



# THE QUEST FOR THE DECENTRALIZATION OF REVENUE MOBILIZATION TO LOCAL GOVERNMENTS IN UGANDA

POLICY BRIEF

003

There have been several efforts to improve local revenue collections, but their contribution to the Local Government budget has remained low, at less than 3% for district local governments and 7% for towns and municipalities

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## Executive Statement

A sound revenue system for local governments (LG) is an essential pre-condition for the success of proper service delivery among local governments. Local revenue mobilization has the potential to foster socio-economic and administrative accountability through empowering communities.

In Uganda, revenue mobilization is centralized thus local governments are entitled to a defined portion of the revenue collected to meet socio-economic and administrative in their area of jurisdiction. Local governments should be allowed to exercise the authority to mobilize local revenue under the regulation of the central government.

## Key issues

- LG financing is not sufficient to meet the level of demand for service delivery.

- Most LG financing is from conditional grants from the central government with limited flexibility for specific local needs.
- There have been several efforts to improve local revenue collections, but their contribution to the Local Government budget has remained low, at less than 3% for district local governments and 7% for towns and municipalities
- The local governments have not fully exploited their potential to generate local revenue.

## Introduction and Background

In 1992, the government of Uganda adopted a robust decentralization policy to devolve power and give mandate to the local governments to mobilize and collect revenue to supplement government grants (Susan, 2006).

Local governments are mandated to levy charge and collect appropriate fees and taxes, including rates, rents, royalties, stamp duties, registration and licensing fees.

The local communities indeed thought they would easily feel a sense of patriotism and improved service delivery upon devolution of authority. This assumption was premised on the belief that natives were to take charge and make complicated procedures easy, work transparently and kick the vice of corruption out of all known channels of the local service process although the corruption rates were still minimal and almost unnoticed. Indeed in many communities the objectives for decentralization have not been realized and a lot of controversy exists in the community as to whether decentralization was targeting efficiency and effectiveness of service delivery to

the common man. It should be recalled that the ministry of local government (MoLG) is responsible for the creation, supervision and guidance of sustainable, efficient and effective service delivery in the decentralized system of governance (Local Government Act of Uganda, 1997). The Ministry is responsible for the harmonization and support of all local government functions, to cause positive socio-economic transformation of Uganda.

In order to maximize the goals of decentralization, it would be pertinent to provide adequate revenue of funding to local government for both development and recurrent expenditure. It's the role of the central government to allocate part of the national budget to finance local government activities through unconditional grants, conditional grants, equalization grants, projects and soliciting funding from donors (Ggoobi R, Lukwago D; 2019). However, local governments seem to operate deficit budgets in every financial year.

#### **Revenue mobilization by local governments**

As part of the duty of local government bodies to facilitate

local or community developments in their respective jurisdiction, they are expected to generate enough revenue to provide infrastructure and public services. Local governments are mandated to levy charge and collect appropriate fees and taxes, including rates, rents, royalties, stamp duties, registration and licensing fees. However, they have a challenge of limited finances and many of them are still lagging behind in terms of service delivery though with a capacity to mobilize their own resources both locally and internationally. Due to the huge budget expenditure, over reliance on funding from central government creates uncertainty and unprecedented local government failure to deliver the desired social services.

The performance of local revenue for the period 2010/11 to 2016/17, indicates a slight improvement from Ugx shs 111.045bn in FY 2010/11 to Ugx shs 196.666bn in FY 2016/17. This improvement was due to technical support in innovative strategies by the Local Government Finance Commission (LGFC), Ministry of Local Government (MoLG) and

individual efforts by some Local Governments especially levying different fees on users of chargeable social services such as licenses, local service tax, local government hotel tax, property tax and user fees as indicated in table 1 below;

**Table 1: Trend of Local Revenue Performance by Source (Ugx shs'000)**

Source	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Local Service Tax	6.542	7.115	10.786	10.114	11.670	11.719	15.657
LGHT	0.928	1.164	1.065	1.279	2.855	0.989	1.324
Property Tax	31.557	29.290	33.049	38.679	45.109	52.483	34.490
User Fees	21.975	20.931	29.004	34.058	36.359	37.506	27.063
Licenses	6.564	15.560	8.807	11.037	12.339	14.578	23.195
Others	43.478	43.482	56.042	57.837	68.879	76.929	94.935
<b>Total</b>	<b>111.045</b>	<b>117.541</b>	<b>138.753</b>	<b>153.004</b>	<b>177.211</b>	<b>194.207</b>	<b>196.666</b>

Adopted from: *BMAU Briefing Paper (15/19) May 2019*

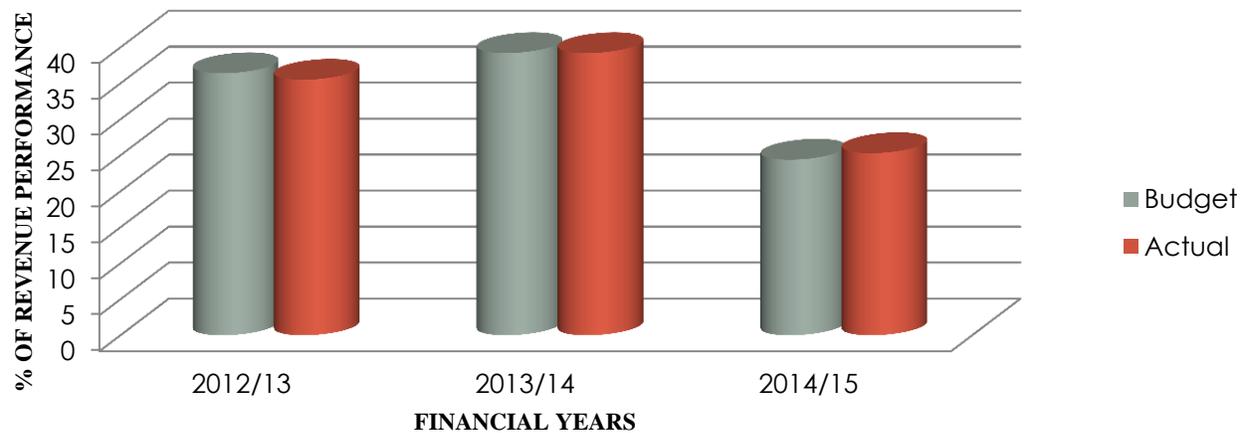
Review of the performance of Local Governments in regard to local revenue collection showed that they have not done much to fully exploit the potential they have to generate revenue. For the financial years 2012/13, 2013/14, and 2014/15, local governments were not able to collect UGX 83.6 billion representing 17.6% of projected revenues as shown in the Table 2 and the Figure 1 below;

