

# Chapter 1

## Introduction

### 1.1 Background to this study

Decentralisation as a system of governance in Uganda can be traced back to 1993 when Central Government devolved functions, powers and services to Local Governments (LGs). Decentralisation at all levels of LG was intended to ensure good governance and democratic participation in decision-making by the people. Since the process started ten years ago, much has been done to try and make decentralisation a reality. Revenue collection and political administration are among the functions assumed by LGs. However, it has been found that revenue generation at the LG level is a major challenge, as indeed it is for the Central Government. Overall, the trend of revenue collection has not been encouraging and there is a need to focus on the underlying causes of the current downward trend at the LG level. While local revenue collection remains at its low levels, the reality of decentralisation cannot be fully actualised.

A number of studies have been done that analyse sources of revenue and assess constraints that LGs face in raising revenue from sources assigned to them. For example, a 1996/97 study by Overseas Development Administration (ODA)<sup>1</sup> led to the identification of potential sources of revenue and some amendments to the law. This study was updated in 2000 by a Local Government Finance Commission (LGFC) study, carried out in conjunction with PriceWaterhouseCoopers and sponsored by the Department for International Development (DfID).<sup>2</sup> The study, which was conducted in eight pilot districts, assessed constraints that LGs face in raising revenue. While these studies have proved that there is a decrease in local revenue trends, this study attempts to find practical methods of increasing local revenues in a pro-poor and pro-local government combination context. The need for an inventory of “Best Practices” in local revenue enhancement was decided upon by the LGFC and carried out with the support of United Nations Capital Development Fund (UNCDF) and DfID. The process is in line with the LGFC mandate to advise Government of Uganda (GOU) on issues of revenue,<sup>3</sup> and advise LGs on appropriate tax levels.<sup>4</sup>

As noted in the ODA study<sup>5</sup> and in the LGFC terms of reference for this study,<sup>6</sup> some LGs are successfully increasing revenue collection, some are demonstrating effective usage of revenue for service delivery, some are applying effective administrative practices in revenue collection, and others are providing an enabling environment for local revenue generation. Overall, LGs have differing practices that enable them to improve their revenue management and collection. It is widely accepted that there is a need for these practices to be documented and shared. Thus one objective of this study is to build on lessons and recommendations previously highlighted for the development of policies and procedures by Ministry of Local Government (MoLG) and LGFC, and to ensure that the sharing of best practices is documented.

<sup>1</sup> ODA (1996/1997)

<sup>2</sup> LGFC (2000) Local Revenue Enhancement Study

<sup>3</sup> Article 194 of the 1995 Constitution

<sup>4</sup> Sec 77, Local Governments Act, 1997

<sup>5</sup> ODA study, *ibid*

<sup>6</sup> Appendix II

The report has 13 chapters; it begins with an introduction and methodology in chapters 1 and 2, followed by a brief look at the pre-requisites for best practices in chapter 3. It then looks at the legal framework supporting and hindering revenue enhancement (chapter 4), discusses the sensitisation of taxpayers, and considers service delivery, as well as accountability, transparency and internal controls (chapters 5-7). Chapters 8 to 12 set out findings on the various forms of local revenue, starting with Graduated Tax (GT). These findings (Appendix I) are the result of three weeks of field visits by five teams to 34 LGs, and of eight regional feedback workshops around the country. The report concludes with 'the way forward'. Throughout the report, findings are noted first, followed by constraints to implementation of good practices, and finally recommendations for improvement.

## **1.2 Background to revenue collection**

The GOU has consistently faced problems in meeting its revenue collection targets, and this has hindered its economic programmes. In order to counteract this decline in revenue, the government has been seeking new ways of raising revenue. In 1991, the Uganda Revenue Authority (URA) was established with the objective of streamlining the tax collection process and improving revenue collection. Revenue collection peaked in 1998/9, then declined sharply, but recovered in 2001/2 when the increase in revenue as a percentage of Gross Domestic Product rose to 12.7% from 11.7% in that year. This growth was attributed in part to the inclusion of non-tax revenue such as passport fees and dividends from the Bank of Uganda,<sup>7</sup> collected by GOU departments.

All administrative powers to collect revenue were vested in Central Government until the introduction of the decentralisation programme in 1993. Under this programme, key central government services and responsibilities were devolved to Local Governments. LGs were then given powers and authority to plan for themselves, to mobilise and manage the resources required to finance local projects, and to encourage ownership of those projects. The Local Governments Act<sup>8</sup> was amended to provide the necessary legal and policy framework enabling LGs to mobilise revenue for financing LGs' functions and projects.

The trend in LG revenue collection has also been declining since 1998/9. In a study of 47 LGs between 1998 and 2001, revenue decreased in 27, increased in 15 and was static in five.<sup>9</sup> A limited trend analysis carried out by the consultants after the field visits mentioned above confirms this downward trend, particularly in the area of GT collection (see Chapter 8 and Appendix VII). LGs visited did not manage to meet their budgeted levels of collection for GT: either budget levels were set too high, or LGs simply failed to collect what they were supposed to collect.

Some of the reasons for the continuing decline in LG revenue are:

- ?? Poor management and administration of the revenue collection process;
- ?? Political support for lowering or totally removing taxes i.e. the elimination of GT and/or changes in the tax bands (reduction to the lowest band) during the 2001 election campaigns;
- ?? Increase in conditional development grants from the centre, especially Poverty Alleviation Fund grants.<sup>10</sup>

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<sup>7</sup> Background to the budget - Financial Year 2002/2003

<sup>8</sup> Local Governments Act 1995, as amended

<sup>9</sup> Pg 1 MoLG –UNCDF, District Development Project 2

<sup>10</sup> Request for Proposals document to "Compile an Inventory of Best Practices on Local Revenue Mobilisation and Generation"

Underlying the above are issues of high levels of poverty among the taxpaying community. One of the canons of taxation is equity, which requires tax systems to take into account a taxpayer's ability to pay taxes. The Uganda Participatory Poverty Assessment Process (UPPAP) report identifies high and unfair taxes as the fifth factor that causes poverty, claiming that “taxing people when they have least income aggravates poverty”.<sup>11</sup> Therefore it is imperative that LGs strike a balance between the need to mobilise taxes to support their duties and development activities, and the need to maintain taxes that do not harm the poor and stifle economic activities among them. Just as GOU, through the URA, is endeavouring to increase central revenue collection, so are LGs seeking to match their efforts and are equally committed to finding ways of increasing local revenue.

### **1.3 Objectives of the Inventory of Best Practices**

The main purpose of the inventory is to identify and document best practices, in order that LGs can adopt them where practicable. In addition, the inventory highlights those constraints that negate effects of the best practices documented, to enable stakeholders to devise ways of overcoming them with the help of recommendations. Guidelines have also been drafted and are being circulated with this report. The Guidelines are a practical guide to LGs on the adoption of best practices. They should also enable LGs to improve their local revenue management and collection, deliver better services, and reduce their dependence on Central Government and donor funding.

The objectives of the inventory are:

- ?? To enhance the capacity of the LGFC and the MoLG to perform its policy, monitoring and supervisory roles and responsibilities related to revenue enhancement and service delivery.
- ?? To inform the MoLG, LGFC and the Local Revenue Enhancement Co-ordinating Committee (LRECC) on administrative policy and implementation issues and activities.
- ?? To inform the decision-making process of the LGFC, MoLG and LGs on the best practices being used to raise local revenue in support of local development.
- ?? To encourage the spread and use of best practices for local revenue mobilisation by all relevant institutions through capacity building, improved administrative practices, etc.

According to the terms of reference (see Appendix II), issues that were to be considered in the context of the best practice inventory include (but are not limited to):

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

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<sup>11</sup> Page 35 of the UPPAP report

## 1.4 Definition of Best Practice

LGFC has defined best practice as “those methods and ways of generating and mobilising local revenues that effectively use the scarce resources (people-power and money) available in a council to enhance tax administration and promote awareness in a manner that reduces the cost of compliance and maximises the revenues collected”.<sup>12</sup> However, it is important to emphasise that any revenue -raising measures must seek to avoid processes that increase poverty and are unjust.

The following aspects of “best practice” were those noted during this consultancy:

- ?? The existence of innovative, transparent or effective systems of registration, enumeration, assessment, collection, and recording of local revenue, especially in GT management;
- ?? The existence of public-private partnership; whether or not privatisation has taken place and the impact of this on revenue generation;
- ?? Motivation of collectors of revenue to reach certain targets;
- ?? The sensitisation and education of existing and potential taxpayers and politicians about the importance of paying taxes and the vital need for locally generated revenue enhancement;
- ?? A sense of ownership of the practice by the LG, either as their original idea or an idea captured from elsewhere with an apparent measure of success;
- ?? Attempts to look for and experiment with innovative ways to contribute to the process of local revenue enhancement which have produced a measure of success when applied;
- ?? Bringing the services or the collection of taxes “closer to the people”;
- ?? Real attempts at communication between LC5/4/3 and LC1 officials and taxpayers;
- ?? Recognition that no single initiative is necessarily productive on its own, and, instead, a broad range of actions were being attempted such that the overall atmosphere was becoming increasingly conducive to effective revenue mobilisation;
- ?? The existence of local projects and services largely financed with local revenue, and community identification of projects implemented with locally raised revenue;
- ?? The likely availability of donor support for follow-up activities.

It is anticipated that this report on best practices will be used widely, as the report, in conjunction with the guidelines, gives the range and detail of what may be implemented by LGs around the country. However, an LG may realise that additional resources will be needed to improve practices. In this case, the LG will need to carry out a cost-benefit analysis, bearing in mind that additional costs may be incurred before any revenue benefit is seen. These additional costs will need to be included in the next budget, an issue that is referred to below at relevant points (see Chapters 8.2 and 12.2.9).

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<sup>12</sup> LGFC report.

## **Chapter 2 Methodology**

### **2.1 Overview**

The production of an inventory of best practices was seen as a key way forward in enhancing revenue collection at the local level. In order to ensure that the assignment yielded the required results and would be effective in bringing about change, the consultants invested substantial time in establishing contact with LG personnel. Their attendance at LGFC's inception regional workshops was important to gain an understanding of concerns expressed openly by LG leaders from around the country. Contact was made regularly with the various local government entities in Kampala such as the Urban Authorities Association of Uganda (UAAU) and the Uganda Local Authorities Association (ULAA). In addition, the field visits and "feedback" regional workshops were major sources of information for the inventory of best practices and the subsequent guidelines. Time was also taken by the consultants to familiarise themselves with literature pertaining to local revenue enhancement in order to gain a wider perspective on the task.

### **2.2 Literature review**

Documents obtained from LGFC and UNCDF were reviewed to gain additional insight into the background and scope of work required, as well as provide an understanding of the current status of revenue mobilisation and generation in Uganda. The local literature reviewed included the Uganda Participatory Poverty Assessment Programme 2002 Report; the LGFC Local Revenue Enhancement Study 2000 with PriceWaterhouseCoopers; and the LGFC Regional Workshops Report on Best Practices in Revenue Enhancement 2003. Other documents reviewed included international literature that enabled the comparison of local revenue mobilisation and management status of countries such as Kenya and Malawi, with that of Uganda. This included the UNCDF study on Property Taxes in Kenya and Malawi, and The Evolution of Tax Systems in Namibia, Tanzania and Uganda by the Research Council of Norway. A detailed list of all documents reviewed is in Appendix III.

### **2.3 The Inception Regional Workshops**

LGFC ran eight regional workshops in January and February 2003 to launch the best practices inventory process, which the consultants attended as observers. Based on information gained and discussions held at these workshops, as well as from other sources, the consultants were able to gather enough information to select a sample of the LGs to be visited and so become the main participants in the inventory of best practices.

### **2.4 Criteria for selection of the 34 Local Governments to be visited**

The 34 LGs were selected on the following criteria:

- ?? Balance of national representation across the country, a majority being districts, according to the terms of reference.
- ?? Recommendations from informed LG personnel in Kampala, e.g. ULAA/UAAU.
- ?? The presence of likely innovative, transparent and effective systems of assessment, collection, and recording of local revenue.
- ?? Trends in the growth of local revenue collected, where this was available.
- ?? Practices such as privatisation, motivation of collectors, and the sensitisation of both taxpayers and politicians on the importance of paying taxes.
- ?? Reasonable accessibility in terms of security.
- ?? LGs that made presentations at the inception of Best Practices regional workshops.

The 34 LGs were selected from a sample representing those identified as having ‘good’, ‘medium’ or ‘poor’ practices. The selection of LGs was discussed, added to and approved by the LGFC and LRECC. Details of the 34 LGs selected are shown in Appendix IV.

## **2.5 Questionnaires**

Questionnaires were designed to obtain information from each of the sample LGs, submitted and approved by LGFC. Six questionnaires were administered to:

- ?? Chief Administrative Officers (CAOs)/Town Clerks
- ?? Chief Financial Officers
- ?? Chief Internal Auditors
- ?? Revenue Officers
- ?? Secretary or Chief Finance Officer and/or Chairpersons/Mayors
- ?? Sub-county/divisional groups.

Copies of the questionnaires (lay-out foreshortened) are included in Appendix V.

## **2.6 Pre -testing the Questionnaires**

The questionnaires were pre-tested in two LGs, Mukono TC and Wakiso DLG. The CAO in Wakiso District was requested to select four sub-counties, two with good performance records in revenue collection, one with an average performance record and one with a poor record in revenue collection. The feedback on the pre-testing process and the meetings with LGFC were used to improve all six questionnaires.

## **2.7 Preparation and Agreement of the Inception Report**

An Inception report was presented to LGFC/LRECC and agreed upon, so releasing the consultants to proceed with the fieldwork on best practices.

## **2.8 Field visits**

### ***2.8.1 Preparation of the field teams***

Ten LG officials were selected by LGFC/MoLG and allocated two to each of five teams. These five field teams of three, each led by a consultant, were selected and deployed to the 32 remaining LGs. A one-day training workshop was held on February 21<sup>st</sup> at the Hotel Equatoria, to acquaint the teams with the research tools (questionnaires) and agree on the methods of data collection and focus-group work.

### ***2.8.2 Field visits***

The teams were deployed to cover the 32 selected LGs. The visits were conducted over a period of three weeks, each team covering at least two LGs in one week. The role of the teams was to administer the questionnaires, ensure that the required details were captured, and probe further where inadequate answers had been given. Focus-group discussions with sub-county or divisional personnel were conducted during the visits, and detailed probing on processes and procedures took place, including discussing the attitude of taxpayers to the LG officials. On a number of occasions, it was possible to meet up with citizens or community members to ascertain their views. Furthermore, the lead consultant visited the teams while they were in the field. The data collected from each of the visits was inputted and forms the basis of the detailed matrix of findings at Appendix I, from which the best practices in this report have been drawn.

In the course of conducting the inventory, specific emphasis was placed on Graduated Tax (GT), as it is currently a major source of local revenue for LGs. It contributes 75% to 85% of local revenue in districts, and 25% to 35% in urban LGs. In Appendix VII, figures show

the range of GT collected by the 34 LGs visited. In addition, trade licences and permits, property rates, market dues, and taxes on taxi/bus parks and boda-boda (commercial cycle transport) were studied, sources of revenue that mainly benefit urban authorities.

## **2.9 Feedback Regional Workshops**

The results of the inventory were analysed and presented to participants at eight “feedback” regional workshops held between 31<sup>st</sup> March and 7<sup>th</sup> April 2003. The consultants made presentations, and the subsequent group work indicated that all best practices had been captured. The groups also generated further helpful input to the process. Some of the reactions and feedback from the workshops have been incorporated in the findings of the field visits in Appendix I. In addition, many other LG officials, technical and political, were present at the workshops, and their perspectives were noted.

A total of 130 LGs, comprising districts, municipalities and town councils, were invited to the feedback regional workshops, with the 34 that had been visited being offered greater representation. Over 80% of all LGs attended and there was a positive atmosphere in each one. The lists of those invited and those that attended are contained in Appendix VI.

## **2.10 Problems encountered**

During the field visits in February/March and the regional workshops in March/April, a number of problems were encountered, including:

- ?? Most top district officials, especially CAOs and LCV Chairs, were too stretched to attend adequately to the requirements of the teams, despite the fact that the questionnaires were sent and received in good time. Time was therefore wasted.
- ?? Most district officials seem to have limited knowledge of the legal framework within which they are operating. As a result, quality answers on the legal aspects were difficult to come by.
- ?? In some LGs, the financial data was not organised and readily available. In many cases it was hard to obtain the accounts for the years required, although they had been asked for in advance.
- ?? Despite the inception regional workshops in January/February, most district officials were not conversant with best practices. Thus the teams took more time than had been anticipated explaining these.
- ?? In a few districts, the CAO had retained the questionnaires and failed to distribute them for completion before the consultants’ visit. This also delayed the process significantly.
- ?? Arriving late was a feature of the feed-back regional workshops, although the numbers in attendance by the end of each was excellent.
- ?? Revenue sharing between different levels of LG, especially between LC3 and LCs1&2, was seen differently by each. LC3s felt that funds sent to the lower levels could be wasted due to poor accountability structures and limited capacity to carry out development projects. LCs1&2 disagreed and believed they did not receive enough funds and they had the capacity. This subject needs further appropriate study.
- ?? It was not practical to do conclusive research on the impact of donors and of central transfers on local revenue raising in LGs. Few LGs had up-to-date, audited accounts and little conclusive evidence could be adduced from trends in such accounts as there were. The LGs receiving donor support were generally grateful. This issue needs to be addressed elsewhere.

## Chapter 3

### Best Practices Findings: an Overview

A summary of all findings documented during the field visits is set out in Appendix I. From the findings, a selection of “best practices”, constraints and recommendations have been made. However, before going into detail, some fundamental issues need to be reviewed.

#### 3.1 Pre-requisites for Best Practices

While visiting the 34 LGs, the focus was on specific areas of best practice and the constraints linked to revenue collection and service delivery. However, it was also observed that the general atmosphere and the way in which activities were conducted revealed some basic aspects within LGs that required significant improvement. Five important areas were observed that need urgent and significant strengthening.

##### 3.1.1 Management

Capacity building has been carried out in LGs, helping personnel to function using Results Orientated Management (ROM). However, in a significant number of LGs the basics of good management were lacking. These basics may be described as: good planning, clear-cut organising, facilitative leadership, a sound control environment with effective integration of activities, good communication up, down and across, and good time management.

#### Recommendation

##### **Accelerate management capacity building programmes**

It is recommended that if the expectation of implementing new best practices in LGs is to be effectively fulfilled, any capacity building interventions underway by LGFC and MoLG to improve management must be accelerated at all levels.

Weak management also results in two of the main reasons that people embezzle and/or ask for/take bribes. Poor management of people produces poorly motivated staff more than the payment of low salaries does; and a poorly controlled environment gives people the opportunity to embezzle. Opportunity, poor motivation, and dire need are the three primary reasons for financial misappropriation. This leads to the next concern.

