LOCAL GOVERNMENT FINANCE COMMISSION

FOR SUSTAINABLE FINANCING

LOCAL GOVERNMENT FINANCE COMMISSION



September, 2023

THE LOCAL GOVERNMENT OWN SOURCE REVENUE MOBILISATION STRATEGY

2022/2023 – 2026/2027

Statement by the Minister of Local Government

It is my pleasure to present to you the Local Government Own Source Revenue Mobilisation Strategy.

This Strategy is the collective efforts of various Institutional Players, notably Ministry of Local Government, Local Government Finance Commission, Ministry of Finance, Planning and Economic Development, Uganda Revenue Authority, Local Governments, Civil Society Organizations and the Private Sector.

You will appreciate that the National Domestic Revenue Mobilisation Strategy (DRMS) 2019/20 - 2023/24 was developed and launched in October 2019.

One of the key themes embedded in the approach to the design of measures for the DRMS was to Strengthen the revenue-raising capacity of Local Governments. As highlighted in the National Budget Speech of June 15, 2023, Government will support enhancement of Local Governments Own Source Revenues for better service delivery.

In furtherance of the objectives of Fiscal Decentralization and the empowerment of local decision-making, the Ministry is committed to support the principle of Own Source Revenue (OSR) and will therefore work collaboratively with Local Governments to strengthen their Revenue Base. This will help to reduce their over reliance on transfers from the Central Government.

In order to effectively provide Services to the people, Local Governments need to supplement the Central Government grants with Local Revenues. Unfortunately, Local Revenues have been declining, with local revenue contributing less than 3% of the total Local Government Budgets, on average.

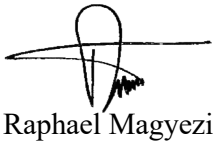
Revenues Mobilisation Efforts have been constrained by Low Tax Base; interference from various actors, Poor Coordination of Stakeholders, Inadequacy of Baseline Information (database) of Potential Tax Payers, Administrative Weakness and Poor Utilisation and Management of collected Revenues, among others.

This Strategy therefore outlines measures that are designed to address those gaps and enhance revenue mobilization efforts across all Local Governments. In addition, the Strategy brings transparency and accountability to the utilisation of Local Revenue at the Local Government Level.

In order to fully exploit our revenue potential, we will need to digitalize our registration, mobilization and collection efforts to be more in line with our e- government Policies.

The Ministry will also continue to issue enabling policies that will promote compliance with the relevant Laws and Regulations.

I therefore urge all Stakeholders to play their respective roles in order to ensure the effective implementation of this Strategy for the betterment of Service Delivery to our people.



Raphael Magyezi
MINISTER OF LOCAL GOVERNMENT

Foreword by The Permanent Secretary, Ministry of Local Government

Local Governments are mandated to formulate, approve and execute their Budgets and Plans and to collect Local Revenue. However, Local Governments face challenges in raising Local Revenues to support their development needs.

The main objective of the Local Government Own Source Revenue Mobilisation Strategy is to improve revenue collection at Local Governments with a view to increasing the collections from an average of 0.41 to 1.27 % of GDP within the next five years.

Article 176 (2) d of the Constitution of the Republic of Uganda states that, *"there shall be established for each local government unit a sound financial base with reliable sources of revenue"*

The Strategy was developed through a holistic process that involved a number of studies and processes during its formulation which included the following;

(i) Diagnostic Study on Local Governments Own Source Revenues;
(ii) Review of the Legal and Policy Framework;
(iii) Technical Review of Local Government Revenue Management Systems.

The Exercise was backstopped by a Technical Team, the GOU Taskforce that were drawn from the Local Government Finance Commission, MOFPED, Ministry of Local Government and Uganda Revenue Authority. A Validation Meeting was held, drawing Participants from the above Institutions, Representation from Urban and Rural Local Governments and Civil Society Organizations.

The Strategy has identified a need for improvement in various areas, notably improvement in revenue administration, digitalization of revenue collections and a more coordinated enforcement mechanism.

The Ministry will continue to play its role in providing legal and policy guidance in Local Revenue Administration, as well as the Supervision and Monitoring of Local Revenues collection and management.

The Strategy has outlined Four Strategic Goals that will enable Local Governments to greatly expand their Revenue Base.

They Strategic Goals are:

1) Improved Legal and Policy framework governing Revenue Mobilisation.
2) Improved Local Revenue Administration and Management.
3) Automated Local Revenue administration processes across all Local Governments.
4) Improved stakeholder collaboration in OSR management and administration.

The combination of policy measures and administrative changes that are set out as key activities within these Strategic Goals will also yield new revenues that will greatly enhance the financial base in our Local Governments.

I urge you all to do your part and ensure the Strategy is successfully implemented, in order to attain the intended objectives and aspirations.

Ben Kumumanya
PERMANENT SECRETARY

Statement by Commission Secretary, Local Government Finance Commission

The Design of the Local Government Revenue Mobilisation Strategy (LRMS) was done with general objective of introducing reforms into the local revenue administration and management processes to sustainably and significantly enhance collection of the full potential revenues in local governments. Local Revenue mobilisation had suffered lack of systematic reforms for many years and had lagged behind the national domestic revenue reform agenda. The LRMS therefore comes as the first of its kind.

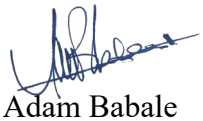
In the strategy, we take deliberate steps and actions towards creating an environment in which local governments have an opportunity to exploit their full local revenue potential. Local governments with the support from the central government will be able to implement strategic actions that will enable them increase their contribution to service delivery funding requirements and reduce too much reliance on grants from the national budget. We also expect an increase in contribution of local revenue to gross domestic revenue ratio.

During the development of the Strategy, the Commission deliberately targeted actions that reflect on its vision of having in place local governments with sustainable financing systems. In light of that, the strategy target implementing reforms that enhance efficiency, best practices and enhancement of service delivery.

Therefore, the Strategy contains very important and well-thought out actions which when implemented will substantially and sustainably improve revenue performance for LGs.

It is at this point that I congratulate the technical team and the key stakeholders who put all their efforts to make this exercise a success.

As LGFC, we look forward to effectively implement the Strategy to shape the future processes of local revenue administration and management which will ultimately improve service delivery.



Adam Babale
For **Commission Secretary**
LOCAL GOVERNMENT FINANCE COMMISSION

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Acronyms

AIA	Appropriation in Aid
CAMV	Computer Assisted Mass Valuation
COA	Chart of Accounts
CSO	Civil Society Organisation(s)
DINU	Development Initiative For Northern Uganda
DP	Development Partners
DRMS	Domestic Revenue Mobilization Strategy
DRS	Disaster Recovery Site
EAC	East African Community
e-LogRev	Electronic Local Government Revenue (System)
FMS	Financial Management Specialist
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoU	Government of Uganda
HLG	Higher Local Government
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IRAS	Integrated Revenue Administration System
IT	Information Technology
KCCA	Kampala Capital City Authority
LG	Local Government
LGA	Local Governments Act
LGFC	Local Government Finance Commission
LHT	Local Hotel Tax
LLG	Lower Local Government
LRMS	Local Revenues Mobilisation Strategy
LRDBMS	Local Revenue Database Management System
LST	Local Service Tax
MC	Municipal Council
MDA	Ministry Department and Agency
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MoPS	Ministry of Public Service
NEMA	National Environment Management Authority
NIN	National Identification Number
NIRA	National Identification and Registration Authority
NITA-U	National Information Technology Authority Uganda
ODI	Overseas Development Institute
OSR	Own Source Revenues
P2G	People to Government
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PFM	Public Finance Management

PIT	Personal Income Tax
PMT	Project Management Team
POS	Point of Sale
PPP	Public-Private Partnership
PSC	Public Service Commission
REAP	Revenue Enhancement and Accountability Programme
RMS	Revenue Management System
SC	Steering Committee
SDLC	Software Development Life Cycle
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
TIN	Tax Identification Number
TPD	Tax Policy Department
TREP	Taxpayer Register Expansion Program
UAAU	Urban Authority Association Uganda
UGX	Uganda Shillings
URA	Uganda Revenue Authority
URSB	Uganda Registration Service Bureau
USMID	Uganda Support to Municipal Infrastructure Development
VAT	Value Added Tax

Local Revenue Mobilisation Strategy: main recommendations

Systemic policy and legal reforms

§	1. ***Regulations of major local tax and non-tax revenue sources should be amended.*** These revenue sources are the property tax, Local Service Tax, Local Hotel Tax and among the non-tax revenues the business charges, royalties, park user fees, advertising fee, solid waste charge.
	2. ***Enhancement of the revenue mobilization from existing OSR sources.*** Several pieces of legal framework need improvements for revenue mobilisation. This is to exhaust the potential of the existing OSR sources, e.g. expanding the LST to include collections from commercial farmers, bodabodas, review of local rating act, electricity act, mining act, etc.
	3. ***Improved local revenue policy design.*** Local government OSR will be increased if the intergovernmental transfer system creates incentives for local revenue raising; through revenue regulations, which allow local autonomy within nationally set limits (on tax base, rates and exemptions); by improved governance framework.

Improved revenue administration

	1. ***Higher taxpayer engagement.*** Revenue administration methods should support fiscal social contract at local level through taxpayer sensitisation, dialogue and inclusion.
	2. ***Support to taxpayer registers and assessment.*** Wide scale identification, digitized registries on tax base, assisted property valuation in coordination with URA.
	3. ***Increase in institutional and human capacities of local revenue administration.*** Establishing independent, equipped local revenue departments. Strengthening internal audit, monitoring and control. Better information flow to LGFC and local governments. Staff training on revenue administration and related areas. Support to local management of informal economy through registries, combined information bases.
	4. ***Greater accountability through transparency and public information.*** Establishing dispute resolution mechanisms. Regular reporting on collected revenues and spending. Information dissemination and communication; introduction of Citizen Charter on local taxes.

Revenue Management System (RMS) automation

	1. ***Strengthened and coordinated governance structure for RMS implementation***. Roles and functions of RMS sponsors, steering committee, business owners, project management teams and implementation workshops have to be identified.
	2. ***RMS reform strategy should be designed, developed and implemented***. Decision on the preferred single local IT system should be made together with planning the implementation conditions. Related local business processes require re-engineering. Implementation of all core modules need proper testing and a guided rollout program to all local governments. Documentation of processes and procedures is critical for system development. Business continuity measures are needed to prevent and to recover potential threats. Stakeholder partnerships are needed in collaboration with CSOs and among government agencies.

Change management, governance and monitoring

	1. ***Change management and communication.*** Successful LRMS implementation requires elevated awareness, communication of transition, providing the capacities needed, addressing cultural challenges of tax reforms, creating delivery mechanisms and monitoring, feedback instruments.
	2. ***Coordinated management structure should be established for detailed strategy design and implementation.*** LRMS need a two-tier governance structure ensuring political control through a Commission (governing body) and the Secretary (implementation unit), equipped with administrative and financial capacities.
	3. ***LRMS monitoring and evaluation is integrated in the Government's M&E system.*** It should be in line with the National Monitoring and Evaluation Policy, targeting the key performance indicator of increased ratio of own source revenues compared to GDP.

Executive Summary

Introduction

The Local Revenue Mobilisation Strategy (LRMS), set out in this document provides a framework for reforms that will be implemented in the medium term to improve local government own sources revenue collections and their impact on LG budgets. This is major outcome in the Public Finance Management strategy 2019-2023 i.e. Increased OSR contribution.

