

1.0 INTRODUCTION

This is a terms of reference for the Local Revenue Enhancement Co-ordinating Committee, set-up by the Local Government Finance to oversee revenue enhancement activities.

1.1 Mandate of the Co-ordinating Committee

The Co-ordinating Committee derives its operational mandate from the mandate of the Local Government Finance Commission.

1.2 Mandate of the Local Government Finance Commission

The Local Government Finance Commission is established by the 1995 Constitution of the Republic of Uganda. Article 194(4) a) to e) thereof charges it with the following responsibilities:

- a) Advise the President on all matters concerning the distribution of revenue between the Government and Local Governments and the allocation to each local governments of moneys out of the consolidated fund;
- b) In consultation with the National Planning Authority¹ consider and recommend to the President the amount to be allocated as equalisation and conditional grants and their allocation to each local government;
- c) Consider and recommend to the President potential sources of revenue to local governments;
- d) Advise the Local Governments on appropriate tax levels to be levied by local governments;
- e) Perform such other functions, as Parliament shall prescribe.

²Sections 77 and 78 of the Local Governments Act, 1997 charges the Commission with additional responsibilities of dealing with disputes between local governments over financial matters.

1.3 Problem Statement

The 1995 constitution of the Republic of Uganda prescribes that Local Governments are bodies corporate with mandates to provide specified public services to the community. In particular Local Governments are responsible for delivering primary public services covering rural and urban roads, health, education, water and agricultural sectors including providing community support and social amenities as outlined in the second schedule of the Local Governments Act, 1997. The resources for delivering these services come from local (own) revenue and central transfers.

- Local revenue is the source of financing that encourages ownership and promotes autonomy of local governments in a decentralised environment. Compared to transfers, local revenue would give local governments greater discretionary spending powers to finance programs according to local needs and priorities. It is a source that closely interfaces the communities with local governments; thus if properly exploited it can be an avenue for strengthening tax benefit linkages and promoting accountability to the community.

Despite its importance, the performance of local revenue has generally been poor over the years. The poor performance is reflected both in its small (relative) size in total local government financing³ and the declines in the amounts (real terms) collected annually. For instance, statistics in the Local Government Finance Commission show that districts' local revenues (including sub-counties) stood at 109 billion, 93.2 billion and 93.8 billion in FY 1997/98, 1998/99 and 1999/00 respectively and it is likely to drop further in the FY 2000/01 and 2001/02⁴.

¹ The National Planning Authority is in its last stages of formation

² Section 77 (e) states that The local Government Finance Commission shall: "Deal with disputes between Local Governments over financial matters and tender advice relating thereto to the parties involved, the Minister and the Minister responsible for Finance as may be necessary".

Section 78 (3): "If the local Government finance Commission becomes aware that a local government Council budget significantly detracts from priority programme areas, the Commission shall inform the Council; and the President through the Minister for appropriate action".

³ Estimated by the Commission at 18% in the 2000/01 FY

⁴ On the contrary, central transfers has increased: shillings 204 billion, 292 billion, 329 billion, 503 billion and 616 billion in the FY 1997/98, 1998/99, 1999/00, 2000/01 and 2001/02 respectively. Conditional grant dominates central transfers (87%) the remaining 13% being unconditional and equalisation grants. The majority of local governments exhaust unconditional grants on salaries and remain with nothing more for discretionary spending. In effect therefore, local governments do not derive much power to make own choices and do not act autonomously using central transfers, in spite of its big size and increasing trend. This state of affairs has been brought to the attention of His Excellency the President of the republic of Uganda.

There is good documentation and explanation of the causes and strategies to improve the poor performance. The ODA sponsored a study (1996 by Crown Agents), which examined and documented ways of enhancing district revenues. The Local Government Finance Commission, in 2000, conducted another study, which updated the 1996 ODA findings and probed further how to enhance local revenues. The two studies⁵ highlight weaknesses affecting assessment, recording, collection and administration of major taxes and weaknesses in policies relating to local revenue mobilisation as constraints, and make useful recommendations to overcome them. The recommendations, in the form of action programmes, assigned various action areas to lead institutions, the result of which were to altogether lead to revenue enhancement⁶.

