980	2,112,369,259	2.6
Municipality	90,397,265	422,605,484	0.5
Divisions	128,162,282	599,156,210	0.6
Towns	2,457,5156	954,242,828	1.2
Health			
Districts	5,534,000,202	26,478,937,592	74.5
Sub-Counties	127,572,769	610,406,806	1.7
Municipalities	95,602,033	492,653,581	1.3
Divisions	1,339,052,957	6,900,368,250	18.0
Towns	330,566,573	12,835,759,060	4.5
Roads			
Districts	522,316,733	3,006,640,877	62.5
Sub-Counties	45,138,937	200,617,497	5.4
Municipalities	136,234,591	688,696,758	16.2
Divisions	89,436,731	452,122,964	10.7
Towns	45,765,449	231,354,727	5.4
Production			
Districts	3,559,362,702	15,826,750,077	94.5
Sub-Counties	97,980,271	435,670,482	2.6
Municipalities	0	0	0
Divisions	56,359,373	290,429,461	1.5
Towns	51,716,000	2,008,110,227	1.4
Finance & Planning			
Districts	1,153,865,310	5,520,984,174	42.3

²⁰ The figures are net-expenditure needs after deduction of conditional and other sector related expenditures, in 2000/01 level

Sub-Counties	368,028,885	1,760,934,863	13.5
Municipalities	677,420,352	3,490,862,602	24.8
Divisions	423,582,830	2,182,794,562	15.6
Towns	105,571,869	4,099,310,655	3.8
Gender			
Districts	473,011,903	2,263,254,824	24.1
Sub-Counties	27,572,729	131,929,266	1.4
Municipalities	687,090,146	3,540,692,699	35.0
Divisions	758,421,886	3,908,277,321	38.6
Towns	18,460,817	716,825,651	0.9
Water			
Districts	911,082,010	4,359,321,069	88.4
Sub-Counties	71,498,526	342,104,253	6.9
Municipalities	25,482,788	131,317,153	2.5
Divisions	14,676,383	75,629,903	1.5
Towns	7,715,176	299,576,994	0.7
Management			
Districts	9,821,356,618	46,992,967,013	80.1
Sub-Counties	259,667,129	1,242,448,402	2.1
Municipalities	1,013,441,124	5,222,434,943	8.3
Divisions	870,203,513	4,484,307,109	7.1
Towns	294,538,268	11,436,795,352	2.4
Councils			
Districts	1,270,294,805	6,078,072,939	64.1
Sub-Counties	128,773,576	616,152,398	6.5
Municipalities	189,789,008	978,015,124	9.6
Divisions	357,798,647	1,843,797,449	18.0
Towns	36,417,075	1,414,059,493	1.8

4.2.1 EDUCATION

Districts need significant funding in the Education Sector because there has been extensive expansion of enrolments in primary schools from 2.7 million in 1997 to 6.5 million in 1999, decentralisation of classroom construction, recruitment of more teachers, increased text-book distribution, catering for special needs children and mainstreaming of Army Schools through the district. All these programmes need increased local staff, allowances and facilitation for the districts' capacity building, supervision, inspection and mentoring to ensure quality standards of service delivery. Therefore, there will be more need for recruitment of local staff, allowances and other facilitation to the districts.

While sub-counties', divisions' and town councils' results show that they need little money, this is because this function is entirely being performed by the district. There is hardly any officer in charge of education in all the sub-counties visited. This is a sector which is almost not functional and there are no earmarked staff for this sector. Under the school facilitation grant and UPE guidelines, the role of the sub-county and town councils was clearly defined (See **Annex**) yet there was no money earmarked for sub-counties to perform these functions.

Out of all the sub-counties visited, none of these functions were performed. The Sub-County Chiefs were giving reasons of not having money to perform those duties assigned to them under

the guidelines while for the divisions the sectors were active but needed more funds because of declining revenues.

4.2.2 MANAGEMENT

This is an area with significant expenditure needs for all levels of governments. This is caused by the fact that most of the increases in grants in the most recent years have been to the sector areas, not to the key general administrative functions.

4.2.3 PRODUCTION AND MARKETING

Analysis shows need of districts is about U Shs 15.8 billion for recurrent expenditure. This is explained by increased programmes due to Plan For Modernisation Of Agriculture (PMA) which will mainly focus on local government capacity building, access to rural markets and water for agricultural production. Therefore, local governments will need money to counter-fund these programmes, while in urban councils this sector is still not pronounced. In some urban councils this sector was not budgeted for. This resulted into underestimation of the expenditure needs of the urban councils because the team lacked relevant data.

4.2.4 HEALTH

Similarly, analysis shows that this sector needs a sizeable amount of money for effective implementation of service delivery programmes like recruitment of more local staff, improving further staffing levels in health units, training of nursing assistants for lower level health units, adequate funding for drugs, utilities, improvement of immunisation coverage and supplies for PHC and ensuring a sufficient recurrent budget for proper operation of the district.

At the sub-county level, health services are almost entirely being performed by the higher local government. Therefore, sub-counties have not allocated sizeable amount of money to this sector. There is even no staff accredited to this sector in most sub-counties visited by the team.

4.2.5 ROADS

This sector together with Gender and Community Services have the lowest expenditure need, because most road works are financed by conditional grants. Most work on roads was contracted out and, therefore, needed little staff. There was evidence of increased mechanisation of road works. All the districts the team visited have received road equipment.

4.2.6 GENDER AND COMMUNITY SERVICES

This sector had services decentralised without matching funds. Therefore, local governments look at it as a function which has not really been decentralised, hence little is budgeted for it. They have not put much attention on this sector in determining the national standards of service delivery.

4.2.7 Concluding Comments on Sectors

In conclusion, analysis has indicated that:-

- 1) Areas in special need of recurrent funding, in addition to the existing conditional grants, are education, management, health and production.
- 2) Sectors which receive conditional grants like Roads, Health and Education, are not significantly pronounced in the sub-county budgets.

- 3) The amount of money a sector needs depends on the level of decentralisation of that sector at any level of local government. Sub-counties registered very low recurrent expenditure need basically because the level of decentralisation of most services is still very low .

4.2.8 Summary of Projected Recurrent Expenditure Needs

Table 6 shows the summary of expenditure needs by local governments per capita.

Table 6: Summary of Expenditure Needs

	Sample	National	%age
Districts	38,899,757,354	188,387,167,787	52
Sub-Counties	1,575,078,802	96,861,752,733	26.9
Municipal	2,915,457,307	19,668,276,946	5.5
Divisions	4,046,694,592	20,736,883,230	5.8
Town Councils	915,326,383	33,996,034,990	9.5
TOTAL	48,352,211,444	359,650,115,340	100

4.3 Revenue

The revenue included the actual local revenue collected from different sources, the extra revenue potential that could be collected by increasing the rates charged while taking care of the laws and the taxable capacity of the taxpayers and the revenue shortfalls experienced (difference between the budgeted and realised) due to high rate of evasion and avoidance by the taxpayers. The summary of the analysis is shown in Table 7.

Table 7: Local Revenues Performance by Source for Sample Local Governments

Graduated tax	Districts	Sub-Counties	Municipals	Divisions	Town Councils
Actuals	2,739,567,001	431,934,902	650,946,788	348,163,396	132,612,431
Extra potential	217,060,781	239,230,642	146,202,797	122,020,123	243,847,710
Inefficiency loss ¹	3,092,413,018	234,873,842	1,123,055,615	440,274,640	107,499,789
Sub-Total	6,049,040,799	906,039,386	1,920,205,200	910,458,159	483,959,929
Property tax					
Actuals	507,092,719	6,384,709	245,674,446	124,300,235	17,261,981
Extra potential	226,492,924	2,342,886	325,926,448	27,282,027	1,847,059
Inefficiency loss	-	12,816,960	493,373,581	292,024,235	40,515,885
Sub Total	733,585,640	21,544,555	1,064,974,475	443,606,497	59,624,925
Market dues					
Actuals	184,545,523	54,629,484	301,474,070	399,038,596	119,748,744
Extra potential	21,087,268	16,332,815	125,653,898	41,592,357	69,604,418
Inefficiency loss	65,570,994	21,245,577	142,808,891	75,988,546	33,249,838
Sub-Total	271,203,785	92,207,876	569,936,859	516,619,498	222,603,000
Licenses & Fees					

Actual	86,385,660	23,838,394	371,957,436	62,877,112	104,825,897
Extra potential	25,931,202	6,419,971	64,688,250	11,378,182	28,414,138
Inefficiency loss	94,433,198	12,942,992	74,391,487	101,720,178	70,580,786
Sub-Total	206,750,061	43,201,357	511,037,173	175,975,472	203,820,820
Park fees					
Actuals	3,048,519	2,378,795	666,313,911	382,860,974	137,159,212
Extra potential	734,822	711,475	164,530,834	80,464,099	53,544,352
Inefficiency loss	56,461	212,616	644,098,696	64,898,771	22,787,188
Sub-Total	3,839,802	3,302,886	1,474,943,441	528,223,844	213,490,752
Total Actuals	3,520,639,419	519,166,284	2,236,366,651	1,317,240,313	511,608,265
Total Potential & Inefficiency	3,743,780,669	547,129,776	3,304,730,497	1,257,643,158	671,891,162
% Potential & Inefficiency to Actuals	106	105	148	95	131

¹ 80% of extra potential counted for in the calculation

Expressing these figures in terms of percentages reveals the following:-

Table 8: Composition of Local Revenues (%)

Type of Sources	District	Sub-Counties	Municipals	Divisions	Town Councils
Graduated tax	84	86	38.6	37.8	42.3
Property tax	10	2	18.9	17.7	5.2
Market dues	4	8	9.5	18.5	18.4
Licenses & Fees	3	4	8.1	6.9	116.9
Park fees	0.05	0.3	25	19.1	17.2
TOTAL	100	100	100	100	100

Table 9: Local Revenue Performance by Source (%age)

	Districts	Sub-Counties	Municipals	Divisions	Town Councils
Graduated tax					
Actuals	45.29	47.67	33.90	38.24	27.40
Extra potential	3.59	26.40	7.61	13.40	50.39
Inefficiency loss	51.12	25.92	58.49	48.36	22.21
TOTAL	100.00	100.00	100.00	100.00	100.00
Property tax					
Actuals	69.13	29.63	23.07	28.02	28.95
Extra potential	30.87	10.87	30.60	6.15	3.10
Inefficiency loss	0.00	59.49	46.33	65.83	67.95
TOTAL	100.00	100.00	100.00	100.00	100.00

Market dues					
Actuals	68.05	9.59	52.90	77.24	53.79
Extra potentials	7.78	17.71	22.05	8.05	31.27
Inefficiency loss	24.18	23.04	25.06	14.71	14.94
TOTAL	100.00	100.00	100.00	100.00	100.00
Licenses & Fees					
Actuals	41.78	55.18	72.78	35.73	51.43
Extra potentials	12.54	14.86	12.66	6.47	13.94
Inefficiency loss	45.68	29.96	14.56	57.80	34.63
TOTAL	100.00	100.00	100.00	100.00	100.00
Park fees					
Actuals	79.39	72.02	45.18	72.48	64.25
Extra potentials	19.14	21.54	11.16	15.23	25.08
Inefficiency loss	1.47	6.44	43.67	12.29	10.67
TOTAL	100.00	100.00	100.00	100.00	100.00

Tables 8 and 9 indicate that:-

For districts, the greatest potential is expected from Graduated Personal Tax with the potential of 84% to the local revenues but contributed only 78% of the estimated local revenues, which is due to a shortfall compared to the potential of 54.71% caused by some well known reasons. They included the fact that the tax is unpopular, the taxpayers' ability to pay was affected by poverty, a fall in agricultural prices of most commodities, political utterances by politicians and generally the local governments' reluctance to collect taxes as a means to improve service delivery.

