LOCAL GOVERNMENT FINANCING

Options for Increasing Local Government Revenue

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1. INTRODUCTION

Local governments need resources to finance the services and activities for which they are responsible. Understanding the dynamics of local government revenue sources, capacity and management is crucial for policy makers. Many local governments depend on support from the central government. Local governments in Uganda still have low revenue collection, leading to severe service delivery gaps. As resources available to local governments continue to dwindle, options for increasing revenue to these entities must be explored. Therefore, this policy brief presents innovations or opportunities for local government financing and options for expanding revenue streams for local government.

2. BACKGROUND

Fiscal decentralisation is one way to enhance political, institutional, and economic development. Fiscal decentralisation is where the central government gives subnational governments some power to make spending and financing decisions. Unless fiscal empowerment (in terms of the right to make decisions about taxing and spending) is matched by political empowerment (so that these decisions are made by elected officials responsible to local citizens), theory, empirical studies and experience all suggest that devolution may not necessarily lead to good results.[1] In Uganda, the devolution of functions and responsibilities to sub-national governments under decentralization was accompanied by the devolution of funds to these levels. One of the key features of fiscal decentralization in Uganda is the power conferred on sub-national governments to raise revenues through taxes, fees and levies and spend the generated revenues and grants from the central government.[2] Article 189 of the 1995 Constitution of the Republic of Uganda (as amended) and the Second Schedule to the Local Governments Act, Cap. 243 (as amended) defines the functions of the local government. To execute their mandate, local governments require adequate financial resources[3] from three major sources. The Central Government is required under Article 193 of the Constitution

1 See Treisman (2007)

2 Bogere, G. (2013). Financing Service Delivery under Decentralization in Uganda: A Synthesis of the Regional Budget Advocacy Meetings 2012. ACODE Policy Dialogue Series, No. 18. Kampala.

3 MoLG (2014); Decentralization and Local Development.

of the Republic of Uganda 1995 (as amended), and Section 83 of the Local Governments Act, Cap 243 (as amended) to provide local governments with grants in the form of unconditional, conditional and equalisation to facilitate the delivery of public service.[4] To supplement central government transfers, local governments are empowered under Section 80 (1) of the Local Governments Act, Cap 243 to levy, charge and collect fees and taxes as part of their local revenue. In addition, local governments also receive donations from development partners either directly or indirectly through the sectors.[5] Suffice it to note, that central government transfers have dominated local government resources, contributing to an average 90 per cent of the entire local government's annual budget.[6]

Fiscal Decentralisation is one of the less implemented pillars of the Uganda decentralisation policy, followed by Local Economic Development (LED).[7] Local government financing has dominated public discourse about Uganda's decentralisation for a very long time. There is a widespread concern that local government financing is inadequate to meet the level of demands for service delivery. For this reason, the quality of decentralised services in local governments remains deplorable.[8] The dilemma for local government financing is caused by two major critical factors; meagre local revenue, and the over-dependence on central government.

Locally generated revenue is critical for local governments since it accords greater discretion to the local governments and also

4 Lukwago, D. (2023). Analysis of the National Budget Estimates FY 2023/24: Budget Lines for Local Government Mandates under Central Government MDAs and Proposals for Re-Allocation, Kampala: ACODE Policy Research Paper Series, No. 114.

5 Office of the Auditor General (2016) Annual Report of the Auditor General for the Audit Year Ended December 2016

6 Lukwago, D. (2023). Analysis of the National Budget Estimates FY 2023/24: Budget Lines for Local Government Mandates under Central Government MDAs and Proposals for Re-Allocation, Kampala: ACODE Policy Research Paper Series, No. 114.

7 Mushemeza, E., D., Decentralisation in Uganda: Trends, Achievements, Challenges and Proposals for Consolidation, Kampala: ACODE Policy Research Paper Series No.93, 2019

8 Bainomugisha, A., Mbabazi, J., Muhwezi, W., W., Bogere, G., Atukunda, P., Ssemakula, E.G., Otile, O., M., Kasalirwe, F., Mukwaya, N., R., Akena, W., Ayesigwa, R., The Local Government Councils Scorecard FY 2018/19: The Next Big Steps; Consolidating Gains of Decentralisation and Repositioning the Local Government Sector in Uganda. ACODE Policy Research Paper Series No. 96, 2020.

supplements central government transfers. Generally, locally raised revenues have been meagre since the abolition of graduated tax, thereby affecting the ability of local governments to fund key expenditure needs.[9] Some key challenges that impede local governments' efforts to enhance local revenue include the following. Local governments failure to optimally exploit potential revenue sources; several potential revenue sources remain unexploited.[10] Political interventions have undermined local and other sources of revenue; a case in point is the abolition of the graduated tax in 2005. In addition, there are meaningful revenue sources that have been taken over by central government ministries, departments and agencies, for example, the veterinary and fisheries fees collected by the Ministry of Agriculture, Animal Industry and Fisheries, the border market fees and taxi park fees collected by Uganda Revenue Authority.

