

ABSTRACTS OF POLICY STUDIES BY LGFC

1. *Assessment and Supporting Performance of Local Revenue Sources*

Local revenue is fundamental in the management of Local Governments (LGs); its roles in the decentralization process cannot be underestimated in that it contributes enormously to the funding of both recurrent and developmental expenditures in the LGs. The collection of local revenues by LGs has however been declining over the years. Moreover, the potential of these revenue sources are not known. This has resulted into too much reliance on the central transfers, which is not the original essence of decentralization. The aim of this study was to firstly, assess the actual performance of the current sources of local revenues (Local Service Tax (LST), Hotel Tax (HT), Market dues, Business licenses and parking fees) and secondly, to support LGs operationalize some key strategies to realize the potential of key revenue sources. The study relied on a review of secondary literature (Budget Framework Papers, Budgets and Final Accounts of LGs) and primary data gathered from 70 out of 79 district LGs, 70 out of 102 Town Councils and 13 out of 13 Municipal Councils as of Financial Year (FY) 2008/09. The study established that the current local revenue sources has a potential of UGX 334.6 billion for all the LGs against a collection of UGX 118.6 billion in the FY 2008/2009.

2. *Evaluation of Performance and Practices in Land-based Revenues*

This study is about the performance and practices of land-based sources of local revenues in Local Governments (LGs). The land-based sources of local revenues studied are Property Rates, Ground Rent, Contribution in lieu of Rates from Central Government (CiLR) and land transaction charges. The study seeks to document current practices by the LGs in the collection of land-based revenues in order to design strategies of improving collections from different revenue sources related to land. The study findings based on a selected 10 LGs, indicates that land-based revenues are feasible with an annual potential of UGX 40 billion for all the LGs. The study also found out that there are undocumented land-based activities taking place in the LGs, councils had outdated valuation rolls and 50% of the LGs are collecting property rates by themselves. The study recommends enforcement of valuation and billing systems for LGs, inclusion of residential properties for taxation, privatization of revenue collection and continuous tax education if LGs are to realize maximum revenues from land-based sources of revenue.

3. Support to Local Governments in Application of Local Revenue Enhancement Initiatives

Despite the numerous improvement mechanisms (Cost Benefit Analysis (CBA) for selection and prioritization of best practices, application of Private Public Partnerships (PPPs) in local revenue administration, and Incentive Framework) developed by Local Government Finance Commission (LGFC) and other stakeholders, the collection of local revenue in the Local Governments (LGs) is still very minimal i.e. UGX 115 billion in Financial Year (FY) 2007/08 and UGX 118.6 billion in FY 2008/09. The Commission organized a technical support mission to acquaint the targeted LGs with adequate and robust capacity to apply PPP, CBA and Incentive System tools to enhance their local revenue mobilization and generation capacities.

4. Establishment of funding gaps for Garbage Collection and Solid Waste Management in Urban Local Governments

Urban Local Governments (LGs) are currently experiencing unprecedented challenges in meeting the cost of solid waste management in their areas of jurisdiction. Coupled with this there are no effective systems for garbage collection as well as a financing framework. Using mainly qualitative and quantitative evidence from a selected 18 LGs, this study seeks to assess the funding gaps in garbage collection, identify related factors that need consideration in the process of establishing a robust garbage collection system, and to design a financing architecture for solid waste management in urban LGs. The findings indicates that there is low funding of solid waste management with Municipal Councils (MCs) collecting only 35% while Town Councils (TCs) are collecting only 20% of generated waste annually. The study recommends a ring fenced optimal funding for solid waste management in LGs to cover both recurrent and development costs.

The implications arising from this study is that for the Government to effectively fund solid waste management activities in one City, 13 Municipal Councils (MCs), and 105 fully established Town Councils (TCs), requires an estimated sum of UGX 22.816 billion in recurrent funds annually besides UGX 113.358 billion in development funds once in ten years. This totals to UGX 136.174 billion or approximately UGX 136.2 billion.

5. Streamlining Collection of Royalty Fees in Local Governments

Local Governments (LGs) are currently not realizing all the revenues (royalties) they are supposed to derive from private/public investors who operate within their areas of jurisdiction. These royalties are to be generated mainly from electricity power generation, wildlife/protected areas, and mining of minerals. The regulatory framework governing the fiscal relationship between the private investors and LGs tend to favor investors more than LGs. The data for this assessment was collected from 28 LGs and 8 central level institutions. The Commission undertook this study to assess the level of implementation of the law and to identify the loopholes in the regulatory framework especially where the regulatory provision is in place. Where the regulatory provision is nonexistent the Commission sought to recommend for a legal framework to widen LG revenue horizon.