The Strategy was compiled through a comprehensive analysis supported by three diagnostic reviews commissioned by the Local Government Finance Commission namely the (i) Diagnostic study on Local Governments own source revenues; (ii) Review of the legal and policy framework; and (iii) Technical review of Local Government Revenue Management Systems. The development of the LRMS also benefited from contributions from a wide range of institutions and development partners as well as civil society.

Background

Own Source Revenues are important sources of financing for local governments. They contribute to local service provision, ensure local accountability and create financial incentives for the local administration. Over the years, since the formulation of Uganda's decentralisation policy, and accompanying legislation which assign responsibilities for revenues collections of local governments, LG OSR has grown.

However, this growth has been slow, for example when compared to the GDP growth. In recent years, local revenue to GDP ratio has declined drastically from 0.48 percent in 2008 to 0.14 percent in 2019. This is very low compared to the regional average for instance for the East African Community which was 1.27% in the same year. Importantly, their contribution to LG budgets have remained very small - on average at less than 8%.

The low levels of contributions to the budget have made it difficult to achieve this objective for local accountability. This has allowed central government fiscal transfers, contributing about 92% of LG budget to take a dominant position in the management and administration of LGs. Central transfers provide limited discretionary resources to LGs. As a result, they have significantly affected LG autonomy in development decisions creating a significant dependence on national and sectoral priorities and political preferences of the Central Government.

Objective

The core objective of this OSR mobilization strategy is to improve revenue collection at local government. The target is to increase the present 0.14% LR to GDP ratio to regional averages of 0.41 – 1.27% within the next five financial years. Specifically, the objective of this Local Revenue Mobilisation Strategy (LRMS) is to identify a set of reform actions to sustainably and significantly improve OSR collections.

Methodology

Development of the LG LRMS followed a participatory approach to allow for acceptability by a wide range of stakeholders. The development of the strategy was a diagnostic study that was participatory and consultative surveying ten LGs and 2 respective Lower Local Governments. MDAs, development partners and CSOs were also consulted on the strategy to provide input. This was strengthened by an extensive review of literature. The findings from the diagnostic reviews were subjected to review by the Government Task Force chaired by LGFC with representatives from the Ministry of Local Government, the Ministry of Finance, and Uganda Revenue Authority (URA), set up to supervise the Consultant. The outcomes of the study, comprising *three reports; (i) OSR Diagnostics, (ii) Review of Policy and Legal Framework for OSR, and (iii) Technical Review of Local Government Revenue Management Systems,* formed the basis for the development of this LG OSR mobilisation strategy.

Gaps

The diagnostic studies identified gaps in four areas of OSR management that need to be tackled

to reverse some of the trends above and to move towards sustainable and meaningful growth in OSR. These gaps are in OSR policies, legislation, revenue administration, and in systems.

With regard to the ***policies***, the gaps concern among others: (i) the weakening of local revenue accountability and hence the connection between local political leadership and communities; (ii) the negative impact on central government transfers on incentives to improve LR collection; (iii) the effects of reduced autonomy of LGs in local revenues raising; (iv) the weak engagement of communities by LGs authorities and involvement in decision making and policy design; (vi) the limited national level government support in revenue policy design; (vii) the low fiscal discipline in revenue administration, especially with regard to implementation of sharing mechanisms and (viii) the large number of informal businesses which render it difficult to expand revenues collection.

On the side of ***legislation***, the main challenges relate to the complex and frequently amended set of laws with often conflicting pieces. Specific legislation for a number of sources, such as for property taxes, LST, etc. also has numerous gaps which limit revenue expansion.

With regard to ***revenue administration***, the main challenges arise from (i) the low awareness of taxation among the public and hence low acceptance of local taxes and charges; (ii) the manual tax registers making it difficult to update regularly and hence to track and follow up tax payers; (iii) the low efficiency of tax assessment, billing and collection, which is typically a manual and cash-based process; (iv) the weak institutional capacity, including for enforcement and (v) the absence of dispute resolution administrative processes across a large number of LGs, which would improve relations with tax payers.

Major gaps with regard to ***systems*** are the (i) slow computerisation and (ii) lack of a coordination strategy and (iii) plan for automation of revenue management.

Targeted challenges

The range of gaps and challenges is very broad. The Strategy is limiting itself to those that are more strategic and have a realistic chance of being implemented in the medium term.

On the ***policy*** side, the strategy will address (i) expansion of LR and increasing the role they play in local accountability; (ii) expanding LG autonomy in rate and charge setting for OSR to increase their discretion in revenue generation and reducing business in informal category; (iii) tackling indiscipline and malpractices in public financial management such as in sharing of revenues between levels of LGs.

The ***legal component*** will focus on addressing (i) conflicting provisions across national legislation (Constitution, LGA, PFMA, etc.) for OSR; (ii) strengthening provisions for enforcement across key legislation and (iii) implementing targeted amendments to specific key OSR sources, including property tax, LST, LHT and Non-Tax revenues, in order to improve OSR raising.

With respect to ***revenue administration***, the target is to address (i) the limited local administrative capacity of LGs and enforcement powers; (ii) strengthening dispute resolution mechanism across LG; (iii) strengthening central monitoring of collections and OSR processes and (iv) expanding the sensitization and dissemination of information to public regarding own source revenues.

Under the ***systems component***, the strategy will address the (i) government and coordination of systems implementation and management; (ii) a coordinated strategy and plan for the automation programme and it's financing as well as (iii) coordination and networks with other systems to improve the sharing and use of information.

Key interventions

The strategy has accordingly identified the following set of inventions

Revenue Policy and Legislation

(i) Amendments of revenue regulations of major local tax and non-tax revenues;
(ii) Improving OSR policy design

Revenue Administration

(i) Expanding taxpayer engagement and sensitisation
(ii) Implementing Tax registries,

(iii) Providing Support to local property valuation,
(iv) Strengthening revenue administration capacities,
(v) Establishing dispute resolution mechanisms across all LG, and,
(vi) Strengthening accountability for Local Revenues through transparency and public information

Systems

(i) Clarification and Empowerment of Governance structures for RMS
(ii) Acquisition of software solution for Revenue management
(iii) Implementation of local revenue management systems and expanding coverage to all Local Government
(iv) Implementing Interfaces with other PFM systems
(v) Implementing a Business Continuity
(vi) Implementing Support, maintenance and sustainability strategies

Recognising the complexity of these proposals, the institutions involved and ambition the strategy has set, stakeholder support will be key. Therefore, the strategy also provides for the implementation of a communication and change management strategy to build ownership among key stockholders across all levels of government; including politicians and key decisions makers, and outside the Government such as Development Partners and Civil society.

Change management and way forward

Successful implementation of the OSR strategy requires central government ownership and support. Communication and change management strategies are also needed for sustainable reforms. They should focus on the following areas of local revenue mobilisation strategy: (i) awareness raising, (ii) managing and communicating reform process at the central and at local government levels, (iii) increasing capacity to adopt to the changes, (iv) addressing cultural challenges among politicians and policy makers, (v) providing information delivery and dissemination mechanisms to targeted audiences, (vi) encouraging public involvement and feedback mechanisms for positive perception of local revenue mobilisation.

1. Background: Own Source Revenue mobilization and performance.

1.1. Introduction

The Local Revenue Mobilisation Strategy is developed to complement the national Domestic Revenue Mobilisation Strategy of 2019/20-2023/24 (DRMS). The DRMS has set the motivation for reform and its main objectives. This Revenue Mobilization Strategy serves the implementation of the National Development Plan III, which acknowledges the challenges affecting the revenue mobilization and thus the need to address the tax policy and design deficiencies and non-compliance. It is in line with the Public Finance Management Strategy 2019-2023 outcome ie. Increase local revenue contribution. Which aims to address the weak performance of local revenue collections by providing support to review and enhance the legal and policy framework as well as administrative capacities for revenue collection.

The Local Revenue Mobilisation Strategy (LRMS), set out in this document, provides a framework for reforms that will be implemented in the medium term to enhance the potential local government own sources revenue collections. It is the expectation that, implementation of this strategy will result in significant increase in local government own revenue yields resulting in greater local government autonomy in decision making and consequently strengthening of the government's decentralisation policy.

1.2. Local Government own source revenue mobilization

The LG structure consists of several administrative tiers classified as rural (Districts, Counties, Sub-Counties, parishes, and villages) or Urban (City, Division, Municipal, Town, Ward). They are also classified as either Higher Local Governments (HLG – Districts and Cities) or Lower Local Governments (LLG – sub-counties, town councils, Municipalities and municipal divisions)[1]. They form the bedrock of the decentralisation policy. There are 135 districts, 10 Cities, 31 Municipalities, 580 Town Councils, 2,184 sub county councils, 10,595 parish councils, 89 municipal divisions, 20 city divisions and over 70,626 village councils.

The Constitution assigns revenue raising powers to LGs which enable them to collect revenues within their jurisdiction and to apply them to their expenditure priorities. These powers are expounded in the Local Governments Act (Cap 243). The grant system, also provided for in the Constitution, allow these own revenues to be supplemented by grants transferred from the Central Government for the purpose of financing service delivery responsibilities assigned to them.

Various levels of government have varying roles in the management of OSR. Policy roles are largely vested with central government through the Ministry of Local Government (MoLG). Administration and management, including setting up systems, supervision, budgeting and accounting are largely the responsibility of higher local governments. On the other hand, collecting OSR is largely assigned to the lower administrative units i.e. the sub-counties, and divisions of cities and municipalities. These often work with the parish chiefs and town/ward agents in this role.

1.3. Revenue Performance

Trend of Local Revenue: Between 2008 and 2019 local revenue (LR) grew at an annual rate of 4.2 percent. This was however slower than the GDP growth rates which was estimated at an average of 6.5 percent per annum over the same period. In addition, the LG budgets also increased from UGX 2,151 bn to UGX 3,415 bn over the same period – an annual growth rate of 6 percent. ***See Table 1 below.***

1 See Section 3 & 5 of the Local Governments Act

Table 1: Trend of GDP, Local revenue and LG budgets (bn) between 2007 and 2019.