On the other hand, transfers from central government to local governments are also faced with a myriad of challenges. Firstly, the increasing number of administrative units means resources have to be split to cater for the sprouting of new local governments, leading to reduced funds available for the districts.[11] Secondly, the share of the national budget allocated for local government programs has steadily declined from 22% in FY 2010/2011 to 9.8 % in 2023/2024. Thirdly, Central Government MDAs are retaining funds meant for local governments (to the tune of UGX 3.3 Tn in FY 2023/24).[12] Thirdly, the allocation of conditional grants to the local government by the sector is not based on the formulae agreed upon with local governments and the Local Government Finance Commission (LGFC). Consequently, local governments have not had the expected increments in conditional grants to match the increase in the cost of delivering services in local governments and the growing needs.[13] The level and nature of

9 Office of the Auditor General (2016) Annual Report of the Auditor General for the Audit Year Ended December 2016

10 OAG (2022). Report of the Auditor General to Parliament for Financial Year Ended 30th June 2022

11 Eugene G, Ssemakula, and George Bogere (2019), Implementation of Fiscal Decentralisation in Developing Countries; Illustrations from Uganda. In A. Bainomugisha, K. Cunningham, L. M. Tamale, & W. W. Muhwezi, Local Governments in Uganda (pp. 37-56). London: Adonis & Abbey Publishers Ltd.

12 Lukwago, D. (2023). Analysis of the National Budget Estimates FY 2023/24: Budget Lines for Local Government Mandates under Central Government MDAs and Proposals for Re-Allocation, Kampala: ACODE Policy Research Paper Series, No. 114.

13 Office of the Auditor General (2016) Annual Report of the Auditor General

financing for local governments have a bearing on the level of service delivery. On this basis, this brief proposes options for increasing local government revenues and explores alternatives to central government transfers.

3. PROPOSED OPTIONS FOR IMPROVING LOCAL GOVERNMENT FINANCING

3.1 Release of resources for mandates held by Ministries Departments and Agencies (MDAs)

There have been growing concerns that transfers from central government to local governments have been insufficient to meet the ever-increasing demand for service delivery. Reports have shown that there has been a decline in transfers from central government to local governments in relative and per capita terms.[14] The Auditor General reported that sectors retained most of their budget allocations despite devolving the service delivery responsibility to local governments. On average, the critical service sectors of water, works, agriculture and health retained more than 80% of sector allocations at the centre.[15] Similarly, research carried out by ACODE found some budget lines allocated to MDAs but under the mandate of local governments. The amount of money retained by the centre over the years has increased from 1.066 trillion in FY 2019/2020 to 1.3 trillion in FY 2020/2021, and finally, the highest being 3.1 trillion in FY 2023/24, as indicated in Table 1.

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for the Audit Year Ended December 2016

14 Ggoobi, R. & Lukwago, D. (2019). Financing Local Governments in Uganda: An analysis of proposed national budget FY 2019/20 and proposals for reallocation. Kampala, ACODE Policy Research Series. No.92,2019

15 Auditor General (2016). Financing Local Governments in Uganda through Central government grants and local revenues. A report by the Auditor General.

Table 1 Funds retained by MDAs under LG mandate

Financial Year	Retained Funds by MDAs	Funds for Rationalisation
2019/2020	1.066 trillion UGX	530.2 billion UGX
2020/2021	1.32 trillion UGX	490.6 billion UGX
2023/2024	3.16 trillion UGX	167 billion UGX

Source: ACODE's Analysis of the National Budget Estimates: Budget Lines for Local Government Mandates under Central Government MDAs and Proposals for Re-Allocation (FY 2019/2020- FY2023/2024).

Recommendations

a) There is a need for the Ministry of Finance, Planning and Economic Development (MoFPED) to ensure Compliance with the law in terms of financing mandates for local governments and MDAs

b) MoFPED to compel MDAs to release money they hold under the local government mandates to respective votes.

c) MDAs should provide indicative planning figures (IPFs) for local government mandates to facilitate timely budget adjustments.

3.2 Strengthen Local Revenue Policy and Administration

Globally, central or local governments have no better source of revenue than taxes. A robust tax administration system that assesses and collects taxes and enforces liability is central to generating revenue.[16] However, identification of potential taxpayers, assessment procedures, collection mechanisms, and the legislative framework underpinning taxation, have been weak in Uganda's local government tax administration; as well as critical aspects of tax administration, such as staffing, training, administration procedure, and the collection and use of information.