##### 3.1.2 Accountability and transparency

There were some LGs where good accountability and transparency were being practised, and others where improvements were being made. However, the overall picture is one of lack of these two basic requirements for effective revenue generation and mobilisation. Until accountability and transparency are considerably improved, and far more effective sanctions against wrongdoers are put in place and exercised, this aspect will continue to foster distrust by taxpayers in the LGs. It will also prevent effective sensitisation of the taxpaying community, resulting in poor service delivery and a continuing atmosphere of suspicion that councillors and technocrats alike are only in it for personal enrichment.

## Recommendation

### **Improve accountability and transparency in LGs**

It is recommended that all LG senior personnel take steps actively to improve their accountability and transparency, as well as the lines of communication from top-to-bottom and bottom-to-top. This will help to dispel suspicions, facilitate service delivery, and create an environment that is conducive to the mobilisation and generation of local revenue.

### **3.1.3 Adhering to LG regulations**

Where the Financial and Accounting Regulations 1998 were carefully followed in spirit as well as to the letter, controls were significantly better than in most other LGs, and there was generally an attempt to deal positively with the problem of a poor “control environment”. However, many regulations were flouted or ignored.

## Recommendation

### **Improve financial management**

A considerable improvement in financial management discipline is required before best practices have a chance of generating and mobilising significant additional revenue.

### **3.1.4 Service delivery**

Worldwide it is accepted wisdom that people are content to pay taxes as long as they can see value for money in service delivery. Until this is absorbed into the minds of LG councillors and technocrats, raising revenue will be an uphill task with comparatively little reward. Overall, service delivery was found to be poor, as a disproportionate amount of the funds raised from taxes went towards paying allowances for attending council meetings.

## Recommendation

### **Provision of good services**

LGs must make efforts to provide good services, which may then be tied to the payment of taxes.

### **3.1.5 Community perception of revenue usage**

As outlined above, effective local revenue mobilisation requires good management, accountability, transparency, and service delivery. However, politicians, LGs officials and tax enforcement officers need to give critical consideration to the views of taxpayers on revenue management, usage and the effect of taxes on the poor. The UPPAP study documented several concerns of taxpayers towards revenue management and collection methods. These included lack of accountability for funds, lack of basic services such as hospitals and schools, poor road systems, and aggressive tax collection methods.

## Recommendation

### **Account for revenue raised**

It is therefore recommended that LGs build respect and trust with taxpayers in revenue management and usage by accounting for revenue raised, improving service delivery, constantly communicating with taxpayers, seeking feedback from them, and sensitising taxpayers on regulatory processes and requirements of tax regimes.

## 3.2 Constraints against effective Best Practices

In addition to the five positive areas of development (see 3.1 above) needed to create a foundation for enhanced revenue, there were also a number of negative aspects that need to be counteracted in order to enable revenue enhancement to occur.

### **3.2.1 Political interference**

In every LG visited, both in the fieldwork and during the regional feedback workshops, political interference by MPs and LCs in the 2001 election campaigns emerged as a major issue of concern and loss of revenue, especially in the case of GT. While this is true, the reduction in revenue was widespread before the political interference related to the election year,<sup>13</sup> and a sample of financial trends in Appendix VII also demonstrates this.

In a number of places visited, contacts outside the LGs corroborated the problems with the politicians de-campaigning the paying of taxes. Clearly the range of political campaigning, from presidential level down to LC1 levels, has been negative and has created immense losses.

## Recommendation

### **Minimise the negative influence of politicians**

Continuous effort should be made by all LGs to minimise the negative influence of politicians. One suggestion made in the regional workshops was that the cost of political interference should be calculated by LGFC and made widely known, especially to the current politicians.

### **3.2.2 Distrust by taxpayers**

As stated above, where taxpayers are confident about accountability and service delivery, they are prepared to pay taxes and, while unpopular, it is done willingly. Thus every effort has to be made by LGs to restore or create trust, demonstrate on-going accountability and transparency and, vitally, show reliable service delivery. Until this is integrated in the operation methods of LGs, the raising of local revenue will continue to be a challenge.

### **3.2.3 Other core constraints impacting most areas of revenue enhancement**

There are a number of other constraints that were found to be widespread. They are listed here and then expanded in appropriate chapters of the report:

- ?? Unreliable data about sources of revenue
- ?? The negative attitude of the taxpayer towards paying tax

<sup>13</sup> LGDP Mid-term Review quoted Request for Proposal, ibid

- ?? Insecurity in some areas
- ?? Widespread corruption
- ?? Weak tax administration (poor enumeration, and assessments)
- ?? Low level of funds, leading to poor service delivery

### **3.3 Summary**

To enable LGs to implement new initiatives and ideas, the following should be implemented:

- ?? Practice good management
- ?? Demonstrate accountability and transparency
- ?? Follow all the appropriate laws and regulations
- ?? Deliver excellent services and link them with the payment of taxes
- ?? Ensure that community perception is well developed and positive
- ?? Counteract negative inputs from politicians
- ?? Develop the trust of the taxpayers so that they are willing to pay.

While there is undoubtedly some correlation between the best practices outlined in this report and increases in revenue, it is important that, in addition to the best practices, all recommendations made are taken seriously if the revenue trend is to move upwards.

### **3.4 Financial overview**

Having captured as much financial information as possible from the sources available, it has been possible to show some rising trends in the revenue generated by some LGs for GT, trade licences and property rates, e.g. for GT, Entebbe MC, Soroti MC and Mukono DLG) (also see chapters 8, 9 and 10 of the report). There are, however, more LGs where some revenue sources decreased. Because of the many variables that affect revenue and the inconsistency in methods of accounting and analysis (as found during the survey), it would be unrealistic to make claims that specific best practices are responsible for increases or decreases in revenue. On the other hand, a combination of an enabling environment comprised of supportive laws and policies and good revenue management, coupled with implementation of some of the best practices recommended in this report, should lead to increased revenue in the long run.

As stated in the introduction, the general trend in GT revenue generation has been downward for many LGs since 1997/1998. While the ODA (1996/97) and LGFC PriceWaterhouseCoopers (2000) studies established a general decrease in the revenue trends within LGs, the studies noted some LGs that were showing positive revenue trends in GT, trade licences and property rates. Revenue trends for some of these LGs have been analysed and presented in graphs and tables in the main report and appendices.

Appendix VII contains the following:

1. A table and graphs of locally collected revenue for a sample of districts, municipalities and towns.
2. Tables and graphs showing the ratio between locally collected revenue, central grants, and donor income for DLGs, MCs and TCs (two examples of each).
3. A table for the same sample LGs showing the figures that local revenue bears to total revenue collected for the 5 years to 2001/2.
4. A table showing a breakdown of local revenue plus the total of central and donor transfers for the sample LGs for 5 years.
5. A table showing the proportion of GT on locally collected tax.

## **Chapter 4**

### **The Legal Framework**

#### **4.1 Background**

The following chapter places the study within the relevant legal context. During the course of the study, the consultants analysed the laws governing revenue management and identified provisions of the law that are constraining revenue enhancement by LGs. These constraints are outlined in this chapter. In addition, while executing this task, potential revenue sources that are not being exploited by LGs due to deficiencies in the laws or failure on the part of the LGs to devise innovative means of exploiting the resources, were also identified. These findings are also included below. Finally, the chapter considers briefly issues of governance that have created bottlenecks in revenue administration, such as access to the law, lack of transparency, and non-participatory governance structures with top-down instead of bottom-up systems.

The following are the laws governing local revenue activities in Uganda, and on which this analysis is based:

- ?? The Constitution of the Republic of Uganda, 1995
- ?? The Local Governments Act, 1997, and Amendment Act, 2000
- ?? Statutory Instrument 39/2001,
- ?? The Financial and Accounting Regulations, 1998
- ?? Graduated Tax Payments by Employees – Guidelines, 1989
- ?? The Local Government (Rating) Decree, 1979
- ?? The Town and Country Planning Act, 1964
- ?? The Trade Licensing Act, 1969
- ?? The Public Health Act, 1964

#### **4.2 Introduction**

The parent law governing LG revenue collection is embodied in The Constitution (Article 191) and elaborated in the Local Governments Act (Section 81 and Schedule V). The revenue that LGs may collect are in the form of fees and taxes including, royalties, rates, rents, GT, stamp duties, registration and licensing fees, cess on produce, and others listed in Schedule V.

#### **4.3 General constraints in the law**

##### ***4.3.1 Access to law***

LGs have great difficulty in accessing the laws governing their powers or relating to their activities, such as the Local Government (Rating) Decree (governing administration of property rates) and the Town and Country Planning Act (governing the development of towns and rural areas). Most District and Urban LGs visited during the survey did not have law books to refer to when the need arose. Consequently LGs are not fully aware of what they can or cannot do under the law and have thus failed to exploit potential sources of revenue.

### 4.3.2 Recommendations

**Availability of laws to LGs**

MoLG and/or LGFC should make copies of all laws relating to the powers and activities of LGs available to every LG.

**Simplify laws**

There is need to simplify major laws relating to LG powers and activities into language(s) that can be understood by LG officials and other users. MoLG should spearhead this work.

**Participation of LGs**

MoLG should ensure that LGs participate and have their views incorporated in amendments to laws in which they have a major stake.

**Strengthening advocacy role**

Existing bodies such as UAAU and ULAA should strengthen their advocacy role, especially in seeking and forwarding views of LGs about laws governing them.

### 4.3.3 Capacity to interpret laws

The capacity of many senior personnel within LGs to interpret laws and apply them to local scenarios is weak. During the survey, many officials expressed an inability to interpret laws, and stated that legal issues were referred to the CAO or Town Clerk, or to the Resident State Attorney where available. The request for assistance in levying royalties, agency fees and other local revenues by LGs (one of the recommendations made by LG officials during the feedback workshops) highlights this problem. One of the LGs visited during the survey charges, charge fees of 2% on every contract awarded by the District Tender Board. They felt that they were doing this illegally, despite the fact that S.81 of the Local Governments Act permits LGs to levy such charges. Some LGs have had to pay huge sums of money as compensation to their former employees whom they dismissed. Such costs could have been avoided with good legal advice. Some LG officials are not even aware that they can collect additional GT from taxpayers under Regulation 11 and 12 of Schedule Five of the Local Governments Act.

### 4.3.4 Recommendations

**Sensitisation of LG personnel**

A capacity building programme should be developed by MoLG to sensitise all LG personnel about the laws under which they operate and to build their legislative capacity, e.g. in making bylaws and ordinances.

**The Local Government Restructuring Report**

The recommendation in the Local Government Restructuring Report<sup>14</sup> that every DLG, municipality and town should have a lawyer should be implemented as soon as possible. The MoLG should seek assistance from the Ministry of Justice and Constitutional Affairs and the Ministry of Public Service in establishing this office.

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<sup>14</sup> Report of Review of Staffing Levels and Restructuring of Local Governments

## 4.4 Constraints in The Local Governments Act

### 4.4.1 Tax Assessments Appeals Tribunals

As stated below (Chapter 8, Graduated Tax), collection of GT goes through the following stages: registration, enumeration, assessment, (appeal where necessary), and collection/payment. The Act provides for the establishment of Tax Assessment Appeals Tribunals (hereinafter referred to as tribunals) at sub-county (LC3) or Urban Council levels (LC3/4).<sup>15</sup> Whereas some LGs have established the tribunals at sub-county level as provided by law, others have established them at LC5 level, and the CAO constitutes the tribunal. A substantial number of LGs have no tribunals at all. The establishment, accessibility, and transparency in the procedures of this important institution, reflecting fairness in the taxation system more generally, are lacking in many LGs. While this may not have a direct effect on the revenue enhancement in LGs, it has contributed to the dislike of GT, and has painted a grim picture of the entire tax process. It is not surprising, therefore, that many taxpayers who disagree with their assessments resort to tax evasion rather than appeal to the tribunals. This adds to the number of tax defaulters. Others that are arrested for defaulting give reasons such as 'over assessments' and 'inability to pay the tax amount' at which s/he has been assessed.

### 4.4.2 Recommendations

#### **Establishment of tribunals**

All LGs should establish tribunals at sub-county level as stipulated in the law. This may require formulation and sensitisation of assessment tribunals to conduct the appeals tribunals.

#### **Inform taxpayers of their rights**

Assessment officers should inform taxpayers of their right of appeal (if not satisfied) immediately after giving them the assessment certificates.

#### **Display of assessment results**

Every LG should display assessment results using existing GT bands. The results should be displayed in public places for purposes of comparison and transparency, including LC1 level.

#### **Involvement of LC 1s**

Members of LC1 should be involved in the mobilisation and sensitisation of taxpayers, and should be remunerated for their services.

#### **Review of assessment methods**

LGs should review their assessment methods in urban councils in light of high mobility of taxpayers.

### 4.4.3 Exemptions from GT

CAOs and Town Clerks are mandated to exempt people from paying GT on grounds of poverty arising from old age, infirmity, or other good cause.<sup>16</sup> The parish council must recommend these people to the CAO or Town Clerk. During the survey it was found that potential taxpayers aged over 60, engaged in gainful employment or possessing substantial

<sup>15</sup> Regulation 7, Schedule Five Local Governments Act

<sup>16</sup> Regulation 4 (1) Schedule Five

properties such as commercial premises and farms, refuse to pay tax, claiming they are automatically exempted by virtue of their age. According to Statutory Instrument 39/2001<sup>17</sup> the exemption applies only to a person over 60 and with no gainful employment or business.

In addition, the findings, supported by other reports such as the UPPAP report,<sup>18</sup> show that a majority of women in Uganda do not pay GT. Although the law requires women in gainful employment to pay GT (regulation 2 (1) (b)), this term has unfortunately been interpreted to exclude women except those salaried or engaged in large businesses. Thus, many women engaged in the agricultural sector and in small businesses are left out of the tax net.

#### **4.4.4 Recommendations concerning exemptions**

**Guidelines for awarding exemptions**

Clear guidelines should be set by MoLG for awarding of exemptions to assist CAOs and TownClerks.

**Gainfully employed women and the aged**

Women and men engaged in gainful employment, including those over 60, should pay GT.

**Definition of the term 'gainful employment'**

MoLG should liaise with MOJCA in clarifying the meaning of 'gainful employment'

#### **4.5 The role of politicians in LGs**

Sections 14, 18 and 25 (d) & (e) of the Act permit politicians (councillors) to get involved in the activities of LGs as overseers, supervisors and employers. While the intention of the Act is well meaning, politicians have abused it by interfering with GT activities. It was reported that in one incident a politician directed a tax officer to refund the tax collected from a taxpayer within two hours. On other occasions they have directed tax officers to reduce assessment figures for their former campaign managers. For these and other reasons, political interference has been identified as a major constraint to revenue enhancement, as is illustrated by the drop in local revenue from the financial year 2000/1 to 2001/2 when the presidential, parliamentary and LG elections took place.

##### **4.5.1 Recommendations**

**Amendment of the LGA**

By way of emphasis, it is recommended that Parliament should amend the LGA to prohibit politicians from making retrogressive statements concerning taxes. MoLG should spearhead lobbying for this provision.

**Outlawing the making of negative statements**

Specifically outlaw the making of negative statements related to LG revenue by politicians.

<sup>17</sup> Statutory Instrument 39/2001

<sup>18</sup> Pg. 147, UPPAP report

**Establishment of an arbitration or compensation mechanisms**

One recommendation from the LGs that the consultants fully support, is the establishment of arbitration or compensation mechanisms by LGFC to deal with cases where GOU or politicians interfere with revenue collections in LGs, in order that LGs are not left to suffer the impact.

**4.5.2 Determination of GT Scales**

The current practice of the MoLG centrally determining GT scales (minimum Shs3,000 maximum Shs100,000) contradicts Regulation 3, Schedule Five of the Act, that states that GT scales “shall be determined by the LGs in accordance with the advice of the LGFC as provided for in Article 194 (4) (d) of the Constitution.” Many LGs surveyed expressed interest in determining these rates on a regional basis with guidance from LGFC, as prescribed by law. Fixing GT rates by LGs would be a good illustration of the bottom-up approach in the decentralisation programme and would assist LGs in owning the taxation process. It is also important to note that politicians who encourage taxpayers not to pay tax may inadvertently be guilty of crimes such as incitement.

**4.5.3 Recommendation****Establishment of an independent body**

It is recommended that an independent, national, body such as the URA, be charged with local revenue collection. The consultants are of the view that this recommendation will require further review and study by LGFC, MoLG and MFPED before implementation.

**4.6 Delays in remission of GT for employees**

Employers are responsible for the deduction and remittance of GT for salaried employees, including those in LGs.<sup>19</sup> However, many of the LGs surveyed complained of delayed or non-remittance of GT by employers (common among district employees residing in urban council areas). In some LGs, GT funds not remitted to LGs in respect of government employees amount to millions of shillings. The employees also bear the consequences of late remission, such as surcharge, prosecution for defaulting, or temporary arrests at tax enforcement roadblocks.

Although employers should deduct GT in the first four months of the financial year, i.e. July to October, this has not been done to date.

**4.6.1 Recommendations****LGFC as a mediator**

LGFC should play a more active role in mediating and resolving disputes between LGs, especially those of a financial nature. This is a mandate of LGFC that is not fully utilised at the moment.<sup>20</sup> LGFC should create more awareness of its role among LGs.

<sup>19</sup> Graduated Tax Payment By Employees Guidelines

<sup>20</sup> S. 77 Local Government Act

**Implement changes**

The Ministry of Finance should be approached again to implement the change in timing of GT deductions from all civil servants.

**4.7 Prosecution of GT defaulters**

Under Schedule Five, regulation 10 (3) of the Local Government Act, a person commits an offence when s/he refuses or fails to pay GT without lawful excuse and is liable on conviction to imprisonment for a term of not more than a month or to a fine not exceeding twice the amount of the tax due. Whereas the tax defaulters are punished with imprisonment or payment of a fine, the monies realised are remitted to the Central Government and not to the LGs. Yet the LGs bear the costs of conducting the enforcement exercise: identifying defaulters, transporting them to and from court, and maintaining them in prison. These costs can only be recovered by the LG if the LG Administration Court prosecutes the tax defaulters. However, few of these courts exist in Uganda today. Furthermore, it is not clear whether LGs should issue tickets to a tax defaulter upon completion of their prison term, because s/he has completed his or her punishment.

**4.7.1 Recommendation****Sharing of fines between LGs and Central Government**

The MOJCA/MoLG should ensure that provisions are developed for court fines paid by prisoners to be shared between Central and Local Governments. LGFC should spearhead negotiations for this recommendation.