Year	GDP (Bn)	Local revenue (Bn)	LG budget (Bn)	LR to GDP	LR to LG Budget
2007	21,186.56				
2008	24,497.45	116.89	2,151.07	0.48%	5.4%
2009	48,286.94	130.76	1,796.13	0.27%	7.3%
2010	53,884.87	128.42	2,089.24	0.24%	6.1%
2011	64,481.51	115.79	2,247.61	0.18%	5.2%
2012	69,525.37	133.01	1,755.60	0.19%	7.6%
2013	74,602.44	150.74	2,846.89	0.20%	5.3%
2014	82,415.82	165.11	3,092.28	0.20%	5.3%
2015	91,188.86	185.71	2,353.86	0.20%	7.9%
2016	100,116.78	195.44	2,534.70	0.20%	7.7%
2017	108,518.04	220.79	2,721.80	0.20%	8.1%
2018	120,431.04	246.08	2,940.67	0.20%	8.4%
2019	131,405.94	184.41	3,415.78	0.14%	5.4%

Local government OSR has been criticized for under-performing and making limited contribution to the financing of locally provided services. Poor performance is demonstrated against the parameters here below;

a. ***Unreliable local revenues:*** Between 2008 and 2019, LR collections to LG budget show a fluctuating pattern between 5 percent and 8.5 percent as seen in *Table 1* above. Over the same period, LR to GDP ratio declined from 0.48% to 0.14%. Between 2013 and 2018, the ratio stagnated at 0.20 percent as seen in *Table 1 above.* In all cases, these rates are lower than the regional estimates. In 2019, the average LR to GDP ratio in the East African Community was 1.01% while the regional EAC median was 0.93%. For South Saharan Africa, the mean was 1.27% and the median 0.41%[2]. This demonstrates that Uganda is performing below its perceived potential when related with the regional parameters. Implying Ugandan LR collection of Ugx184 billion in 2019, scaling to the regional estimates ie. SSA median, SSA mean, EAC median and EAC mean would imply increasing the revenues to UGX 540 bn, UGX 1,672.9 bn, UGX 1,225 bn and UGX 1,330.4 bn respectively.

b. ***Level of contribution depends on type of LG:*** On aggregate, rural LGs contribute more revenue, 62%, that urban. This is mainly due to the large number of rural LGs (for instance 135 districts against 41 cities and municipalities) in the country. However, considering contribution per unit of administration, more revenue is derived from the urban LGs ie UGX. 2.7 Bn, UGX 0.79 Bn on average from Municipalities and DLGs respectively. Moreover, the per capita revenue collection in municipalities was estimated to be 8.2 times that in the district LGs.

c. ***Weak LR collection efficiency:*** Local governments perennially collect lower than their planned targets OSR and budgeted revenues. Data available shows that revenue collections have on average been below 90 percent of budget for FY2012 – FY2019/20. This performance makes OSRs unreliable sources for development financing and sustained service delivery. Studies have attributed weak collection efficiency to capacity gaps at the LGs for both forecasting of LR targets and enforcement.

d. **Budget allocation for LR mobilization**: The LR collection efficiency is also affected by the low budget allocation for LR mobilization activities**.** Compared to the other countries in the region, Uganda's allocation to LR mobilization, in 2019 was estimated at 3.5% of the LR target, this was the least in the region with Rwanda, Tanzania and Kenya performing at 18.7 percent, 15.2 percent and

2 These ratios are also influenced by the differences in local functions.

2. Objectives of the Own Source Revenue Mobilization Strategy

Over the years, LGs own source revenue have remained weak making very limited contribution to local government (LG) budgets. Studies have attributed this weak performance to several shortcomings including in the areas of policy and legal framework, administration and institutional capacity, and limited automation across OSR processes.

Supported by various studies, the *objective* of this Local Revenue Mobilisation Strategy (LRMS) is **to identify a set of reform actions, to be implemented over the medium term, which will address key weaknesses that have been identified and significantly improve LGs OSR collections.** The improvements in revenues collected must lead to better impact on LGs budget and must be reliable and sustainable in order for them to be meaningful. LGs should be able to maintain improved own source revenues without relying on external parties. The actions so identified reforms should also enable the conversion of the significant revenue potential into actual collections with each LG.

3. Methodology

Development of the Local Government Own Source Revenue mobilization strategy followed a participatory approach. The choice of approach was to ensure the strategy document would be acceptable and owned by the side range of stakeholders both at the national government level and within LGs to ease its implementation

First, the Strategy was preceded by a *diagnostic study* that was participatory and consultative, surveying ten LGs[3], their lower LGs[4] and MDAs and consulting Development Partners and CSOs that have played a part in issues of fiscal decentralising and development of local government own source revenues in Uganda over the years. This was coupled with an extensive review of the literature (see the specific references in the diagnostic reports).

These findings from the diagnostic studies were reviewed by the Government Task Force chaired by LGFC with representatives from the Ministry of Local Government, the Ministry of Finance, and Uganda Revenue Authority (URA), set up to supervise the Consultant. The outcomes of the study, comprising *three reports; (i) OSR Diagnostics, (ii) Review of Policy and Legal Framework for OSR, and (iii) Technical Review of Local Government Revenue Management Systems,* formed the basis for the development of this LG OSR mobilisation strategy.

The draft strategy was reviewed widely by the Task Force above and validated through a stakeholder meeting on 21st May 2021.

3 The sample of local governments were to act as a case study for the assignment because the LGs are rather synonymous. However, we had to ensure there is regional representation.

4 The lower Local Governments were identified by the selected LGs as poor and best performers in revenue mobilization.

4. Key findings from the Diagnostic reviews

This section lists the key findings from diagnostic studies carried out prior to and which informed the strategy. These diagnostic reviews were in three broad areas which included;

i) Study 1: Diagnostic of Local Government Own Source Revenue,
ii) Study 2: Review of legal and Policy framework, and
iii) Study 3: Technical review of Local Government Revenue Management systems.

4.1. Study one, Diagnostic of Local Government Own Source Revenue

The objective of this study was to carry out *diagnostics* to identify the obstacles and issues inhibiting growth in LG OSR. The following key findings were identified;

a) Wide range of minor local revenue sources

The Fifth Schedule, Part IV of Local Governments Act (cap 243) describes and classifies OSR under three categories: Tax, Non-Tax and Other Revenues. However, there about 31 major sources subdivided into 76 detailed sub-sources from which LGs collect revenues. These sub-sources are classified by the Chart of Accounts (CoA).

Not all LGs collect all sources; the most dominant revenue sources have been business licenses, market / gate charges, local service tax, property related duties / fees and land fees. Business licenses and property related charges are most dominant in urban LGs.

b) Main sources of revenue with the greatest potential for growth

The study found **OSR sources with greatest potential** to include for Urban LGs: Advertisements/ Bill Boards, Local Hotel Tax, Park Fees, Inspection Fees, Market /Gate Charges, Business licenses, Property related Duties/Fees, Local Services Tax. While for rural LGs, included: Animal & Crop Husbandry related Levies, Inspection Fees, Property related Duties/Fees, Royalties, Land Fees, Business licenses, Market /Gate Charges, Local Services Tax.**LR continues to perform below its perceived potential**

There is a local revenue potential, estimated by comparison with growth in national (domestic) revenue and with the growth in GDP. The study found LR to have grown significantly slower that national revenue growth or GDP growth over the recent years.

c) Constraints to growth of LR are in two categories (i) administrative and (ii) policy related constraints. The main ones of these are listed here below;

Key Administrative and Institutional constraints:

(i) Lack of updated and automated taxpayer registers across both urban and rural LGs
(ii) Low budget allocation to revenue mobilization activities across nearly all LGs
(iii) Limited awareness and application of the legal framework by revenue management and collection staff
(iv) Limited institutional capacity and in particular, the absence of independent revenue units with LGs, and weak or enforcement capacity especially within District LGs
(v) Political economy issues with gaps in policies and laws exploited by politicians at various levels of government.
(vi) Significant dependence on manual revenue collection processes across nearly all LGs, and
(vii) Low motivation of LG personnel in charge of revenue mobilization; missing incentives to boost the revenue collection.

(viii) Weak accountability and transparency in revenue administration and management, manifested by the limited engagement with stakeholders on activities, plans and results; week internal assurance mechanisms, poor public perception among others.

Key policy constraints:

(i) Ineffective grant system from central government to LGs. The grants provide significantly a high proportion for LG budget funding. This creates limited systemic incentives to LGs to pay attention and put efforts to improve OSR. Because Grant transfers have no direct relationship to the performance of OSR

(ii) Restricted power is setting rates for OSR affecting autonomy of LGs incentives in mobilisation of local revenue

(iii) Cases of overlap of taxes / charges, such as between the rental tax and property rates, which over burdens the taxpayer.

(iv) Lack of a revenue sharing formula between rural LGs and urban LGs (Town councils and Municipalities). Whereas the Local Governments Act cap 243 section 5 defines municipalities and town councils as lower local governments in a district, they are autonomous and do not share their revenue with the HLG (parent district). This exerts supervisory burden to district LGs without contributions from the Urban LGs.

(v) Absence of policies to manage the large and often highly mobile informal sector such as boda-bodas, roadside markets and vendors.

(vi) Inadequate collaboration between government organs to share information on taxpayers and minerals extraction.

d) Best practices and opportunities for enhancement of OSR

The study also documented best practices grown and adopted successfully to improve revenue administration and management by selected LGs;

(i) Village revenue committees, involving local communities in LR mobilisation activities have had an impact in raising awareness and compliance among community members and in improving collection in Kalangala District.

(ii) Adopting project approach as a short-term investment targeting specific weakness can significantly boost collection capacity. This was the case in Nansana where a revenue enhancement team recruited on short term basis to support taxpayer enumeration and registration led to significant growth in the tax payer registration which translated into increased collections.

(iii) Joint revenue mobilization by sub-counties and single receipting has eased the issue of staffing gaps, eased monitoring and enforcement and increased compliance by tax payers in Iganga DLG.

(iv) Physical Accountability for revenue collected such in upgrading community roads and garbage collection improved acceptance and compliance to LG collection in Kajjansi Town Council, Wakiso DLG.

(v) Developing easy payment plans jointly with taxpayers led to increased compliance and improved revenue collections in Gulu Municipal Council (now City council) especially for Business licences and property rates.

(vi) Setting up **independent department or units for revenue administration and management** led to improved institutional capacity and better revenue collections at KCCA.

Dedicated Matching Grant Financing allocation to LGs to support OSR administration and management. The lack of adequate financing for OSR has been dealt with using dedicated financing instrument under the Development initiative

for Northern Uganda (DINU) Local Revenue Enhancement Grant disbursement which has been instrumental in supporting revenue units improve revenue administration and management.

4.2. Study two, Review of legal and policy framework

The review aimed at identifying weaknesses in the policy and legal framework that undermine efforts to improve collections of OSR. The following key findings were identified;

a) Stock of the existing legal provisions for local revenue collections in Uganda

The study found that there exists a comprehensive framework governing local revenue mobilization activities exist. However, some legal provisions are outdated and are inhibiting growth in collection. For instance, penalty provisions are not strong enough to deter non-compliance.

b) Key challenges in the legal and policy framework for revenue mobilisation inhibiting growth in collections

Current policy and legal framework include a wide range of gaps which limit growth in revenue collections. The key gaps identified by the diagnostic review related to exemptions in legal framework, outdated and weak sanctions in the laws see details below;

(i) Section 80 (1)(b) of the Local Governments Act Cap 243 (as amended) is currently not enforced against all categories of persons earning income. LST guidelines are currently not enforced against commercial farmers and exclude boda-bodas, both categories of income earning persons are potentially major sources of LST.

(ii) Additionally, LST tax rates in the Section 80 of of the Local Governments Act Cap 243 (as amended) and Part II of the Fifth Schedule of the Local Governments Act Cap 243 (as amended) are low and banded.

(iii) Section 80 (1) (b) of the Local Governments Act Cap 243 (as amended) does not provide for data integrity, which is the basis for the collection of Local Government Hotel Tax. This challenge affects revenue mobilisation. The data provided by hotels for purposes of supporting the tax collected is not comprehensively verified by LGs. Such data is often manipulated by hotels and separate books/entries are maintained to evade payment of tax.

(iv) Section 2(1) of the Local Governments (Rating) Act 2005 provides a narrow definition of the term "property" and appears to limit the application of Act to developed land.

(v) Section 3(5) of the Local Governments (Rating) Act 2005 exempts owner occupied residential buildings from payment of property rates and reduces the number of properties available for taxation.

(vi) Pursuant to section 30 (1) and (2) of the Local Governments (Rating) Act 2005 (as amended), permits local governments to commence recovery of unpaid rates and interest without issuing of demand notices. Such recovery action should be brought within six years after the rates have become due.

(vii) Sections 8 (2) and 31 of the Trade (Licensing) Act Cap 101 (as amended) provide broad exemptions to the Act and restrict collection of revenue.

(viii) Section 75 (7) of the Electricity Act Cap 145 on royalties makes special reference to the district local governments and in so doing limits the application of the provision to other LGs.

(ix) Contrary to the broad definition of electricity in section 3(n) of the Electricity Act Cap 145; section 75 (7) of the Electricity Act Cap 145 limits payment of royalties to hydroelectricity generation.