3.2.1 Formalisation of the informal sector in local government

The widespread informality, accounting for almost half of economic activity, is a key structural constraint to revenue growth in Uganda.[17] Most businesses in local governments are informal (unregistered, illicit),

16 Matthijs Alink, Victor van Kommer (2016), Handbook on Tax Administration (Second Revised Edition).

17 MoFPED (2019) Domestic Revenue Mobilisation Strategy for Uganda 2019/20 – 2023/24

such as roadside markets, welders, and street vending, and several domestic-based businesses are generally unrecorded for national taxation purposes; LGs have difficulties in collecting revenues from such businesses, especially when they change location frequently.[18]

Besides the dominance of the informal sector, there is also the challenge of transition to the formal sector. Local businesses face challenges with registration and formalization. These include limited access to information, bureaucratic obstacles, a complex regulatory environment, and financial constraints, as the cost of registration is high, among others. This informality poses challenges to revenue growth and leads to inequitable distribution of income and productive resources as most informal businesses operate beyond the sight of the tax system[19], the large informal sector therefore, makes it difficult for local governments to project how much revenue is expected in a financial year.[20]

Furthermore, the capacity of local governments to facilitate the transition from the informal to the formal sector is limited by the human resource challenges in the Department of Trade, Investment, and Local Economic Department.[21] The Trade, Investment, and Local Economic Department, which would otherwise be critical for facilitating the transition from the informal to the formal sector, is, unfortunately, understaffed with a vast majority of LGs having only the District Commercial Officer as staff of the department.[22] These challenges underscore the urgency of policy actions to unleash the growth potential of the informal sector's resources by promoting their transfer to the formal sector.

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18 MoLG (2023), Local Government Own Source Revenue Mobilisation Strategy 2018/19-2024/25.

19 EPRC (2022), Assessment of Informal Businesses in Uganda. https://eprcug.org/publication/assessment-of-informal-businesses-in-uganda/?wpdmdl=15332&refresh=660eb58aaa53a1712240010&ind=1671514355435&filename=Assessment%20of%20Informal%20Businesses%20in%20Uganda.pdf

20 Government of Uganda (2016) Financing Local governments in Uganda through central government grants and local government revenues. A report by the Auditor General

21 Kavuma, S., Tibamwenda, A., Mushemeza, E., Bogere, G., Muyomba-Tamale, L., Ssemakula, E., and Mbabazi, J., (2020). Assessing Capacities for Local Economic Development in Uganda, Kampala: ACODE. Policy Research Paper Series No.98.

22 MoLG (2022), National Strategy for Local Economic Development 2021/22 - 2024/25

Recommendations

a) Ease business registration processes: URSB and URA, in liaison with local governments, should eliminate excessive regulations and bureaucratic requirements for business registration, which could also motivate informal firms to formalize.

b) Digitise business registration: Local governments should digitalise business registration and tax processes and harmonise registration forms, which could ease the burden.

c) Recruitment of staff in the Trade, Investment, and Commerce Department in Local Governments: The Ministry of Finance Planning and Economic Development should allocate wages for staff recruitment in the department.

d) Allocate funds for continuous sensitisation: Local Government councils should ensure budget allocation for continuous community sensitisation by the Department of Trade and Commerce to facilitate the transition to the formal sector.

3.2.2 Digitisation of Local Revenue Mobilization

The government has implemented notable reforms in tax administration in local government that have led to increased revenue collection for local governments in Uganda. For example, the Ministry of Local Government and the Local Government Finance Commission have developed e-platforms such as the eLog-Rev and theIntegrated Revenue Administration System (IRAS), which are automated systems for taxpayers' registration, e-payments, reconciliation, enforcement, reporting and integration with other government agencies. Both innovations are seeking to streamline revenue collection and cure some of the challenges that local governments have been struggling with as far as local revenue mobilisation. These innovations have contributed to an increase in local revenue collection, especially in the local governments that have already been enrolled in the IRAS, and demonstrated much potential for increased local revenue mobilisation in local governments. In other words, there is much room for improvement in local government revenue collection. However, local governments are still struggling with suboptimal processes in revenue mobilisation, such as enumeration and registration, assessment, comprehensive taxpayer database, billing and collection, enforcement, accounting and record keeping, monitoring, mobilisation and sensitisation.

Recommendations

a) Roll out digital revenue mobilisation system to lower local governments: The Ministry of Local Government and the Local Government Finance Commission should expedite the enrollment of local governments on revenue collection e-platforms: Revenue administration is about using minimal resources to collect revenue efficiently. The introduction of online revenue administration systems such as IRAS has demonstrated that it is possible to collect taxes efficiently and has registered tremendous successes with local governments.

b) Provide local governments with the necessary equipment for implementation of digital revenue mobilisation system: The Ministry of Local Government, Local Government Finance Commission in partnership with NITA-U, Ministry of Energy and Mineral Development, and Ministry of ICT should provide local governments with the relevant equipment and infrastructure for implementing the digital revenue mobilisation system such as computers, internet connection, and reliable power supply.

c) Enhance the skills of local government staff responsible for revenue collection: The Ministry of Local Government and Local Government Finance Commission should liaise with the system developers to train local government staff responsible for operationalizing these systems.

