

## Terms of Reference

### THE MINISTRY OF LOCAL GOVERNMENT - UNITED NATIONS CAPITAL DEVELOPMENT FUND

#### THE DISTRICT DEVELOPMENT PROJECT 2 (DDP-2)

#### Terms of Reference for Conducting an Inventory of Best Practices in Local Revenue Enhancement

##### 1.0 BACKGROUND

Revenue collection is one of the most important activities for the long term sustainable success of decentralisation and local governance. Though donor support to decentralisation is strong at present, the trend is to develop more self-sustaining programs in all areas of development.

As noted by the Local Government Finance Commission:

The importance of local revenue cannot be over emphasised in the decentralisation process. Local Revenues, among other things, encourage ownership and promote autonomy of the local governments': Local Government Finance Commission, February 2002.

In the DDP context, Local Revenue Generation completes the cycle of the District Development Planning and Budgeting Process by ensuring the capacity of Local Governments (LGs) to finance the projects, which they plan. Without strength in the area of Local Revenue Mobilisation, the independence and sustainability of Local Governments is jeopardised and the crucial links between service provision and funding thereof blurred, leading to reduced accountability at the local government level.

Though the importance of local revenue mobilisation is widely recognised for the sustainability of local governments, there has not been a concomitant action to ensure that the mechanisms to enhance local revenue mobilisation and generation are in place. Several studies have been conducted with varied donor support. Two major studies, one by ODA in 1996/97 led to the identification of potential sources of revenue and some amendments to the law. A follow-up study by the Local Government Finance Commission (LGFC) with PricewaterhouseCoopers, sponsored by the Department for International Development (DfID), in 2000 to review and update the ODA Study, looked at eight pilot districts assessing constraints that LGs face in raising revenue from sources assigned to them. A set of well-documented recommendations came out of that study. In addition, the LGFC with support from Danida has initiated a two-phased revenue sharing study to explore the fiscal gap (between local government expenditure and revenue assignment) at various levels of governments and possibilities to finance this gap. The first phase of this study – the relationship between central and local governments was completed in November 2000, while the second phase- the relationship between various levels of local governments was completed in August 2002. To date the actions that have resulted from these studies include:

- ?? The development of a framework for revenue monitoring
- ?? Terms of reference for Graduated Tax improvement developed / no action
- ?? Establishment of a local government fiscal data bank
- ?? Estimate of tax enhancement potential at various levels of government and divided on various types of tax.
- ?? A number of specific recommendations to improve on local government revenue
- ?? Recommended to government not to abolish the Graduated Tax

Local Government revenue collection continues to decline at an alarming rate. In a study of 47 local councils, between 1998/2001, revenue decreased in 27, increased in 15 and stayed static in 5.

In the review of the pilot local governments under the Local Government Development Programme (LGDP), it was indicated that the average extra Local Government revenue potential, which could be achieved with the existing-tax assignment, was 60-80% higher than the actual collected tax revenues (LGDP Program Review, Feb. 2002). Most studies therefore point to a severely declining rate of revenue generation by Local Governments in recent years. In some local governments the decline has been as much as 50%. Several factors are said to contribute to this decline, such as:

- ?? Poor management and administration of the local revenue collection process;
- ?? Political support for lowering or total removal of taxes, i.e. the suggested elimination of the Graduated Tax during last year's elections and changes in the tax bands (reduction of the lowest band);
- ?? Increase in conditional development grants from the centre, especially PAF grants.

The LGDP mid-term review study further points out that the last of these contributing factors is more likely to have long-term impact, as the decline actually began before the political interference related to the election year started.

Overall, there has been widespread awareness about the constraints to local government self-reliance because of these trends, but no empirical data to prove the assertions. The myriad of studies has clearly articulated the key problems, issues and recommended actions based on experiences. The concern is that there has been little action as follow-up to these studies. There are some useful initiatives to learn from and build on, but the widespread concern has not been

matched by widespread action. DDP 2 through its strategy on Local Revenue Enhancement will work closely with the MoLG and the LGFC to implement some of the key, widely agreed upon recommendations in support of local revenue enhancement.

One of the key areas to be addressed in recent studies is the need for a consolidated inventory of 'best practices' in the area of local revenue enhancement to build on lessons learned for the development of procedures and to support policy. There are some local governments, which have been successful in raising revenue, some which demonstrate an effective usage of revenue for service delivery, others which demonstrate effective administrative practices in revenue collection, others which provide an enabling environment for local revenue generation. It is important to learn from these local governments and apply the best practices nation-wide.

Issues that should be considered in the context of the best practices inventory will include (but not be limited to):

- ?? The revenue policy environment in support of local revenue enhancement i.e. revenue sharing.
- ?? Donor support and central transfers to local governments on the impact on revenue enhancement.
- ?? Local government revenue administration practices, like registration, assessment, collection etc.
- ?? Revenue usage: service delivery or allowances
- ?? Community perception of revenue usage
- ?? The relationship of local economic development to local revenue enhancement.
- ?? The provision of an enabling environment by Local Governments for local economic development i.e. public private partnerships.

The proposed inventory of best practices should lead to a further analysis of the opportunities and constraints, which affect local revenue collection and usage by local governments and finally increased revenue by local governments in support of service delivery to communities.

The key will be to provide a practical, useful guide to local governments in support of their roles and responsibilities related to local revenue generation.