(x) Section 98 (2) of the Mining Act 2003 does not clearly provide for royalty sharing between HLGs and LLGs. The provision does not provide for information sharing between central government and local governments.

(xi) Section 65 of the Uganda Wildlife Act 2019 does not define the LG to which payments should be made (no distinction between HLGs and LLGs). The provision also only provides for revenue sharing in respect of park entry fees and excludes other fees derived from permits issued under the Act.

(xii) The National Forestry and Tree Planting Act, 2003 makes no provision for royalties for revenue generated from central forest reserves. In addition, regulations are yet to be

enacted to support implementation and enforcement of the National Forestry and Tree Planting Act, 2003. Although the Forests Act Cap 146 was repealed by the National Forestry and Tree Planting Act, 2003, the Forest Rules, Statutory Instrument No. 146-2 continue in force. The fees set in First Schedule of the Forest Rules for forest produce are too low and not in line with current commercial rates.

(xiii) Article 192 of the Constitution and section 80(3) of the Local Governments Act Cap 243 (as amended) do not provide a rate for agency fees payable to local governments. Additionally, the provisions do not provide an indicative schedule of taxes or fees to which the provisions should apply.

(xiv) Section 22A of the Fish Act Cap 197 (as amended) does not provide for sharing of fees received by from licenses issued under the Fish Act Cap 197 (as amended).

(xv) Rule 11 of the Animal Diseases Rules Statutory Instrument 38-4 provides an animal movement fee of UGX 500 (Uganda Shillings Five Hundred). These fees are too low relative to the value of livestock in Uganda. Besides, the law does not provide for sharing of the revenues between the centre and LGs.

(xvi) The Markets Act Cap 94 does not define the term "market" this creates challenges in regulating markets and collecting market dues.

(xvii) Outdated and weak sanctions in many of the laws on OSR. As indicated in the legal review reports, particularly Section 2.2, Table 2 and Annex 2 of the Legal Review Report, the sanctions provided in some relevant laws are not consistent with current commercial realities. For example:

a. Section 15 of the of the Trade (Licensing) Act Cap 101 (as amended) should be amended to increase the fines applicable for violation of provisions of the Act.
b. Section 3 of the Markets Act Cap 94 should be amended to provide appropriate fines. The fines provided in the Act are too low and cannot deter non-compliance.
c. Section 89 of the Electricity Act Cap 145 should be amended to provide fines for the nonpayment of royalties.
d. Regulation 42(1) of the Building Control Regulations 2020 should be amended to provide higher fines for non-compliance with permits for commercial buildings.

(xviii) Overlap between the national tax base and the local government taxes. This challenge is also highlighted in the DRMS. Section 80 of the Local Government Act Cap 243 (as amended), sets out the sources of local government own source revenues. Some of these revenue sources overlap national taxes. LG officials interviewed noted the potential overlap between property rates levied by LGs and rental tax levied by URA.

Key study recommendations

a) Disband the groups in LST to accommodate more tax payers.
b) Amend laws on Local Government Hotel Tax to ensure that verifiable data is available to LGs.
c) Enhancement of LGFC powers beyond advisory and include support implementation.
d) Enhancement of the sanctions provided for non-compliance with provisions in the relevant laws.
e) Harmonization of the Public Finance Management Act 2015, the Local Governments Act and the Local Governments (Financial and Accounting) Regulations 2007
f) Relevant amendments to the LG especially, Regulation 18 of the fifth Schedule to provide for annually to provide for annual charging policy for all taxes including the newly identified ones.

4.3. Study three, Review of Local Government Revenue Management systems

The review was intended to generate recommendation for streamlining LG revenue systems to improve their coordination and support to the LG revenue mobilization process (ie. assessment, budgeting, collection, and reporting) and to provide appropriate interface(s) with other government PFM systems – most importantly, the IFMS and URA. The following key findings were identified;

a) Stock of existing revenue management systems in LGs

There are three main revenue systems currently deployed in various LGs. these include (i) Electronic Local Government Revenue system (eLogRev) deployed in 2 LGs as of March 2021, Integrated Revenue Administration System (IRAS) deployed in 15 LGs and MyTax deployed in Masindi Municipality central Division.

b) Technical review systems that have been developed for revenue management in LGs

The review of systems identified some challenges affecting the systems implementation and these included the following;

(i) Absence of a coordinated governance and guiding framework resulting in an increasing number of systems with likely consequences for duplication of efforts and increasing challenges for sustainability
(ii) Lack of adequate documentation of systems for design and operations increasing the risk surrounding the systems during implementation and the support
(iii) Lack of comprehensive plan for introducing and supporting systems including financing and capacity development in a way that will ensure sustainability
(iv) Absence of a coordinated strategy for implementing and rolling out systems
(v) Absence of a coordinated plan for integrating and interfacing with other PFM systems such as IFMS and PBS
(vi) Lack of basic business continuity plans in implementation including the use of disaster recovery facilities

Key recommendations for future development of IT Revenue Management Systems

(i) The MoLG, will lead the development and implementation of Local Government Revenue Management IT Systems in Local Governments in collaboration with the LGFC, AGO, NITA U, Ministry of ICT and URA.
(ii) MOLG working with LGFC and Office of the Accountant General, should put in place a coordinated governance, guiding framework with sets of standards to be followed in implementation of systems
(iii) There will be established a Standard Menu of System Specifications for an Integrated Revenue Management system suitable for Local Government that will be used to implement any Revenue Management System in the Local Governments. A Revenue Management System that complies with the standard menu will be authorised by the Strategy Coordination Committee to be implemented in the Local Governments.
(iv) MoLG should lead efforts to strengthen institutional coordination and capacity for management and support to systems being implemnated in Local Governments.
(v) The set of standards listed in the study for implementation of LG revenue management systems should be validated and adopted by the governance framework identified above, and
(vi) MoLG should lead the development of a coordinated strategy and comprehensive plan for implementation of RMS.
(vii) Adopt the national identification number (NIN) as the unique identifier in the revenue management systems.

5. All Revenue Management IT Systems implemented in LGs will be owned by Government of Uganda. The rights to them, including the Source Code must be formally acquired by Government. Strategic goals for the Local Revenue Mobilisation

In view of the findings of the studies above and other past studies, the following strategic goals are identified for Local Revenue Mobilisation Strategy (LRMS) for the purpose of encouraging taxpayer compliance to enhance local government own-source revenue mobilization:

(a) Improve the legal and policy framework governing revenue mobilisation;
(b) Improve local revenue administration and management;
(c) Expand automation in local revenue administration processes across all LGs; and
(d) Improve collaboration among key stakeholder in the management and administration of LG Own Source Revenue

6. Targeted challenges and Strategic actions

Using the strategic goals listed in Chapter 5, this section aligns the key targeted challenges and identifies key interventions for their resolutions.

6.1. Improvements to the legal and policy framework governing revenue mobilisation

Legal issues have been identified as a major challenge that inhibits the LR administration and effective management. The weaknesses have been highlighted in the form of exemptions, a weak punitive measure to deter non-compliance, weakness on enforcement and lack of clarity on implementation. The intention is to strengthen the legal regime that supports local revenue management in LGs.

The interventions targeting strengthening the legal framework to enhance and enforce LG OSR mobilisation include;

6.1.1. Amending existing legal framework.

This strategy has developed interventions to enhance revenue from existing OSR sources through strengthening the existing legal framework for LGs to mobilise revenue. *The interventions are geared towards strengthening the existing legal framework to support LR enforcement, secondly, the interventions target enhancing the OSR sources.* The implementation of the proposals will improve local revenue performance and harmonize all the laws governing local revenue management in the Country. The major outcome is developing a harmonized legal framework to enhance local revenue mobilisation. The proposed amendments include the following:

i) **The Local Governments Act (CAP 243).** The Act provides for a lot of exemptions and many tax bands. This strategy proposes the removal of exemptions on the eligible Local Service Tax (LST) payers. The Fifth schedule, Part II, sections 3, 4 and 6 provides for too many bands (10 bands) and the lowest band is too low (UGX 5,000/=) and too much exemption. This strategy proposes that, exemptions be removed on the eligible Local Service Tax payers to allow for commercial farmers, bodaboda riders and artisans to pay LST. Secondly this strategy proposes opening the bands to allow more income earners to contribute more ie. Taxpayers earning over UGX 1M shillings should pay somewhat over UGX 100,000/= shillings.

ii) The Fifth schedule, Part III, section 8(2) of the **Local Government Act (CAP 243)** provides for a long period of a month for remittance of the deducted hotel tax to the local governments by hotel owners, but this period is too long for the hotel to hold these deductions. This strategy proposes that, The Fifth schedule, Part III, section 8(2) of the Local Governments Act (CAP 243) should be reviewed to give the LGs the discretion to decide on the remittance period which may vary from weekly to monthly depending on which category.

iii) Amend Section 80 (1)(b) of the **Local Governments Act Cap 243 (as amended)** to ensure that verifiable data is available to LGs to ***smoothen the collection process for Local Government Hotel Tax***. Occupancy data provided by hotels to LGs should be subjected to an independent audit. The capacity of local governments to audit the occupancy data provided and to conduct random checks should be enhanced. Additionally, LGs should work together with URA as it has access to hotel revenue data.

iv) **The Market Act;** Many markets have been built in the local governments and new methods of management have come on board. The Act is also obsolete. The Commission proposes the Act be amended to cater for the new changes in management of markets.

v) **Informal business operations**: the LGs suffer from the informality of business operations and these come in the form of makeshift business such as vendors, roadside traders,

evening markets among other businesses. This strategy suggests the amendment of the Trading License Act to cater for informal businesses. The informal businesses manifest in various forms and thus introducing a vendors' license may support revenue generation and improve regulation of the business operations.

vi) **Park fees;** the fifth schedule section 18 of the Local Governments Act cap 243 should be improved to provide for park regulations clarity to accommodate collections from bodabodas. Given their large numbers especially in urban LGs they are likely to fetch a significant sum for the LGs. This could be set at regulatory operation fee of UGX 10,000/= a month.

vii) **The Local Government (Rating) Act, 2005,** the Act provides for a lot of exemptions. The Commission proposes the removal of Owner-occupied residential houses in urban areas from the general exemption list. The Local Governments will then Use "ability to pay" of the residential owners to rate the annual property rate ranging from UGX 50,000/= to UGX 100,000/= per year.

Secondly, this strategy proposes amendment of Local Government (rating) Act, 2005 section 29, to allow for recovery without a demand notice to a period less than 6 years. Amend Section 30 to cater for collection from absentee landlords.