The next largest potential is expected from Property Tax and Market Dues with shortfalls in their collections of 35.8% and 37% respectively. Market Dues had a low shortfall because most markets are tendered out, while Property Tax has an immobile base and cannot be easily avoided. However there are high chances of evasion mainly due to two reasons;

~~✍~~ Tax collectors do not have enough information on properties

~~✍~~ There is no link between service delivery and tax collection.

Licenses and Permits and Park Fees still remain with low potential to the districts' local revenues, although the Districts use these as a source of income. Their collections are low, since their bases are not fully exploited.

Sub-Counties have Graduated Personal Tax as the greatest contributor to local revenue (contributes 83%). There was a shortfall of 52.32% in the collection due to the same reasons that affected the districts.

Market Dues is the second largest contributor to local revenue for Sub-Counties (contributes 11%) to local revenues though it had a shortfall of 46.2% in the collections. Licenses and Permits and Property Tax are the next largest contributor to local revenues after Market Dues but will still constitute a small part of the revenues. They had shortfalls of 50.4% for License and Fees and 74.8% for Property Tax. This is because property owners are still resistant to paying this tax and most properties have not been valued. Park Fees remains insufficient in the local revenues for Sub-Counties because of no proper gazetted parking areas in the trading centres.

Urban Councils have fair distribution in terms of contributions to local revenues by different sources. For Municipalities, Graduated Personal Tax and Park Fees are the greatest contributors to the Municipals' local revenues, with 35% potential for Graduated Personal Tax and 26% for

Park Fees. Property Tax and Market dues have a potential of 20% and 10% respectively. Property Tax has the highest shortfall of 80.7% while Graduated Personal Tax shortfall is at 70.4% in their collection. The corresponding reasons for these are that most Municipal properties are undervalued and some are not valued at all. Graduated Personal Tax is so much affected by evasion and avoidance and to a greater extent political utterance at local levels. Licenses and Permits contribute 9% to Municipal Local revenues.

Divisions have the same case like Municipals, with Graduated Personal Tax and Park Fees contributing higher percentages than the other sources. Graduated Personal Tax contributes 35% and Park Fees 20% to the Divisions' local revenues. Market dues and Property Tax balance in their contribution of 19% each. Licenses and Fees have the least contribution to the local revenues for the Divisions of 7%.

For Town Councils, the contribution is more equally distributed for different sources of local revenues. Graduated Personal Tax has the highest potential of 37%, Market dues follow with 20%, Licenses, Fees and Park Fees have the same potential of 19% each, and Property Tax with 6% potential. Property Tax and Graduated Personal Tax have a high level of shortfall in revenue collection of 75.4% for Property Tax and 70.6% for Graduated Personal Tax. Property Tax has a high shortfall because of the poor valuation methods and most properties have not yet been valued in most Town Councils.

In summary, the total revenue potentials projected in the national level is given in the Table 10 below.

Sample Projection

Table 10 shows the Summary of Projections of Local Revenues with their percentage contribution to the financing of local governments.

Table 10: Projected Local Revenues

	Sample	National	%age
District	7,264,420,088	32,301,333,356.5	24.8
Sub-Counties	1,066,296,060	48,185,000,659	37.05
Municipal	5,541,097,148	14,406,841,042.7	5.1
Divisions	2,574,883,471	6,694,691,662.4	21.5
Town Councils	1,183,499,427	28,436,466,948.0	7.7
TOTAL	17,630,198,190	130,024,333,669	100

Analysis shows that local governments can collect 130.02 billion in local revenues, if they can improve the current inefficiency in collection and administration of local revenues. For instance, inefficiency accounts for an average of 32.6% and extra potential can bring in more than 34% when exploited.

4.4 Calculating the Gap

Tables 10(a) to (e) show the summaries of fiscal gaps of local governments calculated as the total expenditure needs less the revenues.

Table 10 (a): Calculating the Fiscal Gap for districts

Districts	
Local Revenues	32,301,333,356
Unconditional Grant	68,833,336,000
Equalization Grant	2,714,116,198
Net Recurrent Expenditure Need	188,387,167,787
Gap	84,538,382,233

Table 10 (b): Calculating the Fiscal Gap for Sub-Counties

Sub-Counties	
Local Revenue	48,185,000,659
Net Recurrent Expenditure Need	96,861,752,733
Gap	48,676,752,074

Table 10 (c): Calculating the Fiscal Gap for Municipals

Municipal	
Local Revenue	14,406,841,043
Unconditional Grant	1,865,324,000
Equalisation Grant	82,089,000
Net Expenditure Need	19,668,276,946
Gap	3,314,022,903

Table 10 (d): Calculating the Fiscal Gap for Divisions

Divisions	
Local Revenue	6,694,691,662.39
Net Recurrent Expenditure Need	20,736,883,230.00
Gap	14,042,191,568

Table 10 (e): Calculating the Fiscal Gap for Town Councils

Town Councils	
Local Revenue	28,436,466,948
Unconditional Grant	2,286,371,000
Equalisation Grant	285,883,803
Net Recurrent Expenditure Need	33,996,634,990
Gap	2,987,913,239.04

The analysis above reveals that in the short-run, local governments need to be funded to the tune of Ug. Shs. 153.6 billion, distributed as follows:-

Table 10 (f): Showing the Financing Gaps of Local Governments

Local Government	Fiscal Gap/Deficit
District	84,538,382,233
Sub-County	48,676,752,074
Municipalities	3,314,022,903
Divisions	14,042,191,568
Town Councils	2,987,913,239
TOTAL GAP	153,559,262,017

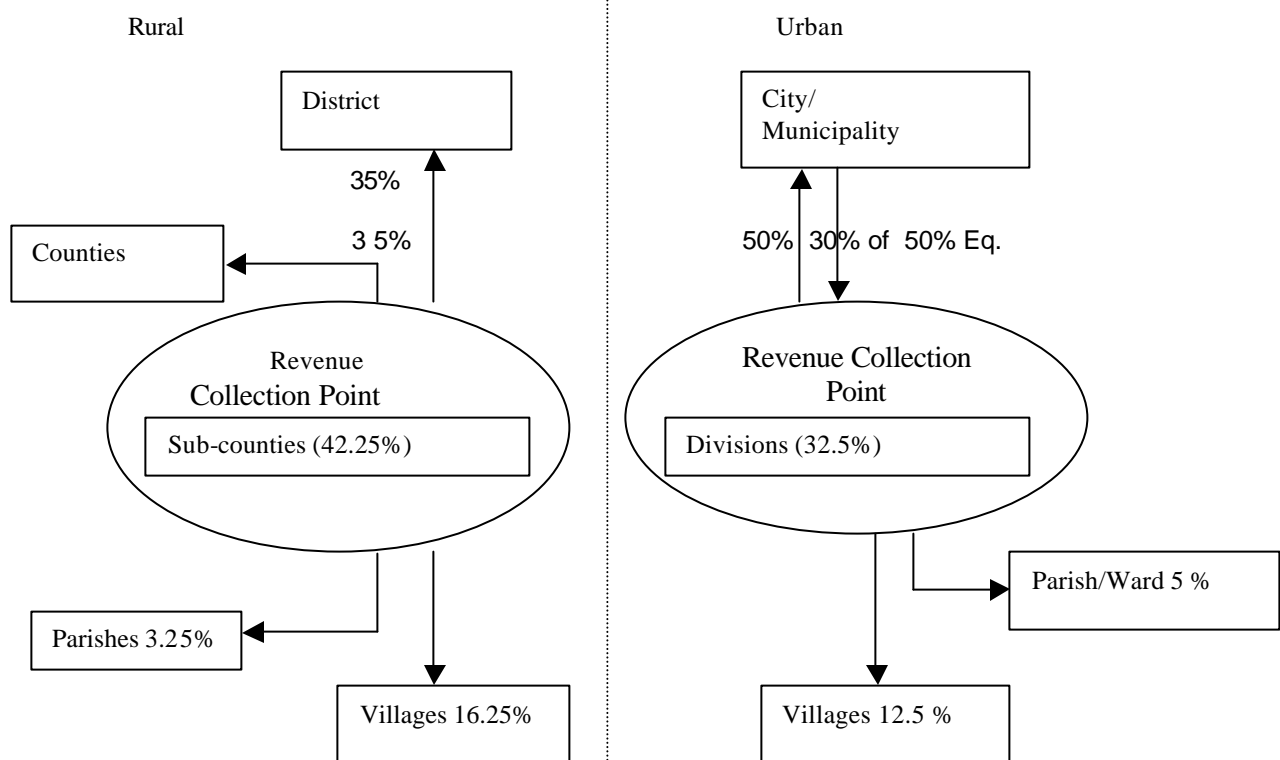
	cal Gap Per Capita	Infrastructure Need		gap	tion for average
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4.6 Experiences from Revenue Sharing – Problems and Challenges

The Intergovernmental Fiscal Relations in the Country is defined in the legal framework provided by the Constitution and the Local Governments Act, 1997. The legal framework defines the assignment of expenditures and revenues responsibilities. The revenue sharing between the central government and the local governments is defined by the assignment of taxes between the two levels of government and the central-local transfers. There are no shared taxes between the centre and local governments.

The fifth Schedule of the Local Governments Act, 1997 defines local revenues sources assigned to Local Governments and some elements of the sharing arrangements i.e. distribution of grants from City Councils to Division Councils based on a defined formula and from sub-county to various levels of administrative units. Section 86 of the Local Governments Act, 1997 defines the current sharing arrangement. There is a different sharing arrangement for urban councils and rural councils. However, in both types, local revenue collection is by the Local Council Three (LC 111) Levels.

Conception of the Revenue Sharing Arrangement between Local Governments



4.7 Revenue Sharing among the Rural Local Govts. and Administrative Units

In the rural local government, the law provides that revenue is collected by the Sub-County council which retains sixty five percent (65%) or any other higher percentages as the district council may approve of the revenue collected and pass the remaining percentage over to the district. According to section 86 (4): "A District Council, with the concurrence of a Sub-county can, collect revenue on behalf of the Sub-county Council but shall remit sixty-five percent of the revenue so collected to the relevant Sub-county". What remains at the sub-county is shared with the administrative units as indicated in the Table 12 as phase 2. Therefore in real terms, the sub-county retains 42.25 per cent of the total local revenues.

4.7.1 Revenue Sharing Among Rural Local Government and Administrative Units

Table 12: Shows Current Revenue Sharing

Phase	Local Government/Administrative Unit	Level	Percentage Share
Phase 1	District**	LC V	< or = 35%
	Sub-County**	LC III	> or = 65%
	Total		100%
Phase 2	County Council*	LC IV	5%
	Sub-County Council**	LC III	65%
	Parish Council*	LC II	5%
	Village Council*	LC I	25%
	Total		100%

Note: ** implies local government

* Administrative units

4.7.2 Existing Practice of Revenue Sharing in Rural Local Governments

During the fieldwork in the sample local governments, views were sought as to whether the practice of revenue sharing among different levels of local government and administrative units was as per the law. The findings indicate varying practices from one local government to another. Between the district and the sub-county, the system generally follows the law - but only concerning the taxes/revenue collected by the sub-county. The revenue collected by the districts, especially tendered sources and graduated tax deductions from salaried workers is never shared with the sub-counties. This is contrary to the law, which obliges the district to remit 65 per cent of such revenues to the respective sub-counties.

