



THE REPUBLIC OF UGANDA



## **CORPORATE STRATEGY, 2003 -2007**

***THEME: STRENGTHENING THE INTERGOVERNMENTAL FISCAL RELATIONS IN UGANDA***

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## **1. Introduction and background**

### **1.1 Background**

In the period June - December 2002 LGFC had a project “Institutional Development of LGFC”, funded by DANIDA, with three components: Organizational Analysis of LGFC (step 1) leading to the development of a Corporate Strategy (step 2) and a Communication Strategy (step 3).

The purpose of the project was to contribute towards improvement of LGFC in performing its leading role within fiscal decentralisation, including the work related to the Fiscal Decentralisation Strategy (FDS), the Local Government Budget Committee (LGBC) and the Co-ordination Committee on Revenue Enhancement – as well as its regular activities – in a proactive, outgoing and practically oriented way.

The Corporate Strategy of LGFC is aimed at providing a direction on where LGFC should target its activities and resources during the strategic period 2003-2007. In elaborating the Strategy the focus has been on what LGFC currently does and should do in future to fulfil its functions and goals.

The Corporate Strategy substitutes LGFC’s current Medium Term Work Plan (2001-2004), which has been incorporated into the Strategy.

### **1.2 The Local Government Finance Commission**

The Local Government Finance Commission (LGFC) is an advisory body within the area of fiscal decentralisation. It was established by the Local Governments (Resistance Councils) Statute No 15 of 1993, Section 44, and later enshrined in the 1995 Constitution under Article 194 (1). LGFC was inaugurated in February 1995. It is constituted by seven members appointed by the President, and has a Secretariat with at present 19 staff members.

LGFC has six stipulated functions in the 1995 Constitution, which makes it central in the area of fiscal decentralization. These functions are spelt out in Article 194 (4) a-e of the Constitution and Section 77 of the Local Governments Act (LG Act) and are:

- a) 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 money out of the Consolidated Fund
- b) In consultation with the National Planning Authority, consider and recommend to the President the amount to be allocated as equalization and conditional grants and their allocation to each local government
- c) Consider and recommend to the President potential sources of revenue for local governments
- d) Advise the local governments on appropriate tax levels to be levied by local governments
- e) Deal with disputes between local governments over financial matters and tender advice relating thereto to the parties involved, the Minister of Local Government and the Minister responsible for Finance as may be necessary
- f) Perform such functions, as Parliament shall prescribe

Besides these functions, the LG Act also empowers LGFC, in Section 78 (3), to monitor local governments’ budgets to ascertain whether they significantly detract from priority areas in which event LGFC is required to inform the Council concerned and the President for appropriate action.

A draft LGFC Bill is currently pending presentation to the Parliament. The Bill implies a number of important future changes for LGFC, including that in at least three members of LGFC shall have substantial experience in financial management in the public service, the functions of LGFC are expanded, the Minister of Local Government may give guidance to LGFC with respect to the policy to be observed and implemented by LGFC, and LGFC shall annually submit a report on the performance of its functions to Parliament.

### 1.3 The Organisational Structure of LGFC

LGFC has two main organisational components, namely the Political Commission and the Secretariat. The *Political Commission* is composed of seven members appointed by the President of which:

- ?? Three persons are nominated by the Districts Councils (Uganda Local Authorities Association – ULAA)
- ?? One person is nominated by the Urban Councils (Urban Authorities Association of Uganda – UAAU)
- ?? Three persons are nominated by the Minister of Local Government in consultation with the Minister responsible for Finance, Planning and Economic Development (MOFPED)

It is the policy-making organ that supervises the activities of the Secretariat. LGFC is headed by the Chairperson and deputized by a Vice Chairperson. For operational purposes the two work on a full-time basis. The rest of the political commissioners are part-time, that is, if not attending the regular scheduled meetings only participate in the activities of LGFC by invitation.