Thirdly, Section 2(1) of the Local Governments (Rating) Act 2005 (as amended) should be amended to include vacant registered land, that is used for commercial purposes or used to generate income, in the definition of the term "property."

viii) **The Electricity Act, 1999, Section 75(7) (8) (9);** The Act stipulates remittance of royalties to **'district',** this has been interpreted to mean only districts and urban councils have been denied revenue. This strategy proposes remittance be changed to read **'district or urban LG'** and a clear rate be set for sharing of royalties and reviewed regularly say every 5 or 10 years.

ix) **The Mining Act, 2003(Section 98(1) (2);** The Mining Act does not provide for the sharing of the information on amount of minerals mined and revenue generated. The strategy proposes that, the Mining Act be amended to provide for sharing of information and schedule for payment of royalties. This will enable LGs to effectively budget and appropriate the revenue for service delivery

x) **The Uganda Wild Life Act, 1996(CAP 200);** Only Park entry fees out of the many activities in wild parks is being shared with the local governments. The strategy proposes that, the Act be reviewed to include other licenses issued by UWA for other activities like small scale mining, rafting, etc.

xi) **The National Forest and Tree Planting Act, 2003, Section 39-64;** The Act has no provision for royalties to LGs especially from the revenues generated from central forest reserves. This strategy proposes that, the Section 39-64 of the Forest and Tree Planting Act, be amended to include a provision for royalties to the LG where the forest is situated

xii) **The Income Tax Act (CAP 340);** The Income tax Act (CAP 340) is not harmonized with the Local Governments Act (CAP243). This strategy proposes that, the Act be amended to reflect for **agency fee of 20% on the Net collection of WHT and VAT** to be paid to local governments.

xiii) **The Fish Act;** Fish Act does not have provision for paying an agency fee to LGs the share

of revenue collected on behalf of MAAIF. This strategy proposes that, the Fish Act be reviewed to provide for **Revenue sharing of 40%** to be paid to local governments.

xiv) The Statutory Instrument no. 38-4(11) of the Animal Disease Act; The veterinary fees (Movement Permits) being collected by the LGs are sent to the central government without sharing with the local governments. This strategy proposes that, the Animal Disease Act be amended to allow local governments **Revenue Sharing of 40%** of this revenue

xv) Enhancement of LGFC powers beyond advisory roles and include support of implementation. Sections 9 (a) and (c) of the Local Government Finance Commission Act 2003 should be amended to provide additional powers to the LGFC especially with regard to overseeing implementation and coordination of the Local Governments Act Cap 243 (as amended), particularly revenue collection and management provisions in the Local Governments Act Cap 243 (as amended).

xvi) Enhancement of the sanctions provided for non-compliance with provisions in the relevant laws.

a. Section 15 of the of the Trade (Licensing) Act Cap 101 (as amended) should be amended to provide a fine of at least UGX 1,500,000 (Uganda Shillings One Million Five Hundred Thousand) for non-compliance with provisions in the Act.
b. The Markets Act Cap 94 should be amended to provide fines consistent with the Law Revision (Fines and Other Financial Amounts in Criminal Matters) Act, 2008. That said, the Law Revision (Fines and Other Financial Amounts in Criminal Matters) Act, 2008 was enacted in 2008 and may require amendment to keep pace with current commercial realities. A fine of at least UGX 100,000 (Uganda Shillings One Hundred Thousand) is proposed.
c. Section 89 of the Electricity Act Cap 145 should provide fines for non-payment of royalties. The amendment should also provide a surcharge or interest on unpaid royalties.
d. The fines provided in Building Control Regulations 2020 may not be sufficient to deter persons constructing commercial buildings from deviating from the relevant permits issued and should be enhanced to deter non-compliance.

xvii) Harmonize the Public Finance Management Act 2015, the Local Government Act and the Local Governments (Financial and Accounting) Regulations 2007 to provide a clear legal framework for the regulation of OSR collection and administration. Additionally, section 80 of the Local Government Act Cap 243 (as amended), should be amended to address overlapping taxes.

xviii) Develop and adopt a harmonised approach for property valuations. Across local governments, property valuations have been the major cause of litigations. There is need to harmonise the valuation to ensure a smooth collection process.

6.1.2. Expedite process of approving LG ordinances and gazetting the by-laws enacted

There has been a challenge at LGs where they enact by-laws and they are not gazetted. The by-laws or charge policies have been intended to allow for collection from the allowable sources in the Local Government Act cap 243.

The guidelines are clear that all ordinances and by-laws right from the LLG are subjected to a specific procedure before they can be implemented. However, often times there are delays in the processing of approval to implement the ordinances, charge policies and the by-laws. Soe LGs have been victims of law suits because they were implementing charge policies / ordinances / by-laws being implemented have not been gazetted by the Judiciary.

This strategy suggests that processes are expedited for gazetting the proposals from LGs to ensure a smooth administration process of revenue mobilisation.

6.1.3. Provide more clarity on the general taxes in the Local Government Act cap 243.

The fifth schedule of the Local government Act cap 243 identifies other sources that LGs can collect Local Revenue. However, this is not sufficient because it does not provide the tax base,

the rates, and the enforcement. This often result in LGs developing charge policies that differ from one LG to another.

This strategy suggests that MoLG enhances the section 18 of the fifth schedule of the Local Government Act cap 243 to include the base, the rates and enforcement mechanism and penalties.

6.1.4. Impact assessment of the revised legal framework.

This intervention targets assessing the relevance of the amendments. Thus, this strategy suggests carrying out an impact assessment of the legal review. This will contribute to the evaluation of the strategy.

6.2. Improved local revenue administration and management

Improving revenue administration and management at all levels of local governments is central to enhancement of revenue collection. Studies have identified weaknesses in LG revenue administration through all stages of the OSR cycle including; OSR planning, tax payer awareness of taxes and payment options, enumeration, assessment, billing, collection, management of transfers from Central Government, revenue sharing, contract management for outsourced collection services, and review and monitoring. Some of the most prominent weaknesses have been highlighted in sections 4.2 above, many of which have led to low tax compliance, leakages and loss of revenues and above all, absence of meaningful growth in local OSR. The Government has over the past implemented actions to address these weaknesses, through improving the laws, providing guidelines, training and automation but gaps remain in many of these areas.

Building on past efforts, **the main goal under this intervention will be to strengthen the effectiveness and efficiency of OSR administration and management processes**; improving application of internal control and reporting while at the same time, making these processes more responsive to the tax-payers and the general public. The Government will pursue the resolution of these issues through the following key interventions;

(i) Updating taxpayer registers; and promote voluntary compliance
(ii) Establishing mechanisms to ensure tax-payer register are kept up-to-date in all local governments,
(iii) Strengthen capacity for revenue assessment,
(iv) Strengthening Capacity for Revenue enforcement,
(v) Strengthening Monitoring and Reporting,
(vi) Enhancing Institutional capacity for Revenue raising

Specific actions to support these interventions are listed further below.

6.2.1. Updated LG Taxpayers registers

Studies point to generally low awareness creation on taxation by LGs which has created low public acceptance and consequently low willingness to paying local taxes and charges. Low willingness to pay depends on the public acceptance and is also an illustration of the weak engagement of taxpayers in local decisions which in turn results into poor tax morale and compliance. Besides awareness about the taxes, there is also limited engagement and support from the LGs to ease tax process. Increased compliance depends on how well informed the taxpayers are about their financial obligations and the local services received for their payments made.

This strategy provides for the following key actions to foster sensitisation and education of tax payers about OSR:

(i) LGs to establish and implement tax payer education programmes aimed at enhancing acceptance of the OSR sources. There is acceptance and compliance from taxpayers if they have clarity. In this regard, LGs will put in place specific programmes to building internal capacity for undertaking tax-payer education.
(ii) Promote compliance through ensuring timely access to information to tax payers, put in place deliberate mechanism to obtain taxpayer feedback on products and services and

onetime response to tax payer information request etc through process automation among others.

(iii) LGs to establish change management and capacity building programs for elected council members on the local government taxes to cultivate their support for tax education exercise as well as OSR administration in general and support the councils formulate and approve charging policies for all taxes.

(iv) LG to establish Citizen Charters on local own source revenues collection laying out their administration and targets for spending on services concerning communities. This will improve citizens' and businesses' willingness to pay and increase voluntary compliance.

(v) LGs to establish participatory fiscal social contract specifically targeting larger tax payers to establish mechanisms of inclusion that are needed. This may be through select committees such as municipal development forums, dialogue with property owners' association, business associations and lower political leadership, etc.

6.2.2. Ensuring tax-payer register are kept up-to-date across LGs

LGs do maintain registers but these are largely manual and therefore, LGs find it difficult to keep them up-to-date. For example, property valuation lists / registers for most LGs are mostly manual out of date. Registers that are not up-to-date can be misleading and un-reliable for revenue collection. The integrity and accuracy of information in the registers remains a challenge. Accordingly, LGs are losing revenue in part because of these registers. Beyond manual processes, low staff capacity as well as weaknesses are attributed to the high costs for maintaining registers such as for property valuation, have been identified across past studies.

This strategy provides for the following key actions to for enhancing taxpayers' registers:

(i) LGs ought to provide specific budget provision for enumeration exercise every financial year to constantly update their revenue registers.

(ii) LG will evoke the management of funds as provided for in the Local Government (Rating) Act 2005. The law provides that revenue from the property rates be managed by the property fund at the LG and 25 percent of the collections be used for administrative services which can be interpreted to include updating valuation lists.

(iii) In the interim, before the full roll-out of improve revenue management systems under section 6.3.2, LGFC will improve and expand the use of the LG databased system (LGDBS) and introduce digitized registers from village level upwards for all taxpayer categories to support field enumeration activities of LGs.

(iv) LGs will be supported to carry out surveys to identify and register all taxable persons and objects within their jurisdiction. This will increase coverage of revenue potential and facilitate revenue planning, assessment and collection.

(v) To manage the high costs of property valuation, the GoU shall finance mass property valuation as provided under section 12 of the Local Government (Rating) Act 2005, as well as and computerization of the valuation lists which are currently out of date.

(vi) Combined revenue collection by stakeholders. It is important that as LGs are moving towards automation of revenue mobilization process, where LR are collected by URA through an interface that taxes from the same source be charged together and rather develop a payment plan that does not burden the taxpayer. For instance, property rates and rental income can be collected with the same demand notice and a sharing be implemented accordingly.

(vii) The URA and LGs to improve coordination in data capture and storage especially for property and income taxes. This will include developing a unified tax identification number for taxpayers at both LG and URA.

6.2.3. Strengthening Monitoring and Reporting

In the absence of a comprehensive integrated revenue system, monitoring of OSR centrally is

still a challenge. Information is not captured and shared in real time, creating a gap between record capturing and reporting. Lapses in information sharing increases the risk of leakages and poor accountability. Central government institutions, such as LGFC and MoLG, are unable to get current and reliable statistics on revenue assessment, collections, and debt. LGFC only gets data on actual collection from the external audit reports which are at least 6 months after closure of the financial year. This challenge maybe resolved when a fully operational internal revenue administration system is in place.

This strategy provides for the following key actions to strengthen OSR monitoring and reporting:

(i) Strengthen the internal audit function for better monitoring and control.

(ii) Install and operationalise a comprehensive integrated revenue system to enforce easy monitoring of OSRs. A fully operational Revenue Management system should be expedited so that there is real-time sharing of information.

6.2.4. Enhancing Institutional capacity for Revenue administration and management

Weaknesses and capacity gaps in institutional capacity to administer and mange OSR in LGs has been cited as a major limitation for revenue growth. These gaps are linked to *lean structure, deficiencies in skills and capacity for assessment and enforcement, outdated operations procedures, and inadequate financing to revenue operations among others.*

Diagnostic studies established the administrative structure for revenue management within LGs to be insufficient to support the responsibilities for administration. Functions such as enforcement were not provided for rural LGs in the approved structure. *Secondly*, the key revenue positions approved in the structure were often found to be filled at less than 50%. *Thirdly*, Skill gaps were also sighted and these were evidenced especially in revenue projection, budgeting, assessment, enforcement, accounting and reporting, as well and people management skills. This has prompted some LGs to outsource some of these functions such as hiring legal firms for enforcement but this has been found to be costly and unsustainable. Fourthly, a major limitation, prevalent across most of LGs was the low financing of revenue activities. Studies found that LG revenue operational budgets are considerably lower than in the regional estimates i.e. often less than 5 percent of the LR target. This and finally there is no informed regular analysis of the health of their tax administration system to compare with their pears or regional or international practice. Such informed reporting would shade light on conditions of the tax administration system and back need for further improvements makes it difficult to meet demands for revenue collection and enforcement.

