



CENTRE FOR
POLICY
ANALYSIS

POLICY FRAMEWORK AND POLICY PREPOSITIONS FOR ADVOCACY ON UGANDA'S DECENTRALIZATION POLICY



Governance, Accountability, Participation and Performance (GAPP) Program



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By Drake Rukundo

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Acronyms and Abbreviations

CAO	Chief Administrative Officer
CFO	Chief Finance Officer
CG	Central Government
FY	Financial Year
GoU	Government of Uganda
GT	Graduated Tax
LGs	Local Governments
LRR	Locally Raised Revenue
LST	Local Service Tax
OAG	Office of the Auditor General
OLR	Own Local Revenue
PAC	Public Accounts Committee
PFM	Public Finance Management
PTA	Parents and Teachers Association
PWD	Persons with Disabilities
UGX	Uganda Shillings
UPE	Universal Primary Education
USE	Universal Secondary Education

Table of Contents

	An Overview of Uganda's Decentralization	4
A1:	The proliferation of administrative units and fragmentation of resource allocation	5
A2	Re-centralization of functions that were formerly decentralized	6
A3:	Inadequacy of Local Government Financing	7
A4.	The challenge of Raising Local Revenue	8
A5.	The need for Implementation of the Regional Tier	11
A6:	Challenges in Implementation of the PFM Act 2015	12
A7:	Limited Follow-up and Political Will to implement various Recommendations	13
A8.	Restore Cost-sharing to Enhance Service Delivery	15
A9:	Enforce Minimum Standards, Inspection, Performance Contracts, Audit and M&E	16
A10:	Review the National Local Economic Development (LED) Policy	17

Executive Summary

Post-independence Governments of Uganda implementation decentralization with a mission of transforming society by empowering citizens to take charge of their development agenda and improve their livelihoods. It was in 1993 that an overarching policy on fiscal decentralization was put in place. Today, after 26 years of implementation, a lot of developments have taken place that have led to a need for reviews including those within the legal framework. This paper presents a highlight of key of these issues.

Centre for Policy Analysis (CEPA) based in Kampala Uganda, under the auspices of Governance, Accountability, Participation and Performance (GAPP) of USAID, has developed this Paper to guide deliberations of Members of Uganda's Parliament and other stakeholders to carry out informed advocacy for reforms in the decentralization policy. Whereas there have been various reviews and initiatives to strengthen the implementation of this policy, this paper has focused on aspects that require legislative action and hence the selection of Parliament as a primary target institution by virtue of its mandate. Among these the paper highlights the following:

1. Undertake a constitutional review to place a moratorium to be imposed on creation of new districts, constituencies and sub-counties, town councils and town boards with new institutional set-up benchmarks
2. Review of the Local Government Act on the criterion for recentralization of hitherto devolved functions especially Presidential directives not enshrined within the law
3. Embed the reviews made to the Fiscal Decentralization Architecture (FDA) into the broader Public Finance Management (PFM) Act in order to protect the adequacy of LG financing with the law with clear vertical sharing of national budget.
4. Amicably address the challenge of Locally Raised Revenues within the law with responsibility centres and tax administration guidelines to enhance transparency and accountability with attendant reviews the URA Act.
5. Execute the constitutional provision to implement the Regional Tier since there are critical functions that are better served at regional and not district level.
6. Review PFM Act (2015) since in some aspects planning, budgeting, accountability that has left LGs fiscal autonomy usurped by the centre ministries that determine planning guidelines and ceilings.
7. Revitalize the role of Parliament to ensure follow-up of recommendations of the Auditor General, NPA Compliance Certificate, Government Annual Performance Reports with awards and sanction mechanisms to inspire good performance.
8. Set up legal provisions for the restoration of cost-sharing in critical sectors such as health and education that was suspended in 2001
9. Revise public service orders to set-up and enforce minimum performance standards, contract management, and audit as well as M&E functions in LGs
10. Review the LED Policy and institute mechanisms for supporting LGs' owned priority investments from which they can generate own revenue through an elaborate act of Parliament.

An Overview of Uganda's Decentralization

Uganda's decentralisation policy was approved by cabinet and came into force in 1993. It was premised on a notion that local governments are better placed than central government to identify own local development needs and respond to their own self-determination and governance. The 1995 Constitution enshrined decentralization¹ as a governance modular for participation, inclusion, representation, decision-making, and power relations between central and local governments. Two years later this became the basis for the elaboration of the Decentralization Policy of 1993 and the Local Governments Act 1997 cap 243 and later amended). This policy thrust defined Uganda's ambition to put in place the highest level of decentralization – Devolution which is defined as:

A much more expansive transfer of power to lower and administrative units. These lower units are granted a corporate status and extensive decision-making, planning, administrative, and financial as well as development management powers and responsibilities. On the other hand, the centre retains policy-making and oversight functions.