The sub-counties noted that without receiving their full share from what the district collects, they find it difficult to honour the law of sharing with the administrative units as given in the Table 12 above. As a result, the revenue sharing is irregular. In all the districts visited it was only Busia and Jinja where there has been an alternative arrangement made on the sharing of revenues. In the case of Jinja, the understanding was occasioned by the wage payment obligations of the district in the sub-counties. The sub-counties in Jinja district and the district agreed to remit 40% to the district for the district to be able to pay salaries for sub-county staff. In Busia, Durban sub-county was remitting only 15% to the district by the time of collection of the information. This is so because the district owes the sub-county funds, which have to be recovered. This is a normal process according to Section 86 (5) of the Local Governments Act, 1997 which states as follows, "Where a District Council fails to remit the sixty five percent (65%) referred to in subsection (4), the Sub-county shall retain a percentage higher than that provided for in subsection (2) to make full recovery of the revenue due to it which is withheld by the District Council".

It should be noted that very few sub-counties can implement section 86 (5) of the Local Governments Act, 1997 because of their subordinate nature and lack of self-confidence and assertiveness.

Often, the money retained by the sub-counties is insufficient to pay the emoluments to the sub-county executive and the councillors' allowances. In some districts, sub-county staff are still paid from the 35% of the money collected by the sub-county and remitted to the district. In such cases, some districts do not have sufficient money to pay for the salaries of staff working in the sub-counties. In some cases, sub-county staff are paid from the unconditional grant transfers. In the former case huge salary arrears have thus accumulated and often been reported at the sub-county levels. But this has also been occasioned by the reduction in local revenue collections experienced recently.

The irregular functioning of the sharing system was also confirmed by submissions from the village and parish representatives in the meetings held during data collection. In some cases, villages (LC 1) and parish LC II have received funds once in three years – case in point being Nakaloke sub-county in Mbale district. The situation is made worse by the fact that higher local governments (districts and municipalities) do not provide financial information to lower local governments. For more information see section 4.11 on the current reporting arrangements.

4.7.3 Sharing of Central Transfers

While Section 84 (5) of the Local Governments Act, 1997 requires district and municipalities to indicate transfers of conditional grants and equalisation grant to lower local governments, current practice indicates that it is only the Local Government Development Fund (LGDP) that is shared with lower local governments and that lower levels of governments do not receive a share of the conditional, unconditional or equalisation grants from the centre or from the upper levels of governments.²¹ Some Sub-counties have also indicated receiving PMA grants. This means that in cases where LGDP and Programme for Modernisation of Agriculture is not accessed, lower local governments depend only on local revenues. Such cases include sub-counties in Kisoro.

It is important to note that the difference between LGDP, PMA and other central transfers is that the former two are designed with specific guidelines to follow the law specifically to percolate up to the parish level. Another grant that reaches the lower local government is the Dutch Development Grant²², a grant which was noted by the lower levels of governments in Moyo but not in Lira - although both districts are beneficiaries.

4.7.4 Views from Rural Local Governments on the Current Sharing Arrangement

The general opinion of most local governments is that the basic system is generally appropriate but needs certain changes to make it more efficient and effective. Those who believed so pointed out the following:

- ?? Revenue at the lower levels of local governments is inadequate compared to the services.
- ?? More funds for fighting poverty should be routed to local government than remaining at the centre.
- ?? The sub-counties feel that the percentage retained at their level should be increased to 80% since it is the only funding they have access to.

Those who believe the system is problematic point out that the revenue collected is too fragmented to make any impact on the service provision and the system has created some conflicts

²¹ This confirms the findings from the Fiscal Decentralisation Study – “The Way Forward”, January 2001

²² The Dutch Development Grant is transferred to 9 districts in Uganda, using the similar modalities and transfer mechanism as the LGDP grants.

emanating from the failure to share revenue according to the law among the different levels of councils. A classic case are the lower councils in Northern Division, Mbale Municipal Council, where failure to share revenue according to the law always becomes the central issue in meetings causing adjournment without any decision on other critical issues.

However, the bottom line is that while none of the local governments found the system ideal and fully well-functioning none still favoured that the system should be abolished.

4.7.5 Advantages and Disadvantages in the Current Revenue Sharing System²³

Table 13: Advantages and Disadvantages of Current Sharing arrangements among Rural Local Governments

Local Government	Advantages
Districts	<p>?? Providing funding to all levels of government.</p> <p>?? Protects the lower tiers of local government from defaulters, especially from larger taxpayer.</p> <p>?? Builds capacity for lower councils as they become increasingly engaged in activities that affect them.</p> <p>?? Enhances participation by lower local governments and improves performance.</p> <p>?? Appeals by taxpayers on unfairness of the system are easily handled especially concerning the smaller taxpayers.</p>
Sub-Counties	<p>?? Improves tax administration</p> <p>?? Creates incentives to collect taxes</p> <p>?? It is the most important pillar in the Sub-county revenue assignment.</p>
Parishes Villages	<p>?? Involved in activities that affect them</p> <p>?? Aware of many government programmes for example immunisation since they are actively involved in the mobilisation.</p>
Local Government	Disadvantages
Districts	<p>?? Creates conflicts between levels of local governments</p> <p>?? Fragmentation of funds</p> <p>?? The system is not cost-effective. There is a lot of fragmentation of resources, which restrains the possibilities of making larger investments and sustainable service provision.</p> <p>?? Some tasks are not clearly defined, for example security. Local police and Local defence personnel are a big drain on local government budgets especially those on border areas.</p>
Sub-Counties	<p>?? Creates conflicts between levels of local governments</p> <p>?? Monitoring function is very weak because of the structure and facilitation at this level.</p> <p>?? The assignment of services at the parishes and villages level is not clear, causing confusing signals on how to spend the assigned revenues.</p>

²³ Based on the respondents from the sample local governments.

Parishes Villages	?? Despite their heavy work of mobilising for government programmes and revenue collection, their motivation is not guaranteed and in most cases absent.
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4.7.6 Changes Recommended by Local Authorities

As mentioned above, most local authorities found that the system should be reformed, not abolished. Some of the initiatives to improve on the system should be:

- ?? The districts believe that since they are responsible for payment of salary for some staff at the lower levels, the remittance from the sub-county needs to be stepped up. There is a need to review the responsibility of salary payments and the sharing arrangements.
- ?? Guidelines of various types of funding need to be reviewed to give districts more autonomy in planning and budgeting basing on local situations.
- ?? Funding for activities categorised as central government roles yet local governments are heavily involved like security, law and order and elections needs to be streamlined.
- ?? Revenue sharing with administrative units vis-à-vis their assigned tasks needs to be streamlined. Transfers to administrative units need to be through activities like paying allowances, rent, stationery ,among others. Expenditure for county councils should be reflected in the district or sub-county budgets.

4.8 Revenue Sharing among the Urban Local Governments and Administrative Units

In the Urban Local Government, revenue is collected by the Division Council, which retains fifty percent, and remits the remaining fifty percent to the City or Municipal Council respectively. The share that remains at the Division level is shared with the administrative units as indicated in the Table 14.

Table 14: Current Sharing among Urban Councils

Phase	Local Government/Administrative Unit	Level	Percentage Share
Phase 1	City/Municipality**	LC V	50%
	Division**	LC III	50%
	Total		100%
Phase 2	Division**	LC III	65%
	Ward Council*	LC II	10%
	Village Council*	LC I	25%
	Total		100%

Note: ** implies local government
* Administrative units

Unlike the rural local governments, the City and Municipal Councils local revenue collected undergoes another phase of sharing. City/Municipal Councils are required (Fifth Schedule, Part V) to distribute at least 30 per cent of revenue collected and remitted by the Division councils as grants to Division Councils based on a formula with the following factors and weights:

4.8.1 Formula for Distribution of Grants from City or Municipal Councils to Division Councils

Table 14: Distribution of Grants by City or Municipal Councils to Divisions

No.	Factor/Parameter	Weight
1	Child Mortality	40%
2	School Age Going Population (5-12 years)	25%
3	Population	20%
4	Land Area (Sq.Km)	15%
	TOTAL	100%

4.8.2 Existing Practice of Revenue Sharing in Urban Local Governments

The sharing practice in urban local governments especially municipalities, is not different from what is happening in districts. Divisions collect revenue from non-tendered sources and share according to the legal ratios given in Table 14 above. However, revenue from tendered sources, including graduated tax receipts from salaried workers collected by the Municipal Council, is generally not shared. In Municipal Councils, property rates, market dues, taxi and bus park fees are directly banked on Municipal operational accounts and not collection accounts. Consequently, divisions never receive their share or even know the amount involved. Tenders are signed with Municipal governments and the information is rarely shared with Division councils. The Divisions, therefore, claim to have no funds to share with the lower councils on regular basis and required amounts. The Divisions also noted that the situation is made worse when the 30% transfer from municipal councils to divisions is never effected, which seems to be a general problem.

The situation in Town Councils is quite interesting. It was noted that until recently when the law was amended, it was not clear as to whether local revenue generated is shared with lower councils. Therefore it was at the discretion of individual councils to do what was agreeable among themselves. During the separate meetings, Town Council officials reported transferring funds to lower councils. The information given by many councils contradicted with submissions from village and ward councils. The information was verified with Town officials and it was discovered that the village and ward councils had never received any funds. This points to the importance of having a clear legal framework on revenue sharing.

4.8.3 Views from Urban Local Governments on the Current Sharing Arrangement

Urban local governments also believe that the basic system is generally appropriate but needs certain changes to make it more efficient and effective. Those who believed so pointed out the following:

- ?? Funds transferred to lower councils should be budgeted to ensure proper accountability and a reporting system put in place.
- ?? There should be a reduction of funds transferred to lower levels of councils (villages/parishes), and the activities, which they should cater for more clearly defined.
- ?? Some mentioned that the funds remitted to administrative units should be abolished because the system of control of its utilisation is too weak.

4.8.4 Advantages and Disadvantages in the Current Revenue Sharing System

Table 16: Advantages of Current Revenue Sharing Arrangement among Urban Local Governments

Local Government	Advantages
Municipal Council	<p>?? Improves tax administration.</p> <p>?? Enhances participation of lower tiers of local government and improves transparency.</p>
Division	<p>?? Improves tax administration.</p> <p>?? It motivates the lower councils in setting their own priorities and ensure that they get funds.</p> <p>?? Provides funding to all levels of governments.</p>
Town Council	<p>?? Improves tax administration.</p> <p>?? It motivates the lower councils in setting their own priorities and ensure that they get funds.</p> <p>?? Provides funding to all levels of governments.</p>
Ward Villages	<p>?? Provides funding to all levels of governments.</p>
Local Government	Disadvantages
Municipal	<p>?? Unfair - the percentages do not reflect the division of tasks.</p> <p>?? No reporting system at lower local governments, accountability or clear definition of tasks.</p> <p>?? Creates conflict between levels of local governments.</p>
Division	<p>?? Creates conflict between councils and councillors.</p>
Town Councils	<p>?? Difficult to administer.</p> <p>?? It is unfair, the percentage sharing does not reflect division of tasks.</p> <p>?? Creates conflicts between technical staff and councillors.</p>
Wards Villages	<p>?? Creates conflicts between levels of local governments.</p> <p>?? Do not receive their legal share.</p>

4.9 Legislative Framework on Division of Tasks

The general opinion of local governments on the division of tasks is that they are clear, but with the exception of some cases especially concerning the lower levels of local governments. The data was collected on department/directorate basis for a critical review of tasks and responsibilities.

4.9.1 Response to Legal and Regulatory Description of tasks for all the sample local Govts.

Table 17: Response on Legal and Regulatory Description of Tasks for Local Governments

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	55%	16%	4%	0%	25%
Gender and Community Development	40%	14%	1%	0%	45%
Finance and Planning	54%	19%	0%	0%	27%
Management Support Services	50%	18%	0%	0%	32%
Health	25%	22%	0%	5%	48%
Education	30%	14%	0%	4%	52%
Roads	55%	14%	1%	0%	30%
Water	37%	22%	0%	4%	38%
Production	22%	10%	1%	12%	34%

The Health, Education, Production Water And Gender are the least clear sectors for the local governments to understand their responsibilities.