The revenue enhancing actions have not largely been implemented because of various reasons such as:

- ~~///~~ Lack of funds
- ~~///~~ Difficulty in influencing the implementation of tasks in the action programme assigned to institutions other than the LGFC.
- ~~///~~ Absence of a co-ordinating set-up for implementing the action programmes
- ~~///~~ Insufficient dissemination and outreach of results to stakeholders
- ~~///~~ Serious attitudinal problems caused by central and local politicians

1.4 Rationale

In light of this problem and in consultation with stakeholders including donors, LGFC has considered it necessary to implement result oriented revenue enhancement actions through the establishment of a Coordinating Committee composed of key stakeholders. A Coordinating Committee arrangement provides the opportunity to smoothly co-ordinate and implement cross cutting activities within a planned period with specific targets. The activities of the Coordinating Committee will initially be supported by donors through UNCDF under the second District Development Programme (DDP2) which runs for three years beginning July 2002 but will eventually be integrated into government systems of support for continuity.

LGFC will co-ordinate the Coordinating Committee as a forum with a mission to enhance the capacity of local governments to mobilise, generate and manage sustainable local revenues.

2.0 GOAL AND OBJECTIVES

The **goal** of the Coordinating Committee is to enhance the capacity of local governments to mobilise, generate and manage sustainable local revenues effectively and efficiently through co-ordination of decision-making regarding revenue enhancement.

2.1 Specific objectives:

A. Co-ordinate decision making regarding local revenue enhancement

- ?? Ensure effective decision-making capacity of the Coordinating Committee.
- ?? Enhance the capacities of stakeholder institutions represented in the Coordinating Committee to effectively handle revenue enhancement issues.

B. Support the Policy and Legal Framework for Local Revenue Enhancement

- ?? Promote coherence of policies, rules and regulations on local revenue from the centre
- ?? Influence the development and introduction of enabling legal environment affecting property taxation
- ?? Document best practices and widely inform national government policy makers on best practices.

⁵ Other recent studies with reinforcing findings include:

- The Revenue Sharing Study by the Local Government Finance Commission, 2000
- The PMA Review by Mokoro Limited 2001
- The LGDP Review Report, March 2002
- The DDPII formulation document, 2002

⁶ Jesper Steffensen (LGDP Review 2002) suggested that the increase in the numbers and sizes of central transfers to local governments could also be contributing to the poor performance of local revenues. The Commission agrees with this school of thinking and will work towards reducing the negative impact of central transfers on local (own) revenues by revising the allocation formulas and considering the introduction of tax-effort in the formulas. This will be in line with the up-coming fiscal decentralisation strategy.

C. **Promote Best Practices for tax mobilisation at the local government level through Capacity Building and Tax Education**

- ?? Document best practices and widely inform local governments on best practices in areas like property tax, user fees, business licenses, and administrative procedures.
- ?? Enhance the capacities of local governments to effectively manage and administer revenue enhancement practices and procedures through support for the development of guidelines on best practices.
- ?? Improve skills of local government staff in keeping records on tax bases and revenues collected.
- ?? Liase with the deregulation project in the Ministry of Finance, Planning and Economic Development and promote effective and efficient management of licenses and fees
- ?? Enhance public - private partnership in tax generation and collection
- ?? Develop recommendations for introducing more buoyant revenues to local governments including revenue incentive systems and generation feasibility
- ?? Communicate and disseminate relevant information and decisions regarding best practices for revenue mobilisation to enhance quality assurance, adherence to rules and procedures and promotion of tax education and community involvement in tax issues Promote exchanges amongst local governments as a means of learning best practices.
- ?? Promote exchanges amongst local governments as a means of learning best practices
- ?? Roll over tested best-practices to rest of local governments

3.0 ROLE AND ORGANISATION

3.1 Role

The role of the Coordinating Committee will be to oversee and manage the overall co-ordination of the revenue enhancement activities. Specific tasks will be undertaken by responsible government institutions, pilot local governments, contracted consultants and where necessary the Coordinating Committee as a group.

3.2 Methods of Work

The Co-ordinating Committee will perform its functions through meetings, workshops, individual assignments, field and study visits.

Meetings will be used to discuss and agree on best strategies to implement, review progress of operation, and agree on how to inform and disseminate results. The Coordinating Committee will initially meet once every month as the volume of work at the beginning of the project is likely to be much more in the second and subsequent years; but its expected to scale down on the frequency of meetings to once every quarter.

Workshops will be utilised for discussing issues under a wider but targeted forum and will also be used for gathering stakeholder inputs and feedback on activities. Workshops will be held both at the centre and in pilot local governments.