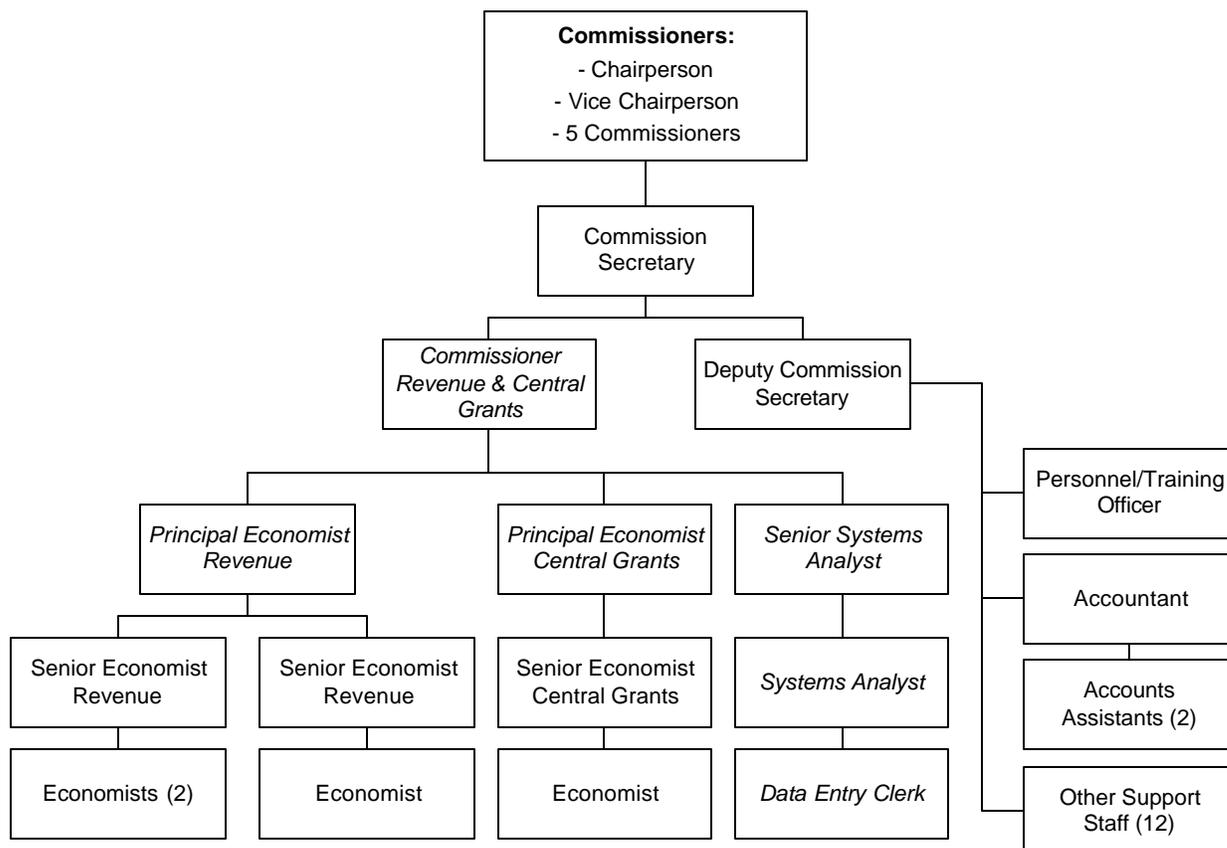
LGFC has formed two sub-committees for the Commissioners to discuss and address specific issues: 1) Budget & Financial Committee, and 2) General Purpose.

The *Secretariat* is charged with the day-to-day activities of LGFC. It is headed by a Secretary and, at present, 18 other staff members (six positions are currently vacant). The Secretariat is organised into two departments: 1) Revenue, Central Grants and Fiscal Databank, and 2) Administration.

In the figure below the organisational structure of LGFC is shown. The figure is partly based on the recommendations of the Ministry of Public Service.<sup>1</sup> The depicted structure has not yet been fully implemented.

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<sup>1</sup> Ministry of Public Services, Management Services Department: *Post-Constitutional Restructuring Report for LGFC*, June 2000

**Figure 1.1: Organisational structure of LGFC**

Note: Positions in Italics are vacant.

The specialisation of the technical staff, which will be the result of the above organisational structure, is deemed useful, as there currently is no specialisation at the economist level.

### Technical Advisory Group

In order to promote and increase stakeholder participation in the operations of LGFC, a Technical Advisory Group (TAG) has been set up to provide a forum for consultation as well as advising. TAG also provides a channel through which technical input to LGFC from both national and international experts can be received. TAG is constituted by representatives from MOFPED, local governments, Uganda Local Authorities Associations (ULAA) and Urban Authorities Associations of Uganda (UAAU), Economic Policy Research Centre and local government experts appointed by donors funding LGFC. The LGFC Chairperson chairs TAG, while the Secretary provides secretarial support. TAG meets quarterly or as regularly as need may arise. The functions of TAG include:

- ?? Assessing and making recommendations on the Terms of Reference and work plan for studies and projects undertaken by LGFC
- ?? Ensuring co-ordination of activities within the commissioned studies and with other activities carried out by the represented stakeholders
- ?? Discussing and elaborating recommendations on intermediate and final reports of studies and projects undertaken before final drafts are prepared
- ?? Acting as a peer group to the studies LGFC will undertake
- ?? Advising LGFC on any studies, projects and researches that may be necessary to undertake

?? Assisting LGFC in resource mobilization for its activities

### **Study and Project Working Group**

Each study or project that LGFC undertakes has a working group, which is set up to ensure stakeholder participation. Representatives of stakeholders constitute the working group. This allows the stakeholders to provide input to the studies and projects as they are developing and, furthermore, allows consensus building and resolving areas of discordance if they arise.

### **Methods of Work**

LGFC's methods of work aim at achieving transparency, promoting partnerships, consultation and collaborative interfaces as well as dissemination to be achieved through a number of approaches:

- ?? Meetings and discussions between LGFC and other stakeholders, such as local governments, line ministries, donors and NGOs
- ?? Arranging seminars, workshops and conferences as a means of sharing information both locally and nationally
- ?? Desk assignments
- ?? Conducting studies and consultancies in performing specific tasks
- ?? Preparation of periodic advisory notes to both the Government and local governments
- ?? Holding consultations with line ministries, local governments and other role players
- ?? Conducting and sponsoring research in specific cases of interest

## **1.4 Achievements to date**

LGFC has registered a number of achievements since its establishment, and it has in a short time launched itself as a strong and legitimate advisor in matters of local government fiscal matters. On top of its regular activities it has carried out the following studies with recommendations:

- a) Financial Decentralisation in Uganda, Commission Report No. 1 (February 1995 - December 1996), January 1997
- b) Introduction of Equalization Grant, Commission Recommendations No. 1, March 1999
- c) Equalisation Grant for Urban Local Governments, Commission Recommendations No. 3, April 2000
- d) Revenue Sharing Study, Commission Recommendations No. 4, November 2000
- e) Revenue Sharing Study – Sharing of Expenditure Responsibilities and Revenue Assignments (Among Local Governments), "Report on Findings and Recommendations", Commission Recommendations No. 5, June 2002
- f) Review of Revenue Sharing & Revenue Enhancement Studies, 2<sup>nd</sup> Draft Report, June 2002