THOSE WHO RESPONDED “**NOT SO CLEAR**”

REASONS: -

- ?? Politics tends to disorganise the set laws regulations and guidelines. Even the sectors concerned do not properly spell out the guidelines. Politics also tend to overlap with technical work
- ?? Districts with their headquarters in town council tend to assume more powers than town councils to the extent of giving an order or retaining funds for lower local governments including town councils.
- ?? Law, regulations and guidelines are not properly specified, and are hence difficult to follow and implement.
- ?? The role of Sub-county councils in planning and implementation of education programmes is not clear.
- ?? New regulations, guidelines are not always available at lower local governments.
- ?? At lower councils, only few councillors have access to the Local Government Act, 1997 and some with little education often interpret it wrongly.
- ?? The description of the task lacks sensitisation; hence many councillors and technical staffs usually misinterpret the legal provisions.
- ?? There is no formal introduction and explanation of the regulations and guidelines.
- ?? Natural disasters are not addressed in the tasks

THOSE WHO RESPONDED “**CONFUSING**”

REASONS: -

- ?? It is difficult to understand some of the terminology and explanations. This is caused by lack of technical people at the sub-county to handle services in respective areas.

- ?? There are conflicting roles between the politicians and the heads of departments. It was reported in the departments of councils, commissions and boards in most local governments.
- ?? The district responsibilities on health are mixed up and not well defined especially the district vis-à-vis the urban local government.
- ?? There are no guidelines to indicate the standard level of service delivery.

THOSE WHO RESPONDED “**NOT AVAILABLE**”

REASONS: -

- ?? That the laws guiding and regulations are not adequate.
- ?? At Dokolo Sub-county the post for Secretary of Education is not available and hence education activities are not visible. This also occurred in many other Sub-counties and sectors.
- ?? In Dokolo the legal and regulatory description of tasks were not heard of before in the Production sector.

4.9.2 Specific Level Responses

During the information gathering, different levels of local government commented on the clarity of the laws, regulations and guidelines facilitating the provision of services. Given below are the specific responses for the different levels of government.

(a) District Level

At the district level, the reasons given for non-clarity of the legal framework were as follows:

- ✍ Politics tends to overlap with the technical work especially in the Management Support Services Directorate.
- ✍ Conflicting roles between the politicians and the heads of departments (noted Council, Committees and Boards Directorate),
- ✍ There are so many vertical programmes, whose mandate are they?
- ✍ Community services were not properly articulated in the law.
- ✍ In some cases, there is no separation between district councils and urban councils. As a result there is a tendency to develop conflicts between them.
- ✍ There was no training/sensitisation of local governments at the introduction of the current laws and guidelines to local governments.
- ✍ There are some functions, like the local police and prisons, which lack proper assignment, and the situation becomes worse with those districts at the national borders.
- ✍ The role of sub-county councils in planning and implementation of education programmes is not clear.

Response To Legal And Regulatory Description Of Tasks For The Sample District Local Governments

Table 18: Legal and Regulatory Description of Tasks by Districts

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	57%	29%	14%	0%	0%
Gender and Community Development	29%	43%	0%	0%	28%
Finance and Planning	29%	14%	0%	0%	57%
Management Support Services	71%	14%	0%	0%	15%
Health	29%	43%	0%	0%	28%

Education	29%	28%	0%	14%	29%
Roads	86%	0%	0%	0%	14%
Water	43%	14%	0%	0%	43%
Production	43%	14%	0%	29%	14%

(b) Municipal Council Level

At the Municipal Council level, the reasons given for the tasks not being clear are:

- ✍ There seems to be a contradiction between what is in the Act and what is being practised. This was noted in the Department Of Health.
- ✍ The Ministry responsible for Youth is not clear, even the activities are not defined.

Response to Legal and Regulatory Description of tasks for the sample Municipal Local Governments

Table 19: Legal and Description of Tasks by Municipal Councils

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	60%	20%	0%	0%	20%
Gender and Community Development	20%	20%	0%	0%	60%
Finance and Planning	40%	20%	0%	0%	40%
Management Support Services	40%	20%	0%	0%	40%
Health	20%	0%	0%	0%	80%
Education	20%	0%	0%	0%	80%
Roads	40%	20%	0%	0%	40%
Water	40%	20%	0%	20%	20%
Production	0%	0%	0%	0%	0%

(c) Municipal Division

At the Municipal Division Council level, the reasons given for the tasks not being clear are:

- ✍ In the Health Department, the planning and budgeting are not clear.
- ✍ Council, Committees and Boards activities are not adequately defined in the Act and LGFAR.
- ✍ No sensitisation was made when introducing the legal reforms, hence many aspects remain unclear.

Response to Legal and Regulatory Description of tasks for the sample Municipal Division Local Governments

Table 20: Regulatory Description of Tasks for Divisions

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	25%	13%	0%	0%	63%
Gender and Community Development	13%	0%	0%	0%	88%
Finance and Planning	50%	25%	0%	0%	25%
Management Support Services	38%	13%	0%	0%	50%
Health	25%	25%	0%	0%	50%
Education	38%	0%	0%	0%	63%

Roads	38%	0%	0%	0%	63%
Water	13%	0%	0%	0%	88%
Production	0%	13%	0%	0%	88%

(d) Town Council

At the Town Council level, the reasons given for the tasks not being clear are:

- ?? Politics tends to overlap with the technical work especially in the Management Support Services Directorate.
- ?? Regulations are not specific, difficult to follow and implement.
- ?? Roles of politicians are not clear.
- ?? Urban water supply in Town Councils has no clear guidelines.

Response To Legal And Regulatory Description Of Tasks For The Sample Town Council Local Governments

Table 21: Legal and Regulatory Description of Tasks for Town Councils

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	75%	0%	0%	0%	25%
Gender and Community Development	75%	0%	0%	0%	25%
Finance and Planning	100%	0%	0%	0%	0%
Management Support Services	50%	25%	0%	0%	25%
Health	25%	25%	0%	25%	25%
Education	25%	25%	0%	0%	50%
Roads	75%	25%	0%	0%	0%
Water	50%	50%	0%	0%	0%
Production	25%	0%	0%	25%	50%

(e) Sub-counties

At the Sub-county Council level, the reasons given for the tasks not being clear are:

- ✖ Expenditure assignments are not clear as to their role in providing primary education.
- ✖ There is no proper system of identification of roads for different levels of government.
- ✖ Financing powers are not adequately decentralised.
- ✖ Only a few councils/councillors can access the Local Governments Act, 1997 and in some cases only a few people are literate.
- ✖ In the case of Production, new regulations/guidelines are not available with the local governments.
- ✖ It is difficult to understand some of the terminologies and notes in the Act and the LGFAR. In this respect, they proposed training and simplifying some words in both pieces of laws.
- ✖ The office responsible for education does not exist at the Sub-county level.
- ✖ The Sub-County employees know no clear standards of service delivery.
- ✖ In the case of roads, there is no technical person at the Sub-county to handle the service.

Response to Legal and Regulatory Description of tasks for the sample Sub-County Local Governments

Table 22: Legal and Regulatory Description of Tasks for Sub-counties

Sector/Directorate	Clear	Not Clear	Confusing	Not Available	Not stated
Council, Committees and Boards	56%	19%	6%	0%	19%
Gender and Community Development	63%	6%	6%	0%	25%
Finance and Planning	50%	38%	0%	0%	12%
Management Support Services	50%	19%	0%	0%	31%
Health	25%	19%	0%	0%	56%
Education	38%	19%	0%	6%	37%
Roads	38%	25%	6%	0%	31%
Water	37%	25%	0%	0%	38%
Production	44%	25%	6%	6%	19%

4.10 Wage Payments and Sub-County Remittances to Districts

Higher local governments are by law required to recruit staff for lower local governments and pay their wages. As noted earlier, lower local governments are supposed to collect local revenues and remit defined shares to their respective higher local governments. There has been a debate whether lower local governments can pay wages of their employees from what they retain or retain more shares and pay their workers.

From **Table 23** below (4 sampled districts), it is noted that some sub-counties are too poor to even afford paying their workers. They receive more in terms of salaries than they remit to the district.

The situation varies greatly from district to district where some districts transfer nearly the same amount in salaries as they get from the tax transfers from the sub-counties, and others a much smaller amount.

Table 23: Wage Payments and Sub-county Remittances to Districts

District	Sub-County	Received from Sub-county (35%)	Salaries paid to Sub-county staff by District	Actual Amount retained by district
Moyo	Aliba	5,789,900	2,715,900	3,074,000
	Gimara	8,132,800	2,715,900	5,416,900
	Itula	846,700	3,327,300	(2,480,600)
	Dufile	3,928,630	2,715,900	1,212,730
	Lefori	22,084,600	3,327,300	18,757,300
	Metu	11,247,960	3,938,700	7,309,260
	Moyo	20,395,000	2,715,900	17,679,100
	HQs	68,682,142		68,682,142
		141,107,732	21,456,900	119,650,832
Busia	Buteba	8,511,002	998,514	7,512,488
	Dabani	8,660,000	998,514	7,661,486
	Busitema	9,465,000	998,514	8,466,486
	Bulumbi	12,624,000	998,514	11,625,486
	Masafu	16,643,500	998,514	15,644,986
	Masaba	10,790,200	998,514	9,791,686
	Buhehe	6,122,500	998,514	5,123,986
	Lunyu	8,475,000	998,514	7,476,486
	Lomino	8,630,000	998,514	7,631,486
		89,921,202	8,986,626	80,934,576
Kiboga	Bukomero	9,257,025	8,134,848	1,122,177
	Butemba	6,227,000	8,691,648	(2,464,648)
	Ddwaniro	8,665,480	6,275,760	2,389,720
	Gayaza	4,472,750	5,551,728	(1,078,978)
	Kapeke	5,431,600	4,832,640	598,960
	Kipiga	5,581,350	4,832,640	748,710
	Kyankwanzi	12,146,360	9,899,888	2,246,472
	Lwamata	6,668,300	5,067,600	1,600,700
	Mulagi	5,591,340	3,524,480	2,066,860
	Muwanga	4,722,900	5,067,600	(344,700)
	Nsambya	6,111,750	5,552,640	559,110
	Ntwetwe	8,741,500	7,248,960	1,492,540
	Wattuba	7,867,350	11,524,368	(3,657,018)
		91,484,705	86,204,800.00	5,279,905
Masaka	Bigasa	13,645,095	10,924,896	2,720,199
	Butenga	24,023,207	23,388,432	634,775
	Kibinge	12,665,868	13,791,888	(1,126,020)
	Kitanda	16,160,353	12,012,984	4,147,369
	Bukakata	14,384,745	13,232,916	1,151,829
	Buwunga	12,949,763	19,783,668	(6,833,905)
	Kabonera	15,693,872	22,835,628	(7,141,756)
	Kisekka	23,872,158	19,514,304	4,357,854
	Kkingo	10,600,588	10,916,928	(316,340)
	Kyanamukaka	20,486,272	18,147,840	2,338,432
	Kyazanga	22,420,840	17,326,788	5,094,052
	Lwengo	23,965,893	22,191,720	1,774,173

	Malongo	19,302,700	20,810,592	(1,507,892)
	Mukungwe	13,115,868	17,570,304	(4,454,436)
	Ndagwe	14,630,580	15,537,912	(907,332)
	Bukulula	13,825,780	20,013,564	(6,187,784)
	Kalungu	13,878,232	21,201,924	(7,323,692)
	Kyamulibwa	19,240,468	11,523,720	7,716,748
	Lwabenge	13,513,873	15,988,692	(2,474,819)
	GPT from S-C employees	101,669,575		
	Total	420,045,730	326,714,700	93,331,030

4.11 Financial Reporting

In a system of local government where there is sharing of resources, sharing of information is very paramount. The study, therefore, investigated the reporting systems (especially on financial issues) that exist between districts and sub-counties, municipalities and divisions.