**4.8 Conflict between the financial year and harvest seasons**

Under the Act, the financial year runs from July to June. For most taxpayers, especially farmers, this means that payment of GT falls due after they have sold their produce (main harvest seasons are June and December) and have utilised their income. This means that the collection/ enforcement exercises start well after the harvest season and result in low collections.

Whereas it is true that traditional cash crops had distinct harvest seasons, many crops grown today and sold in the markets, such as matooke, vanilla, beans, rice, groundnuts, vegetables and horticultural produce, do not have such distinct harvest seasons.

**4.8.1 Recommendation****The financial year/calendar year issue**

LGs need to work actively around this challenge. It is unrealistic to change the financial year.

**4.9 Property Rates**

Property tax is potentially a major source of revenue for urban LGs in Uganda. The major laws governing collection of property rates are: The Constitution of Uganda, The Local

Government (Rating) Decree, Local Government Act 1997 and the Land Act. Article 237 (1) of the Constitution vests land in the people of Uganda, a principle that is reiterated in the Land Act (s.3). These provisions mean well, but have generated resistance to paying property rates from owners country-wide. Several LGs visited during fieldwork identified these provisions as a hindrance to their revenue enhancement efforts.

Furthermore, the law has created a constraint in land administration and management by LGs. The problem arises from the management of land, which is currently under three entities: land ownership is with the people, planning powers are with the TCs, and the mandate to allocate land is with District Land Boards. Landowners have also now developed the habit of demanding compensation from LGs for using their land for public services such as drainage, water, sewers etc.

#### ***4.9.1 Centralisation of the role of the Government Valuer***

The LGs Act and Local Government (Rating) Decree mandate LGs to levy annual rents and rates on land and buildings in urban areas. The Chief Government Valuer (CGV) must value the property before the LG can charge tax on the property (s.7). However, given the present capacity of less than five professional valuers in the office of the CGV, the office does not have the capacity to meet the demand for valuation of properties in the many LGs in Uganda. Although the CGV can delegate duties to a surveyor, ministerial approval of the appointed surveyor must be obtained before s/he proceeds to value the property.<sup>21</sup> This process is also cumbersome and further delays are experienced by LGs that choose to pursue this option. One LG informed us that they had to wait 13 years to have some of their land valued, while many others use valuation lists that are over 10 years old. Most LGs visited during the survey identified centralisation of the valuation role as a major hindrance to their revenue collection efforts.

#### ***4.9.2 High Costs of valuation***

LGs are required to produce a valuation list at least once every five years, but the cost of this is too high for them to bear, especially where they are required to pay charges “up-front”. During the inventory, KCC stated that they paid Shs 400,000,000 for valuation of a few zones in Kampala.

#### ***4.9.3 The Local Government (Rating) Bill, 2003***

The proposed amendment to the Local Government (Rating) Act was out for public comment in February 2003, and is now back in cabinet. Some LGs accessed the Bill and made their comments during the feedback workshops. While such comments have been incorporated into recommendations set out below, it is important to note that many LGs visited during the survey of best practices were ignorant of the existence of the Bill. This implies that more effort needs to be put into seeking and forwarding the views of LGs about this law.

#### ***4.9.4 Recommendations concerning the Bill***

##### **Local Government (Rating) Bill**

The Local Government (Rating) Bill should be passed as soon as possible with the following changes:

<sup>21</sup> S.7 (2) Local Government (Rating) Decree 1979

**Property rates**

The rate for property rates should not be fixed at 5% of the rateable value of the property as proposed in the Bill, but should be set between 0% and 15%, leaving room for flexibility and for individual LGs to determine their own rates based on variations in value of properties in different locations (NB: currently LGs are allowed to charge from 0% to 20% of the rateable value but none is collecting more than 10% for commercial premises). Reduction of rates will greatly reduce the revenue collection for LGs.

**Government Properties**

GOU property should remain liable to property rates (NB: there is a proposal to exempt GOU properties in the Bill). GOU departments depend on LGs for services in 'exchange' for such property rates. The proposed exemption will deprive LGs of revenue and make GOU departments consumers of services that they do not pay for. GOU needs to set a good example.

**?? Listing of private valuers and approved surveyors**

CGV should produce a list of private valuers and approved surveyors to supplement its valuation capacity. The list should be available to LGs, and the requirement for ministerial approval of those surveyors that are listed be dispensed with.

**?? Guidelines for appointing valuers**

Guidelines for appointing valuers should be made to assist LGs in appointing valuers. LGs should appoint valuers from the above list (The Bill contains a proposal to allow LGs to appoint their own valuers but they must be approved by the CGV).

**4.9.5 Additional recommendations:****Nation-wide valuation**

A nation-wide valuation of urban land is needed to kick-start LG efforts to raise property rates. LGFC should approach the donor group with a view to funding this exercise.

**Nation-wide education programme**

The GOU needs to conduct a nation-wide education programme to explain property rates, similar to the VAT seminars conducted by URA. This would counteract the emerging negativism on property rates brought about by provisions in the Land Act.

**Improved service delivery**

LGs should make a deliberate effort to improve their service delivery in order to enable taxpayers link taxes paid to services delivered.

**Advocacy role of ULAA, UAAU and LGFC**

ULAA, UAAU and LGFC should put more effort into collecting views of LGs concerning laws where they have a major stake.

**4.10 Trade Licensing Act**

The Trade Licensing Act regulates businesses (wholesale and retail), commission agents, management consultants, estate agents, motor vehicle repairers, and hawkers. Farmers,

dairymen, hawkers of fish, poultry, fruit and vegetables, who sell their own produce are not required to have annual trade licences while selling their produce. With the exception of professional businesses such as banks, lawyers and insurance companies, all other businesses are required by the Trade Licensing Act to purchase an annual trade licence from the City, Town, Municipal or District Council, and to comply with health and safety requirements during the conduct of their businesses. The current practice is for business premises to be inspected by a health officer and building inspector before a licence is issued, in order to ensure compliance. However, inspections are irregular and the health and safety regulations that the business-persons are required to comply with are not clear. This results in delays to obtain licences for business-persons who are compelled to make informal payments to expedite the process, which is time consuming and expensive to businesses.

#### ***4.10.1 Non-payment of fees or licences by professional bodies***

The survey established that professional bodies such as lawyers, insurance agents, and bankers, who operate local branches within LGs, refuse to pay fees for trade licences to LGs despite benefiting from the services that they provide. Having secured licences or permits issued by national bodies such as Bank of Uganda or The Uganda Insurance Commission, these businesses assert that they do not 'need' licences from any LG to conduct their businesses within their LGs.

#### ***4.10.2 Pilot of Streamlined Trade Licensing System: Entebbe MC (Deregulation Project)***

This project seeks to streamline the trade licensing process. Its main objectives include: simplifying the licensing process, reducing the regulatory burden on businesses, increasing voluntary compliance, increasing the number of businesses licensed and total licensing revenue, monitoring health and safety standards effectively, and developing an up-to-date comprehensive database for planning, budgeting, and monitoring compliance. The project is on-going, and further information can be obtained from MoFPED.

#### ***4.10.3 Recommendations***

- ?? LGs should de-link Health and Safety inspections from the business registration process, and focus on sensitising business proprietors about health and safety regulatory requirements.
- ?? Laws allowing LGs to charge professionals licences to operate in their areas should be enacted. MoLG should take up this recommendation with the MOJCA

### **4.11 Town and Country Planning Act**

The Town and Country Planning Act was passed to regulate and control the development of land in towns and rural areas. Ideally it constitutes a central body, the Town and Country Planning Board, and Committees at the regional level responsible for the control and development of towns and rural areas. The role of these bodies has been overtaken by economic and social events that have rendered them obsolete: what has emerged is unplanned development in most LGs. While the planning function was devolved to LGs under the decentralisation programme,<sup>22</sup> LGs were not prepared for this technical function and the task was made more difficult by the outdated law. Consequently LGs have not

<sup>22</sup> Sec 36-38 Local Governments Act

been able to guide development in their respective jurisdictions leading to unplanned buildings in wrong places, e.g. barbershops located next to butchers. This has hindered meaningful planning for development and service delivery by LGs.

As mentioned earlier, the law has created a constraint in land administration and management by LGs. Management of land is currently under three entities: land ownership is with the people, planning powers are with the TCs, and the mandate to allocate land is with District Land Boards.

#### ***4.11.1 Recommendation***

##### **Amendment of the Town and Country Planning Act**

There is need to review and amend the Town and Country Planning Act to bring it in line with current developments such as administrative structures of LGs, and to guide developmental planning in LGs. MoLG should liase with other concerned ministries and stakeholders.

#### **4.12 Revenues not collected by LGs**

##### ***4.12.1 Royalties***

Royalties are payments made by mining companies to owners of the land being mined. The best practices survey established that most LGs are not collecting revenue from industries operating within their areas despite substantial mining of minerals such as lime, cement, gold and stone. A few districts were planning to tap revenue from this resource but expressed a lack of skill to deal effectively with the respective industries, and requested the assistance of LGFC.

##### ***4.12.2 Recommendation***

LGFC should initiate negotiations with Industries and respective bodies for payment of royalties to LGs.

##### ***4.12.3 Revenue from forests***

Uganda is endowed with natural resources such as forests and game parks located in LGs across the country. While GOU has retained collection of major revenues from forests such as harvest permits, fines for timber, and large-scale charcoal dealers, LGs are left with minor revenues such as user fees and charcoal burning licences. Management of forests is shared between LGs and GOU. The National Environment Statute established structures of District Environment Committees and District Environment Officers at LG level.<sup>23</sup> The establishment of these structures has brought about administrative costs such as salaries and the provision of office furniture. While LGs have to support such costs, all major income from the forests is paid into the National Environment Fund, managed by a board on behalf of the National Environment Management Authority. Similarly, LGs bordering game parks and other tourist attractions do not share in the revenue from these resources, despite the fact that they carry the responsibility of maintaining infrastructure, such as roads, that benefits these attractions. In the case of lakes and rivers, the Ministry of

<sup>23</sup> S. 15, 16 & 17; National Environment Statute

Agriculture, Animal Industries and Fisheries, issues fish processing licences and canoe licences, while sub-counties or districts collect revenue from canoe licences, landing sites and fish-mongers. A DfID study carried out in 2001<sup>24</sup> identified unclear systems of licence allocation by both central and LGs, ad hoc assessment, setting of fishmongers' licences by LG staff, poor record keeping and weak monitoring systems as some of the weaknesses in administering revenue from this resource.

#### **4.12.4 Recommendations**

##### **Revenue sharing study**

There is need for an intensive study on the sharing of revenues from natural resources between Central Government and LGs.

##### **Streamlining licence allocation**

MAAIF and LGFC need to streamline the allocation of licences and revenue collection from lakes and rivers.

#### **4.12.5 Revenue from Enguuli**

Enguuli is a form of distilled liquor whose manufacture and sale is regulated by law.<sup>25</sup> Enguuli manufacturers are required to produce and sell the liquor to registered traders and distilleries such as Uganda Breweries. However, very large quantities of this product are now manufactured and bought by unlicensed people country-wide, and little is delivered to the breweries as required. While other liquor manufacturers and traders generally pay fees for their businesses, Enguuli traders do not pay fees in most LGs, and efforts to enforce payment by court action have been defeated because there is no law by which they can be prosecuted and made to pay.

#### **4.12.6 Recommendation**

MoLG and MOJCA should amend the Enguuli Act and bring it in line with the situation on the ground i.e. recognise local consumption of Enguuli not just for the benefit of LGs but also to have a law that addresses the situation on the ground.

#### **4.13 Other issues**

##### **4.13.1 Accountability for revenue by LC2 and LC1**

While the municipality and divisional councils have been allocated expenditure responsibilities in the Local Governments Act, parishes and villages are without such responsibilities and can legally use their resources (including 25% of GT and fees and fines from local council courts) in whatever manner they wish.<sup>26</sup> These funds are supposed to be used for local projects determined by taxpayers at village and parish levels. Often taxpayers in communities are neither informed about the amount of money that the village or parish actually received nor how it was used. This is a source of widespread contention by LC3s and LGs of higher levels who hold the view that these monies are wasted at village and parish levels, and may be one of the reasons why the LGs do not devolve funds

<sup>24</sup> Pg1-6, Study of Fisheries Related Revenue Generation and Collection Systems on Lake George

<sup>25</sup> The Enguuli Act

<sup>26</sup> Chr. Michelsen Institute Bergen (2002)

to the villages and parishes as prescribed. Furthermore, taxpayers have concluded that most LC1 and LC2 executives use their taxes for personal enrichment.<sup>27</sup>

#### **4.13.2 Recommendations**

##### **Publication of funds dispatched to administrative units**

LC3s should publicise information of funds dispatched to LC1s and LC2s who should disseminate this information in their respective communities.

##### **Transparent and participatory processes**

LC1s and LC2s should make their processes transparent and participatory especially in determining usage of such resources.

##### **Information about local projects**

Village and parish councils should produce information about local projects identified by local people and should account for funds received under revenue sharing formulae to LC3s.

#### **4.14 Conclusion**

The legal framework governing revenue enhancement activities of LGs is weak and exists outside current challenges and developments in LGs. There is therefore an urgent need to amend laws such as the Local Government Act, the Town and Country Planning Act and others discussed above, to facilitate the revenue enhancement efforts of LGs. However, attention must first be given to the Local Government Act that needs to be brought into line with the various challenges of the decentralisation process, such as revenue sharing formulae within LGs, responsibilities and duties assigned to respective levels of LGs, and the entire administrative structure of LGs.

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<sup>27</sup> Pg 151-152 UPPAP report

## **Chapter 5**

### **Sensitisation of Taxpayers**

#### **5.1 Introduction**

Sensitisation of the community on the need to pay taxes and contribute to local development is an aspect of local revenue generation and mobilisation that has to be emphasised. Effective sensitisation requires recognition of the reciprocal relationship between revenue mobilisation and service delivery. It is vital that there is a clear understanding of the link between local taxes and local development, and the important role that taxes can play when utilised adequately in contributing to the development process for service delivery. Effective sensitisation has been reported to have had an impact on local revenue in many LGs. Thus there is need for an ongoing sensitisation process that allows for open dialogue and participation by the communities.

#### **5.2 Best Practices**

In the process of compiling the inventory of best practices, the details of which are in Appendix I, a number of good ideas relating to the issue of sensitisation were generated, and are outlined below. It is important to note, however, that the impact of sensitisation programmes on revenue enhancement is qualitative in nature and not easy to determine because of difficulties in tying its effect to the amount of revenue generated.

##### ***5.2.1 Involvement of officials***

An effective means of sensitisation took place through the involvement of LCs and LG officials who, during rallies and meetings, go out to the community and educate them on the importance of paying taxes and the use to which taxes are put. The rationale is that if the payment of taxes is linked to the services provided by the LG, the tax-paying community is encouraged to pay their taxes.

##### ***5.2.2 Sensitisation programmes in place***

In almost all the 34 LGs visited, it was documented that some sensitisation programmes are in place. These include the use of mass media in the form of radio talk shows, radio announcements, and newspaper articles in English as well as in the local vernacular. The aim is to disseminate information relating to the need to pay taxes as a means to local development, and report on the services delivered as a result of payment of these taxes.

##### ***5.2.3 Encouraging taxpayers to form groups and engage in income generating activities***

In Kumi, Luwero and Arua DLGs, taxpayers were encouraged to form groups in order to participate in income generating activities. This is reported to have resulted in positive changes in the attitude of members of the group towards paying taxes.

##### ***5.2.4 Sensitisation workshops***

The use of workshops has also been part of the sensitisation process. The LGFC held regional workshops in Arua, Lira, Soroti, Mbale, Iganga, Masaka, Mbarara and Kasese between 27<sup>th</sup> January and 7<sup>th</sup> February 2003. One objective of the workshops was to learn lessons from those LGs that are implementing best practices. They were attended by LG personnel including LC5 chairpersons, district MPs, CAOs, Town Clerks, Mayors, CFOs, Chief Internal Auditors (CIA), selected sub-county chairpersons and chiefs from selected districts, and urban councils. One of the outcomes of the workshops was commitment by

LG personnel “to ensure sensitisation and continuous communications as essential between the communities and their LGs to support better understanding of the reciprocal relationship between communities and LGs.”<sup>28</sup>

### ***5.2.5 Dissemination of tax information***

In many LGs, public notices, brochures and newsletters outlining strategies and policies of the LG are being used to disseminate information to the tax-paying public. In Moyo and Koboko TCs, concerts, plays, and megaphones mounted on vehicles, are all used to disseminate tax information to the community.

### ***5.2.6 Tax Assessment Appeals Tribunals***

In Bushenyi DLG, tax assessment tribunals are available immediately after assessment of taxpayers, to hear appeals from taxpayers that disagree with their GT assessments. These tribunals help build confidence of taxpayers in the tax system, and enhance respect for LGs. (For a detailed analysis of tax assessment tribunals see Chapter 4, section 4.4.1).

### ***5.2.7 Publishing names of defaulters***

Publishing names of tax defaulters, in particular prominent defaulters, in newspapers has been done in Tororo MC and Rukungiri DLG, and was reported to have had a positive effect on defaulting taxpayers. This naming and shaming activity has acted as a deterrent to potential tax defaulters.

## **5.3 Constraints against effective sensitisation**

### ***5.3.1 Unavailability of funds***

Most LGs reported that they do not have enough revenue to enable them to provide basic services to the community, and therefore do not have the capacity to provide funds for effective sensitisation programmes. In many instances sensitisation programmes are not planned for in the LG budget and, instead, programmes are ad hoc and carried out just before tax collection and enforcement exercises.

### ***5.3.2 Apathy of taxpayers towards taxes***

Many taxpayers are not interested in attending meetings or rallies where the subject matter is taxation. This has been aggravated by failure of LGs to link taxes with local development and lack of basic services such as water, health clinics, roads, and schools. Consequently the credibility of LGs and the entire taxation system is lacking in many LGs.

### ***5.3.3 Non-conducive political climate***

Election campaigns provide a forum for dialogue between electorate and electoral candidates. Indeed, campaign sessions often provide the only opportunity for community members to question their leaders as well as the incumbent. Instead of highlighting the reciprocity of taxes and local development, the candidates de-campaign taxes by promising to abolish or reduce them for the electorate once elected. Consequently, local tax yields during campaign seasons are low, as was recorded in the year 2000/2001 when the presidential and parliamentary elections were held.

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<sup>28</sup> Pp. 8-9, LGFC Report of Regional Workshops on Best Practices

#### ***5.3.4 Negative attitude of LGs towards taxpayer's inability to pay taxes***

Tax enforcement officers and contractors have a negative attitude towards taxpayers who fail to pay taxes, in particular those who identify poverty as the reason for their failure to pay. Because the poor are seen to be able to pay user fees for basic services such as water and health services when provided by the private sector, these people are branded as tax defaulters when they fail to meet their tax obligations. In addition, while some LGs have initiated income-generating projects to assist the poor earn some income, others have done nothing about this.