In addition to the studies, LGFC has accomplished the following tasks:

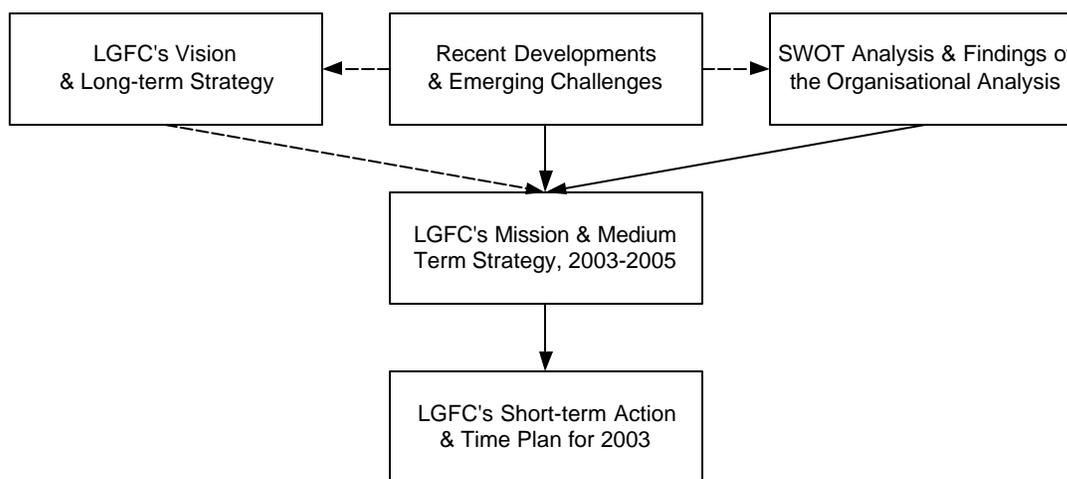
- ?? Preparation of the annual allocation schedule for unconditional grant to local governments based on the global grant amount and allocation criteria of population and area
- ?? A data bank of local government financial and other data has been developed, though not yet fully, due to funding constraints
- ?? In order to develop support and get a better and hands-on grasp of local governments issues, the Political Commissioners have held series of meetings and visits to local governments, which have helped foster better relations and promote the work of the Commission
- ?? Commensurate training to a crop of personnel, which is reasonably competent to carry out the tasks and functions of the Commission

- ?? Participation in a number of Government and donor committees – like the Local Government Budget Committee (LGBC) and the Co-ordination Committee on Revenue Enhancement – and organisation and participation in a number of workshops
- ?? LGFC is increasingly used as a resource institutions by other organisations in the region as LGFC has gained a certain authority within the area of fiscal decentralisation

## 1.5 LGFC’s Strategic Planning

The overall framework for LGFC’s strategic planning is illustrated using the following figure.

**Figure 1.2: Overall Frame for LGFC’s Strategic Planning**



LGFC’s action and time plan for 2003 is determined by its mission and medium-term strategy, which in turn is determined by LGFC’s vision and long-term strategic goals, the recent developments and emerging challenges in the external environment, and the findings of the organisational analysis that has been undertaken, including the SWOT analysis.

### Focus areas of the Medium-Term Work Plan<sup>2</sup>

LGFC has since 1999 applied a “Medium-Term Work Plan” to outline and prioritise its future activities with regard to strengthen the inter-governmental fiscal relationship in Uganda. The current work plan covers 2001 -2004, and the action plan of the work plan focuses on the following areas:

- ?? Local Revenue enhancement (7 activities)
- ?? Transfers (2 activities)
- ?? Budget negotiation system (1 activity)
- ?? Kampala City – Revenue sharing (1 activity)
- ?? Fiscal data base (1 activity)
- ?? Resource centre (1 activity)
- ?? Capacity building of LGFC (4 activities)

As the Corporate Strategy substitutes the “Medium-Term Work Plan”, those activities that have not yet been carried out – and that are still prioritised – are covered by the medium-term key priority areas of chapter 5 below.

<sup>2</sup> LGFC: *Medium Term Work Plan (2001 to 2004)*, June 2001

## 2. Recent Developments and Emerging Challenges

### 2.1 Recent Developments

The following recent developments in the external environment in which LGFC operates should be taken into consideration when LGFC targets its resources during the strategic period 2003-2004.

#### **Fiscal Decentralisation Strategy**

The Government of Uganda has approved the Fiscal Decentralisation Strategy (FDS) with the following objectives:

*To strengthen the process of decentralisation in Uganda through increasing local governments' autonomy, widening local participation in decision making and streamlining fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments to achieve PEAP goals within a transparent and accountable framework.*

Hence, FDS focuses on two areas:

- ☞ Promotion of local government autonomy and the widening of participation in decision making in order to enhance the efficiency in allocation of resources towards the achievement of the Poverty Eradication Action Plan (PEAP) goals in line with local priorities
- ☞ Improving the effectiveness of Local Government Programmes through strengthening the effectiveness, transparency and accountability of local government expenditures

As the strategic objectives will be achieved within the existing legal framework, the unconditional, conditional and equalisation grants will remain the means by which Government funds local governments. The grants will be channelled to local governments via two transfer systems, the Recurrent Transfer System and the Development Transfer System. The FDS seeks a balance between securing national priorities on the one hand, and the necessary flexibility and discretion in decision making for local governments on the other.