The study revealed that sub-counties submit financial reports to their respective districts, and divisions to their respective municipalities. The districts and municipalities also submit financial reports to the central government. Districts and municipalities do not share their financial reports with their lower local governments despite the fact that they are in most cases given the responsibilities of collection of revenue.²⁴ It therefore comes out that financial reporting is "bottom-top". The lower local governments never know the full picture of revenue in their respective jurisdiction. They cannot, therefore, claim from the district what they do not know.

While the reporting system seems to take the bottom-top system, the study also found out that the administrative units (parish, village and county councils) never generate any financial report let alone even sharing with the sub-county how the resources passed on to them are utilised. If, therefore, one wanted to know activities that the administrative areas use the resources for, it is only them that can provide it save for the LGDP, the only programme that transfers resources up to the parish.

4.12 Utilisation of Average Remittances to Lower Councils

Table 24 shows the number of desks Lower Local Governments can buy from the remittances from Sub-Counties.

Table 24: Minimum Utilisation Of The Transfers From Sub-Counties By The Parishes And Villages

District	Sub-County	Average Annual Revenue Per Parish	Average Revenue Per Village	No. of Desks (Parish) ²⁵	No. of Desks (Village)
Busia	Busitema	97,267	101,574	2.16	2.26
	Dabani	42,138	31,592	0.94	0.70
Kisoro	Nyarusiza	441,397	166,034	9.81	3.69
	Nyakabande	427,194	183,083	9.49	4.07
Masaka	Kitanda	326,501	136,042	7.26	3.02
	Kyanamukaka	379,786	166,157	8.44	3.69
Moyo	Metu	95,000	60,381	2.11	1.34
Lira	Dokolo	160,000	66,456	3.56	1.48
	Muntu	150,000	102,857	3.33	2.29

²⁴ See details of reporting in Annex

²⁵ Number of desks a parish can procure with the average share of revenue it receives.

As was noted by the local governments, while remittances to administration units are desirable they fragment resources to such an extent that in some cases funds received by a unit can hardly buy more than two school desks in a year (See Table 24)

Service	Unit Cost
20% contribution to teachers' houses	5,600,000
Community road repair per 1.5 km	1,600,000
Construction of small bridges	780,000
Contribution to security (1 LDU per year)	480,000
Spring Protection	350,000
Out-reach activities per parish	250,000
Purchase of office furniture	125,000
Allowances to executive (assume 10 executive)	120,000
Entertainment	100,000
One twin seater desk	45,000

4.13 Summary Findings on Practice in Revenue Sharing

- a) Generally, the system of sharing revenues is not being carried out according to the law. Transferring of resources to administrative units (counties, parishes, and villages) is being done on an ad-hoc basis, Districts and municipalities do not declare what they collect to their respective lower local governments. This involves revenues from tendered sources and GPT from salaried workers.
- b) Sharing of central transfers between districts and sub-counties, municipalities and divisions is only limited to LGDP and in some cases PMA.
- c) The major advantage of the current revenue sharing system is that it provides funding to all levels of government, builds capacity of local governments as they actively get involved in implementing activities, enhances participation by various stakeholders and generally improves the performance of service delivery. But Sub-counties are generally in a very weak position of financial capacity. Revenues to lower local governments are too inadequate in relation to their assigned tasks.
- d) The major disadvantage is that it fragments resources making it very difficult to undertake large investment and service provision.
- e) Some tasks are not clearly defined, for example security, law and order.
- f) Assignment of responsibilities at the parish and villages is not clear, causing confusion on how to spend the funds that are transferred to them.
- g) Expenditure responsibilities as given in the Constitution, the Local Governments Act and the Financial and Accounting Regulations are generally clear but there is need for sensitisation about them to the local governments especially lower levels where it was noted that some terms are very difficult to understand.
- h) The books containing the legal framework are also unavailable in many local governments, making them operate as if there is no law.
- i) Some service areas, for example roads and education have no technical human resources at the sub-counties, making implementation of services in these areas very difficult or impossible.

- j) Many sub-counties cannot manage to pay their respective staff from local revenues and also remain with some operational funds.
- k) The system of sharing financial information is not transparent as the district and municipalities do not declare what they have collected from the respective lower local governments. This, therefore, makes the sharing of revenues a mockery.
- l) Lower level Administrative Units (parish/village) do not make a budget to deliver services or provide any budget information to the higher level, making accountability at those levels very weak.
- m) The remittance of 30% (Equalisation) to divisions by Municipalities seems not to function at all.

CHAPTER FIVE

Summary of Key Findings and Recommendations

Issue of concern	Finding	Recommendation	Responsibility										
Local Government Finance – Summary of Revenue Enhancement													
Fiscal Gap	<p>A fiscal gap of local governments discretion recurrent expenditure of Ushs 153.6bn billions has been identified as of 2000/01 financial year</p> <table><tr><td>District</td><td>84.5 bn</td></tr><tr><td>Sub-County</td><td>48.7 bn</td></tr><tr><td>Municipality</td><td>3.3 bn</td></tr><tr><td>Divisions</td><td>14.0 bn</td></tr><tr><td>. Towns</td><td>3.0 bn</td></tr></table>	District	84.5 bn	Sub-County	48.7 bn	Municipality	3.3 bn	Divisions	14.0 bn	. Towns	3.0 bn	<p>?? Review the legal framework for G.T. and Property Tax Rating Decree.</p> <p>?? Modalities and legal framework for extension of property tax to peri-urban areas should be further explored.</p> <p>?? Review current taxes for possible re-assignment.</p> <p>?? Explore new feasible revenue sources.</p> <p>?? Support the local governments to implement the recommendations of the Task Force on Local Revenue Enhancement.</p> <p>?? Expedite the implementation of Fiscal Decentralisation Strategy.</p> <p>?? Implement the appropriate recommendations from Revenue Sharing Phase I and Revenue Enhancement Studies.</p> <p>?? There is a significant funding gap to key administrative tasks such as financial management and general administration.</p> <p>?? The structure should be in line with the present tasks – rightsizing.</p> <p>?? Mechanisms and modalities should be developed to ensure that transfer of new tasks to LGs is done only after careful calculation of the economic impact and assurance of sufficient financial compensation</p>	<p>?? MOLG, LGFC, LGs (ULAA & UAAU)</p> <p>?? MOLG, MOWLE, LGFC and Donors</p> <p>?? LGFC, MOLG, (MFPED – tax policy department)</p> <p>?? Task Force members.</p> <p>?? MOFPED through working group on FDS.</p> <p>?? MFPED, MOLG & Line Ministry concerned.</p> <p>?? MOPS, MOFPED, MOLG, all Line Ministries and LGs</p> <p>?? MOLG, LGFC.</p>
District	84.5 bn												
Sub-County	48.7 bn												
Municipality	3.3 bn												
Divisions	14.0 bn												
. Towns	3.0 bn												

Issue of concern	Finding	Recommendation	Responsibility
Revenue enhancement potential	All levels of LGs have a significant non-utilised revenue enhancement potential (over 50 % of the potential is not realised).	<p>?? Development of better administrative procedures for tax collection (best practices, support from CG, training, information sharing etc.).</p> <p>?? Improve the incentives to collect taxes, linkages to criteria in grants, etc.</p> <p>?? Improve information, statistics and dissemination and sharing of information on LG tax potential and collection.</p>	<p>?? Through the Task Force.</p> <p>?? FDS implementation, LGDP, Phase II (MOLG), LGFC.</p> <p>?? LGFC & LGs.</p>
Local government finances tasks outside their mandate	LG are financing services such as security, law and order, programmes administered by the centre such as elections.	<p>?? Decentralise those tasks under defence, law and order that are local in nature and the centre remains with the policy.</p> <p>?? Those which are not local in nature should be publicly debated between local governments and the centre to find solutions.</p>	?? MOLG & LGFC
Revenue Sharing	The higher levels of LGs (Districts and Municipalities) are not effectively sharing the revenue they collect with the LLGs.	<p>?? Higher LGs should share financial reports with LLGs.</p> <p>?? Set up local revenue sharing committee at the District/Municipal to review the sharing.</p> <p>?? Procedures and mechanisms should be in place at the centre to monitor and supervise revenue sharing.</p> <p>?? Legal compliance has to be strengthened, to include penalties.</p>	<p>?? LGFC, MOLG, Inspection</p> <p>?? AG</p> <p>?? Districts/Municipalities and Internal Auditors</p> <p>?? MOLG</p>
30% remittances to Divisions	The Municipal Councils don't transfer 30% to Divisions.	?? The formulae should be analysed and revised as part of the review under the FDS.	<p>?? Implementation of FDS /LGFC/Municipalities</p> <p>?? Including KCC</p>
Fragmentation of revenues	The revenues are fragmented over many levels of LGs, to the extent that it is impossible to make meaningful investments	?? The system in the LGDP where parishes are making planning inputs to the sub-counties, but where the funds remain at the SC level	?? MOLG

Issue of concern	Finding	Recommendation	Responsibility
	<p>in infrastructure and service provision (especially for parishes and villages).</p> <p>Approx. 25 % of the collected revenues is transferred to levels, which have limited possibilities to provide services and infrastructure alone.</p>	<p>should be considered.</p> <p>? ? The 65 % at the sub-county level is fragmented in too many smaller parts and needs further attention.</p> <p>? ? Funds concerning parishes and villages should cover the allowances and other costs related to the politicians, other budget items should be in form of Indicative Planning Figures.</p> <p>? ? A separate study of the expenditure needs for facilitation of politicians at the LLGs (allowances and other costs) should be initiated.</p> <p>? ? LGs should be better to coordinate across levels of LGs on service provision.</p>	<p>? ? MOLG/LGs</p> <p>? ? MOLG/LGs</p> <p>? ? LGFC</p> <p>? ? LGs</p>
Payment of staff and transfer of revenue sources	The districts are supposed to finance the SC staff salaries, and receive simultaneously 35 % of the tax revenue from the SCs. Some SCs receive more in form of salaries from the district than they remit.	? ? The whole area of transfer to/from Districts and sub-counties needs further analysis – in order to review the possibilities for own SC funding of their staff salaries.	? ? FDS / MOLG/LGFC
Legal Framework			
Clear LG responsibilities	<p>The LG Act is not fully clear in all areas, especially concerning the lower levels of LGs.</p> <p>Some areas like Production, Health, Gender and Community Development seem to have a more urgent need for legal clarification.</p> <p>Many councils do not have the relevant books of laws hence could not comment on the clarity of the legal framework and even where they have, especially at the sub-</p>	<p>? ? Review of the LG act</p> <p>? ? Guidelines which will clarify the responsibilities of the LLGs should be issued, linked to the guideline on planning and budgeting at the lower LLGs.</p> <p>? ? Training of LGs on their responsibilities especially LLGs.</p> <p>? ? Avail law books to the LGs especially LLGs</p>	<p>? ? MOLG</p> <p>? ? LMs</p> <p>? ? MOLG</p> <p>? ? MOLG, Donors</p>

Issue of concern	Finding	Recommendation	Responsibility
	counties cannot clearly interpret them.		
Minimum Standards	Few areas have developed comprehensive affordable National Minimum standards for Services	? ? The work on development of standards should continue with the view of making affordable and realistic demands and ensure sufficient LG flexibility	? ? LMs and FDS
Tasks for Administrative Units vis-à-vis their transfers	The LG Act does not specify tasks for counties, parishes and villages. These levels of Government perform similar activities like those of sub-counties.	? ? All the planning and budgeting for resources at the LLGs should be done at the LC III level while implementation could be decentralised further down to the appropriate levels. ? ? Responsibilities for parishes, counties and villages should be clearly defined.	* MOLG
Accountability			
Budgeting	Funds at the parish and village Administrative Units are not budgeted for but just transferred without a real budget..	? ? The compliance to the guidelines and requirements have to be improved.	? ? Monitoring of these requirements and followed strengthened (AG, MOLG)
Reporting	Parish and village Administrative Units are not providing any kind of accountability on the use of revenue – some of the LLGs councillors seem to have a feeling that they can just spend them on allowances. Citizens in the LLGs have no possibilities to check the utilisation of funds/payment of taxes.	? ? Guidelines on reporting and accounting information have to be developed, if funds should continue to be transferred to LLGs (depends on the answer on the question on fragmentation). ? ? Transfer of funds should be linked to requirement to report and publish these reports.	? ? MOLG/MFPED/FDS implementation
Co-operation	There seems to be many problems in the co-operation between levels of government on tax sharing, based on misunderstanding and mistrust.	? ? Guidelines and sharing of best practices need to be improved. ? ? Sensitisation of all levels should be improved. ? ? Revenue sharing should be included in the training materials for LG staff.	? ? MOLG ? ? MOLG ? ? MOLG

FDS= Fiscal Transfer Strategy

LGs= Local Governments

MOLG= Ministry of Local Governments

LMs= Line ministries

LGFC= Local Government Finance Commission

LLGs= Lower levels of local governments
SCs = Sub-counties AU=Administrative Units.