3.2.3 Review of policy and legal framework for local revenue mobilisation

Article 192 of the 1995 Constitution of the Republic of Uganda, and Section 80 (1) of the Local Governments Act, Cap 243 (as amended) empowers LGs to levy, charge, collect, and appropriate fees and taxes in this case in their areas of jurisdiction. The Legal and institutional frameworks of Uganda governing local revenue generation, sharing, and management are well articulated in the Constitution of the Republic of Uganda under Article 191 (1) and (2), Article 152, Article 194; the LGA Cap 243 under Section 77 (1), Section 80 and Schedule V; the LGFARs 2007, Regulation 24; and various Statutory Instruments. However, these frameworks have challenges that limit the capacity of LGs to generate local revenues.

- **Local Service Tax:** Regulation 3 of the 5th Schedule to the Local Governments Act provides for Local Service Tax as a source of revenue for the local governments to be levied on the wealth and income of a designated category of people. Sub regulation 3 specifies categories of people to be exempted from payment of the local service tax including; boda boda cyclists, petty food vendors, and others. This exemption makes local service tax uneconomical since it leaves out a huge pool of potential taxpayers. The tax is regressive with too many tax bands. Fifth Schedule, Part II, S (3,4,5 &6) provide for 10 bands, the lowest band is too low (UGX 5,000). The enforcement provisions as per part III S(9 & 16) are too weak to cause compliance.

- **Revenue sharing between the centre and local governments:** Under Article 192 (b) of the Constitution of the Republic of Uganda and Section 80 (3) of the Local Governments Act, Cap 243 (as amended), local governments may collect fees or taxes on behalf of the Government as its agent; and where a local government acts as an agent, a portion of the funds collected shall be retained by the local government. However, in some cases, local governments have not been allowed to retain these funds for instance in the case of agriculture and animal husbandry-related fees like animal movement permits.
- **Revenue sharing between urban councils and district:** Article 197 of the Constitution of the Republic of Uganda and Section 79 of the Local Governments Act, Cap 243 (as amended) give urban councils autonomy over their financial and planning matters in relation to the district councils. As a result, the urban local councils (municipalities and town councils) do not remit any local revenues to the district; although, these have the highest sources of local revenues such as business licenses and fees. This means, therefore, that the districts depend on rural lower local governments (sub-counties) whose local revenue sources are very low. This creates a burden on the district councils who have supervisory functions over the urban councils.
- **Royalties:** Royalty fees collection is guided by Article 191(1) (2) of the Constitution of the Republic of Uganda 1995 as amended. Under Section 80 (1) of the Local Governments Act, Cap 243 (as amended), royalties are recognised as a source of revenue for local governments. While this is the case, the determination of royalties is based on various laws, and managed by sector ministries. LGs have no direct influence on the rates or the amounts paid as royalties. However, the collection of royalty fees in the Local Government is challenged by the following: Insufficient data on the operations that could attract royalties. Lack of transparency in the sharing of royalties between the Central and Local Governments and Unclear government policies and guidelines on modalities for collecting royalties and setting rates for example the Electricity Act 1999 does not provide the rate for royalty from electricity

generation Section 75 (7,8 &9) stipulate that royalty rate has be agreed between the two parties and where the parties do not agree, an authority concerned is empowered to determine the rate to be paid to the LG. This has created an opportunity for electricity generation companies to decide on lower rates currently at UGX 292 per MW per hour for local governments. Under the Mining and Minerals Act, 2022, S 180(4) stipulate that the entity licensed to carry out any activity in the sector is required to pay royalty fees to the District in which the operation facilities are located, at rates already determined in the law (70% to Central Government, 15% to HLG, 10% to LLG and 5% to land owner where the mineral was exploited from. The rate set at too low for LGs to benefit from the royalty. In addition, LGs are denied access by mining operators to the mining areas to assess the mining operations. The Uganda Wildlife Act 2019 Section 69 (4), obliges UWA to share 20% of its park entry fees with LGs surrounding the protected area from which the fees were collected. The information regarding the collections is provided at the discretion of the UWA making it difficult to consider it in the IPFs during budgeting. Under the Forest and Tree Planting Act 2003, S (39-64) provides for a fee charged on each tree product harvest. However, no provision for royalties to the LGs especially from the revenues generated from central forest reserves. On Water, the Water Act CAP 152 S 94, provides to a water fee, a fee charged on use of large quantities of water. This law does not provide for royalty to LGs yet it would have been a good source of revenue.