#### ***5.3.5 Lack of understanding of the laws and LG responsibilities by LG officials***

Lack of understanding of both the laws governing LGs, and LGs' responsibilities, is widespread. Indeed, LGs often have not recognised the informal contract between taxpayers and the LG. Consequently officials are unaware of the responsibilities of the LG towards taxpayers such as provision of infrastructure, local development, and accountability for funds received by the LG in return for taxes paid. As a result, it is difficult for LG officials to relate taxes to service delivery and sensitise taxpayers accordingly. LGs have also failed to sensitise taxpayers of the differences between the financial year and calendar year.

#### ***5.3.6 LG attitude towards donor funding and Central Government transfers***

The existence of donor and Central Government funds to LGs to supplement their budgets and development projects has encouraged a so-called 'entitlement culture'<sup>29</sup> within LGs. These funds are partly responsible for the low interest in the sensitisation programmes and revenue enhancement by LGs.<sup>30</sup>

#### ***5.3.7 Inaccessible Tax Assessment Appeals Tribunals***

As discussed above, most LGs have not set up Tax Assessment Tribunals at sub-county level as required, and few LGs reported having these at LC5 level. As a result, taxpayers are often not informed of the existence of these tribunals and of the right to appeal or how to do so. Furthermore, the cost of appeal is high, as some taxpayers have to travel long distances in order to attend appeal meetings (which may not be completed in a day) and there is a requirement for each appellant to pay a small fixed sum before a case is heard.

#### ***5.3.8 A partially literate public***

Some LGs sensitise the public using brochures and written notices in public places. However, where literacy levels are low, few members of the public can read and understand these messages.

### **5.4 Recommendations**

The following recommendations have been categorised as follows:

- ?? "Short term" for those that can be implemented immediately and/or with minimal additional financial or technical input;
- ?? "Medium term" for those that would require either additional funding, a change of policy, new procedures, or further legislation;

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<sup>29</sup> Johnson R.W. (1999) LGFC Report of Regional Workshops on Best Practices in Mobilising and Generating Local Revenues

<sup>30</sup> Request for Proposals document to "Compile an Inventory of Best Practices on Local Revenue Mobilisation and Generation"

#### **5.4.1 Short-term recommendations**

##### **Role of tax tribunals**

The assessment committees of LGs should sensitise taxpayers on the role that tax tribunals play in the tax process and the rights of the taxpayer to appeal against assessments. This should help convince taxpayers that there are systems in place to provide redress to those that have been unfairly treated, and serve to build the confidence of the taxpayers in the tax system.

##### **Involvement of community leaders in sensitisation activities**

Community leaders should be involved in the sensitisation process because they are able to disseminate information more effectively both to the taxpayers and then back to LG officials, so promoting dialogue.

##### **Sensitisation of LGs officials**

LGs should sensitise their officials on the responsibility of LGs to provide services in their jurisdictions. This will enable LGs officials to link tax payment to service delivery.

##### **Sensitisation on GT structure and rates**

Sensitisation committees should sensitise taxpayers on the structure and rates of GT, who should pay, and in which GT band they fall. The same is true for all other revenue sources.

##### **Sensitisation of civil servants**

Civil servants and other company employees should be sensitised about the need to pay GT in the first four months of the financial year, i.e. July-October, and not in January-April each year, as has been the practice up to now.

##### **Clarification of calendar/financial year**

During sensitisation programmes, LGs should clarify to taxpayers the distinction between the financial year and calendar year. This will help communities appreciate the distinction between the two.

##### **Encouraging taxpayers to form income generating projects**

LGs should encourage taxpayers to form income-generating projects and link them up with organisations offering support services. This will enable them to earn income and pay taxes.

##### **Building dialogue with taxpayers**

LGs should build dialogue with taxpayers. This will facilitate communication between LGs and taxpayers and also serve as information points for taxpayers.

#### **5.4.2 Medium-term recommendations**

##### **Service delivery**

LGs should make the effort to provide basic services to communities such as water and health clinics. Taxpayers are willing to pay taxes where services are provided.

##### **Punishing politicians who interfere with tax collection**

Punitive measures should be imposed on politicians who interfere in tax collection processes. LGFC should take up this issue with GOU.

**Retraction of statements by politicians**

Those politicians involved in de-campaigning taxes should be made to return to the community to retract their statements and, indeed, be used to intervene positively towards the need to pay taxes within the communities they represent. Politicians should also be involved in service delivery by initiating schemes and by linking taxes paid by the communities to these schemes.

**Introduction of tax education in school curriculum**

Tax education should be included as part of the secondary school curriculum, to educate students early about the important part that taxes play in the development process when adequately applied to delivery of services. LGFC should take this up with GOU.

**Sensitisation and training of councillors and LG officials**

MoLG should work hand-in-hand with the DLGs to sensitise and train councillors and LG officials in their role of mobilising the communities to comply with their tax obligations. They should also emphasise the linkage between taxes and service delivery. In turn, the DLGs should sensitise and train councillors at sub-county/municipality level, who in turn would move to the parishes and villages.

**Harmonisation of policies and regulations**

LGFC, MoLG and MFPED need to advocate for harmonisation in setting policies and regulations that affect taxpayers by Central Government and LGs.

## 5.5 Conclusion

A study of rural taxation in Uganda established that in some instances taxes levied fail to benefit the poor, but rather work against them.<sup>31</sup> It is therefore necessary that LG personnel gain a clearer understanding of their role and obligations in the taxation process, and in the fundamental need to link taxes with service delivery. LGs need to invest heavily in sensitising their respective local communities, ensuring in the process that they give adequate consideration to the total effect of their tax regime on the poor.

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<sup>31</sup> Pg 146, 147, and 158 UPPAP report

## **Chapter 6**

### **Service Delivery**

#### **6.1 Introduction**

The concerns surrounding the issue of local taxation in Uganda refer not only to how local governments raise revenue and how much to raise, but also how to spend it on activities that support local communities.<sup>32</sup> The survey established widespread lack of understanding by LGs and communities about the relationship between taxation and service delivery. The majority of LGs visited reported that the amount of local revenue collected is inadequate to fund service delivery, and is only sufficient to pay salaries and allowances of council officials. It was also noted that some LGs do not remit the funds that they are supposed to under the revenue sharing schemes, or they remit them late. A number of LGs have successfully used local revenues to support the 10% co-funding scheme to fund projects, while others complained that even the 10% that they are expected to collect is too high.

#### **6.2 Best Practices**

##### ***6.2.1 Use of local revenue for education, health and works services***

Bushenyi DLG and Ntungamo DLG reported spending 75% and 70% respectively of local revenue on providing education, health, and infrastructure development to the community. This large percentage towards service delivery has been made possible by using unconditional grants to fund salaries, and local revenue to provide services. They also provide information to the public on the services they have been able to deliver, thereby providing a link between the taxes generated and the services funded.

##### ***6.2.2 Commissioning of projects by LC1 chairperson***

Projects are officially commissioned, linking taxes paid with service delivery. Taxpayers witness the signing of contracts at the site for development, which keeps the public informed of developments. In Arua DLG, when a project is completed the appropriate LC1 or LC2 chair officially opens it which, again, has the effect of linking taxes paid to services provided.

##### ***6.2.3 Encouraging communication between taxpayers and tax collectors***

Entebbe MC has introduced a people-friendly approach to tax collection. Regular visits are made to villages in order for officials to listen to the community. This process of dialogue has helped the community to appreciate the benefits of paying taxes, and made it easier for the municipality to collect taxes. Feedback is sought and encouraged from service consumers as a way of soliciting their views, and suggestions on services rendered are encouraged.

##### ***6.2.4 Encouraging taxpayers to form groups and engage in income generating activities***

In Kumi, Luwero and Arua DLGs, taxpayers are encouraged to form groups in order to participate in income generating activities. Luwero DLG had initiated contract farming for rice and tobacco, and similar plans were in the pipeline for tomato farming. These initiatives are reported to have resulted in positive changes in group members' attitudes towards paying taxes.

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<sup>32</sup> Pg 8 LGFC (2003) Report of Regional Workshops

### ***6.2.5 Programmes for poor, elderly and youth***

Most LGs reported having programmes for the youth, women, the elderly, and the poor. Such programmes often involved mobilising groups to form income-generating projects. It was noted that LGs relied on funds from Central Government to run these programmes, such as Women's Day activities.

## **6.3 Constraints**

### ***6.3.1 Inadequate funds***

The main constraint affecting service delivery, apart from the general poor level of funds, is the low level of local income remitted, usually late, to lower LCs. As a result, they are unable to carry out developments or to plan. Once again, in many cases funds are only used to pay allowances to LC personnel.

### ***6.3.2 Poor linkages of service delivery to tax compliance***

Generally, taxpayers are willing to pay charges for services delivered such as garbage collection, water, and medical centres, but because LGs have not identified the obvious linkage of service delivery to tax collection and compliance, little effort has been made to offer basic services, or initiate development projects within their jurisdictions. In some cases, it is the private investors that are realising profits from offering these services.

### ***6.3.3 Political interference***

The widespread de-campaigning of taxes by politicians has affected revenue collections by LGs, which are then unable to fund their budgeted activities.

### ***6.3.4 Lack of sensitisation***

LGs have not made adequate use of annual budget conferences and other forums to sensitise and obtain feedback from taxpayers about tax usage and services delivered from local revenue. Where sensitisation is done, communication in these forums tends to be monologue and not dialogue. As a result, taxpayers are ignorant of the linkage between taxes and service delivery, and what the taxes are used for.

## **6.4 Recommendations**

### **Monitoring and supervision of revenue sharing**

One of the recommendations made in the LGFC Revenue Sharing study<sup>33</sup> was for GOU to put in place mechanisms and procedures to monitor and supervise the sharing of revenue among LGs, and for revenue sharing committees to be set up at the district and municipality levels to review that sharing. The implementation of this will ensure that the revenue sharing amounts are remitted as required.

### **Dissemination of information using the budget conference**

LGs should use the annual budget conference and other means such as notice boards in public places, to disseminate information, account for revenue collected to taxpayers, inform of services delivered and review past performance.

### **Sensitisation of LGs officials on LGs obligations**

LGs should sensitise their officials about LGs obligations and responsibilities to offer services to communities.

<sup>33</sup> Pgs 54-55 LGFC (2001), Revenue Sharing Study, Sharing Expenditure Responsibilities and Revenue Assignments

**Service delivery**

LGs should seek to provide basic services to communities such as water and health clinics. Taxpayers are willing to pay taxes where services are provided.

**6.5 Conclusion**

Service delivery is a high priority for local revenue enhancement. All LG personnel should be sensitised about the need for communicating and implementing the linkage between taxes they raise and services they deliver. This will help to build LGs' credibility within the community and thus facilitate tax compliance.

## **Chapter 7**

### **Accountability, Transparency and Internal Controls**

#### **7.1 Introduction**

As was emphasised in chapter 3, accountability and transparency needs to be improved at all levels to ensure that all funds collected as local revenue are protected from misuse. It is vitally important that distrust by the communities over tax usage is overcome. Frequent, clear, and appropriate communication systems between all the different actors from the taxpayer upwards is vital if local revenue collections are to be improved.

A significant feature aiding accountability and transparency is Internal Controls. This is addressed later in the chapter, but the key is for LG finance personnel to know thoroughly and to implement fully the Financial and Accounting Regulations. If these are adhered to carefully and according to the spirit of them, then many aspects of control, accountability and transparency will automatically follow, producing greater trust and, as a result, improved revenue for the LG.

In light of this, it is important to note that the Uganda Local Governments Association (ULGA) launched a Charter on Accountability and Ethical Code of Conduct in April 2003. The political and administrative heads of LGs developed the Charter to ensure efficiency and transparency in service delivery. The main objective of the Charter is to enhance accountability, transparency, and integrity within LGs, and uphold principles of good governance within the community. In addition to outlining roles of different stakeholders in LG administration, the Charter sets out sanctions for breach of its provisions, and empowers the ULGA to publicise in the media any misconduct, unethical conduct, or instances of mismanagement of public affairs by LG officials. It also provides for rewards for best performing LGs.

#### **7.2 Best practices in accountability and transparency**

##### ***7.2.1 Posting revenue received under the revenue sharing scheme on notice boards***

In Kapchorwa TC, the revenue sharing amounts of 25% and 5% to the lower councils are posted on notice boards of LCs to provide information to the public. This process gives confidence to the taxpayer that their taxes have reached their villages/parishes and are being used for development projects.

##### ***7.2.2 Posting of monthly GT collected from employees***

A number of LGs post a breakdown of the monthly GT collected by parish, village, and from employees, on the sub-county notice boards. This keeps taxpayers informed about GT payment in their respective villages and parishes. Taxpayers can also use the information provided to hold LGs accountable for tax usage.

##### ***7.2.3 Timely disbursement of shared revenue***

Some sub-counties visited promptly send each month the correct amounts of collections: 35% to the district, 25% to villages, and 5% to parishes. This ensures that remissions are received in time and are available for usage on local projects. This could also motivate taxpayers to pay taxes.

#### ***7.2.4 Accountability to the community***

In Pallisa DLG, radio programmes are used to inform the community about issues affecting them. For example, if the CAO appears before the Public Accounts Committee on a particular issue, the community is informed of the outcome.

### **7.3 Constraints**

#### ***7.3.1 Poor financial reports***

During the survey it was noted that financial reports from LGs were not standardised, and different LGs used different formats for presentation of their reports. In some instances the reports would give a block figure of local revenue, while others gave a breakdown of these revenues. This lack of standardisation makes it difficult to form a comparison of LGs.

#### ***7.3.2 Inconsistencies in reporting procedures***

All LGs reported that they had submitted reports required under the Financial and Accounting Regulations. All accounts for the year ending 30<sup>th</sup> June 2002 had been submitted to the Auditor General's office. However, it was noted that the standard of financial reports was poor and lacked consistency from one period to another and from one LG to another.

#### ***7.3.3 Delayed or non-remission of shared revenues***

The survey established that many lower LGs, in particular sub-counties, LC2, and LC1, were not receiving local revenue under the revenue sharing formulas stipulated in the LGA. The non-remission of these funds to the respective LGs and LCs prevents the recipients from carrying out any development projects.

#### ***7.3.4 Non-accountability of revenues to taxpayers/communities***

Non-accountability is widespread at all levels of LGs. Consequently taxpayers are ignorant of tax usage and have concluded that LGs officials use their taxes for personal enrichment.<sup>34</sup>

### **7.4 Recommendations**

#### **Sensitisation and accountability to taxpayers by politicians**

Political accountability downwards impinges on revenue collection. MPs and LG councillors (politicians) should keep the people informed of developments within LGs and show the taxpayers how the taxes they have paid have been used. The public has to be informed on issues of corruption, in particular where officials are summoned to Parliament to answer audit queries. This type of accountability and transparency is necessary if the confidence of the people is to be gained and maintained.

#### **Accountability by GOU to LGs**

For purposes of transparency, the GOU should account to LGs and communities for delays in the transfer of funds from GOU to the LGs, and from district/urban councils to sub-counties.

#### **Monitoring of local revenue by MPs and Councillors**

MPs and LG councillors should monitor the revenues received by LGs and their usage.

<sup>34</sup> UPPAP report (2000)

**Publication of assessment results**

Details of all taxpayers' assessment results should be publicised in order to inform the community and to ensure transparency, as recommended by the LGFC Local Revenue Enhancement Study.<sup>35</sup>

**Development of reporting procedures**

MoLG should develop standard reporting procedures to be used by LGs in preparing financial reports. All LG reports should follow the standardised format to enable comparison between LGs.

**Capacity building in financial management and reporting**

MoLG should conduct capacity building programmes in financial management, financial reporting, and proper use of the Financial Regulations, in order to improve accountability by LGs.

**7.5 Best Practices in internal controls and internal audit**

The responses received from the Chief Internal Auditors (CIAs) of the LGs visited indicate that the internal audit function is in place. This complies with the rules laid down in the Financial and Accounting Regulations 1998. Regular reviews of the internal control systems are carried out in a few LGs but in most cases the supervision is weak. As already stated, adhering to the rules contained in the Financial and Accounting Regulations will ensure that accountability is achieved alongside effective internal controls.

**7.5.1 Submission of monthly reports**

Tororo MC submits reports to the MoLG every month on the conditional grants received from GOU and detailing all projects that are in progress. These reports are submitted and receipt acknowledged before any future grants are released. Also in Tororo MC, the Mayor, the Secretary for Finance, and Local Councillors make regular 'statement of affairs' reports to the community.

**7.5.2 Making of quarterly visits**

Some LGs were monitoring revenue performance by carrying out quarterly field visits by a combined force of administrators, finance people, auditors and politicians.

**7.5.3 Visits to sub-counties, divisions and privatised revenue sources**

Regular visits by revenue officers and internal auditors are made to the sub-counties and divisions, and to contractors of privatised revenue sources in most LGs.

**7.5.4 Segregation of duties**

Where staff levels permit, segregation of duties is enabled so that the accounting functions of receiving and banking cash are separated from that of recording receipts. This ensures the independent checking of transactions and minimises misappropriation of cash.

**7.5.5 Use of carbonised receipts**

The use of carbonised receipts as evidence of payments was documented in KCC and Kasese DLG, reducing the incidents of forgeries and counterfeit receipts.

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<sup>35</sup> LGFC (2000) Local Revenue Enhancement Study

### ***7.5.6 Best practices in internal controls specific to GT***

Although detailed in chapter 8 below, we outline some specific controls that relate to GT, as they are of particular significance:

- ?? The sub-county chief makes requisitions for GT tickets only after checking the books of the sub-accountant and making sure that the previous tickets received were sold and accounted for properly.
- ?? Every GT ticket issued is recorded in the GT register and is reconciled with the amount of money collected and banked on a daily or weekly basis.
- ?? A register of taxpayers who have paid is maintained and compared with the number of GT tickets sold in each grade.
- ?? Counterfoils are returned when requisitioning new tickets and receipts in order to control GT tickets and receipts for other revenue sources.
- ?? Returns are sent monthly for all valuable stationery to sub-county/division and to LC4/5.

## **7.6 Constraints**

### ***7.6.1 Weak internal audit***

It was apparent during group discussions in one of the regional feedback workshops that the internal audit departments of most LGs are weak and need strengthening. There were allegations that the personnel in the audit departments were marginalised, the staff not qualified, and that the reports they submit are not acted upon.

### ***7.6.2 Lack of independence***

In a few LGs, it was pointed out that the internal auditor reports to the CAO and, therefore, lacks independence.