This strategy provides for the following key actions to for enhancing institutional capacity for revenue administration and management in LGs:

(i) Public Service through the respective District Service Commissions to substantially fill the human resource gaps in LGs particularly for the revenue mobilization.

(ii) MoLG to implement a capacity building program for town agents and parish chiefs to ensure adequate knowledge of taxes at LGs for accurate assessments and to limit on litigations.

(iii) The Ministry of Public Service to approve proposals for independent revenue departments / units within new cities, municipalities and districts.

(iv) MoLG to lead the implementation of a capacity development plan for the revenue units including providing basic equipment such as computers, training of staff in all aspects of revenue management cycle

(v) LGs to operationalise Revenue Management committees and tribunals

(vi) LGs to step up their budget provisions for LG revenue administration processes including fully providing for operations of the LG revenue units that will have been established.

(vii) The MOLG and LGs should establish benchmarks for a healthy revenue administration system and support regular self-diagnosis against for better and informed LG level planning. This will further enhance planning, monitoring and reporting from the LG level.

6.3. Expanding automation of local revenue administration processes across all LGs

The Government will seek to automate local revenues administration processes across all LGs. The main goal under this strategic objective is to expand the use of technology in OSR management and administration processes to increase efficiency and to strengthen control and

accountability for the collections made.

Several efforts have gone into implementation of revenue management systems. These past experiences in using automated revenue management systems have been very useful in demonstrating the transformative power of technology in strengthening revenue management operations and in improving OSR mobilization. The strategy will build on these past efforts.

However, beyond the technology, these experiences have also shown that issues raised in section 4.3 have to be resolved for system to have greater impact. These key issues concern governance and coordination of systems implementation, extending coverage of all LGs and enhancing the capacity of relevant units to manage and maintain these key systems.

The Government will pursue the resolution of these issues above and expansion of automation of local revenue management processes through the following key interventions;

(i) Strengthening governance and coordination of revenue management systems for local governments;
(ii) Extending coverage of revenue management systems to all local governments
(iii) Enhancing coordination / interfacing of revenue management systems with other PFM systems, and
(iv) Strengthening institutional capacity for managing and maintenance of LG revenue management systems

Specific actions to support these interventions are listed further below.

6.3.1. Strengthening governance and coordination of LG RMS

Strong governance and coordination mechanisms will be crucial for an effective and sustainable implementation of revenue management systems. They will ensure investments made in systems benefit LGs and the government in general and are within limits of affordability. Previous studies have shown such mechanism have not existed before. There was a more fragmented approach to RMS implementation and no clear and coordinated plan for introducing, rollout and supporting systems or even for financing and capacity development which will be important to ensure sustainability. These shortcomings have *led to duplication of efforts, made it difficult to attract financing for investments in such systems, and increased challenges for coordination with other systems efforts as well as sustainability*

This strategy will address governance and coordination issues to ease the implementation and management of RMS across local governments through the following specific actions:

(i) First, there will be established a Revenue Management Systems (RMS) Governance Coordination Committee as an Adhoc Committee under the Strategy Coordination Committee to specifically form a high-level governance committee on automation of Revenue Management Systems The Committee will be chaired by MoLG with membership from LGFC, Accountant General, NITA(U) and the Local Government Associations (UAAU, ULGA).. The Committee will form the clearing house of all technical IT solutions for LG revenue management and will oversee the implementation of the automation programme.

Box 1: Membership to the RMS Governance Committee and basis for selection

- The Ministry of Local Government (MoLG); MoLG has policy responsibilities for OSR - for developing and ensuring implementation of accounting policy and financial and accounting regulations and for approving accounting information systems. MoLG is therefore well suited to lead the governance structure for the development and implementation of revenue management systems
- The Local Government Finance Commission (LGFC). LGFC has an advisory role on OSR policy including on sources, rates, distribution and reporting. On the basis of these responsibilities and given the experience garnered in rolling out the LRDBMS and in implementing the IRAS, LGFC's inclusion is critical and best placed to house the secretariat to these governance structures
- The Accountant General's Office (AGO), Ministry of Finance, Planning and Economic Development (MoFPED); the LG Finance and Accounting Regulations require the AGO extend advice to MoLG on accounting policy as well as accounting information systems for LGs. At the same time, AGO has overall responsibility for the Government's IFMS supporting the accounting and financial reporting processes across central government and in most LGs and with which interfaces with the LG revenue management system will have to be built. AGO is therefore well suited to be a key member of this governance structures.
- National Information Technology Authority (NITA-U); provides the technical guidance on systems implementation within the National IT policy ensuring technical standards are observed and providing guidance of areas of overlap and duplication. It has responsibility for clearing all IT systems before they get implemented.
- Other members that may be considered to this governance structures LGs through their associations – Urban Authorities Association (UAAU) and Local Governments Association (ULGA); to ensure direct voices of LGs are represented.

(ii) Secondly, the Committee will ensure the OSR strategy on revenue management systems is approved and will ensure its implementation.

6.3.2. Extending coverage of RMS to all local governments

There have been previous efforts to implement revenue management systems but these have been limited. Only a limited number of LGs have had operational systems for revenue management implemented. Previous studies assessed the systems that were under implementation for suitability for extension to other local government and recommended adoption of IRAS over the others.

At the time of drafting this strategy, IRAS had been implemented in two (7) cities of Gulu, Fort Portal tourism city, Mbarara, Hoima, Arua, Mbale and Soroti, in four (4) Municipalities ie Entebbe, Mubende, Nansana and Makindye Sabagabo, and in four (4) rural local government Yumbe, Adjumani, Amuria and Zombo while eLogRev had been implemented in 2 divisions in Jinja city (Walukuba and Central) and one division in Kira MC (Namugongo). This left a gap of at least 115 districts and their LLGs, 9 cities and their divisions, and 37 municipalities and their divisions. This huge gap meant that a large number of LGs were still yet to access the benefits of automation.

IRAS has planned to implement the RMS in all LGs by June 2023 at a budget of only 13.3 bn[5].

The studies above recommended the deployment of IRAS to all LGs. However, the developers are required to ensure that IRAS is fully meets the requirements for LGs. This implies that IRAS ought to be subjected to an expanded set of user requirements and further customisation.

The specific actions under this intervention listed below assume that the Government will adopt IRAS for the local government revenue management system;

5 Progress on rollout of Integrated Revenue Administration system, March 2021 report.

(i) **Acquisition of software solution for Revenue management:** The Government will take full control of the IRAS. IRAS, while housed under LGFC, is supported by external parties the World Bank, and developed by a private sector firm - YOYA Consultancy Limited. Rights to it will be formally acquired by the Government (MoLG / LGFC) and a contract entered into with the private firm for further development and deployment.

(ii) **Project Management Team:** The Governance Committee on RMS will establish a project management team to steer the project. This will prepare a project charter which will detail key roles and resources required in the implementation of the project.

(iii) **Finalising user specifications**; the Study was able to list a set of high-level functional requirements. These will be fully developed and validated with users before further development of the system. The users list shall cover central governments bodies (MoLG, LFGC, MoFPED), all levels of LGs with direct roles for revenue management (HLG, LLG ie. divisions / towns / sub-counties) and all forms of LGs: Rural LGs, Cities and other Urban LGs (including Municipalities and Towns). To ensure maximum benefit, the user requirements will need to be based on business processes that are reengineered to suit the objectives of a modern solutions. Re-engineering will be required to improve revenue management business processes during future implementation, to *reduce redundancies*, to strengthen the implementation of internal controls in order to reduce leakages, to increase tax payer access in order to improve compliance, to ensure all revenue sources are implemented *within the realm of the governing legal framework and NITA-U* policies and guidelines, and ensure all stakeholder needs are provided for.

(iv) **Further development of solutions**; the IRAS application will be further developed or customised to meet the approved user specifications in (iii) above and tested covering the full OSR cycle and all stakeholder needs.

(v) **Pilot implementation and final approval**; the fully developed and tested IRAS solution will be deployed in production in a set of pilot LGs. Pilot LGs will constitute those where the solution, in the case of IRAS, was already implemented. The implementation, at this point shall also cover central government agencies - MoLG, LGFC and MoFPED. After running the solution in pilot for and agreed period, a formal seal of approval will be granted by the Governance Committee then rolled out.

(vi) **Rollout of the IRAS:** A detailed strategy and plan for rolling out the revenue management systems will be prepared. This will include a data migration strategy and identification of staff teams for training and change management activities;

(vii) **Migration of existing data**; numerous amounts of data, such as taxpayer registration, already exist from digital form through systems that already exists (LRDBMS, IRAS, eLogRev). These may be used but may require cleaning reorganisation to meet formats required under the approved solution.

The rollout of the revenue management systems is dependent on the Managing implementation dependencies. These are factors that will affect the successful implementation of the integrated revenue management system. The following are the dependencies to be managed across the entire re-engineering implementation:

a. *Provision of stable IT infrastructure within the LGs -higher and lower to enable timely implementation and roll out of the RMS*
b. *Interfacing and/or integration with IFMS, Planning and Budgeting, URA, Commercial Banks, POS. Achievement of these interfacing and/or integration requirements will require a close working relationship between the Implementing and the relevant institutions*
c. *Availability of relevant stakeholders during training sessions on the re-engineered modules and functionalities identified*
d. *Provision of revenue codes for specific revenue sources.*

6.3.3. Enhancing coordination of RMS with other PFM systems

Link with other systems: The RMS will have to link with other key systems, at minimum IFMS, PBS and URA's eTax, to access and to share data with these systems in order to enhance its impact. Studies show that absence of a coordinated and institutionalized plan slowed progress towards implementation of interfaces/integrations with RMS for data exchange especially as fragmented systems were considered a security risk. This strategy will require the RMS to be able to interface with PFM systems including at minimum IFMIS (for financial accounting and reporting on revenues) and PBS (for consolidated revenue budgeting), with URA eTax (for exchange of information on tax payers and LR collections). Therefore, specific actions under this intervention will include;

(i) Development of an integration framework covering all systems including the IFMS, PBS, URA systems, Banks and payment systems to guide implementation of integration needs for the RMS

(ii) Design and implementation of electronic interfaces between the RMS, PBS and the IFMS.

(iii) Design and implementation of integration interfaces with banks and payments systems.

6.3.4. Strengthening institutional capacity for managing and maintenance of LG RMS

Institutional capacity will be necessary for effectively managing and maintaining the LG RMS. Studies established lack of such capacity increases the risk to the use of systems once implemented. In addition, the system in place are implemented largely without any basic business continuity plans. This raises risk for recovery and continuity of operations in the event of planned or unplanned systems breakdown.

The following specific actions will be implemented under this intervention

(i) **Support, maintenance and sustainability**: A support and maintenance strategy and programme will be put in place and implemented to ensure the system is sustained at all times. The strategy will consider resources; internal and/ or external which shall be used to provide maintenance and support over the time. At minimum, it will include identification of internal support teams, defining relations with the system supplier during support activities, and costing support activities. The strategy shall also consider establishing a service level agreement (SLA) with the solutions supplier.

Financing is key for the support programme; a budget line will need to be established form which expenditures relating to support and maintenance will be funded.

(ii) **Training & capacity building**; a training and capacity building programme to ensure continuous strengthening of skills around the revenue management systems will be prepared and implemented

(iii) **Documentation**; the Project Team will ensure all documentation related to the system is stored properly for use during support and maintenance of the systems. Documentation of processes and procedures is a critical aspect of system development cycle. These should entail document change control procedures and versions where necessary. A checklist of this has to be maintained. The Project Implementation Team will establish a centralized repository of all implementation documents.