ANNEX 1

Reporting Districts

District	Financial Reports	To Sub-county	To Centre	Standard Structures for all Sub-counties
Lira		No	Yes	Yes
Masaka		No	Yes	-
Kiboga		-	Yes	-
Moyo		No	Yes	Yes
Busia		-	-	-
Kisoro		-	-	-

Financial Reporting - Sub-counties

Sub-county	To District	From Lower Councils	Other people consuming services from your local government	Does the Sub-county Register service consumers?
Dokolo	-	-	Yes	No
Muntu	Yes	No	Yes	No
Kyanamukaka	Yes	No	Yes	No
Kitanda	Yes	No	Yes	No
Bukomero	Yes	No	Yes	No
Kapeke		-	-	-
Dufile	Yes	No	Yes	No
Metu	Yes	No	Yes	No
Busitema	No	No	Yes	No
Daban	Yes	No	Yes	No
Nyakabande	Yes	-	Yes	No
Nyarusiza	Yes	No	Yes	No
Bubare	Yes	No	Yes	No
Nakaloke	Yes	-	Yes	No

Urban Financial Reporting (Divisions)

Division	Remit Municipalities	Receive from Municipality	From Lower Councils	Outsiders using services	Does the Sub-county Register service consumers ?
Central Division	Yes	No	No	Yes	No
Adel	Yes	No	No	Yes	No
Kimanya/Kyabakuza	Yes	No	No	Yes	-
Katwe-Butego	Yes	Yes	No	Yes	No
Kakoba Division	Yes	No	No	Yes	No
Wanale	Yes	No	No	Yes	No

Annex 2

Special issues

Decentralisation of local forests

The management of Local Forest Reserves (LFRs) is the responsibility of the local governments. Currently, these reserves are small in size (about 200 reserves with a total of 5,000 ha), mainly woodlands or harvested and degraded plantations.

Analysis of Local Government revenue potential from forestry

Current situation

The sources of revenue in the forest sector are from:

? ? **Sales** of forest products (also known as “royalties” or stumpage fees on volumes of timber harvested).

? ? **Taxes** including transport fees, VAT, 15% forest fee on timber.

? ? **Licenses** and registration fees that regulate pit-sawyers, saw-millers and the felling of trees of reserved species.

The system of taxes, licences and sales of produce from government entrusted land are developed under the Forests Act, and current rates are specified in Statutory Instruments 16(2000) - The Forest Produce Fees and Licenses Order.

The districts receive 40% of the gross revenues collected by the Forest Department. In the period 1995/96 to 1999/2000, all districts combined received an annual total of between U Shs 72 million and U Shs 443 million from the Forest Department.

The remaining 60% of gross revenue is remitted to central government, some of which is returned to the Forest Department as Appropriation in Aid (AiA), which can be spent on the Forest Department field operations. Current AiA is insignificant (ranging in a District between U Shs 20,000 and 300,000 per month to cover all operations – transport, fuel, stationery, office costs).

Consequences of changes in revenue collection and allocation

Table 1 below shows the estimated revenue potential for districts from forest taxes and licenses. This is based on the total volume of taxable forest products, revised tax rates and an estimated collection rate. It also assumes that the cost of collection is 30% of the gross revenue collected.

Table 1: Annual tax collection potential in the districts

Taxable item	Unit	Total units	Unit cost	Total tax potential (U Shs in millions)	Estimated collection % & amount in year 5 (U Shs in millions)	
Transport fees-firewood	Tons	1,903,000	3,087	5,876	56%	3,268

Transport fees-charcoal	Tons	571,250	14,425	8,240	58%	4,792
Forest fees on sawn timber	m	100,000	2,250	2,250	60%	1,350
Saw milling license fees	No.	80	1,400,000	112	80%	90
Pit-sawyers registration fees	No.	100	350,000	35	70%	25
Total gross potential for districts:			16,513	58%	9,525	
Total net potential (30% collection costs):			11,559		6,667	

***Sources: Statistical Abstract 2000/Forest Department**

The table shows a potential annual tax revenue of U Shs 9.5 billion for the districts, with a net revenue of U Shs 6.7 billion after collection costs. This is significantly higher than the U Shs 400 million annual revenue currently received by the districts from the Forest Department, which has limited efficiency and incentive to maximise tax collection.

The significance of this for each district is analysed in Table 2, which compares the actual revenues received during 1995-2000 with the potential tax revenues. The actual revenue figure is based on the highest revenue collected by the Forest Department in each district in any one year during the period 1995-2000. The potential revenue figure is estimated from the taxable items, unit costs, and collection rates used in Table 1.

This analysis shows that no district (except Adjumani) is likely to get lower revenue from the forest sector under the proposed arrangements, that is if districts themselves collect the taxes rather than the Forest Department, and the NFA retains all revenues from sales (royalties) in the CFRs.

Table 2: Actual revenue compared with potential revenue, for each district

District	Annual District revenue from the Forest Department (highest during 1995-2000)	Estimated potential net annual tax revenue	Balance (actual-potential)
Adjumani	296,600	196,557	-100,043
Apac	987,080	3,484,790	2,497,710
Arua	6,410,808	95,991,153	89,580,346
Bugiri	1,939,275	23,253,495	21,314,220
Bundibugyo	272,320	5,117,032	4,844,712
Bushenyi	12,933,104	120,170,825	107,237,721
Busia	458,960	7,294,391	6,835,431

Table 3: Comparison of tax and royalty revenue collected by the Forest Department 1995-2001 (Ushs million)

Year	Tax	Tax as % of total	Royalties	Total	District 40% share
1995/96	31	17%	150	181	72
1996/97	91	13%	627	718	287
1997/98	272	32%	569	842	337
1998/99	291	32%	607	898	359
1999/00	577	52%	538	1,115	446
2000/01	605	54%	512	1,118	447

Study observations

The team carried out a wide consultation with the district on the Forest Department and came with the following observations. The total amount collected by the Forest Department in 1999/2000 was U Shs 1.1 billion. The proportion of this made up of taxes was U Shs 577 million, but the total received by the districts was Ushs 443 million. Districts would, therefore, have benefited more from the new arrangement of all royalty to NFA and all taxes to districts.

The NFA will have to make a substantial effort to increase the efficiency of revenue collection from royalties and sales of produce, through better systems of management and control. And it will have to keep the gross revenues generated from these sources if it is to be financially viable and ensure investments and sustainable forest management of the Central Forest Reserves.

The Districts should be responsible for the collection of all taxes and licenses on forestry activities, except VAT. The districts are likely to be much more efficient in tax collection than the current Forest Department.

The estimated net value of these taxes is approximately Ushs 6.7 billion per year, when an average collection rate 58% and a net cost of collection of 30% is applied. This is significantly higher than the current revenue of Ushs 400-500 million annually received by the districts from the Forest Department.

All districts have potential to gain significantly if they are allocated the main responsibility to collect taxes in the forest sector.

Annex 3

CRITICAL ISSUES IMPACTING ON REVENUE SHARING

Decentralization is at the core of Uganda's mode of governance as spelt out in the 1995 Constitution and the 1997 Local Government's Act. The process of decentralization is also embedded in the Poverty Eradication Action Plan (PEAP). Article 176 of the Constitution 1995 of the Republic of Uganda established Local Governments and the same article provides for devolution of functions, powers and responsibilities from the Central Government to the Local Governments.

To comprehensively promote the decentralization process three key inter-linked issues should be exhaustively discussed and appropriate mechanisms developed. These are:

- ✂✂ The system of transferring funds from the Central Government to Local Councils;
- ✂✂ Mobilization of revenues including collection of local revenues; and
- ✂✂ The system of sharing the revenues among different levels of government and between the local councils.

The above-mentioned key processes impact on each other directly through amounts of revenues available, the kind of distribution, and the strategy of closing the needs gap; and indirectly through the impact of each of them.

Therefore, the results of the Revenue Sharing study should be looked at in terms developing mechanisms for Local Governments to increase their local revenues, improving the allocation process and developing a comprehensive fiscal transfer system.

1.0: Local Revenue Enhancement:

The Local Governments can legally secure the requisite resources to plan and implement by:

- ? ? Collecting revenues from local sources. These include graduated tax, property tax, licenses, permits and fees as provided for in section 81 and in the 5th schedule of the local government act 1997;
- ? ? Receiving grants from the central government- conditional, unconditional and/ or equalization grants. These are explained in section 84(2-4) of the local government act 1997;
- ? ? Receiving assistance from donors;
- ? ? Integrating the Local Council and NGO activities and securing/ supplementing funds/ resources from NGOs to implement; and
- ? ? Mobilizing contributions from well-wishers, both locally and internationally.

Importance of Local Revenue

- 1.1.1 Local revenues, transfers from the Central Government and donor funds contribute about 8%, 80% and 12% respectively towards financing the higher Local Governments' budgets. For sub-county and division budgets the contribution from local revenues is the most significant.

While the amount of financial transfers to Local Governments has been increasing, Local revenue collections have over the years been falling! (**See graph and table attached**).

- 1.1.2 Local revenue is in effect regarded as the basic source of revenue that guarantees sustainability of service delivery since it allows maximum Local Government discretion to utilize in the implementation of its local priorities and needs.
- 1.1.3 This source usually contributes a lot in financing administration costs (especially councilors' emoluments and employee costs), maintenance costs of council assets and thus promotes ownership.

- 1.1.4 Utilization and follow-up of its use promotes accountability to the community and improved quality services.
- 1.1.5 It is also used to regulate businesses and provide important infrastructure/ services such as markets and public convenience at a charge.
- 1.1.6 This revenue source reduces pressure on central grants and reliance on donors

1.2.0: Problems of Local Revenue and strategies to address them

The local revenue collection declined from U Shs109bn in 1997/98 to 93.2bn in 1998/99 then to 93.8bn in 1999/2000 and to an estimated U Shs78bn in 2001/02, a period in which period we had expected substantial increase to support the decentralization process. **The recent studies indicate there are significant factors contributing to the decline; and they include:-**

- ?? Negative political influence and intentional misinterpretation of the minimum GPT for the poor.
 - ?? Low tax compliance amongst taxpayers.
 - ?? Poor tax assessment and collection practices.
 - ?? Poor information and record-keeping practices.
 - ?? Corrupt enforcement agents.
 - ?? Inadequate capacities of the technical staff to provide appropriate advice.
 - ?? Weak policy framework for property tax. The 1979 Local Government (rating) decree centralizes valuation of property to the Chief Government Valuer.
 - ?? The difficulty in developing valuation rolls, which can only be done with the advice of the Chief Government Valuer whose office, is understaffed and the cost to value properties is too high for the Local Governments.
- The Ministry of Local Government has prepared a revision of the rating decree to redress shortcomings on valuation.
- ?? The link between collection and service provision is very loose and not clear to the taxpayers.
 - ?? Weak auditing and accountability follow-ups. Internal audit and Auditor General's Office still understaffed to conduct effective auditing of Local Governments on an annual basis. External audit functions are still very weak, especially at lower council levels. In addition, the local leaders and administrators accounting to the community/ electorate are also very weak. Few communities have demanded accountability from their leaders, however, in general, the community hasn't been sufficiently empowered to demand that leaders and administrators account to the population.
 - ?? Problems with the user charges. This source includes vehicle park fees and market dues among others. The well thought-out tendering process has been seriously abused by some politicians and civil servants.