### ***7.6.3 Political interference in approving expenditure***

There were also reports of political interference in the form of pressure being exerted by some politicians on the approval of certain expenditures. It was explained that councillors often demand for immediate approval and payment of allowances that were not budgeted, to enable them attend workshops and conduct field visits.

### ***7.6.4 Low staffing levels***

Staffing constraints were also noted. For example, in Pallisa DLG, the CIA runs the department single-handed.

### ***7.6.5 Inadequate funding of activities***

It was reported that facilities such as transport were not availed to audit staff to enable them carry out the required regular reviews. Most audit departments visited during the inventory of best practices lacked adequate office space and facilities such as computers.

## **7.7 Recommendations**

### **Implementation of LG Financial and Accounting Regulations**

MoLG should ensure that LGs implement the Local Government Financial and Accounting Regulations. This will ensure compliance with accounting procedures and streamline the management and control of revenue.

**Punishing politicians who interfere with internal controls**

Punitive measures should be imposed on politicians who interfere in the control of funds. LGFC should take up this issue with GOU.

**Training needs assessment**

LGs should conduct training needs assessments bearing in mind the need to recruit better qualified and higher calibre staff for all audit departments.

**Reporting procedures for CIA**

The CIA should report to the LC5 Council as stated in the LGA Section 91(1 and 2) and Local Government Financial Regulations, regulation 171 and 172, and not to the CAO/Town Clerk as is the practice in many LGs.

**Budgeting for audit activities**

LGs budgeting process should take into account the requirements of the audit departments, such as office space, equipment, transport and allowances for the audit staff.

**7.8 Conclusion**

Accountability, transparency, internal controls and internal audit are all fundamental to enhancing revenue and to improving relationships between the LG and its communities. Thus attitudes need to be developed that demonstrate accountability; the Financial and Accounting Regulations need to be carefully followed in all its sections; and the internal audit function needs to be strengthened and allowed to function independently.

## Chapter 8 Graduated Tax

### 8.1 Background

Graduated Tax (GT) is a compulsory annual tax that has been in existence since the 1960s. It is levied by every District and Urban Authority on every male person of or above the apparent age of 18 years who is on the first day of the financial year residing in its jurisdiction; and on every female person of or above the apparent age of 18 years who is engaged in any gainful employment or business.<sup>36</sup> The administration of this tax is governed by S.81 of the Local Governments Act, and the systems and controls for the administration of GT are set out in the Financial and Accounting Regulations 1998.

It is worth noting that the Local Governments Act does not define the term 'gainful employment'. Consequently, its definition in respect to females chargeable to GT has been left to the discretion of the tax enforcement officers. Furthermore, it should be noted that the act is silent on the maximum age of the taxpayer. As such, there is no legal basis for exempting those over the retirement age of 60, as some have claimed. While many over the age of 60 have been exempted from GT, the basis for their exemption should be poverty, not age: some citizens over the age of 60 do have good sources of income and should be taxed.

It is not practical to associate the impact of specific best practices with the amount of revenue generated. However, it was possible to examine financial trends in local revenue collection of some of the LGs with best practices, and to correlate best practices with a rising or constant trend in local revenue. (See tables at end of chapter, and Appendix VII.)

### 8.2 Stages involved in GT administration

- ?? **Registration** involves the identification and listing of all taxpayers at village level (LC1) using tax registers. The village tax registers are used to compile a parish (LC2 level) tax register. The parish registers are brought together at the sub-county (LC3 level), all of which eventually form the district (LC5 level) register. This process is similar for Urban LGs where a City is an LC5, MC and a City division are LC4, an MC division and a Town are LC3, and a ward is LC2.
- ?? **Enumeration** requires teams of enumerators to carry out the exercise for each taxpayer registered by recording all the sources of income for individual taxpayers. This process may be conducted at the same time as registration.
- ?? **Assessment** requires all income, including income from assets such as animals, crops, lands and buildings, to be recorded on the individual's enumeration and assessment form, and assessed or valued to establish a basis of total income. This is used to determine GT payable. Assessment is carried out by the Tax Assessment Committee, which is appointed by the District or Urban Council for each sub-county or division.
- ?? **Exemptions** may be granted by the CAO or Town Clerk may, on the recommendation of the parish administrative council. They may grant partial, temporary or complete exemption from the payment of graduated tax. The common cause for exemption is poverty arising from old age, infirmity, or other 'good' causes such as local insecurity, cattle rustling, or death in the family.

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<sup>36</sup> Regulation 2, Fifth Schedule Local Governments Act

- ?? **Appeal to Tax Tribunals** is allowed for in the Local Governments Act, which established the need for a Tax Assessment Appeals Tribunal in every sub-county or urban council, constituted in a manner that the Minister may by statutory instrument prescribe, to handle complaints arising from unreasonable or unfair assessments. The Tribunal may confirm or alter the decision of the Tax Assessment Committee. Any person aggrieved by the decision of the Tax Appeals Tribunal may appeal to the Minister of Local Government.
- ?? **Collection** begins after assessment, in July when the new financial year begins. For those in employment, the tax is deducted from their salaries in four equal instalments and remitted to the relevant LG. In reality, however, the tax is only deducted by GOU institutions and some larger companies. For self-employed taxpayers, a lump-sum is paid in the first six months of the financial year.

In the following sections, the best practices selected from the findings in Appendix I are set out for each of the stages in the GT administration process as outlined above. However, constraints and recommendations quite often cover some or all aspects of administration, and so these are shown once all the best practices have been outlined.

In addition, implementation of some best practices may require LGs to acquire extra personnel and incur extra costs. It is therefore advisable for LGs to conduct cost benefit analysis to enable them arrive at rational decision about implementing a best practice. Guidelines on how to carry out such analysis are included in the Guidelines.

### **8.3 Best Practices in Registration**

Before outlining the best practices below, it should be noted that the Strengthening Decentralisation in Uganda Project (SDU) is carrying out a pilot study in Luweero and Nakasongola DLGs on streamlining the GT registration process. The project has developed manuals dealing with the administration of GT to serve the current needs of LGs in administering it in a non-computerised environment. The manuals are subject to modifications in relation to changing environment.

In the past, basic records maintained for the administration of GT have been kept using a bound ledger. The drawbacks of this include annually writing every taxpayer's details in a new ledger, lack of readily available information such as individual taxpayer histories and defaulter identification, the inability to cross-check records, and lack of reconciliation of records between parishes and villages. The SDU Procedures Manual introduces a card-based system for use by non-computerised sub-counties. The system is structured in such a way that it can be adopted in a computerised environment.

The procedures in the card based system can be grouped into six main activities:

- 1. Establish the register, creating a card for each taxpayer*
- 2. Enter all amounts that have been due from each taxpayer for each year tax has been assessed*
- 3. Record all receipts in the taxpayer's personal record*
- 4. Record all penalties incurred by a taxpayer*
- 5. Prepare quarterly reconciliation reports and the report to the DLG*
- 6. Retire or archive a record card when a taxpayer ceases to be resident in the area or dies.*

There is also a section in the manual on the control of record cards. Full details of the card system are available from the project personnel. The early results in the pilot districts have

shown an increase in percentage collected from less than 50% in 2000/01 to 75% or more in 2001/2.<sup>37</sup>

The consultants consider that some possible negative features may require further testing, such as the additional costs of care and storage of cards, and the inherent danger in any card system of a particular card getting lost, purposefully or otherwise. In addition, information gathered by LGs under the SDU projects could be combined with that gathered at sub-counties under the ongoing Revitalisation of Births and Deaths Registration Project funded by UNICEF and under the MoFPED. The information would be useful in building databases for LGs.

The following are the main best practices identified in the inventory:

### ***8.3.1 The involvement of the entire LCI executive in registration***

In Bushenyi DLG and Moyo DLG, the practice adopted for registration is to involve the entire LCI executive instead of only the LCI chairperson and the parish chiefs: the former are familiar with the local community while the parish chiefs have the technical knowledge. Because of using the entire LC executive, corruption in the form of nepotism, favouritism and bribery are minimised, compared to leaving the whole exercise in the hands of the chairperson and parish chief only. It also facilitates increased drawing of potential taxpayers in each village into the tax net.

### ***8.3.2 The maintenance of a GT register for a period of three to five years***

Many LGs maintain GT registers for a period of three to five years. This improves the monitoring and control of tax records and also reduces printing costs of GT registers. This practice helps to ensure fair assessments by seeing the tax assessed each year on the same page. It also indicates trends in the movement of taxpayers. Improved data on taxpayers helps the planning and budgeting process by enabling the making of realistic estimates of revenue from GT.

### ***8.3.3 Computerised tax register at LCV level***

A number of LGs, e.g. Pallisa and Mukono DLGs, have computerised tax registers at the district level, using updated information supplied by the sub-counties. This has greatly increased the efficiency of the annual registration and other processes.

### ***8.3.4 Allocation of Tax Identification Numbers (TINs)***

In Arua MC and Jinja DLG, every taxpayer is allocated a life-long Tax Identification Number (TIN). This assists the annual identification and tracking of taxpayers, notably some who move from place to place within the district. If all taxpayers were to be given TINs, it would be easier to trace and identify individuals within the LG. The LGFC should encourage this to be practised by all LGs. However, before its implementation, LGFC should study what has been done in Arua and Jinja to see how it functions. The process is similar to the way that URA is allocating TINs to all taxpayers in the country.

### ***8.3.5 Concurrent registration and enumeration***

In most urban councils and some districts, the registration and enumeration processes are conducted concurrently. This is cost effective in terms of time and money for both the LG and the taxpayer, and does not compromise the quality of the processes.

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<sup>37</sup> The SDU project is based in Nakawa House, Port Bell Road.

## **8.4 Best Practices in Enumeration**

### ***8.4.1 Timely training of tax enumerators***

Bushenyi DLG trains enumerators in March/April annually, followed by the actual exercise of enumeration in April. This helps build their capacity to conduct the enumeration exercise and enables the LG to carry out assessments in good time to accommodate the budget requirements.

### ***8.4.2 Adhering to the enumeration process***

Planning for annual GT administration is often not done or not adhered to. However, in Bushenyi DLG, enumerators follow a detailed programme to ensure systematic and timely coverage of the whole LG. The process of enumeration is carried out according to the programme, which also enables taxpayers to plan ahead. To facilitate the enumeration process, most LGs pay a daily allowance to enumerators to improve their morale and effectiveness. The parish development committee members help in the enumeration exercise as technical officers.

### ***8.4.3 Objective, Neutral and Independent enumeration guides***

In some places, e.g. Mbarara DLG, special enumeration guides who are non-partisan, are recruited and sensitised by the District or Urban Council, on the objectives of the enumeration exercise. They carry out the enumeration exercise without bias. They tend to be opinion leaders or other personnel without political influence. It was proposed in the Soroti feed-back workshop that competent personnel with independent minds could be hired for the registration, enumeration and assessment exercises to improve the capture of a complete database of taxpayers. This idea could be tested.

## **8.5 Best Practices in Assessment**

### ***8.5.1 Training of assessment teams***

In Bushenyi DLG, the assessment teams are trained in April/May before embarking on the assessment exercise. This has the effect of ensuring that taxpayers are assessed early in the financial year, which enables them to plan how and when to make their tax payments.

### ***8.5.2 Involvement of technical staff and LC officials at sub-county and parish levels***

A tax assessment committee, appointed by the LG and comprising technical staff and LC officials at both sub-county and parish levels, conducts the assessment exercise. The committee assesses the taxable value of the income and assets enumerated, and determines the GT payable. In Soroti MC, the assessment is witnessed and monitored by LC officials. This helps to ensure correct assessment, as the LCs are familiar with taxpayers' property. To help create and maintain uniformity and compliance, enumeration and resultant assessments are compared (Mbarara DLG).

## **8.6 Best Practices in Tax Appeal Tribunal and Exemptions**

In Bushenyi DLG, the Tax Assessment Appeals Tribunal is available in sub-counties instead of at LG headquarters immediately after assessment. This enables immediate appeals against assessments. The assistant CAO in charge of the county chairs the tribunal. Only in a few LGs, exemptions were being granted to poor taxpayers and to others for 'good' reasons.

## **8.7 Best Practices in GT Collection**

### ***8.7.1 Timely printing of GT tickets***

GT tickets are available at sub-counties/divisions by July each year, enabling collection of tax to be done at the beginning of the financial year. In many LGs this was not the case, creating a problem when taxpayers were turned away when they had money available to pay tax. In some LGs, GT tickets are printed by reputable companies in order to minimise forgeries. In other cases, personalised, laminated tax tickets are produced for all taxpayers, which eases identification.

### ***8.7.2 Leading by example***

In Bushenyi DLG, all councillors are assessed according to their income, specifically including their income from district coffers. This encourages people to pay according to their assessment, seeing that no one is above the law.

### ***8.7.3 Collection centres***

In LGs such as Ntungamo, Wakiso and Masindi DLGs, tax collection centres (called outreach programmes in Wakiso) are established close to the tax-paying community, thus making it easier for taxpayers to pay GT. In other LGs, parish chiefs are given GT tickets to sell, a process that is working well. However, technically this process falls outside of the law, as only those of grade U6 and above should handle cash, and parish chiefs are at the lower grade of U7.

### ***8.7.4 Regular meetings***

In several LGs, regular monthly meetings are held between sub-county chiefs and parish chiefs to establish strategies for collection of GT in the ensuing month. This practice enables both a review of collection performance, and the setting of the following month's targets for collection.

### ***8.7.5 Enforcement methods in collection***

- ?? Bushenyi DLG uses a taskforce comprising of parish chiefs, enforcement officers and LC officials to collect tax from defaulters. They mount roadblocks in each sub-county at the same time. This makes it difficult for taxpayers to avoid them. However, according to the June 2003 budget, which has not yet become law, such road tolls have been banned.
- ?? Tororo MC and Rukungiri DLG target opinion leaders who default, and arrest them. This helps to instil in the minds of the communities that no one is above the law.
- ?? Debt collectors are used to collect tax from defaulters, and a 10% commission is paid to them based on total revenue collected (Tororo MC).

## **8.8 Best Practices in motivation of taxpayers and tax collectors**

Some LGs motivate their revenue collectors by offering rewards or having commission schemes based on the amount of tax collected. This encourages the efficiency and effectiveness of tax collectors.

The following are some of the rewards/commissions awarded by different LGs:

- ?? Rewards for all parish and sub-county chiefs and LC1 personnel who collect over 90% of the expected revenue (Bushenyi DLG).

- ?? The best parish chief in each sub-county in a district is given a bicycle (Ntungamo DLG, Luwero DLG).
- ?? Between 5% and 10% commission is given to revenue collectors (Tororo MC).
- ?? 1% commission is given to council agents (KCC).
- ?? 2% commission is paid to revenue collectors (Mukono DLG & TC, Moyo DLG, Paidah TC).
- ?? 3% commission is given to parish chiefs (Kibaale DLG).
- ?? Best revenue collectors were given bicycles, radios or iron sheets (Masindi and Kumi DLGs).
- ?? 10% commission was shared between the LC1 chairperson, the secretary for finance, and the secretary for security, based on GT collected (Kumi DLG).
- ?? The first taxpayer is rewarded with a prize (Ngora sub-county in Kumi DLG).
- ?? 1% on collections from defaulters is given to the sub-county as an incentive (Bushenyi DLG). This commission is retained by the sub-county and is not shared with the district.

## **8.9 General constraints in GT**

Having outlined some best practices for each of the processes in GT administration, the main constraints to enhancing GT levels are now set out. First are those that affect GT administration generally, or are common to most areas of GT administration.

### ***8.9.1 Political interference***

There is significant negative political interference at both central and local levels country-wide. This occurs mainly during election campaigns, when pronouncements are made which later affect tax levels and administration. Pronouncements regarding the minimum GT payable undermine the assessment and collection of taxes. Most taxpayers now wish to be assessed the minimum (Shs3,000) and they refer to a political statement made during the 2001 presidential and other campaigns. In addition, some LC councillors tend to favour taxpayers that voted for them, interfering with assessment processes. There are also cases of LC officials setting bad examples by not paying taxes themselves and discouraging others from doing so. Sometimes revenue collectors, especially parish chiefs, are politically intimidated. Politicians also influence local radio programmes by giving misleading statements about tax and discouraging taxpayers from paying tax.

### ***8.9.2 Attitudes of taxpayers***

The key problem here is the failure by LGs to link the payment of taxes with service delivery. Until this fundamental matter is rectified, GT will continue to be an unpleasant annual battle. The negative attitude and resentment by taxpayers against GT is also currently caused by confusion about having to pay tax in the first 6 months of the financial year (July-Dec) instead of at the beginning of the calendar year, to which so many have been used in past years. Insisting on taxing the very poorest even with the lowest GT level also has negative connotations, especially when the enforcement methods are very tough.

### ***8.9.3 Poor sensitisation of taxpayers***

There is a basic lack of tax education in many areas, leaving taxpayers unable to see the importance and value of paying tax. This tempts them to try and hide from those registering, enumerating, assessing and collecting the tax.

#### **8.9.4 Mobility of taxpayers**

Some, often significant, taxpayers miss the registration/enumeration exercise because they stay away or are travelling. Hence data collected is incomplete. In some areas such as Pallisa and Arua, taxpayers tend to migrate and return after assessments are over. In urban areas the tax paying community is mobile, leading to some not being assessed at all.

#### **8.9.5 Lack of facilitation in GT administration**

Lack of facilitation for those involved in the GT process at every stage means that there are many de-motivated officials. This is due, *inter alia*, to lack of transport facilities, no lunch allowances, little or no stationary, and late or no remuneration, all due to low funding levels.

#### **8.9.6 Low educational levels and inadequate skills**

Some parish chiefs lack the basic skills to carry out the duties expected of them as tax collectors, especially to fulfil the present requirements of GT administration. Some do not have sufficient levels of formal education, and do not have the skills or training to handle cash.

#### **8.9.7 Large geographical areas**

Some administrative units are too widespread to ensure effective coverage. The costs and effort required to deal with this are found to be too much for some levels of LG.

#### **8.9.8 Insecurity**

Insecurity and instability in some parts of the country affect all stages of the GT exercise. In some districts, cattle rustlers cause movement of communities in search of safer areas, so causing great difficulty at each point of the process. In addition, insecurity causes poverty and many more people being unable to pay tax.

#### **8.9.9 Corruption**

Judging by information from the LGs visited, corruption is wide-spread. While being 'petty' in some places, it is gross in others. With regard to GT, parish chiefs, sub-county chiefs and LC officials are reported to be corrupt, encouraging nepotism, favouritism, and bribery. The impact on the accuracy and fairness of the enumeration is considerable, income and assets of the more wealthy are under-stated and so are assessments, hence tax payable, is too low.

#### **8.9.10 Low tax potential**

A narrow economic base leads to low tax potential. Poverty of communities, especially in rural areas, affects taxable income. This is compounded by a lack of markets for agricultural produce for potential taxpayers, denying them the means to generate income, useable to pay taxes.