#### **Local Government Budget Committee**

A Local Government Budgets Committee (LGBC) chaired by LGFC has been established. The background is the need for a more co-ordinated and systematic management of the local government budget process by the Government, the lack of a formal forum for local governments to discuss budget related issues with the Government, and that more meaningful negotiations between the Government and local governments on the allocation of funds is needed. LGBC will – according to its Terms of Reference – be responsible for:

- ?? The negotiation and agreement of allocation formulae and grant conditions between sector ministries and local governments
- ?? Overseeing the performance of the Comprehensive Local Government Assessments
- ?? The identification of local government issues for inclusion in the National Budget Framework Paper from the analysis of Local Government Budget Framework Papers and consultations with local governments
- ?? The review of, advice on and acceptance or rejection of the amendments to conditional grants allocations within the Recurrent Transfer Budget
- ?? Overseeing the co-ordination of local government capacity building efforts
- ?? Overseeing the co-ordination of donor support to local governments/decentralisation

### **Local Government Releases and Operations Committee**

To improve the co-ordination of Government operations with respect to local government transfers, a Local Government Releases and Operations Committee (LGROC) chaired by MOFPED has been established. LGROC will be carrying out the following activities:

- ?? Study and analysis of financial and output information from local governments
- ?? The processing and effecting of releases to local governments
- ?? Application of sanctions in relation to local governments which are not compliant with the reporting and accountability provisions
- ?? Overseeing the monitoring and mentoring of the use of and accounting for funds in the implementation of local government programmes by Government actors
- ?? Overseeing the provision of feedback to local governments on the use of and accounting for funds in the implementation of local government programmes by Government actors

LGROC is purely a co-ordinating body with the purpose of reducing duplication between its members (MOFPED, MOLG, LGFC, MPS and key sector ministries).

### **Local Government Development Programme, Phase II**

The Government, the World Bank and international donor organisations are preparing the Local Government Development Programme, Phase II (LGDP II) that should provide the future framework for decentralisation in Uganda with focus on four components:

- a) Roll out of FDS and decentralisation of the Poverty Reduction Support Credit (PRSC) – Policy development
- b) Local development grants
- c) Capacity building grants
- d) Local government revenue enhancement

### **Co-ordination Committee on Revenue Enhancement**

In order to implement result-oriented revenue enhancement actions, LGFC has set up a Co-ordination Committee on Revenue Enhancement, which it also chairs. The mission of the Committee is to enhance the capacity of local governments to mobilise, generate and manage sustainable local revenues. The Committee will initially be supported by donors through the United Nations Capital Development Fund (UNCDF) under the second District Development Programme (DDP2) but will eventually be integrated into Government systems of support.

## **2.2 Emerging Challenges**

Arising from the policy environment, LGFC is faced with several important challenges:

### **Low level of local government own revenues**

The share of own revenues in the local government budgets has decreased to approximately 10 % (FY 2000/01), which limits the independence and self-determination of local governments as well as their capacity.

### **Increasing number of conditional grants**

As chair of LGBC, LGFC is required to manage the streamlining of the state transfer system to local governments and that may lead to some resistance from strong line ministries. With the state budget of FY 2002/03, the number of conditional grants has increased to 31.

### **Deficient accountability and transparency in local governments**

Despite the existence of a number of procedures based on the legal framework, many local governments do not have sufficiently accountable and transparent administrations. This is due to problems with staffing and proper training as well as lack of awareness and interest on parts of the constituents to demand accountability since the local revenues make up only a fraction of the overall local government budgets.

### **Line ministries setting up Technical Support Units**

An increasing number of line ministries set up Technical Support Units (TSUs) at district level. This development could easily lead to an undermining of decentralisation with line ministries keeping the upper hand at district level within their particular sectors. Furthermore, it constitutes an economic waste as it leads to duplication of functions between different levels of government.

### **Increasing number of districts and towns**

The tendency to create more and more districts and towns is undercutting the goals of having an efficient public and local government service delivery. New districts and towns often have low capacity and will drain resources from already strained public budgets with demands for new administrative buildings, hiring of new staff, training of staff, additional members of Parliament etc.

### **Unavailability of fiscal data**

Accurate and up-to-date data on local government finance is currently lacking and the trend is likely to continue for some time given that no mechanism has been put in place to ensure that accurate fiscal data is collected. This is an important task for LGFC to tackle in coordination with MOFPED, ULGA and UBOS.

### **Lack of policy co-ordination**

Policy co-ordination between the line ministries is presently inadequate, which occasionally results in issuance of conflicting policy guidelines to be implemented by the local governments. However, a unit to undertake policy co-ordination in the Office of the Prime Minister is currently being set up though not yet fully operational.

### **Absence of national standards for service delivery**

Although LGFC recommended the development of national standards for service delivery, this has not yet been implemented save for attempts to develop sectoral standards by the ministries of health, education and water. The absence of standards makes budgeting in the local governments more difficult and weakens the basis that LGFC would use to develop appropriate criteria for calculating the equalisation grant.

It must be noted that PriceWaterhouseCoopers (PWC) as part of the LGDP support to LGFC has provided technical support in reviewing the LGFC studies on revenue sharing and revenue enhancement. PWC has together with LGFC developed an Implementation Framework, which provides a detailed plan that can be implemented by LGFC, MOLG, local governments and other stakeholders. The costs of the plan have been calculated and possible donors identified.

## **3. Findings of the Organisational Analysis**

As part of the institutional development project for LGFC, an organisational analysis has been carried out. Furthermore, a one-day strategic planning workshop was carried out which identified a number of strengths and opportunities that are at the disposal of LGFC and well as areas that need strengthening.