- ~~///~~ The abolition of user fees in health institutions has undermined this revenue collection effort
- ~~///~~ Weakness in supervision and auditing of tenders
- ~~///~~ Inadequate information on tax potentials
- ~~///~~ Inadequate plough-back of the collections. As it is, a user charge more is expected to be retained to develop the infrastructure.
- ~~///~~ Tenderers retaining tenders by force even after their contracts have expired.
- ~~///~~ Tenderers flouting contract agreements with impunity.

?? Worse still, the current legal arrangement on sharing local revenues has led to fragmentation of the little that is collected to the extent that a parish or a village council is allocated financial amounts which cannot purchase a single primary school desk.

This decline in local revenue collection has accordingly impacted on the amounts collected and the share taken by a local council has become increasingly less significant. As a result some local governments have been tempted to disregard their responsibility to remit the shares as per the arrangement.

Also some local council leaders have ended up misusing the little that is shared, saying that it is insignificant.

The taxpayer is left in awe. He neither sees nor knows what happened to the revenue raised from him, other citizens and relevant activities.

A recent study on Local Revenue Enhancement conducted by the LGFC in the year 2000 reveals that the current revenue sources have potentials to yield more if tax administration and procedures are improved. Graduated Personal Tax could yield 40% more while property tax collection would increase by 150%.

The study further indicates that Local Governments in general barely collect 50% of revenues from their sources.

The action areas in the recommendations of the study have been widely discussed amongst stakeholders and a general agreement that they should be implemented has been reached.

Funds have, therefore, been secured to pilot implementation of these action areas in a Revenue Enhancement Action Programmed in at least four (4) districts and 4 urban councils. The action programs are principally targeting at improving procedures of administering graduated personal tax and property tax.

It is possible to do this by implementing and supporting best practices on local revenue enhancement in local governments. **The best practices** include:

- ?? Designing registers for taxpayers to be kept by LC I Chairmen.
- ?? Property registers to be constructed, updated and kept by sub-counties/ divisions
- ?? Comprehensive mass valuation system to be adopted by local governments including districts. Although districts have not been valuing and collecting property rates from trading and other growth centres in rural areas, the valuation exercise will have to cover such centres. Districts are thus expected to enact bye-laws on this issue as it is provided for in part III of the 5th schedule of the Local Government Act 1997.
- ?? Improved tendering system in all local governments.
- ?? Regular billing of tax payers and a follow-up system to recover unpaid taxes
- ?? Regular tax education to be conducted by local councils in conjunction with local government associations. Tax education must become part of the official activities of local councils.

- ?? Update imputation values and training of core staff in Local Governments to customize values to the local environment.
- ?? Put mechanisms in the fiscal transfer system to reward best-performing Local Governments and sanction consistently.
- ?? Encourage levels of Government to pay its tax responsibilities.

2.0: Fiscal Decentralization Strategy (FDS)

The Fiscal Decentralization Strategy which aims at streamlining the flow, management, and utilization of central transfers has been developed by the MoFPED with the involvement of the MOLG and the LGFC. One of the most important elements of the strategy is there will be incentives and penalties for local revenue collection and management performance.

Over the past three years there has been an extraordinary rate of growth in social sector expenditure, with expenditures on PAF programs growing from **17% to 34%** of the Government of Uganda Budget. Due to Uganda's Decentralization Policy, this has meant a rapid increase in resource flows to Local Governments, and a corresponding increase in primary service provision. **Approximately 71% of the PAF fund is transferred to the Local Governments.** As PAF expenditures are tied to the achievement of PEAP goals, the majority of the increase in transfer of resources has been via an increasing number of conditional grants.

2.1.0: Problems with the current Fiscal Decentralization System

There has, therefore, been growth in the number and diversity of transfer mechanisms from Central Government and Donors, and this is of growing concern in both Central Government and Local Governments. Many of these mechanisms are not well adapted to the decentralized framework; Local Governments are given little real power over the allocation of resources; and there is little involvement of lower-level Local Governments in decision-making.

Major problems with management and financial accountability and reporting have arisen from the profusion of different transfer systems. Local Governments are faced with an excessive bureaucratic load from multiple procedures, bank accounts and lines of reporting while Line Ministries are faced with major problems in dealing with quarterly reports from a growing number of conditional grants and a growing number of district/ Local Governments.

In addition, there is concern about the inconsistency between the design and modalities under the Ministry of Local Government's (MOLG) Local Government Development Programmed (LGDP) and the strict conditions associated with the PAF conditional grants.

2.1.1: There are 26 conditional grants available to Local Governments all with different conditions attached, separate accountability requirements, and individual bank accounts. Under PAF alone Local Governments are required to submit 30 reports each quarter. The management of these funds presents a huge administrative burden on Local Governments and uses a substantial portion of the limited available human resources.

2.1.2: There is no discretion available to Local Governments to change conditional grant allocations within and between sectors in line with local priorities, which undermines the local ownership of programs.

2.1.3: Sector guidelines and policies are often very rigid and largely by-pass Local Government structures. This results in lower Local Governments having little involvement in planning and little information about the services that should be delivered in their areas. The system therefore becomes unresponsive to community needs.

2.1.4: Local Government management and administration costs, are inadequately funded from the unconditional grant. This results in inadequate staffing levels and undermines the motivation of staff.

2.1.5: Local Government heads of Departments are increasingly operating as local officers of line Ministries, as opposed to officials working for the Local Governments.

In order to address these concerns and to streamline the fiscal decentralisation process, a Fiscal Decentralisation Strategy has been developed and is expected to be implemented in FY 2002/03 starting on a pilot basis in about 15 Local Governments and becoming nation-wide after one year, assuming it works well.

? ? Emphasis will be put on ensuring more participation and linking/integrating plans of lower with upper Local Governments/councils.

? ? A higher involvement of lower local councils in planning and budgeting and therefore their priorities will have increased opportunity to access funding.

? ? Local Development Grant and the associated incentive mechanism under LGDP will be mainstreamed as a national process within the Development Transfer System. Minimum conditions for accessing all development grants will apply. These conditions will centre on the basic functional capacity of a Local Government. However, the minimum conditions relating to sector grants will be less stringent than those of LGDP; failure of which the Local Government could access Capacity Building Grant to address the capacity gaps.

FDS suggests two basic modes of transfer, i.e. the Recurrent Transfer System (RTS) and Development Transfer System (DTS).

The Development Transfer System combines the benefits of the LGDP and those realized from the traditional conditional grant approach. It will, therefore, provide both a framework for the achievement of sector output targets for improving the efficiency of decision-making through participatory planning and budgeting and for the promotion of stronger, more autonomous Local Governments.

? ? Local Governments will be encouraged to supplement the conditional grant funds allocated to the sector budget lines with unconditional grant, equalization grant, and local revenue and/or donor funds.

? ? Other departments/sectors like Finance, Administration, Management and those not falling in national PPAs will not be funded using conditional grants but by other revenue sources like unconditional grants and local revenues.

? ?

The Revenue Sharing Study shows that these departments contribute significantly to the enormous fiscal gap identified! It is not yet clear how this will be rationalized.

? ? There is need to maintain minimum allocations to different sector budget lines.

Control exercised by Central Government will be reduced substantially. When budgeting, Local Governments will be given some flexibility to change conditional grant allocations within the Recurrent Transfer Budget to different expenditure areas in line with local priorities by re-allocating funds both within and/or between sectors. **Relaxing conditionalities will enable local governments access increasing amounts of discretionary funds to ensure that allocations**

are made in line with local priorities, whilst ensuring funds are allocated towards the achievement of Poverty Eradication Action Plan goals.

? ? **Monitoring, Reporting and Accountability:** Councilors will be better able to understand the systems and this will enable them to hold their administrators accountable. Local Governments will be able to be more transparent and it will be easier for them to provide information to the public in a form that the public will be able to understand.

~~///~~ Reporting: a single report for all recurrent expenditures under the RTS and a single report for all development expenditures under the DTS will be required. These reports will consist of a single set of quarterly accounts accompanied by a simple one-page output report for each of the priority sectors. This reduces the current burden of unsynchronized reporting.

Reduction in the number of bank accounts: there are currently several bank accounts owned and run by a typical Local Government such that an LG would find it very difficult to reconcile all its bank accounts on a monthly basis as required under LG FAR 1998. Bank charges which are currently enormous will also reduce in tandem (in line with the new FDS system accordingly).

~~///~~ FDS proposes that there be at most one recurrent and one Development bank account per sector/programme at the district/municipality level.

~~///~~ Financial Accountability: ensuring all the proper books of account are kept and are up-to-date. The book-keeping capacity for Local Governments will be improved. DDP pilot has proved that this can be done. Appropriate formats will be developed to improve the system.

The Revenue Sharing Study indicates that there is a big gap on Reporting and Monitoring at lower Local Governments and FDS suggests to streamline this. Possibly expanding on the monitoring and accountability mechanisms under LGDP should be given a thought.

2.2: LGDP

Under item 3.1 para.5, the concept of Development Transfers will be streamlined with the LGDP modalities and will apply to all sector development grants.

The Local Government Development Programmed is funded by the World Bank. The programme provides the discretionary local development grant to districts and lower local governments. The study noted pertinent issues in the programme as:-

~~///~~ The grant is non-sectoral. Local governments are free to allocate the funds on any investments within their mandate for service delivery.

~~///~~ The conditions attached to the grant are all related giving local government incentives to improve all aspects of their performance in line with the provision of the law. For example, those local governments which perform well in areas like Planning, Financial Management, etc are given a 20% increase in their location of funds in the following year.

~~///~~ 65% of the funds are channeled to lower local governments and these lower local governments are, therefore, fully engaged in the planning process and in implementation. The detailed sharing arrangement is as below shown:-

District	35%
Sub-County	65%
Parishes-	30% of 65%
Villages	0%

✍ Funds for Parishes are managed at the Sub-County. The Parishes through their Parish Development Committees (PDCs) develop plans and submit them to the Sub-County for funding and inclusion in the latter's plans too. The process begins with village meetings which identify their priorities that filter into the Parish Development Committees. So the village issues are captured first, then the PDC which has 2 (female and male representative) members from each village go ahead to do the basic planning process and advise on the priorities for allocation to the Parish Council. Funds for the identified priority projects for a parish are thereafter realized to the contractor and the project is monitored by a Project Management Committee (PMC) set up by the Parish Council. The same PMC does the project site security, mobilises community contribution, arranges for meetings on the same project and prepares monitoring reports which feed into the main one produced by the Sub County Investment Committee. Such a report is discussed by the Sub-County Technical Planning Committee and thereafter by the Sub-county Council for any corrective measures or progress on the projects.

The RSS study notes and recommends such a process for adoption to improve reporting, effective/ realistic allocations of funds for parish or ward/ village projects and ensuring accountability.