#### **8.9.11 Poor management and administration practices**

Management and administration of GT enumeration, assessment and collection processes, was found to be poor. Enumeration exercises lack detailed information of taxpayers and their assets, while assessments are often not commensurate with enumeration results: they result in under assessments and lower revenue collections. In some instances assessments are simply based on the previous year's GT payment without regard for any decreases or increase in a taxpayer's income.

## **8.10 Constraints for specific aspects of GT administration**

### ***8.10.1 Poor enumeration practices***

Enumeration is often delayed and in some LGs the timing is poor, i.e. during crop planting and harvesting, when people are busy in their gardens and are not available. In some districts there is a shortage of personnel, and enumerators are often not facilitated.

### ***8.10.2 Incorrect assessments***

Due to deliberate under-declaration or inadequate information collected on enumeration/assessment forms, wrong assessments are made, which leads to complaints from taxpayers and adds to the general unwillingness to pay tax.

### ***8.10.3 Late assessments***

In many LGs, late assessment is due to:

- ?? Late appointment of the assessment committee members.
- ?? Poor turn-up by taxpayers when they are due to come for assessment.
- ?? Delay in receiving new rates from LGFC, who are responsible for advising LGs on tax rates.
- ?? Delay in distributing assessment forms by the district to the sub-counties.
- ?? Lack of funds to enable the exercise to take place.

### ***8.10.4 Variation in Imputation values***

Imputation values are the financial worth given to various assets or property, e.g. cows, or coffee. The imputation values sometimes lead to disparity in tax assessed, due to variation in methods of valuation from one region to another. This tempts some taxpayers to move from place to place in search of lower assessments. Sometimes values are out-of-date, and in some LGs little effort appears to be made to up-date them.

### ***8.10.5 The absence of, and costly Tax Appeal Tribunals***

Most sub-counties do not have appeal tribunals in place. Even where they exist, taxpayers are often not informed of their right of appeal, or how to do so. In addition the cost of appealing is increased by the need to travel long distances to attend appeal meetings (which may take more than a day). Each appellant also has to pay a small fixed sum before a case is heard.

### ***8.10.6 Applications for exemptions***

In some LGs, there are no arrangements for the public to apply for exemptions. Taxpayers are often not aware of their rights in this connection.

### ***8.10.7 Delayed payment of GT***

Taxpayers tend to delay payment until towards the end of the sixth month of the financial year (December) after which they are surcharged. This negatively affects LG cash-flow and action planning in the early months of the financial year. In the second six months of the financial year LGs do not expect much income from GT, as it comes only from defaulters who are subject to a 50% surcharge on the original GT assessed.

### ***8.10.8 Late printing and delivery of GT tickets***

The late printing and/or delivery of GT tickets hinders collection, as many people refuse to pay their taxes until the tickets are available. The late receipt of GT tickets at the sub-counties/divisions from the LG headquarters often compounds this.

### **8.10.9 Poor enforcement methods**

Methods used in enforcing GT payment are poor, brutal and insensitive. Practices include arresting of non-taxpayers and tying their hands with ropes. Parish chiefs are renowned for carrying tax tickets and monies collected in polythene bags.

### **8.11 Recommendations**

In view of the constraints identified above, the following are the recommendations made to deal with them and other matters. These recommendations are those received during the field visits and at the regional workshops, and agreed by the consultants.

Recommendations in this chapter have been divided into:

?? “Short term” for those that can be implemented immediately and/or with minimal additional financial or technical input

?? “Medium term” for those that would require either additional funding, a change of policy, new procedures, or further legislation

All recommendations would need to be agreed or otherwise by the MoLG and LGFC and be presented to LGs with whatever force of law, regulation or suggestion as deemed appropriate in each case. Ultimately, LGs are responsible for their own implementation.

### **8.12 Short term GT recommendations**

#### **Involvement of parish chiefs**

The parish chief should lead the GT registration exercise and record taxpayers in all villages within their parishes. S/he has good knowledge of the residents and the general layout of the area, as well as the technical competence required in the registration exercise.

#### **Hiring neutral and competent persons**

LGs should hire neutral, competent people to carry out the GT registration exercise in conjunction with parish chiefs, LC1 personnel and extension workers. This should curb corruption and inefficiency in registration processes.

#### **Budgeting for GT activities**

Facilitation for the whole GT exercise should be budgeted for annually by all LGs. This should include logistical support such as provision of appropriate transport (including boats for those on the islands), stationery, subsistence and other allowances.

#### **Sensitisation programmes**

LGs should undertake well-planned sensitisation programmes to educate communities on the importance of paying taxes. The sensitisation programmes should have a visible linkage of taxes to service delivery. LG officers, too, should undergo customer care training especially with regard to dealing with the poorest.

#### **Publication of taxpayers' lists**

To promote transparency and equity in GT assessments, LGs should publish lists of taxpayers listed according to the respective GT bands, at village level.

#### **Concurrent registration and enumeration exercise**

LGs should conduct registration and enumeration exercises concurrently. This will facilitate savings on scarce human and financial resources and also enable the effective linkage of registration and assessment results.

**Transfer of parish chiefs**

Parish chiefs should be transferred from time to time to parishes in other sub-counties to avoid over-familiarity with the tax-paying community in their present parishes.

**Prompt printing of GT tickets**

LGs should make sure that GT tickets are printed and delivered to the sub-counties by 1<sup>st</sup> July annually, to enable timely tax collection and enforcement. In addition, LGs should only use reputable firms for printing the tickets, thus minimising forgeries and fraud in ticket printing and releases.

**Regular Tax education for communities**

LGs should have regular and continuous tax education for communities, that emphasise the importance of working and saving, and link payment of taxes to better service delivery and improvement in standards of living.

**LGs executive as final decision makers**

During the National Stakeholders' Workshop it was recommended that the LG executive should be the final decision maker in appeals against GT assessment, and not the Minister of LG. This would ease accessibility of taxpayers to the decision-making forum and speed up the process. However, the law is clear and safeguards would need to be in place to guard against abuse at the local level.

**8.13 Medium term GT recommendations****Large geographical areas**

Identified large geographical areas at LC3, 4 and 5 levels should be sub-divided to ease tax administration. This requires parliamentary approval. However, the new structure for LGs being discussed, if adopted by districts, should solve this problem.

**Resident parish chiefs**

To carry out their duties effectively, parish chiefs should be resident in their parishes. This will enable them to have a central place where taxpayers can reach them and where they can keep the required records and post notices to keep the communities informed. In Kibaale DLG, a donor has built permanent offices for parish chiefs and there is a room where s/he may stay. The building is seen as a focal point for the community. Most LGs have old houses/plots (known as Kitawuluzi), which belonged to the local administration in the past. Where possible, these should be restored as offices for the parish chiefs.

**Guidelines for management of GT**

LGFC should provide guidelines for the management of the GT process for all LGs countrywide. Many LGs feel there is a need for LGFC to provide guidelines to specify the timetable for the whole GT process countrywide (eg March to May/June and so on). This will help good timetables to be followed by all LGs and should accommodate seasonal variations in regions.

**Regular updating of imputation values**

MoLG should regularly update imputation values to match current market values, e.g. the value given to one cow varies from year to year. Current values should be adjusted appropriately and passed on to LGs in good time, annually. MoLG should develop the values on a district-by-district basis, as opposed to doing them on a national basis. This would be done from annual input from each LG and it would make imputation values fair for all LGs. LGs should also publish imputation values at least at LC5 and LC3 levels.

**Developing the local economy**

Income generating projects should be actively encouraged in the communities by LG officials at all levels to enlarge the economic base of taxpayers. In addition, market information should be made readily available to the communities, and the extension work from the DLG should focus on helping farmers with the development of good practices. All this would also improve peoples' attitude towards their tax obligations and their ability to pay them.

**Computerisation**

MoLG should work towards the computerisation and networking of GT registers, especially at sub-county and divisional levels. This would greatly ease monitoring, co-ordination, and enforcement of tax management at lower levels of tax administration. Emphasis on collecting accurate data should begin at parish and village levels (involving LC1 executives and parish chiefs), which would in turn help sub-counties, municipalities and districts to build comprehensive and reliable data to enhance revenue collection. Up-dating should be carried out annually within 2 months of the enumeration exercise.

**Allocation of TINs by LGs (Tax Identification Numbers)**

In the long-term future, the LG TIN system should be harmonised with the URA TIN system. This should be taken up by LGFC with the URA.

**Capacity building strategies**

- a) All LGs should make themselves aware of the 26 modules now developed under the capacity building Unit of the MoLG. In light of this, there is need for the development of greater skills and improved attitudes for chiefs and tax administrators to enable them to enhance revenue collection.
- b) The minimum qualification for parish chiefs should be a diploma from a recognised institution. This should enable them to manage all the duties assigned to them by statute, including handling cash. MoLG should see to the implementation of this issue in the LG restructuring process.
- c) The development of capacity building programmes in effective revenue collection methods for revenue collectors, especially those at the sub-county level. The better trained the collectors are, the higher the chances of them being more efficient and effective, so enhancing revenue.
- d) LGs should ensure that an agreed component of personnel in sub-counties are recruited, where they are lacking.

**Counteracting political interference**

The LGFC through the Electoral Commission should point out that it is damaging for politicians at all levels to make statements that impede or prevent GT and other revenue collections being made under the law of the land.

**8.14 GT Privatisation**

A detailed discussion of privatisation of revenue collection and management is covered in Chapter 12. However, the issue of privatising GT is dealt with at this point, as it has some unique features and requires further study. There were strong opposing sentiments expressed on this issue in regional seminars.

**8.14.1 Current situation**

No LG has yet privatised the registration, enumeration and assessment of GT. A few have privatised the collection (Gulu MC, Mbarara DLG). Masaka DLG is pilot-testing GT

collection in three sub-counties. Some LGs have privatised GT collection from defaulters. Several LGs are planning to privatise the collection of this source of revenue in the financial year 2003/4.

#### **8.14.2 Constraints to privatising GT**

- ?? There are few up-to-date and reliable databases of potential taxpayers in LGs. This will make it difficult for LGs to establish realistic reserve levels. Until these databases are ready and available in the registers, the aspect of privatising GT will remain a big challenge.
- ?? GT is the main revenue source affected by politics. This makes collection levels unreliable. Contractors employed to collect GT may fail to remit contracted amounts to the LG due to factors beyond their control, especially during election campaigns. Reserve levels may also be set too low.

#### **8.14.3 Recommendation**

Some LGs are testing the privatisation of the collection of GT. However, before consideration is given to privatising the whole process, it is recommended that research, consultation and analysis be carried out by LGFC. One possible way ahead recommended in some regional workshops, is to put the whole GT administration under the URA (or other independent body), while retaining the income for LGs by having a separate department (of URA) carrying out the GT work.

#### **8.15 Examples of financial trends of LGs, showing GT collected in last five years**

In considering best practices as described by both LGs and the Consultants, attempts were made to obtain copies of recent financial statements to see if claims were working out in practice. The results have been mixed, as can be seen from the following examples.

##### **8.15.1 Bushenyi DLG**

Best practices here were many, and some have suggested implementing the Bushenyi system in full. The following are some of those practices:

- ?? Training enumerators in March/April and assessors in April/May annually to build capacity to conduct the enumeration and assessment exercises properly.
- ?? The enumeration and assessment exercise is carried out within the programmed time to enable the taxpayers to plan ahead for the payment of the assessed amount.
- ?? A pre-assessment meeting with sub-county chiefs and LC3 chairpersons is held in the district to share and exchange knowledge and experiences to improve revenue collection.
- ?? All district councillors are assessed according to their income, including the income from the district coffers, to set a good example of tax compliance by leaders.
- ?? Defaulting opinion leaders are arrested to instil in taxpayers that no one is above the law.
- ?? There is a reward for parish chiefs, sub-county chiefs and LC1s who collect over 90% of expected revenue.
- ?? 1% (not shared) is retained by the sub-county as incentive for carrying out operations on defaulters.

**Revenue from GT in Bushenyi DLG for the last 4 years**

Financial year	Actual GT collection	Increase or (decrease) from previous year	% age increase from previous year
1998/1999	1,94,244,234	-	
1999/2000	892,450,150	98,205,916	12.36
2000/2001	926,745,893	34,295,745	3.84
2001/2002	601,457,848	(325,288,045)	(35.10)

Source: audited accounts

The trend of revenue collection was downwards from 1998/9 for many reasons. The general elections in 2001/2 made it worse by showing a reduction of 35% on the previous year's collection. After a severe drop in GT revenue in 2001/2, recovery has begun during the nine months ending 31st March 2003, when it is higher than for the whole of the previous year.

**8.15.2 Entebbe MC Best practices include:**

- ?? Reaching out to the tax-paying community to get views on their needs and concerns.
- ?? Linking the payment of GT to some of the services provided by the MC.
- ?? Maintaining a 'people friendly' rather than coercive approach to tax collection.

**Revenue from GT in Entebbe MC for the last 5 years**

Financial year	Actual GT collection (Shs)	Increase or (decrease) from previous year (Shs)	% increase or (decrease) from previous year
1997/1998	94,033,250		
1998/1999	147,231,511	53,198,261	57
1999/2000	150,162,496	2,930,985	1.99
2000/2001	122,789,623	(27,372,873)	(18.23)
2001/2002	190,678,278	67,888,655	55.29

Source: LG final accounts

There was a decrease of 18.23% in 2000/1 financial year due to the general election campaigns. Otherwise there has been a positive trend in other financial years

**8.15.3 Soroti MC. Best practices include:**

- ?? The provision of a linkage between the payment of taxes and development projects, such as the drilling of boreholes and the construction of feeder roads and schools.
- ?? The facilitation of its revenue collectors by providing bicycles.
- ?? The publishing of names of all defaulters in their local newspaper, since 2000/1.

**Revenue from GT in Soroti MC for the last 5 years**

Financial year	Actual GT collection (Shs)	Increase or (decrease) from previous year (Shs)	% increase or (decrease) from previous year
1997/1998	98,848,250		
1998/1999	78,973,250	(1,987,500)	(2.01)
1999/2000	50,557,027	(28,416,223)	(35.98)
2000/2001	65,786,833	15,229,806	30.12
2001/2002	121,514,083	55,727,250	84.70

Source: LG final accounts

#### 8.15.4 Mukono DLG. Best practices include:

- ?? Timely printing and distribution of GT tickets before July 1<sup>st</sup> each year makes it possible to start selling tickets and collecting money from taxpayers willing to pay early.
- ?? Updated GT registers annually improves the database and makes it easy to produce better estimates/budgets.
- ?? Reward schemes for parish chiefs introduced in 2001/2 have improved the collection substantially.
- ?? Sensitisation of taxpayers using radio programmes, seminars etc. have made a positive impact as taxpayers have improved their payments over the previous financial year.

#### Revenue from GT in Mukono DLG for the last 5 years

Financial Year	Actual GT collection (Shs)	Increase or (decrease) from previous year (Shs)	% increase or (decrease) from previous year
1997/1998	1,409,594,138		
1998/1999	1,791,946,675	382,352,537	27.1
1999/2000	1,365,693,362	(426,253,313)	(23.78)
2000/2001	437,631,934	(928,061,428)	(67.96)
2001/2002	529,062,968	91,431,034	20.89

Source: LG final accounts

#### 8.16 Conclusion

In light of these best practices, constraints, recommendations, and financial data, it can be asserted that while, for all LGs, GT is a significant source of revenue, it is widely disliked. LGs must improve on their practices, which they can do with the help of the Guidelines produced in conjunction with this report. LGs also need capacity building in knowledge, skills and attitudes to enable this tax to be well managed and administered. In addition, if “customer care” became a recognised value, then the levels of revenue should grow and slowly become an accepted and, indeed, major component of LG revenue, particularly for DLGs.

## **Chapter 9**

### **Trade Licensing**

#### **9.1 Introduction**

The Trade (Licensing) Act, 1969, regulates businesses such as retail, wholesale, hawkers, bar and restaurants in Uganda. Every business is issued with an annual licence upon payment of a fee. The licence is issued by the LGs, but most of them have privatised collection of licence fees and private contractors issue licences on behalf of the respective LGs. The licence is issued for a period of one calendar year (not financial year) and the fee varies according to the different categories of business. Trade Licences contribute substantially to locally generated revenue, especially in urban areas.

#### **9.2 Best Practices**

The best practices selected out of those documented in Appendix I are:

##### ***9.2.1 Up-dated, computerised register***

Entebbe MC maintains an updated computerised register of all businesses in the area, containing information such as: proprietor's name, nature of business, size and location of business. Mukono DLG held a business census and has compiled a database of all businesses in the area. The computerised register facilitates planning, budgeting and monitoring levels of compliance, helping the LG target its enforcement efforts on businesses that have not paid their trade licence fees.

##### ***9.2.2 Pilot Streamlined Trade Licensing System in Entebbe (The Deregulation Project)***

The Ministry of Finance Planning and Economic Development is piloting a Streamlined Trade Licensing System, which was launched in mid 2002 in Entebbe MC. The objectives of the streamlined system are to: (i) reduce the costs to businesses of complying with trade licensing requirements by streamlining the process; (ii) improve the flow of information to business owners to help them understand and comply with their responsibilities under the law; (iii) focus the use of limited resources on high risk areas with respect to health standards where they can be utilised more effectively; (iv) focus limited enforcement resources on businesses that have refused to obtain a licence.

In the streamlined trade licensing system, registration and revenue collection are de-linked from regulation. The system is based on fewer approvals, improved accountability, a simplified application form and the provision of better information on applicable health and safety standards. This new system has made it much easier for businesses to obtain their trading licences and has dramatically reduced the average time required by businesses to obtain a trading licence from two days to 20 minutes. Data collected from businesses is entered into a computerised database to help the Municipal Council carry out inspection and enforcement more efficiently, ensure better planning, and, most importantly, deliver an even faster licence renewal process.

As a result, Entebbe MC is reporting higher levels of voluntary compliance among firms, improved relationships with the private sector, and more efficient use of scarce enforcement and inspection resources. The opinion of the consultants is in agreement with the de-linking of revenue collection from health and safety regulations, as this approach is pro-poor and helps the tax-paying community avoid incurring extra expenses such as

transportation and “facilitation”. It also minimises delays in conducting inspections as such buildings are many but inspectors are few.

### **9.2.3 Management and collection**

Some LGs visited during the survey had privatised the management and collection of trade licences. Jinja MC and a few other LGs had privatised the collection of the outstanding fees from defaulters. For this, a 10% commission is paid to the collectors. Privatisation has been found to have had a positive impact on revenue collected from this source.

### **9.2.4 Modes of payment**

In most LGs where trading licenses have been privatised, the fees are deposited directly into the bank account of the LG. This minimises fraud among revenue collectors and cashiers and also reduces the risk of having large amounts of cash stolen that could be spent at source.