Recommendations

a) Amend Regulation 3 of the 5th Schedule to the Local Governments Act, Cap 243 (as amended): Regulation 3 (3) of the 5th Schedule to the Local Governments Act, Cap 243 (as amended) should be amended to revise the category of persons exempted from the local service tax and exclude boda-boda cyclists, and petty food vendor who have emerged as the dominant player in local government economies from the category of exempted persons. In addition, reduce the tax bands from the current 10 to 5 bands with the lowest at UGX 20,000/= and highest 100,000/= this will increase the yield of this tax and make it a proportionate tax.

b) A system of monitoring the entire process, evaluation and strategic actions for corrective actions should be put in place for effective management of production and remittance of royalties. A penalty should be instituted in the law to deter delays in remitting royalty fees to LGs. This can be followed by submission to LGFC of a monthly or quarterly report on the amount being paid as royalty.

c) Data on performance of royalties should be shared with Local Governments especially from UWA, ERA and Ministry of Energy & Mineral Development.

d) The Local Government Finance Commission should undertake a quarterly assessment of host LGs on their performance on accessing royalties.

e) Local Governments should enforce the collection of royalty from sand mining and stone quarry activities as stipulated in the NEMA Amendment Act 2018.

f) The Water Act should be amended to provide a royalty to LGs arising from use of large quantities of Water

g) The Forest and Tree Planting Act ,2003 should be amended to incoude a provision of roaylties to the LGs where the forest is situated and grant LGs the authority to revise prices within a given period of time.

h) Under park user fees, management of vehicle parks and collection of park user fees should be given back to LGs just as the management of public markets in the New Market Act 2023. This is because the current collection by URA as per the law has failed to generate even half of what LGs generated previously.

i) The Local Government Finance Commission should create a dedicated desk on issues pertaining to royalties. The desk should be publicized to all stakeholders and clear communication to all Ministries, Departments and Agencies that attract royalties.

j) Compliance with Article 192 (b) of the Constitution of the Republic of Uganda and Section 80 (3) of the Local Governments Act, Cap 243: Ministries Departments, and Agencies should comply with the provisions of Article 192 (b) and Section 80 (3) in relation to revenues collected by local governments on behalf of the MDAs. The Ministry of Finance should issue a Statutory Instrument Authorising Local Government to retain an agreed percentage of these funds and only remit the balance to the MDAs.

k) Amend Sections 78, 79, and the 5th Schedule to the Local Governments Act, Cap. 243 (as amended) to provide for modalities of revenue sharing between urban councils and the district: Sections 78, 79, and the 5th Schedule to the Local Governments

Act, Cap. 243 (as amended) to provide for a formula of revenue sharing between urban councils and the district.

l) Amend Section 75 of the Public Finance Management Act, 2015 to harmonise the different provisions for royalties: Section 75 of the Public Finance Management Act, 2015 should be amended to harmonise the provision for royalties under the different Acts and provide for sanctions for MDAs that default to remit royalties due to local governments.

3.2.4 Mainstreaming local revenue mobilization function in local government

Across the local governments in Uganda, accountants mainly handle the issue of Local Revenue Mobilisation. By training, accountants are expected to be in charge of spending and accounting for the finances, they have in place, which limits their ability to concentrate on collecting local revenue.

Recommendations

a) Create a fully-fledged department for revenue administration in local governments: The function of revenue mobilisation and administration should be removed from the office of the Chief Finance Officer and mainstreamed in a fully-fledged revenue department. The Department of Revenue should then be staffed with qualified revenue officers.

b) Strengthen and emphasise non-tax revenue mobilization: Non-tax revenues collected at the local government levels should be emphasised. Local government authorities should ensure that all processes required by the law are followed, including tax collection dues.

c) Accountability to stakeholders: Local governments should be in a position to provide more information on the rates, amount of local revenue collected and how it is utilised, and assessment information collected through public notices boards to build citizen confidence in the process.

3.3 Strengthen Public-Private Partnerships (PPPs) in Local Governments

In recent development agendas, Public-Private Partnerships (PPPs) have become a valuable means for financing infrastructure development. The government is supportive of the PPP approach to delivering public sector infrastructure. This is demonstrated by the relevant policies, laws and regulatory frameworks it has implemented. The PPP Policy (2010) and the PPP Act (2015) are chief among these. Also, the Public Investment Financing Strategy (2022) considers PPP as one of the financing options in the country and further re-echoes government commitment to the PPP approach. The Public-Private Partnerships Act (2015), a prime law that regulates the development and implementation of PPPs in Uganda, further strengthens the PPP. There is a set of PPP Regulations operationalizing the Act. The Regulations provide for, among others, the management of PPPs and procedures procurement of the private party. Several other legislations impact PPP disclosure. These include the Constitution of Uganda (1995 as amended); The Public Finance Management Act (2015 as amended); the Access to Information Act (2005); the IGG Act 2002; Press and Journalists Act Cap 105; the National Audit Act (2008); Official Secrets Act Cap 302; Evidence Act Cap 6; Parliament (Powers and Privileges) Act Cap 258; and Oaths Act Cap 19 among others.