### 2.0 Objectives

In this regard the objectives of the inventory would be to:

- 2.1 Enhance the capacity of the Local Government Finance, Commission and Ministry of Local Government to perform its policy, monitoring and supervisory roles and responsibilities related to revenue enhancement and service delivery.
- 2.2 Enhance the capacity of Local Governments to perform their mandatory roles and responsibilities related to revenue enhancement and service delivery.
- 2.3 Inform the Ministry of Local Government, Local Government Finance Commission and the Local Revenue Enhancement Co-ordinating Committee on administrative policy and implementation issues and activities.
- 2.4 Inform the decision making process of the Local Government Finance Commission, Ministry of Local Government and Local Governments on the best practices being used to raise local revenue in support of local development.
- 2.5 Encourage the spread and use of best practices for local revenue mobilisation by all relevant institutions through capacity building, improved administrative practices, etc.

### 3.0 Inputs

One (1) team leader and five (5) other consultants.

The team leader should have at least 10 years experience in Local Revenue Mobilisation/Generation activities, be in possession of a Masters Degree in Public Finance or Local Government Revenue Management, with solid experience working with Local Governments in developing nations, excellent communication skills both written and spoken.

The other Consultants should have extensive experience working in decentralisation activities, especially in the areas of local government finance, tax administration and revenue mobilisation.

Experience in fiscal decentralisation in sub-Saharan Africa will be an added advantage.

### 4.0 Tasks

The consultant will be required to undertake the following tasks for the assignment:

- 4.1 Conduct the "Inventory of Revenue Enhancement Best Practices", the first key activity in the Local Revenue Enhancement Component Work plan. In this context conduct the following:

- ?? Review relevant documentation on revenue mobilisation and generation in Uganda and elsewhere i.e. the legal and policy framework within which revenue is mobilised. This should involve making recommendations on the amendments to the relevant laws governing major taxes including graduated personal tax.
- ?? Prepare a checklist and questionnaire to be used for the study on procedures and practices regarding revenue mobilisation and generation in the local governments.

- ?? Pre-test the checklist and questionnaire in at least two local governments
  - ?? Finalise checklist and questionnaire for conducting the inventory and conduct one-day workshop for field-based team.
  - ?? District Field Work: Review the details of each district's revenue mobilisation procedures.
  - ?? District Field Work: Meet with all relevant staff in local governments, including sub county revenue collectors, individually and in focus groups
- 4.2 Document best practices and those practices which need to improve for each district with regard to revenue mobilisation and generation.
  - 4.3 Provide an interim report for consideration at regional dissemination of the results of the inventory for discussion at the stakeholder forums and then a final report for widespread national stakeholder level.
  - 4.4 Based on the report and recommendations develop guidelines for best practices in the areas of revenue collection, management and usage; specifically for graduated tax, the consultants will develop simple mechanisms for registration, enumeration, assessment and collection procedures that should substantially reduce administration costs.
  - 4.5 Prepare recommendations for the way forward for implementation of the best practices and dissemination of best practices guidelines including relationships desirable between other taxes / revenue sources and GPT.

### 5.0 Outputs

The consultants will be expected to submit the following during and at the end of the assignment:

- 5.1 An Inception Report including the design of the Checklist and Questionnaire to assist in conducting the inventory: 10 copies within one week of the commencement of the assignment.
- 5.2 An Interim Report with preliminary recommendations and outline for the guidelines for presentation to the regional stakeholders workshops.
- 5.3 Draft Guidelines as a result of the fieldwork and consultation at the regional workshops for presentation to the Co-ordinating committee and National Stakeholders' Workshop: 10 copies.
- 5.4 Final Guidelines based on consultation with the Co-ordinating Committee and National Workshop for Stakeholders.
- 5.5 A final report with recommendations for the way forward to disseminate the guidelines: 10 copies.
- 5.6 All reports and guidelines should also be provided electronically on disk in Microsoft Word.

**6.0 The Team and Process:** The inventory team will comprise of a Core Team of 6 members; a team leader/ manager consultant and 5 team member consultants. Additionally, a Field Team of 10 central and local government staff will be recruited to assist the core team to conduct the actual inventory work. The team of 15 distributed themselves into 5 working groups, dividing their fieldwork amongst a distribution from a stratified sample of the current 56 districts and 74 urban councils, each team spending 23 days in each district, depending on the outcome of the sampling and piloting activities. The team leader and members of the Local Revenue Enhancement Co-ordinating Committee will backstop the field teams and visit various groups.

Local Governments will be stratified into a sample of 34 local governments (including districts and urban councils) by the core team, emphasising those with known best practices and good revenue collection performance:

- ?? Select districts and urban councils that are doing well in revenue collection and have shown best practices as the majority of districts and urban councils.
- ?? Select the 'medium' districts and urban councils to learn from their experiences.
- ?? Select 1-2 'poor performing districts and urban councils to understand some of the reasons behind poor performance in revenue mobilisation. This will help in preparation of the guidelines to respond to the needs of the poor performers.

Local Governments will be asked to develop their own 'task force' on best practices in advance of the national assessment. The local governments will receive the questionnaire in advance of consultations and be requested to formulate a report on their revenue collection procedures, practices and issues in advance of, or as part of, the assessment team visit to the local government.

### 7.0 Duration of Assignment

The exercise shall be conducted over a period of 12 working weeks (60 working days), starting late January 2003.

### 8.0 Reporting Arrangements

The consultants shall report to the Secretary Local Government Finance Commission through the Chairperson of the Local Revenue Enhancement Co-ordinating Committee. The consultant team will provide weekly verbal status reports to the Co-ordinating Committee, with the inception report and draft guidelines presented at formal meetings of the Local Revenue Enhancement Co-ordinating Committee.