### **9.2.5 Door to door collection**

In Jinja MC, Mbarara MC, KCC and Entebbe, contractors and LG staff conduct door-to-door collection of trade licence fees. This ensures total coverage and compliance by all businesses in the area and also brings services closer to the people.

### **9.2.6 Pre-printed licences**

In Kotido TC, fees to be paid for trade licences are pre-printed on the licence itself and counterfoils are used instead of loose carbon paper. This counteracts fraud where corrupt officials might hand-write the figures and issue a receipt for a lesser fee than that actually paid. Pre-printed counter-foils also help in the auditing process.

### **9.2.7 Publishing names of defaulters**

In Soroti MC, the names of defaulters are published in ETOP<sup>38</sup> newspapers so as to enforce payment. Prominent business-people do not like their names published as defaulters and hence are regular in paying for their licences. The naming and shaming has acted as a deterrent to tax defaulters.

### **9.2.8 Group licensing**

Lira MC has introduced group licences for small-scale traders operating from one place. This enables e.g. women’s groups or youth groups to obtain trade licences where otherwise their businesses would be too small to be registered, and yet they would be deemed to be conducting illegal trading without a licence. This has encouraged small traders to work together in business and to register their businesses, which, generates more revenue for the LG.

### **9.2.9 Short-term permits**

Provision of short-term permits (licences) for promotional advertisers (e.g. vehicles moving around a town with loud-speakers) raised extra revenue for Lira MC.

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<sup>38</sup> A sister paper to the New Vision, published in Iteso language by the New Vision Printing Corporation, Kampala Uganda

## **9.3 Constraints**

### ***9.3.1 Out-of-date business registers***

Most LGs do not have up-to-date business registers (manual or computerised). Where available the information in the registers is limited, lacks substantial information such as total number of businesses operating in the LG, and the general nature of businesses. This is a major hindrance to monitoring compliance, planning and budgeting by LGs.

### ***9.3.2 Tax avoidance***

Some politicians do not register their businesses in order to avoid paying licence fees, and bribe enforcement officers to 'skip' their premises during enforcement exercises. It has also been found that many informal payments are made in some urban areas by businesses that avoid complying with the system.

### ***9.3.3 Fraud***

Fraud on the part of cashiers and other LG officials who issue receipts for amounts less than that actually received is common. Furthermore corruption has been reported in the management and collection of trade licence fees. Trade licence officers have been reported to ask or receive payments in exchange for reduced assessments and faster acquisition of trade licence by traders.

### ***9.3.4 Poor flow of information***

There is poor flow of information between LGs and traders and members of the public. Traders and members of the public are ignorant of their responsibilities under the law, such as the health and safety regulatory requirements of the Trade Licensing Act. Traders often complain about paying for trade licences in the second half of the financial year and then being asked to pay for another licence early on in the next year. Educating traders (when s/he applies for the licence) that licences run for one calendar year and not a financial year, would diffuse such complaints.

### ***9.3.5 The requirement of several approvals***

Potential business persons or those renewing their licences are required to obtain several approvals and documents. These include LC1 Chairperson's approval for the business, the inspection and approval of health and building officers, some LGs also request the approval of the Trade Development Officer and demand for Investment Licences and bank statements.

### ***9.3.6 Poor management of information***

While most LGs collect information about businesses, this information is rarely used in planning support programmes, policy-making, and infrastructure development for the business community. LGs' programmes such as tax enforcement and business support programmes are conducted without consideration to this information, and result in poor planning and wastage of scarce resources (human and financial).

## **9.4 Short term recommendations**

### **Maintenance of business registers**

Sub-counties and divisions should identify, classify and register all businesses in their jurisdictions. This will assist LGs in monitoring compliance, enforcing collection, planning and budgeting.

**De-linking licences from health and safety and building inspections**

LGs should de-link the issuing of licences from regulatory processes such as health and building inspections. However, those inspections should be carried out, with priority placed on inspecting businesses with higher public health risks such as butchers, medical clinics and food vending businesses. The licence may be withdrawn where it is found that a business is in serious breach of the regulatory requirements. This will reduce the time spent waiting for trade licences by business persons and reduce costs of obtaining health inspections and building approvals.

**Simplifying the licensing process**

LGs should simplify the process of obtaining licences by removing unnecessary approvals such as requirement for inspection of premises by health and building inspector before issue of licences. This will reduce compliance costs for businesses and encourage more business persons to register their businesses, thus earning more revenue for LGs.

**Educating business people about regulations**

LGs officials and contractors should educate business persons about the health and standards they are required to meet, at the time of obtaining the trading licence.

**Harmonising Trade Licences with the Financial Year**

MoLG should follow up the streamlining of the trade licences period from calendar year to financial year. This will also make it consistent with other taxes.

**Use of media**

LGs should use media (radio), mosques, churches and public notice boards including trees, to disseminate information concerning changes in procedures, fees and other such information, to the public. These are cheap yet effective methods of disseminating information.

**Targeted enforcement**

LG enforcement exercises should focus only on businesses that have not obtained a licence, based on the information in the business registers.

**9.5 Trends in revenue from Trade Licences**

The consultants were able to collect some information that enabled a few tables to be produced to show the development or otherwise of revenue from Trade Licences. The LGs sampled are: Arua DLG, Entebbe MC and Bushenyi TC, and the tables are as follows:

**9.5.1 Arua DLG**

Collections from trade licences have apparently increased with improved practices only in 2001/2 and in 2002/3 (no figures seen for the latter by the consultants), having lost some income in earlier years due both to the sub-division of the district and other reasons.

Best practices in trade licences from Arua DLG:

- ?? Group licensing
- ?? Door to door collection of licence fees

### Revenue from Trade Licences in Arua DLG for the last five years

Financial year	Actual collection of T/L in U Shs	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	68,926,796		
1998/1999	37,332,257	(31,594,539)	(45.83)
1999/2000	17,392,012	(19,940,245)	(53.41)
2000/2001	9,692,950	(7,699,062)	(44.27)
2001/2002	30,708,100	21,015,150	216.81

Source: LG final accounts

### 9.5.2 Entebbe MC

Revenue from trade licences in Entebbe has been increasing, although it is difficult to correlate the increase to any best practices.

Best practices in trade licensing from Entebbe MC:

- ?? Updated computerised business registers
- ?? Sensitisation programmes
- ?? Customer friendly approach to collections
- ?? Piloted Streamlined Trade Licensing system
- ?? Door to door collection of trade licence fees

### Revenue from Trade Licences in Entebbe MC for the last five years

Financial year	Actual collection of T/L in U Shs	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	9,667,994		
1998/1999	31,931,350	22,263,356	230.27
1999/2000	27,965,850	(3,965,500)	(12.41)
2000/2001	44,786,280	16,820,430	60.15
2001/2002	54,787,495	10,001,215	22.33

Source: LG final accounts

### 9.5.3 Bushenyi TC

As mentioned elsewhere in this report, Bushenyi TC has some basic best practices in place that also contribute to an increase in this source of local revenue.

Best practices in trade licence collection from Bushenyi TC:

- ?? Door to door collection of trade licence fees
- ?? Contractors remit collections directly to the bank

### Revenue from Trade Licences in Bushenyi TC for the last five years

Financial year	Actual collection of T/L in U Shs	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	21,615,950		
1998/1999	16,980,390	(4,635,560)	(21.45)
1999/2000	16,698,730	(281,660)	(1.66)
2000/2001	18,856,965	2,158,235	12.92
2001/2002	21,017,900	2,160,935	11.46

Source: audited accounts

These figures<sup>39</sup> show increases in respect of Trade Licences, although it is important to note that some districts were sub-divided during the period reviewed.

## **9.6 Conclusion**

Trade Licensing is an important revenue source for LGs, especially urban authorities. However, the legal constraints need to be eliminated and the Deregulation Project encouraged and followed. If this takes place alongside the other recommendations in this chapter, then Trade Licensing can become a solid, assured and growing source of revenue, out of which excellent service delivery can be made and business encouraged in the locality.

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<sup>39</sup> These tables were produced using figures from LGs final accounts.

## Chapter 10

### Property Tax and Rates

#### 10.1 Introduction

Under the Local Government (Rating) Decree, 1979, property tax is defined as a tax on immovable property. In many parts of the world property tax is by far the most important source of revenue for LGs. Indeed, as has been said a number of times by those involved in this inventory of best practices, if this area was to be fully exploited in Uganda, it might even be possible to cease levying graduated tax. The practice of producing valuation rolls using a parcel by parcel individual valuation of each property, creates a backlog of out of date valuations rolls due to lack of trained rating valuers, shortage of financial resources for revaluation and lack of institutional and personal incentives.<sup>40</sup>

An amendment to the Local Government (Rating) Bill, 2003 has been proposed and is currently before Parliament. Once the new law is in place, LGs should be able to move forward in the collection of property rates. The key to enhanced revenue collection is the training and deployment of qualified valuers and the establishment of provisions allowing for mass valuation. A more detailed discussion of the provisions of the Bill can be found above (see Chapter 4, The Legal Framework).

#### 10.2 Best Practices

##### *10.2.1 Computerised systems*

Some LGs such as Mbale MC have a computerised system that generates demand notes, issues receipts and can produce debtors' lists. This facilitates identification of properties, tax planning and enforcement, and minimises forgery of receipts.

##### *10.2.2 Privatisation of collection*

In some LGs, eg Kampala and Jinja, collection of property rates has been privatised. The LG conducts quarterly reviews of the tenders to assess the contractors' progress. As this is quite new, no strong revenue trend has been found, but findings indicate that revenue is on the increase and voluntary compliance by taxpayers has been enhanced as delays due to bureaucracies have reduced.

##### *10.2.3 Employing full-time officers*

Employing a full-time officer to work on property taxes resulted in increased revenue raised in Soroti MC even when using old valuation lists. It is better to do something rather than nothing.

##### *10.2.4 Sensitisation*

Publishing of brochures in the local language to sensitise the local community in Tororo MC was found to have a positive impact. KCC also publishes a brochure on property rates in English.

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<sup>40</sup> DFR-ILM (2001), Pg 15-16

### ***10.2.5 Direct Banking***

Payment of property rates directly into the bank instead of paying cash to the LG cashier was found to reduce fraud by LG employees in Soroti MC.

### ***10.2.6 Existence of a property register***

Arua MC and Soroti MC have drawn up property registers for all properties that are chargeable for rates. This facilitates the tax administration process and ensures that listed properties have the complete and accurate information necessary for rating purposes, such as lists of properties, names of property owners, values assessed for and so forth.

### ***10.2.7 Engagement of lawyers to enforce tax compliance***

Arua MC engages lawyers to enforce tax compliance. The engagement of lawyers to enforce tax compliance is an effective method of ensuring compliance by taxpayers.

### ***10.2.8 Up to date valuation rolls***

Kampala City Council and Bushenyi TC have up dated their property valuation rolls. This had enabled these LGs to charge rates that are commensurate with market rates and hence realise meaningful revenue from this resource.

### ***10.2.9 Rates are collected in two instalments***

In Bushenyi TC, property owners are allowed to pay property rates in two instalments. Breaking down payment makes it easier for taxpayers to meet their obligations.

### ***10.2.10 Provision of services***

Kampala City Council has put up streetlights in residential areas and repaired some roads as some of the services rendered by the City Council. Provision of services encourages taxpayers to pay tax because they make the link between services received and taxes paid.

## **10.3 Constraints**

### ***10.3.1 Shortage of qualified valuers***

There is currently a serious shortage of qualified valuers to carry out property valuation throughout the country. This is the main reason why many LGs visited were not collecting property rates, as their properties had not been valued.

### ***10.3.2 Centralised valuation***

The office of the Chief Government Valuer (CGV), who is responsible for the valuations, is still centralised. This enormously reduces the availability of valuation services to LGs far from Kampala.

### ***10.3.3 Ignorance of legal and procedural provisions***

Most LG officials interviewed during the survey lacked basic knowledge about the property law, and were not aware that the Local Government (Rating) Bill, 2003 was out for public comment then. Few were able to comment about the Bill during the regional feedback workshops. Tax enforcement by a person that is ignorant of the legal and procedural provisions governing his or her operations is likely to be ineffective. Similarly, most property owners are ignorant of the regulatory process of this tax; they do not know how that tax is levied, collected and enforced.

### ***10.3.4 Poor service delivery***

Poor service delivery, lack of taxpayer confidence in tax usage and poor information flow, are some of the reasons behind the low collection efficiency of property rates in Uganda. Little effort has been made to provide services such as road maintenance and drainage construction in areas where LGs charge and collect property rates. Consequently voluntary tax compliance is very low and LGs have to engage forceful means to collect taxes.

### ***10.3.5 Poor tax administration***

Overall, the failure by LGs to realise the revenue potential from property rates can be attributed to factors such as poor service delivery and distrust by taxpayers; lack of understanding in how the tax is levied, collected and enforced, and lack of effective legal and administrative collection and enforcement mechanisms. The enforcement mechanisms in the current law are not adequately effective in dealing with property owners who simply refuse to pay tax. The law and practice in many countries such as Namibia, South Africa and Swaziland provide for the attachment and seizure of property where property owners are simply not willing to pay rates, with a public sale thereof after a specified period.<sup>41</sup>

### ***10.3.6 Lack of provision for training valuers***

Until the recent introduction of a Course for Valuers by Makerere University, there was no provision for training of valuers in Uganda. All existing valuers obtained their qualifications from external institutions, while a few partly qualified ones obtained them from the now defunct Institute of Surveyors formerly in Entebbe. This has contributed to the low staffing levels in the office of the CGV and in the country.

### ***10.3.7 Lack of funds for carrying out property valuations***

Valuation of properties is a very costly exercise usually requiring an interested party to pay the charges upfront. Most LGs lack adequate financial resources to pay for the costs of these exercises. During the survey, KCC stated that they paid Shs400,000,000 for the valuation of seven zones in Kampala. Due to lack of funds to pay for such valuation exercises, LGs cannot have up to date valuation rolls. Instead they have old valuations that do not reflect current market value of properties.

### ***10.3.8 Current property values***

Many property owners are ignorant of the property tax administration mechanisms and do not know how the tax is assessed, collected, and enforced. Few LGs have made effort to sensitise property owners about the administration systems of this tax, resulting in a general distrust of LGs and tax enforcement officers by property owners.

### ***10.3.9 Local Government (Rating) Decree, 1979, Bill 2003***

An amendment to the Decree (the Local Government (Rating) Bill, 2003) has been proposed and is currently before Parliament. A detailed discussion of issues in the local Government Rating Decree is carried out in chapter 4, paragraph 4.9.4.

## **10.4 Short term recommendations**

As a reminder of the distinctions between the levels of recommendation,  
?? “Short term” recommendations are those that can be implemented immediately and/or with minimal additional financial or technical input;

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<sup>41</sup> World Bank (2003).

- ?? “Medium term” are those that would require either additional funding, a change of policy, new procedures, or further legislation;
- ?? “Long term” refers to those recommendations that are seen to require cultural or other changes that are likely to be open-ended.

#### 10.4 Short-term recommendations

##### **Up-dated property register**

LGs should maintain updated property registers of all properties showing their owners and respective values where the values are available. Provisional rates should be used for properties awaiting valuation. These registers should be available to the public.

##### **Service delivery**

LGs should provide services to enable taxpayers relate payment of taxes and provision of services by LGs. Provision of services will motivate taxpayers to pay taxes where there is tangible evidence of tax usage.

##### **Sensitisation of public**

LGs should sensitise politicians and the general public about this tax (very few knew about this during field visits). Best practice suggests that where possible, LGs should use brochures to sensitise the public about the tax, who should pay and where to seek more information.

##### **Privatisation of collection**

LGs should privatise collection of property rates so that they can realise the benefits of privatisation such as reduced administrative costs, and increases in revenue collected.

##### **Commitment to paying property rates**

LGs building plan permits or acceptance letters should include a section signed by the owner that s/he will pay property rates and occupation fees in due course.

#### 10.5 Medium term recommendations

##### **Up-dating valuation rolls**

CGV should update valuation rolls regularly (after every five years), as prescribed by law. This will reflect the relative changes in property market values and enable LGs to charge rates that are up to date with market rates.

##### **Publishing Urban Development Plans**

LGs should develop and publish town development plans to enable potential property investors buy and develop land and buildings commensurate with the town development plan. This will stimulate planned development and investment and boost service delivery on the part of the LG.

##### **Capacity building**

MoLG in conjunction with the Ministry of Lands, Water and Environment, should institute a programme immediately for training valuers so that LGs are able to have enough valuers, can carry out valuations and realise revenue from this valuable resource. It is recommended that the MoLG or LGFC should take the initiative for this. LGs should also sensitise enforcement officers about the legal and procedural provisions for enforcement.

**Private valuers**

LGs should be allowed to engage competent private valuers from lists drawn up by CGV. This will facilitate valuation of properties by LGs and enable them draw on this potentially significant source of revenue.

**10.6 Long term recommendations****The Local Government (Rating) Bill, 2003**

The CGV's office should be decentralised to LG level. This will facilitate valuation exercises and improve revenue collection in LGs. **(See chapter 4 for further recommendations on this)**

**Interim measure of levying a flat rate**

GOU should enact legal provisions allowing LGs to levy provisional rates on properties awaiting valuations. This will enable LGs to collect revenue from those properties yet to be valued instead of losing out on this potential resource. LGFC and MoLG should take up this issue.

**Computerisation**

LGs with capacity to own computers should computerise their property registers. This will facilitate better data management, monitoring of compliance and enforcement, and budgeting by LGs.

**Nation-wide valuation of buildings**

GOU should secure funds for rapid valuation of all buildings in the country to enable LGs to make a start on exploiting this huge potential area. Once funds are secured and the one-off exercise completed, then the revenue from the property tax would more than pay for the 5-yearly revaluation exercise, currently prescribed by law.

**National sensitisation programme**

LGFC should consider developing a national sensitisation programme for property rates similar to one that URA conducted very effectively for VAT.

**10.7 Trend in revenue from property rates**

The following are examples of those who are attempting to improve this source of revenue. However, the actual trend shown is largely down, but assurances were given that the 2002/3 figures (not available at the time of doing this report) would show increases, particularly in Kampala.