The following areas, key to the success of LGFC, were identified as needing strengthening:

- ?? External communication with stakeholders in order to increase the visibility of LGFC, clearly articulate its role and functions, and further the implementation of LGFC's recommendations
- ?? Dynamism as well as proactive and outgoing approaches ("networking") to strengthen implementation of the mandate of the LGFC, especially on parts of the Commissioners and LGFC's top management
- ?? Further involvement of key decision makers from line ministries in LGFC's working groups
- ?? Internal capacity of the technical staff regarding project management so as to progressively reduce reliance on external consultants
- ?? Increase the practical orientation of LGFC's recommendations to facilitate their implementation
- ?? Maintenance of LGFC's advisory role and avoidance of pressures to make it indulge into direct policy implementation
- ?? Ensuring successful operation of LGFC and the Co-ordination Committee on Revenue Enhancement, and becoming an independent arbiter between the Government and local governments on financial matters
- ?? Development of internal administrative policies and rules of procedures

These key areas are addressed in the following.

## **4. LGFC's Vision, Mission and Objectives**

LGFC has developed the following vision for its work in the coming years.

### **4.1 Vision**

A Uganda in which there is efficient, effective and equitable fiscal decentralisation.

To concretise its vision, LGFC has developed a mission statement, which is the point of departure for more specific focus areas for its activities and medium-term key priorities areas.

### **4.2 Mission Statement**

LGFC exists in order:

To promote equity in sharing of revenue between governments, and efficiency and effectiveness in local revenue mobilisation and generation.

The mission statement gives clear directions and as well as content to the specific activities that LGFC is to undertake.

### **4.3 Objectives**

The long-term objective of LGFC is:<sup>3</sup>

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<sup>3</sup> Key note speech by the LGFC Chairperson at the Workshop on Revenue Sharing, June 25<sup>th</sup> 2002.

To establish and maintain an appropriate balance between the services devolved to local governments at different levels to match with the financial resources generally, and such resources currently flowing from central grants, locally generated revenues and donors.

LGFC has drawn up the following specific objectives for its work and activities:<sup>4</sup>

- ?? Ensure equity in financial transfers to local governments and fair vertical and horizontal fiscal arrangements under the decentralisation principle
- ?? Continually provide technical advice to local governments on ways and means of improving their revenue mobilisation
- ?? Establish an independent capacity to provide advice, carry out surveys/collect and analyse data and conduct well targeted investigations as a means of providing useful inputs for determining mechanisms for equitable allocation of public resources for decentralised services
- ?? Build and maintain a smooth and collaborative working relationship with stakeholders

#### **4.5 LGFC's Long-Term Strategy**

The overarching framework for fiscal decentralisation in Uganda is the Fiscal Decentralisation Strategy (FDS) that is to be implemented within the next three years. As chair of the LGBC and the Co-ordination Committee on Revenue Enhancement, LGFC will play an instrumental role in implementation of the FDS.

The objective of FDS is to strengthen the decentralisation process by improve local governments' autonomy, widening local participation in decision-making and streamlining fiscal transfer modalities to local governments so that local governments' efficiency and effectiveness to achieve PEAP goals is increased within a transparent and a ccountable framework.

In a long-term perspective LGFC will work to ensure that the achievements of the FDS, when implemented, are maintained and expanded.

Regarding local government autonomy, it is LGFC's strategy to strengthen this by increasing local governments own revenue base under the following principles:

- ?? The local government tax base must be expanded, e.g. by allowing mass property evaluation and introduction of an efficient collection system for property tax and other local taxes and fees
- ?? Local governments should gain access to a fair share of the national, general taxes
- ?? Local government services should, where relevant, be provided on a cost recovery basis

It must be noticed that regarding local governments share of general taxes is an area, which needs to be revisited so as to assess the overall tax structure.

LGFC will on a continuous basis provide advice to local governments on ways and means of improving their revenue mobilisation. This will be done by collecting and disseminating good practises, by proposing changes to legislation that hinders or diminishes the possibilities of revenue collection, by enhancing the local government capacity and capability of revenue collection, and by ensuring that the overall local government financial system maintains a clear stimulus for enhancing own revenues.

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<sup>4</sup> LGFC: Note on LGFC's Mission Statement, Objectives, Methods of Work and Outputs, undated, p. 1.

Streamlining central government transfers so that only few and clear transfers as well as reporting systems are used will also expand the local government autonomy. Over time the amount of conditional grants from central government should decrease and the amount of unconditional grants increase accordingly, as local governments administrations become more transparent and accountable in their activities. Central government grants should always be based upon a fairly simple system of objective and transparent criteria.

To enhance the efficiency in the local government financial administration, LGFC will participate in ensuring appropriate capacity building of the local government financial staff and the responsible political leadership. In a long-term perspective, the local government financial administration should become able to reach international standards of financial management, budgeting, accounting, reporting and auditing. To ensure this a professional and efficient system of internal control and external auditing should be introduced in the local governments sector. LGFC will also help to achieve this goal by providing advice to local governments on how to strengthen their financial administration and reporting.

In the past, devolution of tasks and responsibilities from central government to local governments has not always been associated with a parallel devolution of financial means. A survey by LGFC in 2000 and 2002 showed a massive under-funding of local governments as a result of this.

LGFC will in future work towards establishing a system that ensures prudent calculation and agreement between the stakeholders of the costs of undertaking tasks and responsibilities to be devolved. This will ensure devolved tasks have a better possibility of being implemented and provide local governments with much better possibilities of living up to the expectations of the local population. Underfunding generally also breeds disillusion among local councillors and this may be remedied by such a system.