(iv) **Business Continuity**: a business continuity strategy and plan for the revenue management system will be designed and implemented. This will include arrangements for prevention and recovery to mitigate possible failure and to ensure the system is available to its users at all times and that users' data is secure. The plan will include use of NITA-U's disaster recovery centre - a tier 3 hot site, which is available to all Government units and for all Government systems

(v) This strategy re-emphasizes the need to **improve LG capacities for analysis, monitoring and reporting skills at the LG** as already suggested by the Domestic Revenue Mobilisation strategy.

Box 2. Critical implementation success factors

Implementation should pay attention to the following critical success factors for systems of this nature

a) **Full inter-module integration:** All systems modules must fully integrated; successful usage of the RMS in tax payer registration, assessment through to payment processing and generation of required reports needs full integration of all modules in the RMS
b) **End User Training:** Successful implementation requires a protracted process of training end users to use the implemented system. A training instance which can be refreshed regularly must be provided.
c) **Capacity Building and Knowledge Transfer:** Capacity building within the MoLG, LGFC and other relevant departments is required to ensure that there are sufficient staff with the right skills to support RMS usage at the LGs.
d) **Approval Hierarchies:** Internal controls must reflect approval hierarchies and/or access rights in the system to ensure layering of rights and responsibilities in usage of the system.
e) **System Document Management:** To ensure sustainability, proper documentation of all processes should be carried out and regularly updated with appropriate document control measures.
f) **Successful validation of data:** For the RMS to have correct and meaningful data, it is important that appropriate measures are put in place to check the correctness of data input.
g) **Provision of Several Instances:** Best practices require that the production instance remains the live working environment for users, training instance be used for user training and practicing, test instance be used for testing before anything is deployed into production and development instance be used by the developer/vendor for development purposed. The Project Implementation Team must ensure that these instances are in place.

6.4. Improved stakeholder collaboration in OSR management

For the Local Revenue Mobilisation strategy to achieve the goals above, it is imperative that stakeholder partnership is strengthened. This strategic goal envisions strengthening institutional linkages to OSR mobilization through operationalising the coordination of the strategy through stronger collaboration with relevant institutions and improved communication on the strategy to help monitor the progress. The interventions to strengthen collaboration of stakeholders shall include;

6.4.1. Strengthening collaboration with Civil Society Organisations (CSOs).

CSOs like SEATINI and development partners with programs like USAID DRMD, have had peculiar interest in the LR mobilization at the local governments. They have gone ahead to support LGs through financing revenue mobilization activities like digitising registers automation of revenue mobilization, capacity building to LG staff, funding local revenue infrastructure, supporting studies on LR mobilization in LGs among others. However, this has only been in a few LGs where they have operated. This strategy suggests exploiting the existing synergies by the friends in partnership to scale the positive effects as lessons to other LGs to benefit from them.

The activities under this intervention shall include, signing memorandums with stakeholders supporting LGs on revenue mobilisation, provide a platform for sharing data with CSOs on local revenue and supporting / commission the studies by other stakeholders.

6.4.2. Strong collaboration between government agencies.

For a while the LGs have complained of a lean structure or an inexistent structure for LR mobilization. The local government Finance and Accounting manual even proposed a desired structure for the finance department and this was never adopted. This strategy suggests that Ministry of Public Service expedites the process of reviewing the LG structure and implement the revenue department unit for all administrative units in a LG to support the LR mobilisation function. This should move in tandem with the wage bill from the MoFPED.

The collaboration shall also ensure a Harmonised legal framework. It has been often raised that the current legal framework does not enable enhanced revenue mobilisation. The LGFC has endeavoured to do its advisory role by highlighting and documenting the closes in legal framework that need to be revisited to empower LGs raise more revenue. This strategy suggests a stronger collaboration between MoLG, Uganda Law Reform Commission, Solicitor General's Office, first parliamentary council, Uganda Local Government Authority (ULGA) and Urban Authorities Association Uganda (UAAU) to expedite harmonisation of the existing legal framework.

7. Change management and communication

There is a general consensus that OSR collection growth has been low. Despite its unique benefits to LGs as it provides the discretionary resources. This frees them to make decisions in their best interest, and, if well administered, it strengthens the bond with the local communities. Yet this has not grown and, overtime, it has been crowded out by grant transfers from Central Government which contribute over 92% to the LG budgets.

Recommendations over the years to tackle issues of policy, legislation, institutional capacity have received very limited support by the Central Government and stakeholders and thus remained not implemented which has rather exacerbated the poor performance. In some cases, these issues have exhibited in new form because in many ways, decisions taken at the Central Government level, such as expanding the number of administrative units, delays in passage of legislation, abolishing revenue sources, are taken without considering their impact on OSR.

This OSR strategy ought to have the LGs by in as the best way to be uplifted in enhancing OSR mobilisation, and be owned at the highest level by the central government and implemented through the LGFC. A communication and change management strategy is necessary to nurture this ownership and to build the willingness to implement and sustain the reforms. Accordingly, as part of the reform plan, a Communication and Change Management strategy will need to be developed targeting LGs at all levels of administration, politicians and decision makers at the Central government and the general public while expounding the benefits from increasing LG OSR.

This section of the strategy provides a framework that shall be adopted for the effective engagement of stakeholders to ensure that they *understand, accept and support* the strategy, the *anticipated benefits* of the *related implementation initiatives* and positively contribute towards its realization.

The key objectives of change management and communication are, as follows:

a) To *raise awareness* of the entire Strategy through its various implementation stages and pass over the key messages to various target stakeholders
b) To communicate and manage the change *processes in transition* at the central and at local government levels
c) To create and increase awareness plus *capacity* to adopt to the changes
d) To address *cultural challenges* at all levels including among politicians, key policy and decision makers at central and local governments
e) To provide internal and external stakeholders with a documented *mechanism of delivering information* to selected targeted audiences
f) To effectively *disseminate strategy implementation issues* and updates to key stakeholders
g) To avail a mechanism for seeking and initiate action on *feedback* received to encourage the involvement of and assist in creating and maintaining a *positive perception* among target audiences

Critical condition of managing changes for improved local own-source revenue is to map the key stakeholders and their likely attitudes and approaches to changes. Table 2 below summarizes these factors for future action planning.

Table 2: Proposed stakeholder approaches for delivering change management

Institution	**Stakeholders**	**Likely Attitude**	**Change Approach**
Political Class	Political leaders; Parliament, LG Councils	Political Decisions affecting OSR policy and administration	Sensitization, consultations Participations
LGFC	All	Key drivers	Participatory, Involvement
MoLG	Permanent Secretary, Directorate of Inspection	General acceptance	Participatory, Involvement
Resource Enhancement and Accountability Programme – (REAP)	Programme Coordinator, Senior Planning, Monitoring and Evaluation Officer(s)	Key drivers	Consultative
MoFPED	Accountant General, Accounting Officers, Planning and Budgeting Directorate	Concern about OSR fiscal impact and interfacing/integrating the IFMS with LG RMS(s), Receptive	Consultative, Involvement, Engagement, Training
URA	Domestic Tax department	Receptive / Collaborations	Involvement, Engagement, Training
PSFU	Business development	Business empowerment	Involvement, Engagement and training
USSIA	Business development	Business empowerment	Involvement, Engagement and training
URSB	Business registration	Formalising businesses	Involvement, Engagement and training

Institution	Stakeholders	Likely Attitude	Change Approach
Local Governments	Finance department	Key drivers, receptive	Taxpayer education, Engagement and training

Proposed actions of designing and implementing the change management strategy are grouped into three sets of activities (see details below):

a) Development of a change management strategy

A Change management strategy and plan will be developed to guide change management activities. The strategy will be based on a change readiness assessment which will examine change required and its impact on institutions or groups of institutions (policy institutions, national and local government institutions) and politicians. The strategy will also take into account the culture and organisational attributes of institutions and governing laws, policies and procedures that may constraint the adaptation of the upgraded system. The strategy will identify change champions at all levels; at national and at local government level and will include a plan of actions and associated costs.

b) Developing a change monitoring framework

Specific outcomes and targets, and their measures, will be defined. This monitoring framework shall be used to track and monitor the impact of change management activities, and shall form the basis for reporting on progress of implementation. The indicators in the framework shall be used to track and assess levels of acceptability and support for the change within the politicians, national Government institutions and at LG level. Tracking these indicators will also be used to inform change to the strategy to improve impact.

c) Strategy implementation

Implementation of the Strategy will follow the plan provided under (i) above. Every attempt will be made to use existing processes and structures, such as existing government meetings of Cabinets or tools such as budget call and other service circulars, to the deliver the change. These strategies will ensure the implementation will be affordable and change management will be sustained within the Government.

8. Governance and coordination

a) Lead Agency to Implement the Strategy

The Local Government Own Source Revenue Mobilisation Strategy design and implementation requires the coordination of various Institutions including Government Ministries, Departments, Agencies, and Local Governments. These include among others the Ministry of Local Government, Ministry of Finance, Planning and Economic Development, Ministry of Public Service, Office of the Prime Minister, Office of Accountant General, Judiciary, Uganda Revenue Authority, Local Government Finance Commission, and Local Governments.. Therefore , the proposed interventions under the Strategy should b ebe managed by a Lead Institution , to provide direction for effective implementation.. i.e.

In this regard, the lead Agency for the implementation of the LGOSRS will be the Ministry of Local Government in line S95 and 97 of the Local Government Act. The LGFC will offer advisory support during the implementation of the Strategy in line with its mandate under Article 194(4) of the Constitution and Section 9 of the LGFC Act 2003.

The Ministry of Local Government as the lead implementing arm of the strategy should be provided with both administrative and financial resources to design policy changes, to draft legislative proposals and to inform the general public about the major planned Own Source Revenue reform steps.

b) Strategy Coordination Committee

The implementation of the Local Government Own Source Revenue Strategy will involve a diverse array of activities. The activities will include amongst others; proposed changes in legislation, setting fee levels, reviewing the fine thresholds, development and review of revenue policy, revenue policy/tax making process, updating the tax and fee rates on a regular basis, liaison with MOFPED and Uganda Revenue Authority on harmonisation of tax policies, amongst others.

This Strategy proposes that the policy directions and strategic issues as well as liaison with the various Stakeholders should be managed under a **Strategy Coordination Committee** that will be established to bring together the key Institutions, including – MoLG, LGFC, URA, MoFPED (TPD and AGO), LGs, as well as Development Partners and the Private Sector, amongst others.

The Strategy Coordination Committee will have a clear Coordination Framework that will take complete responsibility for overseeing the implementation and coordination of the Strategy.

The Changes to legislation need to be managed carefully in order to ensure that the interests of all stakeholders are considered when deciding on changes to the laws and regulations.

The Strategy Coordination Committee will be chaired by the Ministry of Local Government; the Strategy lead agency.

c) Stakeholders Responsibilities under the Strategy;

Table 3: Governing stakeholders.

The stakeholders on implementing this strategy and their proposed roles shall include the following;

Table 4: Stakeholders and their Proposed Responsibilities.