Several presidential directives have been to facilitate PPP projects occasioned by delays caused by line agencies. Despite their existence, some of these PPP units still have critical challenges, including the capacity to structure, manage, and evaluate PPPs; allocation of risks of PPPs; development of standards for PPPs; and capacity gaps for developing and structuring PPP projects. Whereas MDAs are already implementing PPP, its implementation at the local government level is still lacking. The study also cited that PPP projects and agreements are commonly characterized by information asymmetry and mistrust, which partners exploit to avoid fiscal checks and balances.

Notably, Local Governments in Uganda are entrusted by the Local Government Act (1997 as amended) with planning, economic development, infrastructure, utilities, social infrastructure, and public services in their respective cities and towns. Uganda has 135 districts, 10 regional cities, 31 municipal councils, 1,496 sub-counties, 25 city divisions, 89 Municipal Divisions and 580 Town Councils. The local governments are almost entirely dependent on central revenue transfers, with little of their budget coming from their own source revenues. Their borrowing limit is 25 % of the prior year's revenue collected, which makes it difficult for most local governments to borrow substantially.[23] The existing laws and regulations for LGs do not

23 World Bank (2018). Country Public-Private Partnership Diagnostic, Uganda. International Bank for Reconstruction and Development / The World Bank. https://documents1.worldbank.org/curated/en/382451593055167109/pdf/Uganda-Country-Public-Private-

specifically address the PPPs. Section 36(1) of the PFM Act vests the authority to raise money by loan and issue guarantees in the Minister of MOFPED. No other person, public corporation, state enterprise, or local government can raise a loan or issue a guarantee without the minister's approval. It should also be noted that limited financing has been a persistent challenge in meeting these crucial roles. Also, there is still insufficient basic PPP awareness, knowledge and skills at the Local Government Level. This has affected PPP project development, initiation and appraisal. There have been challenges in the PPP advocacy, knowledge and skills programmes.

Recommendations

a) The local governments should focus on adopting PPPs as an innovative financing mechanism for service and infrastructure projects.

b) Integrating Public-Private Partnerships with the Parish Development Model (PDM) as a strategic initiative to decentralise development activities.

c) MoLG, in liaison with MoFPED, should sensitise and build the capacity of local government staff on the operation of PPP.

d) The local governments should mainstream PPP in the Department of Commerce and Industry and should be top on the agenda of MoLG as a measure of enhancing Service delivery in local governments.

e) The Ministry of Trade Industry and Cooperatives, MoLG, MAAIF and MoFPED should develop the capacity of local government administrators to understand, design and implement PPPs as a tool for service delivery; public administrators at this critical tier of government can create and maintain infrastructure while delivering efficient and effective public services to the citizens.[24]

f) Local Governments to support the operationalization of a pooled finance and investment trust as per the Constitution of the Republic of Uganda 1995 (As Amended); Chapter 11, Article 178,

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Partnerships-Diagnostic.pdf

24 Nduhura et al (2021). Local Government: Practices and Lessons for Delivering Services Through Public Private Partnerships. UMI, October 2021. https://umispace.umi.ac.ug/bitstream/handle/20.500.12305/1423/Local%20Government%20practices%20and%20Lessons%20for%20Delivering%20Services%20Through%20public%20private%20partnerships.pdf?sequence=1&isAllowed=y

Section 1 (a-d) and Section 8 of the LGA Cap 243 as amended. Chapter 11 of the Constitution provides for Cooperation among districts; Two or more districts shall be free to cooperate in the areas of culture and development as set out in the Fifth Schedule to this Constitution and may, for that purpose, form and support councils, trust funds or secretariats, subject to the following: such cooperation shall conform to the democratic principles enshrined in this Constitution; the councils, trust funds or secretariats so formed shall not have power to levy taxes; but Parliament may make provision enabling them to raise funds in addition to funds made available to them by the cooperating districts; the terms and conditions of the cooperation shall be embodied in a charter signed by the consenting districts and deposited with the Speaker of Parliament; and the councils, trust funds or secretariats formed under this article shall have power to make rules, regulations and bye-laws in relation to the functions assigned to them; except that such rules, regulations and bye-laws shall not be inconsistent with the provisions of this Constitution or any existing law and shall not be effective unless ratified by the district councils of the cooperating districts.

The Sub-National Pooled Investment Trust (SNPIT) is structured as a framework to mobilize a pool of funds using a hybrid of blended financing mechanisms to support investments that strategically facilitate LED and contribute to Social Economic Transformation of communities within the LGs. The SNPIT will harness existing financial resources, including Central Government (CG) funding, contributions from SNGs, and support from DPs. These resources will serve as a foundation to attract additional funding from the private sector, social investors, philanthropic organizations, and other stakeholders. The primary objective is to bolster priority investment programs and projects within the SNGs, fostering their economic growth and social development.