In all efficiently functioning local government systems there is mutual respect between central government and local government as well as clarity of their respective roles. In order to facilitate this mutual understanding and stimulate co-operation, LGFC will – in its long-term strategy – expand upon the achievements of the LGBC in securing a forum for consultation and negotiation between central government and local governments. Also, LGFC will actively encourage the Local Government Associations to participate in the development of a well-functioning local government system on behalf of their members.

LGFC has the long-term ambition to maintain the role as a neutral arbitrator in negotiations between central government and local governments on financial and related issues. As an element in this LGFC will liaise with and maintain a smooth and collaborative working relationship with line ministries and other key stakeholders.

If the present system of Assessment Criteria of Minimum Conditions and Performance Measures – instituted by LGDP I and LGDP II as a basis for rewarding Local Development Grants to local governments – remains as a basis for providing Development Grants to local governments, a neutral institution is needed as an arbitrator in those cases where local governments do not agree with the assessment made by MOLG. These assessments will have crucial importance for the possible development of districts and urban areas. LGFC would like to become such an institution.

In order to maintain the role of an independent arbitrator, LGFC will carry out studies and investigations and maintain a continually updated local government financial database, so that it is kept abreast of the latest developments in fiscal decentralisation.

It is important that all local government levels and different geographical areas of the country are provided with equal opportunities to fulfil their mandates. LGFC will work to ensure that there is

equity in the financial transfers to local governments – both vertically, horizontally and geographically. This will be done by promoting the equalisation grant system, which has been developed by LGFC.

## 5. LGFC's Medium-Term Key Priority Areas

Based on the analysis of LGFC's environment, the identified future trends and challenges, LGFC's vision and mission, and the reflections on LGFC's long-term strategy, some emerging needs can be identified, which LGFC must attend to as a matter of priority. This chapter therefore sets out the medium-term key priority areas that emerge for intervention by LGFC in 2003-2005. It also sets out the activities that will be undertaken to achieve the key priorities. In short, it describes the route for LGFC to reach the desired future situation in the medium-term. However, before looking at the key priorities, there are limitations, which have to be managed as a precondition for achieving success. Those that can not be managed also need to be identified so that mitigation measures are put in place either to avoid them or make sufficient preparations so as not to disrupt the entire process.

### Assumptions

The following assumptions were made in determining the medium-term key priority areas:

- ?? Peaceful and democratic environment free of insecurity
- ?? Independence and autonomy of LGFC respected
- ?? Increased funding of LGFC
- ?? Willingness of stakeholders, especially the Government and local governments to receive and implement recommendations made by LGFC
- ?? Favourable policy environment regarding fiscal decentralisation remains

### 5.1 Key Priority Area 1: Streamlining and Harmonising the Present Systems and Processes of Transferring Fiscal Resources to Local Governments

**Status:** Over the past years there has been an extraordinary rate of growth in social expenditure, with expenditures on PAF programmes growing from 17 % to 34 % of the Government's budget.

Uganda's Decentralisation Policy has meant a rapid increase in resource flows to local governments and a corresponding increase in primary service provision. As PAF expenditures are tied to achievements of PEAP goals, the majority of the increase in transfer of resources has been through an increasing number of conditional grants.

There has therefore been a growth in the number and diversity of transfer mechanisms from central government and donors, which has been a matter of growing concern in both central and local governments. Many of these mechanisms are not well adapted to the decentralised framework, resulting in local governments given little power over the allocation of resources and little involvement of lower local governments in decision-making.

Major problems with management and financial accountability have arisen from the many different transfer systems. Local governments are confronted with a disproportionate bureaucratic load from multiple procedures, bank accounts and lines of reporting. Line ministries are faced with major problems in dealing with quarterly reports from a growing number of conditional grants (reaching 31 in 2002), which is intensified by the growing number of districts.

To address these problems, FDS has been developed “To strengthen the process of decentralisation in Uganda through increasing local governments’ autonomy, widening local participation in decision-making and streamlining fiscal transfer modalities to local governments in order to increase the efficiency and effectiveness of local governments to achieve PEAP goals within a transparent and accountable framework”.

The implementation of FDS will be managed at the Government level by two committees: The Local Government Budget Committee (LGBC), chaired by LGFC that also provides secretarial support, and the Local Government Releases and Operations Committee, which will be chaired by MOFPED.

#### **Objectives related to Strategic Priority Area 1:**

- ?? To make LGBC fully operational and efficient in its functions
- ?? To carry out a review of sector policies and guidelines in order to identify areas where sector policies and guidelines are inconsistent with decentralisation, and provide proposals on how to alleviate these inconsistencies
- ?? To identify the role of the sector ministries with respect to local governments transfers in a new streamlined system
- ?? To ensure that the allocation of funds to local governments – and the policies, conditions and guidelines associated with those funds – promote the equitable and efficient delivery of services by local governments
- ?? To provide a forum in which local governments can formally discuss and agree on budget-related issues with the Government, and promote meaningful negotiations with local governments on the allocation of funds and policy conditions
- ?? To ensure co-ordinated, systematic and timely management of the Local Government Budget Process
- ?? To establish the revenue sharing mechanisms between Kampala City Council (KCC) and divisions of KCC with a view to recommend appropriate intervention in the financing of the city services, and convey the findings and recommendations to other urban local governments
- ?? To make an annual report on the development of the central grants system

### **5.2 Key Priority Area 2: Support Local Governments to Increase Local Revenue Generation**

**Status:** Local revenue is important for the success and long-term sustainability of decentralisation and local governance in Uganda. “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” (LGFC, 2002).