✍ Local Governments are made to contribute 10% on investments funded under the Local Government Development Programme and even under FDS these contributions especially the centrally funded investments, will be made mandatory in order to promote local ownership, ensure the sustainability of local government investments and promote and provide incentives for local revenue mobilization.

What should be noted in the Fiscal Decentralization Strategy and Local Government Development Programs is that Local Governments will be encouraged to supplement the conditional grants by the local contribution to centrally funded investments at different levels of Local Governments. This will require Local Governments to generate and mobilize funds to fulfil these obligations. Therefore, it is important for this study to identify the fiscal gap of Local Governments.

3.0: Proposed Review the of the grant system:

The RSS Study indicates that LLGs do not contribute significantly to the sectors supported by the conditional grants. It is important to include LLGs as recipients of the grants to enable them participate.

4.0: Increased responsibilities by implication:

The RSS study further indicates that release of more funds under conditional grants to LLGs and HLGs implies creation/ activation of more responsibilities for them, say, to mentor, monitor and allocate.

Annex 4 : List of workshop participants

Number	Name	Title	Organisation
1	Julius J. Lebo		Ministry of Gender, Labour & Social Development
2	Garvin Mccann		Irish Embassy
3	Chris Mugarura		Ministry of Health
4	Salim Bachou	Commissioner	LGFC
5	Nankabirwa Catherine		Mukono T.C
6	Dr. Dick Odur	Chairman	LGFC
7	D. Kigenyi		Jinja M.C
8	Alfred Ogwang	Economist	ULAA/UAAU
9	H.Pyundt		LGDK DK
10	Sebadduka Authman		Wakiso T.C
11	J.H. Sekatawa		IMF
12	Daniel Iga		Danish Embassy
13.	Ogwal Olule Paul	Town Clerk	Lira M.C
14	Ochieng Sebastian	Administrative Secretary	UAAU
15	I. Oluka- Akiteng		Forest Department
16	Dick Asiimwe	Economist	LGFC
17	Magyezi .R		ULAA
18	Peter Ebalu Egobu	Economist	LGFC
19	Gumisiriza Johnson	Economist	LGFC
20	James Ogwang	Economist	LGFC
21	Lawrence Latim	Senior Economist	LGFC
22	Adam Babale	Senior Economist	LGFC
23	Ssombe Ronald	Statistician	UBOS
24	Lawrence Banyoya	Commission Secretary	LGFC
25	Esther Alele	Personal Secretary	LGFC
26	Musa Basajjabalaba	Team Leader Revenue Sharing Study	LGFC
27	Moses Wagira P.	Commissioner	LGFC
28	Mayanja Christopher		Mukono T.C
29	Simon Lapper	Consultant	PricewaterhouseCoopers
30	Nyeko Ponziano	Senior Accountant	LGFC
31	Kattie Tushemereirwe	Stenographer	LGFC
32	Robert Wandera		Busia T.C
33	Patrick Ocharu		Busia T.C
34	Emilly Mbabazi	Typist	LGFC

35	Jesper Steffensen	External Consultant /Revenue Sharing Study	NCG
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ANNEX 5 QUESTIONNAIRES ADMINISTERED

NAME OF DIRECTORATE (FINANCE AND PLANNING)

TO BE FILLED IN BY THE HEAD OF DIRECTORATE

Name of Local Government:

Name and Rank of Officer filling in the form:

March 2002

Part A

Recurrent Expenditures and Revenues.

Director- ate	Type of Recurrent Expenditures and Revenues	Amount in Ug. shs.		
		FY1998/99 Actuals	FY1999/00 Actuals	FY 2000/01 Actuals
Finance and Plan- ning Di- rectorate	1. Total Recurrent Expenditure for the Fi- nance and Planning directorate			
	2. Recurrent Expenditure from Own Revenue & Unconditional Grant			
	3. Recurrent Expenditure from Conditional Grants			
	4. Recurrent Expenditure from Revenue from User Charges in the directorate.			
	5. Recurrent Expenditure from other sources e.g Donors.			
	Note that: 1 = 2 + 3 + 4 + 5			
	6. Recurrent expenditure paid to other local Government			
	7. Revenues received by your local govern- ment from other local governments.			
	8. Estimate the recurrent Expenditure of de- livering Finance and Planning services to a minimum standard(exclude cost in No.9)			
	9. How much recurrent expenditure did you incur on Finance and Planning services which are outside your mandate (services not de- centralized to your local government)			

Give reasons for your estimates in:

No:8

.....

.

.....

..

Give reasons for No:9

.....

.....

.....

Part B

Capital Expenditure and Revenues

Director- ate	Capital Expenditures and Reve- nues for the Finance and Planning Directorate .	1998/1999	1999/2000	2000/200 1
Finance and Plan- ning	1. Total Capital Expenditure for the Finance and Planning directorate			
	2. Capital Expenditure from own(local) Revenue & Uncondi- tional Grants			
	3. Capital Expenditure from Conditional Grants			
	4. Revenue of a capital nature from the directorate e.g interest			
	5. Capital Expenditure from other sources (specify e.g Donors)			
	Note that: 1 = 2 + 3 + 4 + 5			
	6. Capital expenditures made in other local governments			
	7. Capital Investment made in the local government by other local govern- ments.			
	8. How much Capital Expenditure did you incur on Finance and Planning ser- vices which are outside your mandate (services not decentralized to your local government).			
	9. Estimate the capital Expenditure to meet short term needs(1 st ,2 nd &3 rd Year) for minimum standards for decen- tralised services. (exclude cost in No.8)	2001/2002	2002/2003	2003/200 4
	10. Estimate the Capital Expenditure to meet long term (Over 5 Years) needs for minimum standards for the decen- tralized services. (exclude cost in No.8)	5 Years		

Give reasons for your estimates in :8 - 10

No.

8

.....

No.9

.....

No.10

.....

Part C

Legal and Regulatory Description of Tasks for Local Governments.

1. How Clear is the Description of the mandatory part of the tasks(minimum service standards) according to the law, regulations and guidelines for the **directorate**.

Please tick in the relevant spaces

Very clear Not so clear Confusing Not Available.....

If (Not so clear, Confusing and Not Available)Why?

.....
.....
.....

Part D:

Determinants of Local Government Expenditure.

Item	No.
Number of Administrative Staff	
Number of Support Staff	

Part H

Local Revenue Sharing between Municipal and Divisions(Municipal)

Existing revenue sharing:

Is the present arrangement on revenue (tax and grants) sharing within your area different from the revenue sharing stipulated in the Local Governments Act? (e.g. different percentages retained at each level, different administrative arrangements etc. based on agreements between local governments)

Which differences can be identified?

.....

Grants:

Which type of central government grants/transfers is transferred further down to the lower levels of local government?

.....
.....
.....

Local Revenues

- (a) How much local revenues did you receive from the divisions as a percentage of total local revenues?

.....
(b) Table 1: How much did you receive as local Revenue from the divisions

Divisions	FY 1998/1999	FY1999/ 2000	FY 2000/2001

(c) Table 2: How much did you remit to Divisions?

Divisions	FY 1998/1999	FY1999/2000	FY 2000/2001
Central			
Mpumudde/Kimaka/ Nalufenya			
Walukuba			

- (I) Do you send financial reports to central government on how you utilised available funds?
..... **Yes / No**
- (II) Do you send reports on revenues collected to Divisions? **Yes / No**

(c) Table 3: How much did you pay for salaries to Divisions' staff?

Divisions	FY 1998/1999	FY1999/2000	FY 2000/2001
Central			
Mpumudde/Kimaka/ Nalufenya			
Walukuba			

- (d) (i) How does the Municipality decide on the number of staff at the lower levels of local governments to be funded?
- (ii) Is it the same number for all the Divisions?

-
- (e) (i) Do you have residents from neighbouring district who utilize your facilities like hospitals, schools..... **Yes/No**
- (ii) Have you ever tried to register their number? Yes / No if **Yes** estimate
- (a) Health
- (b) Education
- (c) Water
- (d) Agriculture
- (e) Roads

Part E

GENERAL REVENUES

EXISTING REVENUES AND EXTRA REVENUE POTENTIAL

General Finances of the Local Government.

Source	Rate charged (average value)	Actual Realized FY1998/1999	Actual Realized FY19 99/2000	Actual Realized FY 2000/2001
Graduated Tax				
Property Tax				
Market dues				
Licenses & Permits				
Park Fees				
Unconditional Grants				
Loans				

Donors				
Others (Specify)				

Part F: Potential Additional Revenues

If the Local Government has the power to set the tax rate chargeable and the size of the user fees on some functions and the maximum rate is not being charged presently, for each kind of tax or user fee, please make a best estimate of the potential extra revenues that can be generated by changing the tax rate or user fees:

Give average rate for Present and New rates.

Graduated Tax: Present rate:New Rate:.....Estimate of extra revenue:.....

Comments:

.....
.....
.....

Property Tax: Present rate:..... New Rate:.....Estimate of extra revenue:.....

Comments:

.....
.....
.....

Market Dues: Present rate:..... New Rate:.....Estimate of extra revenue:.....

Comments:

.....
.....
.....

Park Fees: Present rate:..... New Rate:.....Estimate of extra revenue:.....

Comments:

.....

.....

Licences and Permit : Present rate:..... New Rate:..... Estimate of extra revenue:.....

Comments:

.....

Others: Present rate:..... New Rate:..... Estimate of extra revenue:.....

Comments:

.....

If the collection of taxes and user fees can be improved e.g due to present:

- a) Non-payment of taxes and fees
- b) Lacking information systems or knowledge of taxable objects or income
- c) Lacking property valuation
- d) Other reasons

Please make the best estimate of the potential revenues within each type of tax or fee where collect could be more efficient.

Graduated Tax: %age of tax defaulters:..... Estimated amount lost:.....

Main reasons for inefficient revenue collection a) b) c) d)
 -if d

Comments: : -----

Property Tax: %age of tax defaulters:..... Estimated amount lost:.....

Main reasons for inefficient revenue collection a) b) c) d) - if d

Comments: : -----

Main reasons for inefficient revenue collection a) b) c) d) - if d
Market dues: %age of tax defaulters:.....Estimated amount lost:.....

Comments: :

Others: %age of tax defaulters:.....Estimated amount lost:.....

Main reasons for inefficient revenue collection a) b) c) d) - if d

Comments::

Licences and Fees: %age of tax defaulters:.....Estimated amount lost:.....

Main reasons for inefficient revenue collection a) b) c) d) - if d

Comments::

Part G

(1) What is your general opinion about the existing system of revenue sharing among levels of governments:

- a) Well functioning
- a) Basic system okay, but it needs certain changes
- b) Problematic-please comment(e.g unfair, inefficient etc)
- c) Should be abolished

Comments

.....

(2) Advantages the present system of revenue sharing between levels of Local Government:

- a) protect the lower tiers of Local Government from defaulters, especially from larger tax payer
- b) improve tax administration
- c) provide funding to all levels of governments
- d) enhance participation of lower tiers of Local Government and improve transparency
- e) enhance incentives by all levels of Local Government to strengthen tax collection
- f) other advantages-

.....

(3) Disadvantages of the present system of revenue sharing between levels of Local Government:

- a) unfair-the percentages do not reflect the division of tasks

- b) Difficult to administer
- c) Unclear legal framework
- d) Create conflicts between levels of Local Governments
- e) Fragmentation of funding
- f) Other disadvantages-

.....

.....

(4) Are there special financial problems for your level of local government?.....

.....

(5) Do you think that the tasks assigned to level of your local government appropriate,?

Yes / No.

If No, what should be changed?.....

.....

(6) Which changes should be made according to your opinion of the existing system of revenue sharing? e.g legal framework, changing the percentages retained at each levels, administrative changes etc?

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