3.4 Compliance with grant allocation formulae

Article 193 of the 1995 Constitution of the Republic of Uganda (as amended), and Section 83 of the Local Governments Act, Cap. 243 (as amended) requires that the central government allocates grants (Unconditional, Conditional, and equalization) to local governments to run decentralised services. The grants are to be calculated in a manner specified in the Seventh Schedule to the Constitution. The allocation of conditional grants to the local government by the sector is not per the formula agreed upon with the Local Government Finance Commission and the Local Government Finance Commission (LGFC). Consequently, Local governments have not had the expected increments in conditional grants to match the increase in the cost of delivering services in local governments and the growing needs. The allocation of Unconditional grants to local governments is not undertaken in accordance with the formulae prescribed under Article 193 (2) of the constitution. Consequently, the allocations have not enabled local governments to adequately finance their local discretionary priority needs or cater for the general price changes and the incremental costs of running services.

Recommendation

a) The Local Government Finance Commission (LGFC) and the Ministry of Finance Planning and Economic Development should ensure government transfers are calculated using a transparent formula that considers the variables relevant to local government service delivery mandates. Conditional grants per the formulae agreed upon with local governments and the LGFC. At the same time, Unconditional Grants should be allocated following the formulae prescribed under Article 193 (2) of the constitution to achieve the objective of fiscal decentralisation.

3.5 Local Economic Development (LED)

LED in Uganda is a derivative of the Decentralisation Policy. In 2006, the sixth objective of decentralisation, "promotion of Local Economic Development", was adopted to address this challenge of unemployment and high poverty levels. The Policy has eight objectives including to, i) promote partnerships for LED implementation, ii) expanding the economic infrastructure for LED to thrive, iii) strengthening National and Local Government capacities to implement LED, iv) developing clear guidelines for LED implementation at all levels, v) increase the level of public awareness and participation in LED interventions, vi) create a business enabling environment for LED, vii) mobilise adequate financing for LED implementation, and viii) mainstream cross-cutting issues in LED, e.g. Gender, HIV/AIDS, Environment and Vulnerable segments of the population. There are 58 strategic interventions under these objectives.

The Policy provides for two levels of implementation arrangements: national and local government. At the national level, the National LED Committee is responsible for policy guidance and oversight in implementing LED. The National LED Committee comprises Permanent

Secretaries (PS) of 13 Ministries and representatives from government agencies and the Uganda Local Governments Association (ULGA). The PS of the Ministry of Local Government chairs the National LED Committee. Other actors at this level include the National LED propagation team, the technical arm of the National LED Committee, and the National LED Secretariat at MoLG, where focal point staff coordinate the implementation of the LED policy and Institutional/ Sector LED Committees. At the local government level, a District/ Municipality LED Resource Team (D/MLEDRT) coordinates LED in higher local governments (districts and municipalities). The Team reports to the Technical Planning Committee (TPC) and is chaired by the Chief Administrative Officer (CAO) or Town Clerk (TC), with the Commercial Officer as the Secretary. Other members of the D/MLEDRT include heads of departments and representatives of the private sector and CSOs. There seems to be a conflict of interest here. The CAO/TC who heads the D/MLEDRT is usually the head of the TPC. The D/MLEDRT is expected to work with the sub-county and division TPC responsible for implementing LED activities at that level.

However, there is anecdotal evidence that the institutional framework is dysfunctional. The LED National Steering Committee and LED Propagation Team were constituted at the national level but have not been functional due to a lack of funds.[25] This means that the critical roles of providing leadership in policy guidance and oversight are not fully attended to. The framework has been buttressed by a coherent and comprehensive LED Strategy yet to be implemented.[26] There is a lack of coordination between national, sectoral and locality-based approaches; absence of a shared understanding of what LED means and the respective roles of the different economic actors; limited capacity to implement LED at district level; and inadequate policy framework. The failure to fully operationalise the LED implementation framework signals a lack of commitment to the Policy and or a lack of confidence in the usefulness of these structures, especially at the national level. No wonder the implementation of LED has been, at best, haphazard.

In addition, in the informal economy, firms highlighted their lack of access to finance, modern technology, skills, and market information to upgrade their products. Firms requested Business Development

25 Mushemeza, E., D., Decentralisation in Uganda: Trends, Achievements, Challenges and Proposals for Consolidation, Kampala: ACODE Policy Research Paper Series No.93, 2019.