**Table 2: Local revenue Performance of Local governments between 2012-2015 financial years**

F/Y	Budget	Actual
<b>2012/13</b>	172,333,587,503	138,753,393,596
<b>2013/14</b>	186,211,462,550	153,003,604,321
<b>2014/15</b>	115,542,108,840	98,764,108,877
<b>TOTAL</b>	<b>474,087,158,893</b>	<b>390,521,106,794</b>

Source: *Office of the Auditor General (2016)*

**Figure 1: Local revenue performance**



Local governments are facing challenges in assessment and collection of Local Service Tax from private owned businesses

The shortfalls in collection represent potential revenue that could be tapped by the Local governments if existing gaps in local revenue management and mobilization are addressed.

Through a review of legal framework, revenue management records and interviews, the following gaps were identified:

A review of existing laws and regulations for financing Local Governments revealed that the various laws and Acts governing domestic business registration, regulation and licensing have not been updated to reflect current operations and thus are complicated, hard to administer and to comply with, and do not represent best practices. Most laws governing licensing of businesses such as banks, drug shops, and health facilities are still reflecting direct Central Government control as operational license fees are paid to Central Regulatory Bodies although in practice all their operations are in Local Governments.

The central government has not developed a policy and guidelines to guide local revenue collection and mobilization. Local governments are facing challenges in assessment and collection of Local Service Tax from private owned businesses as the Local Service Tax law is not fully operationalized, and there are no guidelines in place.

The Ministry of Local Government and the Local Government Finance committee should carry out a comprehensive local revenue assessment and registration for all the local revenue sources at Local Governments.

### **Other New Local Revenue Sources**

Some of the proposed revenue options are;

**a) Community contribution towards service delivery:** Local Governments should be given discretion to levy a minimal fee at service points (health centres, water points and Educational institutions) which the community members can afford, so that the service is owned, and improved.

**b) Issuing Municipality debt instruments:** These are issued by the State and Local Governments to raise money for public works projects like the construction and maintenance of bridges, hospitals, schools and water treatment facilities. Introducing municipal bonds will increase revenue and promote more transparency and accountability.

### **Challenges**

- i. Local Governments have not done adequate enumeration, mobilization, sensitization, assessment, and registration of taxpayers in order to expand their local revenue base.
- ii. A number of Local Governments have been split to create new ones. This has affected the amount of revenue collected and some of the new Local Governments do not have any revenue to be collected.
- iii. Negative attitudes and resistance to change by local governments towards the local revenue enhancement initiatives.

### **Key Policy Recommendations**

- The Ministry of Local Government should invest in building capacity for technical staff in Local Governments to adequately conduct enumeration, assessment and registration for improved local revenue

performance. This may be foreexample done periodically such as on a quarterly basis.

- The Ministry of Local Government and the Local Government Finance committee should carry out a comprehensive local revenue assessment and registration for all the local revenue sources at Local Governments. This will make property valuation, billing systems and revenue collections easier.
- Local Governments should sensitize the public about existing taxes, while exploring new revenue sources as well. Some citizens are not aware of certain taxes until they face them. There is need to sensitize the public on a day to day basis about local government taxes using both social and traditional media. Local governments need to improve the database for their citizens to ascertain the eligibility for tax purposes.

Some unchecked charges with no immediate public benefit need to be revised to promote public trust in the governance

Local governments should be allowed by law to organize crowdfunding activities to raise support and funding for the needed social service projects such as fundraising to construct safe water sources.

#### ABOUT THE AUTHORS

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- The central government should allow local governments to introduce new taxes in their vicinities as long as there

is transparency and accountability on the revenue collected.

- Some unchecked charges with no immediate public benefit need to be revised to promote public trust in the governance forexample the commercial levy of 10% which is given to LC.1 chairperson upon any sale of land lacks clear accountability and contribution to local revenue to be used in social service delivery.
- Local governments should be allowed by law to organize crowdfunding activities to raise support and funding for the needed social service projects such as fundraising to construct safe water sources.
- Allow local governments to solicit funding directly from international agencies such as European Union, United Nations Development Programme, African Development Bank and other large international agencies. All what the line ministries

can do is to connect the respective local government departments to specific target funders.

- Allow Local Governments to start income generating activities which can supplement their revenues. The Central government has parastatals which earn it some reasonable income; this can be the same for local governments so as to reduce over dependency on central government funding which at times delays.

#### Conclusion

Local governments have insufficient funds for the required levels of service delivery. Most of the financing is from central government but this is in form of conditional grants. Local Governments need to boost their local revenues. However, the full potential for raising local revenues has not been exploited. A number of measures can be instituted including establishment of local revenue databases; sensitization about property tax; improving revenue administration as well as exploring new revenue sources.

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