6. Establishing Funding Gaps and Determining Allocation Criteria for Rural Feeder Roads and urban access roads

Whereas much literature confirm improvement of community access roads as good stimulus for rural and urban growth, the mainstream flow of central transfer system in Uganda have not paid serious attention to them. It is of recent that government put aside some funding to address this cause but the criteria for allocation of the fund has remained wanting to date. Utilizing qualitative and quantitative evidenced gathered from 18 LGs, this assessment aimed at identifying the funding gaps in maintenance of access roads and related factors that need consideration e.g. expansion versus maintenance only (government policy) in the process of improvement of the access road network in the country.

7. Determining the Capacity of Local Governments to Undertake Participatory Budgeting (PB)

Participatory Budgeting (PB) has been touted as one of the cardinal tenets of decentralization. This is because it creates shared ownership of programmes and activities, promotes downward accountability, transparency and engenders collective commitment. The implementation of the process of PB in Uganda however has had some teething challenges which have potentials to undermine the expected outcomes

of participatory planning and budgeting. This study using exploratory survey and analytical research design, analyses the current Local Government (LG) PB system, assesses the financial capacity of LGs to meet the requirements in planning and budgeting and suggests recommendations to improve BP in LGs. The study found out that there is low interest to participate in the budgeting process at all levels. The study also found out that Higher Local Governments (HLGs) have more capacity to fund the PB processes than Lower Local Governments (LLGs). The study concludes that the most cost effective area for intervention is at the Local Council 5 tier, Municipality and Town Councils and asserts that any new medium term policy action to benefit PB process should start at these levels.

8. Assessing Impact Conditional Grants Provision of Services in Local Government

This is a study about the impact of sector budgetary allocations on Local Governments (LGs) service delivery in Uganda. Apparently it is not clear what line Ministries use as criteria for the sharing of sector grants with LGs (i.e. whether based on proportion contribution of each to particular services or otherwise). The study uses mainly qualitative evidence gathered from 16 LGs (3 Municipal Councils and 13 District LGs) to compile data with respect to periodic update of parameters (allocation factors) in grants allocation formulae. The study also evaluates the extent to which the allocations are creating impact on service delivery and lastly the study identifies sectors that are implicit of insufficient funding. The study established that the departments of Administration, Finance, Council, Planning, Internal Audit, Natural Resources and Community Based Services performed poorly. The study also found out that the Key Performance Indicators (KPIs) are insufficient to capture the effects of grants and that the entire LG financing requires regime readjustment to fit the prevailing circumstances. The study recommends for a determination of the Minimum Standard of Services for each sector so as to establish the proportion of funding available and the amount of the gap to be filled.

Upcoming Activities, 2nd Quarter FY 2010/11

The Local Government Finance Commission (LGFC) has a Corporate Strategic Plan which reflects its medium term strategic focus in addressing key issues that impact on attainment of sustainable Local Governments financing for effective and efficient service delivery in Uganda.

Over the years the role of the Commission has increasingly become an important contributor to the Government's national objective of poverty eradication in the areas of efficient service delivery and good governance. The Commission has appropriately worked out new strategies and priorities for greater efficiency and effectiveness. An internal Institutional self assessment was undertaken and provided the background for the development of its Corporate Strategy (2008/09-2011/12). Based on the LGFC Vision and Mission, the Commissions activities are organized into four thematic areas. These are:

- Local Government Budget Analysis,
- Enhancement of LG Revenue Mobilization and Generation,
- Equitable Distribution of Grants to LGs,
- Institutional Capacity Maintenance and Enhancement

The following are the major activities that the Commission is executing in the second quarter of the FY 2010/11.

Local Government Budget Analysis

- 1) Support the operations of the LG Budget Committee
- 2) Provision of technical support in budget formulation to 41 newly created higher local governments
- 3) Review the role of LGFC in the planning and budgetary process

Enhancement of LG Revenue Mobilization and Generation

- 1) Conduct two sets of Outreach activities on local revenues in 28 districts and respective urban councils
- 2) Support the realization/recovery of arrears in the land based revenues in 18 LGs
- 3) Support the operations of the LRECC
- 4) Training of LGs on implementation of LST and LGHT in LGs

Equitable Distribution of Grants to LGs

- 1) Undertake holistic review of LG financing
- 2) Analyze health sector policy for compliance with decentralization policy
- 3) Hold midterm review of implementation of agreed positions in the sector negotiations

Institutional Capacity Maintenance and Enhancement

- 1) Conduct evaluation of the performance of the Commission

- 2) Conduct induction of staff and Commissioners in the Application of M&E framework
- 3) Midterm review of the Commissions Corporate Strategy