26 MoLG (2022). The National Strategy for Local Economic Development. Ministry of Local Government, Kampala. May 2022.

Services (BDS) to help them develop bankable business plans for upgrading machinery and production technologies and business incubation centres to help them with quality upgrading and modernisation.[27]

In the agribusiness subsector, there is a lack of Government action in enforcing agriculture input quality standards regulations, leading to substantial productivity losses for local firms. Also, one of the most critical challenges facing smallholder agribusinesses is their lack of aggregation or bulk marketing and, consequently, their lack of bargaining power with traders and middlemen. Smallholders mainly sell at variable farm gate prices based on their (weak) negotiation power with traders. This is further exacerbated by their lack of market and price information, which puts them at a disadvantage when negotiating prices.

The constrained access to finance by firms across all prominent sectors and size categories is locking firms into smaller sizes than they have the potential for and preventing an increase in the share of medium-large scale enterprises in the local economy. This is a major obstacle hindering firms' ability to take advantage of economies of scale in production, preventing higher productivity in the local and Ugandan economy. Finally, another important issue at the local level there is the high transaction cost involved in firms' interaction with Local Government due to complex and bureaucratic procedures. In particular, the lack of transparency in the tax assessment process seems to be introducing avenues for corruption and is hindering firms' profitability and increasing the incentives for informality. There are high transaction costs currently exerted by product certification, duty reimbursement and other customs-related processes requiring travel to multiple locations.

In terms of the constraints internally hindering the ability of LGs to implement LED, the first and most prominent issue was the lack of financial resources. Within local government's current funding streams, there is very little flexibility to invest in LED, given that over 90% of local government financing is in the form of conditional grants earmarked for specific areas, mainly relating to the delivery of essential services, and unconditional grants and own source revenues continue to be very low and only enough to cover recurrent expenditures. Moreover, the financial resources that LGs receive for service delivery have been

27 World Bank (2016). Repositioning Local Governments for Economic Growth: The role of Local Governments (LGs) in promoting Local Economic Development (LED) in Uganda

declining in real terms. At the same time, local government's own revenues have plummeted over the last decade since the abolishment of the Graduated Tax, which has made LGs much more reliant on the centre for their financing. As a result, local governments continue to suffer the burden of unfunded mandates, leading to unsatisfactory service delivery. The other major constraint identified was the low capacity and understanding of LED among Government Officials, including staff, but particularly Local Councillors (elected politicians) who often have a low level of education and undertake actions that obstruct economic development.

Recommendations

a) Activate the Commercial Office's support of the informal fabrication/cottage industry sector. This includes business development and support services (BDS) such as financial literacy training, business plan development, cooperative establishment, collective bargaining, and quality upgrading advice.

b) Strengthen the agriculture and livestock extension service and support to agricultural cooperatives. This should support value addition and collective marketing. Efforts could start with public-private partnerships (PPPs) between local governments and agro-processing firms to encourage linkages without growers. Supporting local governments in improving the enforcement of regulations on quality standards of agricultural inputs is also critical.

c) Raising awareness of the available sources of funding in commercial banks, microfinance institutions, etc., particularly of GoU and donor funds at lower interest rates.

d) This brief recommends that (i) local governments should also be supported to establish One Stop Centres where a business can get advice on all Government procedures in one place; (ii) Uganda Registration Services Bureau should decentralise the procedures exerting the highest transaction costs for business to the local government One-Stop-Centres, particularly product certification and customs related procedures; and (iii) having a window for investment facilitation and follow-up support for foreign investors.

e) Further, this brief recommends (i) repurposing the local Government Structure towards repositioning local governments for facilitating economic growth, (ii) instituting performance-based LED budgetary allocations contingent on good performance against a set of objective criteria, (iii) cascading training to local governments which focuses on their expected role in locality promotion, attracting investment and improving the enabling environment for business.

4. CONCLUSION

The decentralisation of administrative responsibilities and service delivery to lower tiers of governments without a corresponding re-organisation of finances is likely to be counter-productive. Fiscal decentralisation entails the assignment to sub-national or local governments of resources to finance the functions for which they are responsible, but without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be verified, and, in this way, the full potential of decentralisation cannot be realised.[28] Research suggests that effective subnational DRM reforms and policies must be context-driven but can also depend on forces outside local control, such as intergovernmental relationships. For local governments to have increased financing to deliver on their mandates, they must look into improving revenues received from local revenues by widening the revenue sources.

28 Feruglio, N (2007), "Fiscal Decentralisation: An Overview", World Bank.

ABOUT ACODE

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy think tank based in Uganda. ACODE's work focuses on four programme areas: Economic Governance; Environment and Natural Resources Governance; Democracy, Peace and Security; Science, Technology and Innovation. For the last eight consecutive years, ACODE has been ranked as the best think tank in Uganda and one of the top 100 think tanks in Sub-Saharan Africa and globally in the Global Think Tanks Index Report published by the University of Pennsylvania Think Tanks and Civil Societies Program (TTCSP).

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