In the context of District Development Planning (DDP), local revenue generation completes the cycle of DDP and the Budgeting Process by ensuring the capacity of local governments 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 link between service provision and funding hereof will be blurred and lead to reduced accountability at the local government level.

Despite its importance, the performance of local revenue has generally been poor over the past years. The poor performance is reflected both in its small (relative) size of total local government financing (estimated by LGFC to be 18 % in FY 2000/01), and the declines in the amounts (real terms) collected annually. In the review of the of the pilot local governments under LGDP I, it was

indicated that the extra local government revenue potential, which could be achieved with the existing tax assignment, was 60-80 % higher than the actual collected tax revenues.

The negative development has many reasons, of which can be mentioned:

- ?? Poor management and administration of the local revenue collection process
- ?? Political support for lowering or total removal of taxes, like the suggested elimination of the Graduated Tax during the 2001 Presidential election, and changes in the tax bands (reduction of the lowest band)
- ?? Increases in the amount of conditional development grants from the centre, especially the PAF grants

To improve the collection of local revenue, LGFC established the Co-ordination Committee on Local Revenue Enhancement, where LGFC provides the chair of the Committee and the secretarial functions.

#### **Objectives related to Strategic Priority Area 2:**

- ?? To ensure that the Co-ordination Committee on Local Revenue Enhancement works efficiently
- ?? To improve the collection and make property taxation more efficient and effective
- ?? To improve the collection of user charges so it becomes more efficient and effective, and to promote that user charges should ensure cost recovery
- ?? To issue a consolidated inventory of “best practises” of local revenue collection
- ?? To devise ways of introducing more buoyant revenues/taxes to local governments
- ?? To ensure coherence of policies, rules and regulations of the Government within local revenue collection
- ?? To improve skills of local government staff in collecting and keeping records on local revenues collected
- ?? To enhance capacities of the community to demand for accountability of local governments
- ?? To enhance public-private partnership in tax generation and collection

### **5.3 Key Priority Area 3: Strengthening LGFC’s Administration and Management in Order to Enable it to Play its Roles Effectively and Efficiently**

**Status:** In 2002, LGFC had an Organisational Analysis carried out that revealed a number of areas where LGFC can improve its work and functioning.

Some of the areas that need to be addressed in future are:

- ?? LGFC must be more outgoing and proactive
- ?? LGFC must improve its networking with key stakeholders and decision-makers
- ?? LGFC’s recommendations are to be more adequately prepared for implementation
- ?? Management relations and procedures can be clarified
- ?? Vacancies in key personnel categories
- ?? The progress in implementation of LGFC’s recommendations must be more actively monitored
- ?? LGFC’s Project Management capabilities should be improved

LGFC must become more active in establishing a close network with the key stakeholders at all levels, so that its recommendations are adequately adhered to and LGFC thereby will be able to adequately influence the subsequent decision-making.

LGFC has some vital positions yet to be filled. Examples are positions of Commissioner, Central Grants and Revenue Department, Principal Economist, Revenue, Principal Economist, Central Grants, Senior Systems Analyst, Systems Analyst and Data Entry Clerk. For LGFC to generate credible information to make informed decisions and tender credible advice, these positions need to be filled.

Besides enhancing the capacities and competences of the existing staff as well as attracting new staff, LGFC must develop a comprehensive Human Resource Development Policy. This is an important policy, which spells out the ways and means of attracting quality personnel, training them, motivating them to perform and hence retain them. It also gives guidelines on staff relations and means of settling grievances between staff and between staff and LGFC. Furthermore, LGFC's internal work must become more dependent on its own staff, and there exists a need to develop its project management skills.

LGFC has a good stock of facilities such as vehicles, computers and other logistics necessary to run a modern institution. Therefore it will be necessary to establish a clear policy on administration and maintenance of these facilities, and ensure that this is understood and adhered to by all staff members.

**Objectives related to priority area 3:**

- ?? To improve collaboration with stakeholders through establishing partnerships and enhancing capabilities of networking so as turn LGFC into a more proactive and outgoing institution
- ?? To strengthen the management of LGFC, including clarification of roles of the commissioners and the Secretariat, and introduce administrative guidelines and procedures
- ?? To implement a strong organisation structure that is able to effectively and efficiently handle its tasks internally and in relation to the other stakeholders
- ?? To enhance the level of implementation of LGFC's recommendations through designing of appropriate strategies, including presentation of action and time plans for their implementation, establishing partnerships, improve networking etc.
- ?? To establish a system for assembling and managing of complete, reliable and up-to-date fiscal data on local governments
- ?? To develop and implement a human resource development policy
- ?? To offer courses in Project Management so that LGFC in future to a higher extent can implement their own studies without dependence on external consultants

#### **5.4 Key Priority Area 4: Development and Operationalisation of a Communication Strategy for LGFC**

**Status:** Presently, LGFC does not have a Communication Strategy to ensure that the stakeholders and the society at large get sufficient information about the activities of LGFC. As a partial result of this, LGFC is not optimally positioned to play its statutory role. It has, however, established a fiscal databank, which will partly contribute to effective information sharing on local government finance.

The mandate of LGFC generates need for communication with a multiplicity of stakeholders, especially the target beneficiaries, statutory bodies (e.g. ministries, Parliament and international donor organisations), local governments and the general public. This begs for developing a strategy that addresses issues of the sorting out what to communicate, when, and the choice of media to use, such as radio, TV, workshops, conferences, debates etc. Each of these would have advantages and is suitable for particular occasions and audiences. The strategy should also be able to provide

a framework for measuring impact of each communication activity undertaken. There is therefore a need to develop a Communication Strategy that will facilitate LGFC in generating and sharing information with stakeholders while exercising its mandate.