Individual assignments will be given to members of the Coordinating Committee on tasks that the institutions they represent have a mandate on, as a way of quickly gathering well-researched information for the Coordinating Committee.

Field visits will be made to verify progress and validate results before they are rolled out to the rest of local governments. The Coordinating Committee may also constitute smaller work teams to execute specific field assignments, which relate to the mandates of an institution in the Coordinating Committee.

The Co-ordinating Committee will also use study visits to countries with best practices to offer as a way of broadening their understanding and enriching their understanding with the options available.

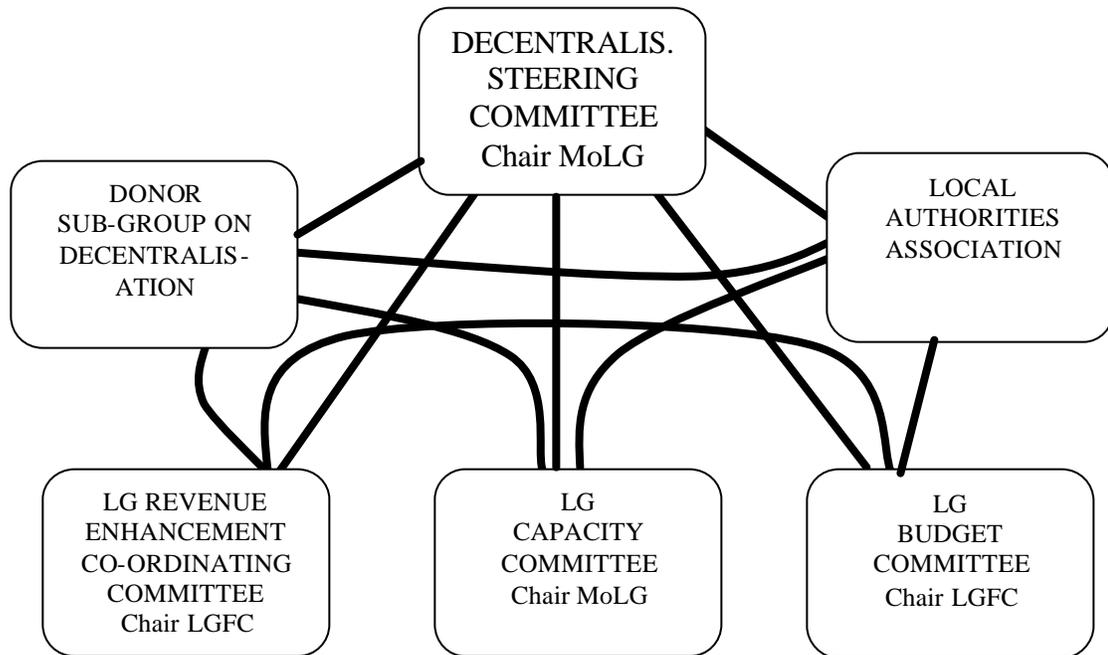
3.3 Membership

The Co-ordinating Committee shall be composed of the following member institutions

1. Local Government Finance Commission, Chair of the Co-ordinating Committee
2. United Nations Capital Development Fund, donor representative
3. Ministry of Local Government
4. Ministry of Local Government, PMU
5. Ministry of Finance Planning and Economic Development, Decentralisation Desk
6. Ministry of Finance, Tax Policy Department
7. Uganda Local Authorities Association
8. Urban Authorities Association of Uganda

9. Ministry of Lands, Water and Environment, Chief Government Valuer
10. Kampala City Council
11. Bushenyi district. Additional local government may be co-opted on ad hoc basis depending on need
12. Uganda Revenue Authority
13. Representative of the Attorney / Solicitor General (ex-officio)

3.4 Linkages to other committees under decentralisation



Source: Adopted from proposed Strategic Decentralisation Framework in LGDPII Design Report

3.5 Reporting

The Co-ordinating Committee directs its technical reports to the Secretary Local Government Finance Commission, who then presents them to the Chairman Local Government Finance Commission for further action, which may include advising the President, relevant ministries, local government or stakeholder.

4.0 OUTPUTS

Reporting Outputs will include:

- ?? Minutes of meetings
- ~~///~~ Workshop papers
- ~~///~~ Information briefs to stakeholder institutions represented in the taskforce (monthly)
- ~~///~~ Information briefs to the project technical and steering committees
- ~~///~~ Reports on best practises (quarterly)
- ~~///~~ Annual/progress/activity reports