	Stakeholder	**Role**
1	Ministry of Local Government	- Lead on implementation of Strategy Recommendations. - Constitute a Strategy Coordination Committee to oversee implementation of Strategy Recommendations. - Lead on implementation of Integrated Revenue Management System. - Liaison with MOFPED and NITA U on interfaces and System Integration issues. - Provide Secretariat to the Steering Committee overseeing implementation of Strategy.
2	Ministry of Finance, Planning and Economic Development	- Financing of the strategy. - Advise on Policy Issues. - Offer technical support on interfaces with IFMS and PBS Systems
3	Ministry of Information and Communications Technology/ National Information Technology Authority Uganda	- Support the relocation of LGFC Servers to NITA U Data Centre - Provide due diligence on Security issues on System Integration. - Provide System Administration support to the Integrated Revenue Management System. - Support Planned maintenance on System Architecture.
4	Local Government Finance Commission	- Provide Advisory Support to Strategy implementation. - Provide Monitoring and Evaluation during the Implementation, including IRAS. - Continually review and advise on Local Revenue enhancement strategies. - Do advisory role on strategy implementation
5	Local Government PFM for Service Delivery Cluster	- Solicit funding for Strategy Implementation. - Implement and support IRAS implementation in LGs. - Support the operations of the Strategy Coordination Committee. - Provide updates to PEMCOM on Strategy Implementation.
6	Uganda Revenue Authority (URA)	- Support strategy implementation through providing collection / payment platforms for LGs to collect revenue. - Support mutual collaboration with LGs to enhance local revenue mobilisation.

7	Civil Society organisations/Private Sector Foundation	- Support implementation - Give feedback on the implementation of the Strategy.
8	Urban Authority Association Uganda (UAAA)/Uganda Local Governments Association (ULGA)	- Support implementation

9. Monitoring and evaluation

The Planning, Monitoring and Evaluation strategy will be developed to detail the results chain, reporting and dissemination arrangements, M&E plans and approaches. The primary output indicator of local revenue mobilisation is the ratio of own source revenues compared to GDP. This key indicator measures the overall performance of local revenue mobilisation and it reflects the progress of the future reforms against the primary objective of the strategy (see section 3. above). Once the LRMS is approved, a more detailed implementation plan should further specify the detailed targets with the accompanied results indicators and the M&E matrix.

In line with the National Monitoring and Evaluation Policy, the LRMS M&E framework will be integrated into the existing GoU M&E systems as part of the Accountability Sector. Mid-term term evaluation reviews, Impact Monitoring and Special Donor Reviews will be agreed to deepen learning and accountability for both the resources and results. The Midterm review will be conducted after two years of implementation of the programme. The reviews shall seek to integrate the Local revenue enhancement targets in the Public Finance Management strategy implemented by the Revenue Enhancement and Accountability programme.

10. Risk management

Table 5: Major risks and mitigation actions.

Major risks	*Mitigating actions*
Inadequate financing particularly to revenue administrative interventions.	• The local revenue strategy is a support to the DRMS and PFM strategy so funding should be availed. • Leverage CSO and donor support on LR mobilisation • Undertake a costing exercise to ensure proper budgeting for the administrative interventions • Embed the strategy in the Local Governments' Cluster at the PFM strategy implementation
Poor coordination, overlapping programmes of support leading to misallocation of resources.	• Ensure a coordinated implementation of interventions with oversight from the secretariat. • Ensure a strong secretariat that governs the implementation of the strategy. • Ensure the DPs and CSOs are involved in the strategy implementation to ensure no overlaps and uncoordinated support. • Routinely report on strategy progress and developments in the local governments' cluster meetings. • Leverage the REAP coordination framework
Weak monitoring and evaluation	• A s et of monitoring indicators have been developed for this strategy that can also be enhanced. • Undertake rolling annual reviews and update the strategy based on developments in the environments. • Leverage on the local government assessment to monitor LGs.
Political opposition to OSR increase	• Careful impact assessment on taxpayers' income; • pro-active information sharing on planned policy changes; • introducing social policy compensation schemes. • Increased budget transparency combined with active information sharing to taxpayers (citizens and businesses).
Limited local tax collection incentives	• Establishing institutional incentives for local OSR raising though intergovernmental transfers • Targeted local capacity development programs • Increased budget transparency combined with active information sharing to taxpayers (citizens and businesses)
Obsolete taxpayer registers	• Incorporating taxpayer residence code in the proposed tax identification number. • Merging revenue management system with NIRA, URA, IFMS and other key systems.
High administrative burden of taxing informal businesses	• Piloting flat taxes on small businesses. • Creating incentives for tax collection within local revenue administration.

Weak revenue enforcement	• Improved voluntary tax compliance through active information sharing on local OSR administration and use of collected revenues
Limited resources for increased administration capacities	• Greater autonomy in local revenue administration (staffing, organizational structure and management)

11. Implementation plan and Monitoring Indicators

11.1. Implementation plan

Implementation of the Local Revenue Mobilisation Strategy should be based on a manageable action plan. The proposed interventions responded on the analysis of the various OSR raising problems in four areas:

Table 1: Implementation plan.

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
Strategic Goal one: Improved legal and policy framework governing revenue mobilisation.										
Harmonised legal framework to enhance revenue mobilisation.	Amended legal framework on local revenue	Stakeholder engagement on proposed amendments	MOLG	UAAU ULGA CSOs PSFU						
		Review exemptions in the legal framework, on levying property rates, LGHT, LST	LGFC	URA MOLG						
		Enhance existing legal framework by strengthening enforcement	MOLG	MoLG, LGFC, JLOS Uganda Law Reform commission, Parliament, Tax Policy						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
				department						
		Rationalise multiple rates on a single source								
		Review revenue sharing between urban LGs and rural LGs	LGFC	MoLG, MOFPED,						
		Review legal framework to support LGs asset development	MOLG	Uganda Law Reform commission						
		Review framework for third party data sharing	MOLG	LGFC						
		Review legal framework on enforcement of the various OSR sources incase of non-compliance	MOLG	LGFC MOFPED						
		Approval / amendment of legal	MOLG	MOFPED						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
		framework								
	Assessment report on legal framework	Commission study to review the impact of the amendments on the legal framework.	LGFC	MOFPED LGFC						
Strategic Goal two: Improved local revenue administration and management.										
Enhanced Institutional capacity for Revenue raising	Updated taxpayer registers	Sensitize taxpayers on OSR	LGFC	URA, MOLG MoPS, PSFU						
		Sensitize elected councilors on OSR	MOLG	LFGC ,UAAU, ULGA, PSFU, LGFC						
		Initiate local programs to allow formalisation of businesses in LGs eg. BUBU campaigns	MOLG	MOFPED PSFU, LGs, MoLG, Ministry of Trade, URSB						
		Mass enumeration exercise for all OSR sources.	LGFC	MOLG						
		Annual update of taxpayer registers in all local governments.	MOLG	LGFC LGs						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
	Revenue units established at LGs	Establish dedicated revenue units at all LG administrative units	MOLG	MOPS MOFPED (Tax policy Department)						
	Strengthened LG revenue assessment and enforcement capacity	Exploit synergies from Local council to support revenue mobilisation	MOLG	LGFC MOFPED						
		Capacity building for revenue assessment	MOLG	LGFC						
		Adopt a single receipting system at LLGs	MOLG	LGFC						
		Develop flexible payment plans with taxpayers	MOLG	LGFC CSOs						
		Build capacity for Revenue enforcement	MOLG							
		Enhance capacity of LGs staff in revenue unit to conduct local revenue analysis and forecasting.	MOLG							

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
		Regular perception studies on local revenue taxes	MOLG	OPM, CSOs, LGFC						
	Revenue accountability strengthened at LGs.	Strengthening Monitoring and Reporting	MOLG							
		Strengthen internal audit processes to cover local revenue mobilisation processes	MOLG	Internal Auditors Office,						
		Effective dispute resolution	MOLG	ULGA UAAU, CSOs						
		Capacity building for team on dispute resolution at LGs	MOLG	MOPS ULGA UAAU, CSOs						
		Review modalities for tax refunds. In the event of over payments, a mechanism should be	MOFPED(Tax Policy)	URA						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
		available for refund, offsetting other declarations.								
		Strengthen oversight committees at LGs ie. LG PAC	MOLG	MOFPED Internal Auditor General						
Strategic Goal Three: Automated Local revenue administration processes across all LGs										
Automated revenue administration process	Increased automation of local revenue administration processes	Equip LGs revenue unit with ICT equipment	MOLG	LGFC NITA-U						
		Support maintenance to ICT equipment at LGs	LGFC	LGs, NITA-U						
		Update the LGDMS in preparation of integration with automated revenue management system.	LGFC	MOLG NITA-U						
		Enrol the LGDMS to all LGs	LGFC	MOLG NITA-U						
		Integrate LGDMS with Revenue	MOLG	MOFPED NITA-U						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
		management systems.		URA						
		Plan for routine support and maintenance	MOLG	NITA-U LGFC and LGs						
		Support workforce education / training	MOLG	MOPS						
		Establish a multi module revenue management system.	LGFC	NITA-U, MOLG						
		Extend coverage of revenue management systems to all LG administrative units ie. HLG and LLGs	MOLG/LGFC	NITA-U, LGFC						
		Integrate revenue management system with PFM systems	MOLG/LGFC	NITA-U, MoFPED, URA						
		Develop sustainability plan for revenue management system at LG.	MOLG	LGFC, LGs,						
Strategic Goal Four: Improved stakeholder collaboration in OSR management and administration.										

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
Strong collaboration between MDALGs and CSOs.	Strengthen collaboration with CSOs on local revenue mobilisation. (ie. Knowledge sharing)	Sign MoUs with CSOs to support LGs on building local revenue mobilization	MOLG	ULGA, CSOs, UAAU, Development partners, PSFU						
		Support CSOs on studies on local revenue administration and monitoring.	MOLG	ULGA, CSOs, UAAU, Development partners, PSFU						
		Support Local Revenue data sharing with CSOs to harness their support activities with LGs.	MOLG	ULGA, CSOs, UAAU, Development partners, PSFU						
	Strengthen collaboration among	Organised workshops to harness local revenue administration at LGs	MOLG	ULGA, CSOs, UAAU, Development partners, PSFU						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
M&E	MDALGs on local revenue mobilisation	Local Government consultations on proposed interventions to support Local revenue mobilisation.	LGFC	ULGA, CSOs, UAAU, Development partners, PSFU						
		Establish bench marks for improved revenue administration health and support undertake baseline diagnostics	LGFC	ULGA, CSOs, UAAU, Development partners, PSFU						
		Sign memorandums to support data sharing.	MOLG	JLOS, MoFPED, URA, LGs, LGFC, MoLG						
		Review incentives to LG disbursement pegged on local revenue performance.	LGFC	ULGA, CSOs, UAAU, Development partners, PSFU						
		Strengthen oversight role of LGFC and MoLG on LGs on	MOLG	ULGA, CSOs, UAAU, Development partners, PSFU						

Outcome	Output	Key activities	Lead Institution	Other stakeholders	Targets					Agency
					22/23	23/24	24/25	25/26	26/27	
		local revenue mobilisation.Regular self-assessment to keep on track and sharing of practices with peers								

1.2. Monitoring indicators

This monitoring and evaluation matrix has been developed to track the enhancement of Local revenue along three parameters with an overarching objective of increasing Local revenue contribution:

#	Indicator		Indicator definition	Baseline	Target 2026/27	Source of verification
1	Local revenue to GDP ratio			0.14%	1.27%	Background to the budget
2	Local Revenue to Local Government budget ratio	Rural		4.8%	15%	Background to the budget, LGFC
		Urban		33.8%	50%	Background to the budget, LGFC
3	Local revenue mobilization budget as a proportion of Local revenue target			3.5%	15%	Background to the budget
4	Local Governments with collection efficiency over 90%			88%	100%	LGFC, Local Government assessment
5	Percentage increase in OSR 5%+			54%	100%	Local Government assessment
6	Number of LGs with Revenue Mobilisation System installed.	Municipality		6	25	LGFC
		Districts		4	131	LGFC
		Cities		7	10	LGFC
7	Installed LGDMS			93	175	LGFC
8	MoFPED OSR timely advances to LGs			4		MoFPED, LGFC, LGs

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