The Communication Strategy should also to some extent address the *internal information and communication channels* within LGFC. Currently, LGFC has within four personnel levels, namely:

- a) Political Commissioners
- b) Senior staff (Secretary and Under Secretary)
- c) Technical staff (Senior Economists etc.)
- d) Administrative Support staff

Communication across the different levels must be as regular as possible, so that both the full-time and part-time Political Commissioners; are informed about the happenings within the Secretariat. The opportunities for the Commissioners to interact with the entire staff of LGFC can also be improved, so as to allow the Senior and technical staff to interact on a broader range of issues – and not only technical subjects. This also applies within the different levels of staff so as to reduce on the divide between the lower cadre staff and the seniors. This will help to ensure that the lower cadre staff are well informed about the mission and goals of LGFC. Hence deliberate measures that promote smooth information flow between the different arms of LGFC both vertically and horizontally need to be taken.

Finally, LGFC will need to invest in more and modern technologies that can promote efficiency and effectiveness. Some of these include an internal IT network, which will provide all staff members with e-mail and Internet access.

**Objectives related to priority area 4:**

- ?? To orient commissioners and staff on the LGFC Communication Strategy
- ?? To develop a Media and Public Relations Policy for LGFC
- ?? To train the Commissioners, the managers and the technical staff in communication and media skills
- ?? To develop and disseminate relevant and appropriate information aimed at enhancing the stakeholders' understanding of LGFC's work and mandate
- ?? To establish and manage a website for LGFC
- ?? To establish an internal IT network

## 6. LGFC’s Short-term Action and Time Plan for 2003

### Key Priority Area 1: Streamlining and Harmonising the Present Systems and Processes of Transferring Fiscal Resources to Local Governments

Strategic Activities	Expected Outputs	Inputs	Performance Indicators	Time frame
<p>?? To make LGFC fully operational and efficient in its functions</p> <p>?? To carry out a review of sector policies and guidelines in order to identify areas where sector policies and guidelines are inconsistent with decentralisation, and provide proposals on how to alleviate these inconsistencies</p> <p>?? To identify the role of the sector ministries with respect to local governments transfers in a new streamlined system</p> <p>?? To ensure that the allocation of funds to local governments – and the policies, conditions and guidelines associated with those funds – promote the equitable and efficient delivery of services by local governments</p> <p>?? To provide a forum in which local governments can formally discuss and agree on budget-related issues with the Government, and promote meaningful negotiations with local governments on the allocation of funds and policy conditions</p> <p>?? To ensure co-ordinated, systematic and timely management of</p>				

<p>the Local Government Budget Process</p> <p>?? To establish the revenue sharing mechanisms between Kampala City Council (KCC) and divisions of KCC with a view to recommend appropriate intervention in the financing of the city services, and convey the findings and recommendations to other urban local governments</p> <p>?? To make an annual report on the development of the central grants system</p>	
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**Key Priority Area 2: Support Local Governments to Increase Local Revenue Generation**

Strategic Activities	Expected Outputs	Inputs	Performance Indicators	Time frame
<p>?? To ensure that the Co-ordination Committee on Local Revenue Enhancement works efficiently</p> <p>?? To improve the collection and make property taxation more efficient and effective</p> <p>?? To improve the collection of user charges in a more efficient and effective manner and to promote that user charges should ensure cost recovery</p> <p>?? To issue a consolidated inventory of “best practises” of local revenue collection</p> <p>?? To devise ways of introducing more buoyant revenues/taxes to local governments</p> <p>?? To ensure coherence of policies,</p>				

<p>rules and regulation of the Government within local revenue collection</p> <p>?? To improve skills of local government staff in collecting and keeping records on local revenues collected</p> <p>?? To enhance capacities of the community to demand for accountability of local governments</p> <p>?? To enhance public-private partnership in tax generation and collection</p>	
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**Key Priority Area 3: Strengthening LGFC’s Administration and Management in Order to Enable it Play its Roles Effectively and Efficiently**

Strategic Activities	Expected Outputs	Inputs	Performance Indicators	Time frame
<p>?? To improve collaboration with stakeholders through establishing partnerships and enhancing capabilities of networking so as turn LGFC into a more proactive and outgoing institution</p> <p>?? To strengthen the management of LGFC, including clarification of roles of the commissioners and the Secretariat, and introduce administrative guidelines and procedures</p> <p>?? To implement a strong organisation structure that is able to effectively and efficiently handle its tasks internally and in relation to the other stakeholders</p> <p>?? To enhance the level of imple-</p>				

<p>mentation of LGFC's recommendations through designing of appropriate strategies, including presentation of action and time plans for their implementation, establishing partnerships, improve networking etc.</p> <p>?? To establish a system for assembling and managing of complete, reliable and up-to-date fiscal data on local governments</p> <p>?? To develop and implement a human resource development policy</p> <p>?? To offer courses in Project Management so that LGFC in future to a higher extent can implement their own studies without dependence on external consultants</p>	
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**Key Priority Area 4: Development and Operationalisation of a Communication Strategy for LGFC**

Strategic Activities	Expected Outputs	Inputs	Performance Indicators	Time frame
<p>?? To orient commissioners and staff on the LGFC Communication Strategy</p> <p>?? To develop a Media and Public Relations Policy for LGFC</p> <p>?? To train the Commissioners, the managers and the technical staff in communication and media skills</p> <p>?? To develop and disseminate relevant and appropriate information aimed at enhancing the stakeholders' understanding of LGFC's work and mandate</p>				

?? To establish and manage a web-site for LGFC ?? To establish an internal IT network	
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