**10.7.1 Arua MC: Performance in Property rates**

Best practices in Arua MC:

- ?? Existence of a property register
- ?? Employment of a property officer
- ?? Engagement of lawyers to enforce tax compliance

**Revenue from property rates in Arua MC for the last five years**

Financial Year	Actual collection of property rates	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	20,634,200		
1998/1999	3,031,154	(17,603,046)	(85.31)
1999/2000	25,337,378	22,306,224	735.90
2000/2001	30,626,038	5,288,660	20.87
2001/2002	15,327,667	(15,298,371)	(49.95)

Source: LG final accounts

**10.7.2 Bushenyi Town Council: Performance in Property rates**

Best practices in Bushenyi TC:

- ?? Up to date valuation rolls
- ?? Rates are collected in two instalments

**Revenue from property rates in Bushenyi TC for the last five years**

Financial Year	Actual collection of property rates	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	6,010,800		
1998/1999	23,752,600	17,741,800	295.17
1999/2000	3,072,450	(20,680,150)	(87.06)
2000/2001	1,840,500	(1,231,950)	(40.09)
2001/2002	1,127,500	(713,000)	(38.74)

Source: audited accounts

**10.7.3 Kampala City Council: Performance in Property rates**

Best practices in KCC:

- ?? Updated valuation rolls
- ?? Brochures for sensitisation of the public and property owners
- ?? Rigorous collection and enforcement methods
- ?? Service delivery such as provision of street lights in residential areas e.g. in Kyambogo
- ?? Computerised demand notices and receipts

**Revenue from property rates in KCC for the last five years**

Financial Year	Actual collection of property rates	Shs increase or (decrease) from previous year	% increase or (decrease) from previous year
1997/1998	4,641,173,293		
1998/1999	5,205,168,755	563,995,462	12.15
1999/2000	5,386,795,473	181,626,718	3.49
2000/2001	5,379,892,545	(6,902,928)	(0.13)
2001/2002	4,136,924,750	(1,242,967,795)	(23.10)

Source: LG final accounts

## 10.8 Conclusion

This chapter has shown both the best practices and the significant constraints – in particular out-dated legislation and shortage of valuers – to the collection of property tax. In addition, it has made recommendations for dealing with these constraints. In some countries,<sup>42</sup> property tax has become the source of greatest growth in local revenue throughout the country. However, this is no simple task. By its very nature, property tax is perhaps the most politically sensitive tax: it is visible, requires lump-sum payments on periodic basis and is most closely linked to the delivery of local services. The key to successful property reforms is to develop an appropriate mix of policy and administrative reforms to ensure that the tax roll information is complete and up-to date, and that valuations are accurate.<sup>43</sup>

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<sup>42</sup> For example the United Kingdom

<sup>43</sup> DFR-ILM, *ibid.*

## Chapter 11

### Markets and other Sources of Revenue

#### 11.1 Introduction

This chapter discusses best practices in collecting revenue from markets, boda boda fees, taxi and lorry parks, abattoir fees, fish landing sites and other sources of revenue identified in the process of conducting the inventory. However, it is important to note that joining other sources of revenue into one chapter does not in any way suggest that these other sources of revenue are unimportant. Indeed, many are particularly vital to specific LGs.

#### 11.2 Markets

In all LGs around the country, markets are a source of income for LGs by way of rent, permits, dues on produce sold, etc. This section deals with findings with regard to these.

#### 11.3 Best Practices

##### *11.3.1 Privatisation*

Almost all LGs had privatised the collection of market dues and this was reported to have reduced opportunities for bribes, increased in efficient coverage of revenue sources and resulted in increased revenue yields.

##### *11.3.2 Written Contracts*

Most LGs visited during the survey have developed the practice of executing written contracts with contractors. This facilitates enforcement and monitoring compliance of contractors using contract terms.

##### *11.3.3 Contractors pay performance bonds*

In Lira MC, contractors are required to execute performance bonds (deposit a sum of money) when signing the agreement. The bond acts as security against non-performance by a contractor.

##### *11.3.4 Fencing market areas*

Fencing of markets was found to assist in compliance/enforcement and enhance revenue collections, as well as providing security for goods. Market traders in turn were more willing to pay dues where services such as security for their goods are provided.

#### 11.4 Constraints

##### *11.4.1 Multiplicity of taxes*

The UPPAP study reported that the “plethora of taxes destroys local initiatives and undermines the credibility of LGs”.<sup>44</sup> Charges levied on market vendors in one market in Jinja included condolence fees of Shs10,000 on joining the market, between Shs3,500-5000 condolence fees on actual loss of a market member, and a weekly fee of Shs500 for security. This is in addition to the taxes on the items brought into the market. Vendors of

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<sup>44</sup> Pg 154 UPPAP report

perishable goods such as local brew have to pay taxes each day they take the item to the market, irrespective of whether the vendor previously paid for the same item.

#### ***11.4.2 Informal markets***

There are many informal markets, sometimes established by politicians, in close proximity to the formal ones. This has affected the revenue collection of formal markets and discouraged traders from paying dues in the formal markets.

#### ***11.4.3 Informal traders***

There are many informal traders such as bicycle traders and road hawkers. Collection of dues from these is a challenge for contractors because of their informal nature.

### **11.5 Short term recommendations**

#### **Improving infrastructure**

All LGs should fence market areas to provide security for goods and ease revenue collection. In addition, markets should have toilets and water supply to serve market goers. This makes market goers appreciate the fees and dues that they pay.

#### **Performance bonds**

Where it is not practised, LGs should require contractors to deposit performance bonds against future collections soon after the award of the tender. This ensures that the contractor has a stake in the contract.

#### **Defaulters**

Contractors who default on their contracts should be blacklisted to ease their identification and elimination when they vie for contracts again.

#### **Contracts**

LGs should execute contracts in respect of all tasks they contract out, and seek legal advice in drafting agreements. The CAO and sub-county chief of each contractor (if possible) should be signatories to the contracts. This will facilitate monitoring compliance of the contractor by the sub-county chief and the LG.

#### **Motivation**

LGs should suitably reward divisional or sub-county officials that positively and successfully ensure proper implementation of contracts.

#### **Surveys by LGs**

LGs should conduct surveys to establish the average income from markets. This will also assist them in setting reserve prices

#### **Service desks**

LGs should operate service desks to receive complaints from market goers. In addition, LGs should have periodic meetings with market traders to hear their views about issues affecting them.

#### **Protecting market vendors**

LGs should ensure that contracts executed with contractors have provisions for safeguarding against abrupt increases in rates

## 11.6 Additional sources of revenue

In addition to the above taxes, LGs collect revenue from taxi, bus and lorry parks, from Boda-boda fees (commercial bicycle or motor-cycle riders), street parking fees, fish landing site dues, charcoal permits, abattoirs fees and others. Most LGs visited were found to have contracted out the collection of these fees, while KCC and Mbarara MC were raising substantial sums of money from street parking.

## 11.7 Best Practices

### *11.7.1 Surveys by LGs*

Kampala City Council conducts an annual census of all commuter taxis and commercial pick-up vehicles based in Kampala. Mbarara MC and Arua MC conduct surveys of the number of vehicles operating in their parks. Information from the census and surveys is useful for guiding LGs in setting reserve prices, budgeting and planning.

### *11.1.2 Establishment of street parking zones*

Kampala City Council and Jinja MC established street parking zones and charge fees for using these areas. These have provided additional income for the LGs.

## 11.8 Constraints

### *11.8.1 Lack of data*

Minimum effort has been made by LGs to collect data on the various businesses operating in their jurisdictions. The high mobility and informality of sources such as boda-bodas contributes to the graveness of the situation. Not one LG visited had firm figures of the number of boda-boda operators in their respective areas. Consequently LGs have no reasonable estimates of the potential income that can be obtained from this source and are earning far less than what is due from the source.

### *11.8.2 Failure to link taxes to service delivery*

Generally, LGs have paid more attention to the privatisation of these sources of revenue, than on provision of services to taxpayers such as maintenance of roads, sewerages and garbage collection. Consequently, there is no linkage of taxes to service delivery.

## 11.9 Short term recommendations

### **Information management**

LGs should collect and maintain data on the businesses operating in their areas. This will facilitate monitoring compliance and budgeting on the part of LGs as well as identifying the revenue potential of the various businesses.

### **Vehicle Transit fees**

GOU should create enabling laws allowing LGs to charge transit fees on heavy vehicles that cause damage on their roads while going through their jurisdictions. This should be preceded by a study on the effects of this form of charges on the ultimate cost of the goods.

### **Formation of associations by service providers**

LGs should encourage boda-boda and taxi operators, and other service providers to form associations. This would facilitate co-ordination of their activities by LGs.

### **11.10 Conclusion**

The aggregate from these other sources of revenue could be significant for all LGs. Thus LGs need to develop new initiatives to expand revenue bases in their jurisdictions. The more sources there are, the more revenue they are likely to realise, and by linking service delivery to the source of income, the taxpayers will become more confident that the fees they pay are used for their benefit.

## **Chapter 12**

### **Privatisation and Tendering**

#### **12.1 Introduction**

This chapter deals with experiences of privatisation as well as the tendering process. Most LGs have privatised revenue collection and carry out tendering, especially in the areas of “other revenue” dealt with in Chapter 11 above. Some of the Best Practices are set out here, even though they have been mentioned earlier: they are grouped in this chapter for ease of reference. It should also be mentioned that there is a document entitled “Guidelines and Procedures relating to contracts to be followed by LG Tender Boards and councils” dated May 1994, and currently being up-dated.

#### **12.2 Best Practices**

##### ***12.2.1 Setting reserve prices***

Most LGs visited use a competitive tendering system with reserve prices set by LGs.

##### ***12.2.2 Attaching of directors’ photographs***

In Mukono DLG, companies bidding for tenders are required to attach photos of their directors to the tender documents. This helps identify applicants and assists LGs know who they are dealing with. LG officials can then eliminate those with poor performance records.

##### ***12.2.3 Evidence of GT payment***

In Moyo TC, contractors submitting tenders are required to give evidence of their latest GT payment. This is a useful tool that enables LGs to monitor compliance.

##### ***12.2.4 Depositing performance bonds in case of default in payment***

Contractors always deposit a performance bond and they forfeit their deposits if they default.

##### ***12.2.5 Holding quarterly consultative meetings***

Many LGs hold quarterly consultative meetings with all contractors managing revenue sources. In Kumi DLG and Jinja MC, contractors are appraised on their performance during the meetings that are a source of information on the district’s economic performance and there are exchanges of ideas about the execution of contracts.

##### ***12.2.6 Surveys to establish reserve prices***

Moyo TC conducts surveys of the revenue source to be tendered, including physical counting of vehicles that use the taxi-park in a set period. This gives the LG a clear picture of how much is realisable instead of using estimates, as well as what administrative issues face market traders and contractors.

##### ***12.2.7 Contract fees and Collections deposited directly into banks***

In most LGs, contractors deposit all fees and monies collected directly into the bank rather than paying cash to the LG treasury. It has been found that this reduces both fraud and spending at source.

##### ***12.2.8 Market surveys***

In Lira MC and DLG, market surveys are carried out for two to three months before setting the reserve price. The surveys are conducted between the peak and low periods in order to

determine an average reserve price. The lower and upper limit of the reserve price set is kept confidential (Bushenyi DLG). In Tororo MC, a tax revenue officer monitors and reports on the privatised markets, a practice that facilitates monitoring as well as providing on-the-ground information.

#### ***12.2.9 Evaluation of reserve price by evaluation committee***

The revenue technical evaluation committee (this excludes politicians) evaluates the reserve price. This ensures that the reserve price set is commensurate with expected yields from the tendered item, more so where the technical committee has conducted a survey or cost benefit analysis of the tendered item.

#### ***12.2.10 Conducting joint business independent assessments***

In Bushenyi DLG, audit and treasury departments make joint independent assessments of potential collections and the reserve price. Markets in sub-counties are tendered at the same time, using the District Tender Board. This avoids manipulation by contractors, is more transparent, and prevents monopolies occurring.

#### ***12.2.11 Revenue receipts used by the contractor are printed by the LG***

Revenue receipts are issued by LGs instead of allowing contractors to print their own receipts. This enables proper accountability, facilitates tracking of revenue trends and avoids counterfeits.

### **12.3 Constraints to the tendering process**

#### ***12.3.1 Dishonesty of some contractors***

A number of LGs visited during the field work stated that contractors remit less money than they have actually collected or owe under the contract, and cite poverty of taxpayers as the main reason for this. Contractors then request downward reviews of the terms of contract, but later on they are found to have charged higher fees than average from the market vendors or proprietors.

#### ***12.3.2 Political interference***

This was widely cited as a major hindrance to revenue raising activities. Incidences included interference in setting reserve prices for tenders, in the awarding of tenders, and in complying with the terms of the tender. Many LGs officials conform to the demands of politicians as politicians “are their bosses” and they fear to lose their jobs if they do not comply. The results are sub-standard work, non-payment of dues by vendors and non-performance of the contract.

#### ***12.3.3 Reserve prices based on unreliable data***

Some LGs use outdated or inadequate information in setting reserve prices. Estimates may be based on previous years’ reserve prices or obtained from narrow surveys conducted by LG officials. Thus, they earn less than they should from a particular contracted source.

#### ***12.3.4 Lack of capacity to manage tenders***

A number of LGs lack the capacity to manage tenders and handle the tendering process adequately. Often the contracts used by these LGs have gaps in their provisions, and consequently the interests of LGs are not well catered for. The capacity to monitor and supervise the performance of contractors by LGs officials is also weak.

### ***12.3.5 Conflict of interest***

The UPPAP study<sup>45</sup> and the survey found that most tenders, such as garbage collection, water supply, boda-boda operations and market management, are awarded to LGs staff, their relatives and other LG politicians (councillors). These LG officials and councillors are also members of LG Tender Boards, Contract Committees, or Financial Committees, and they use their positions to influence the awarding of tenders to companies where they have interests. It then becomes difficult for other LG personnel to monitor and enforce compliance of companies owned by colleagues or politicians, especially where the performance of such companies is poor, resulting in financial losses for LGs.

### ***12.3.6 Potential for harming the poor***

In addition to GT, taxpayers pay other taxes levied by LGs. These vary within LGs and include: market dues, beer permits, boda-boda tax (bicycle tax), fish landing site dues, charcoal fees, and others. Traders and fishermen involved in the Participatory Poverty Assessment Study (PPA1)<sup>46</sup> on privatised resources reported being exploited. Of particular concern were the brutal and insensitive methods used to collect dues from traders, overcharging of markets and fish traders, high dues charged leading to abandonment of businesses, and poor service delivery in markets and landing sites.

## **12.4 Short-term recommendations**

### **Tender awards**

LGs should display tender awards showing the responsibilities of the contractor and the LGs, as well as the time frame of the contract, in public places. This serves as a source of information to members of the public and equips them with information to monitor contracts;

### **Capacity to handle the tendering processes**

LGs should contact the MoLG capacity building unit for guidance and training in managing tender processes

## **12.5 Medium term recommendations**

### **Reserve prices**

LGs, other than those doing this already, should carry out market surveys to enable them to establish the annual average income from the tendered resource and use this in setting reserve prices. This will help LGs avoid setting reserve prices that are too low and also give them a good picture of issues and concerns of taxpayers in the revenue resource e.g. issues affecting market vendors.

### **Payment of GT as a pre-requisite**

LGs should require applicants for tenders to provide proof of payment of GT and trade licences (where applicable). Applicants for big tenders (i.e. over Shs5m) should pay the maximum GT and licence fees. Where applicants are found to have paid less than the requisite fees, they should be required to pay additional GT as stated in the LGA. This helps to ensure compliance with the law by contractors.

<sup>45</sup> Pg 157, UPPAP report

<sup>46</sup> Pg 156 UPPAP report

**Privatisation**

All LGs that have not yet contracted out collection of other sources of revenue should be encouraged to do so as soon as possible. However contractors must be sensitised to their obligations, both to the LGs and to the taxpayer.

**Co-ordination in the procurement process**

There is need for improved co-ordination and consultation between LG councils and Tender Boards in the procurement process. This will promote transparency and consistency in awards of tenders.

**12.6 Conclusion**

LGs give strong testimony to the fact that privatisation has increased revenue and lowered expenses. However, there are pitfalls in this process, and it is essential that LGs develop strength in handling tendering with competence and integrity and build their capacity in managing tenders. If that is done, this process can enhance revenue significantly and build confidence in the LG's personnel and in their accountability – in an area where it is widely known that there is extensive mal-practice.

## **Chapter 13**

### **Conclusions and the Way Forward**

#### **13.1 General situation**

This survey of best practices has identified several excellent practices being carried out by different LGs in the country, creating scope for revenue enhancement at the local level. Throughout the process, the focus has been on those practices that can be reproduced or adopted wholesale, or with adjustments to suit local conditions of individual LGs. The Guidelines for implementing the best practices, together with the recommendations, should map the way forward for revenue enhancement.

This report highlights low levels of taxes collected by LGs, and the numerous reasons (constraints) attributable to this. In addition, it has also been observed that many LGs have rushed to privatise revenue collection without conducting sufficient research to establish the revenue potential of the resources, and streamlining tax administration and usage. A major outcome has been the poor linkage of taxes and service delivery by taxes which, combined with poor information flow and arbitrariness in tax administration, are some of the reasons for high tax resistance and non-compliance by taxpayers. It is therefore important that LGs improve service delivery since people are always more willing to pay taxes and fees in return for benefits or services.

Key stakeholders in the decentralisation programme are faced with challenges. To the politicians, MoLG, and LGFC, the challenge is to mentor and support LGs to deliver to their constituents while simultaneously applying principles of transparency and accountability and adhering to the rule of law in tax administration. LGs have a challenge to educate taxpayers on the rationale, procedures, obligations and responsibilities related to taxes, to provide services and mobilise communities through enhanced participatory budgeting and service delivery. Linking revenue collection to service delivery and better-educated taxpayers will enhance tax compliance.

Revenue enhancement also calls for good financial and administrative structures by the respective entities. Current financial and administrative structures in LGs are weak. Although there have been programmes to address this issue, some significant areas such as information management, especially at the LC 3 level, requires immediate attention. Similarly, LG capacity to use administrative information to mobilise additional revenue must be strengthened.

#### **13.2 Way forward**

LGFC will take up recommendations made in the report to Central Government.

LGs should internalise the recommendations in the inventory and guidelines and revise the work plans developed during the regional workshops (January/February 2003).

LGs should then implement immediately the recommendations that do not require external support.

LGFC will approach donors to assist in the implementation of recommendations that require external support.

SDU-USAID will take up the implementation of recommendations in its pilot LGs.

LGs should develop specific proposals for LGFC to present to donors for support e.g. to effect trade licence reforms and build tax registers.

Capacity building initiatives should be developed in all areas of financial and information management and understanding of the laws that relate to their activities and powers.

### **13.3 Challenges to LGs**

It is important to note that the ultimate responsibility to raise revenue lies with the LGs themselves. It is anticipated that the implementation of best practices will enable LGs to raise more local revenue. To that end, the challenge goes out to all LGs to demonstrate to GOU that they can effectively and efficiently raise more local revenue. The result of increased revenue would be used by LGFC to negotiate with GOU for more taxes to be devolved to LGs.