Decentralisation was further inspired by the introduction of fiscal decentralisation strategy in 2002. This wide-reaching reform brought about the split in planning, budgeting and reporting frameworks between central and local governments. Under the second schedule of the Local Governments Act (CAP 243), clear definitions were made of all devolved functions to be implemented by the Local government. These include primary and secondary education, trade, special and technical education, hospitals other than those providing referral and medical

training; feeder roads; water supplies; agricultural extension; land administration and surveying and community development among others. Decentralization aimed to achieve these six objectives (revised in 2006):

- i. Transfer real power to LGs and reduce the workload of remote under-resources central officials;
- ii. Bring political and administrative control over services to the point where they are actually delivered and thereby promote accountability and effectiveness, and promote a feeling of 'ownership' of programmes;
- iii. Free local managers from central government constraints and enable them to develop effective and sustainable organization structures tailored to local needs;
- iv. Improve financial accountability and responsibility by establishing a clear link between payment of taxes and provision of services;
- v. Improve the capacity of local authorities to plan, finance and manage the delivery of services.
- vi. Promote local economic development.

This paper has been purposely drafted to aid parliamentary advocacy for critical reforms to advance the above objectives of decentralization. It sheds light on trends in performance of decentralization in Uganda and in so doing brings to the surface, critical issues that need to be urgently addressed in various ways and are thematized in sections that follow.

1 Decentralization is both a political and technical process. At the political level it involves leadership, participation, inclusion, representation, decision-making, and power relations between central and local governments, and between higher and lower local governments. On the technical level it involves administration, planning, budgeting, financial management, human resources mentoring and development, monitoring and evaluation, supervision and careful and effective synchronization of political and technical elements and functions



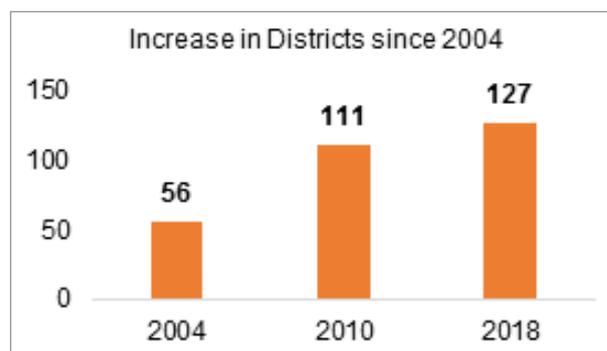
A1: The proliferation of administrative units and fragmentation of resource allocation

Article 179 of Uganda's Constitution provides for the boundaries of local government units and creation of new units based on the necessity for effective administration, population size, economic viability, and the need to bring services closer to the people and their own demand for self-determination. Since 2004, the number of districts in Uganda have grown exponentially from 56 to the current 127 (MoLG District Administration 2019).

While Government insists that the creation of new districts has created employment opportunities and enhanced service delivery, there are mixed reactions among masses over whether the objective of bringing services closer

to the people has been achieved.

There has equally been an increase in the number in municipal councils rising from **13 in 2004 to 41 in 2019**. The criteria for the elevation of Town Councils to Municipal Councils has been questioned, as there are town councils with bigger populations that wait to be evaluated. In addition, sub-counties are currently 1,403 up from 857 in 2004 as shown below:



A study conducted by the Local Government Finance Commission estimated the cost of running a district at UGX 54 billion per annum at full establishment. This is a requirement of UGX 6.8 Trillion annually. With the current allocation LGs of UGX 2.7 Trillion this leaves a financing gap of UGX 4.1 Trillion (Background to Budget 2018/2019). Another study conducted by Overseas Development Institute (ODI) under the Ministry of Finance Budget Transparency Initiative (BTI) noted that the share of LGs allocation to the national budget ought to be 26% which is far from the current allocation of 10.2% of the national budget (Background to Budget 2018/2019). This means that 89.8% of the national budget is spent at the centre. Taking a hypothetical case of the share of the national budget to districts at 56 districts in 2004 the allocation could have been UGX 48.2 billion today (closer to the needed allocation for full establishment financing) compared to the current 21.2 billion².

Policy Recommendation: Undertake a constitutional review to place a moratorium to be imposed on creation of new districts, constituencies and sub-counties, town councils and town boards with new institutional set-up benchmarks.

In addition, instead of creation of new LGs, Government should instead support strategic investments especially building the capacity of current LGs to deliver on their current mandate as central government concentrates on technical support supervision.

² Author's computation and analyses (2019)

A2: Re-centralization of functions that were formerly decentralized

The 1995 Constitution of the Republic of Uganda (as amended), and the Local Governments Act (CAP 243) devolved service delivery mandates to local governments.

Line ministries, under this framework, retained the mandate of setting national priorities, standards regarding the delivery of service, support supervision and mentoring of Local Governments. On the other hand, Local governments (LGs) have been, by law, preparing own development plans and budgets, mobilizing their locally raised revenues (LRRs), receiving grants releases from the Central Government (CG) to facilitate funding for recurrent and development expenditures.

However, since 2003, the Government has been gradually rolling back devolved functions that were assessed as 'underperforming'. Some other critical functions were recentralized. These include the following and other functions:

- i. Appointment and deployment of Administrative officers (CAOs, DCAOs and Municipal Town Clerks)
- ii. URA assigned to collect vehicle parking fees
- iii. Overall crowding out of LGs from the development funding from the national budget

This has been seen as a reversal to the policy of decentralization. For instance, in the management of finances at the LG level, a number of roles have not been fully decentralized at a time when some are being re-centralized. For instance, while recruitment of primary teachers was left to LGs, the management of the payroll remains under LGs yet payment is made straight from the centre.

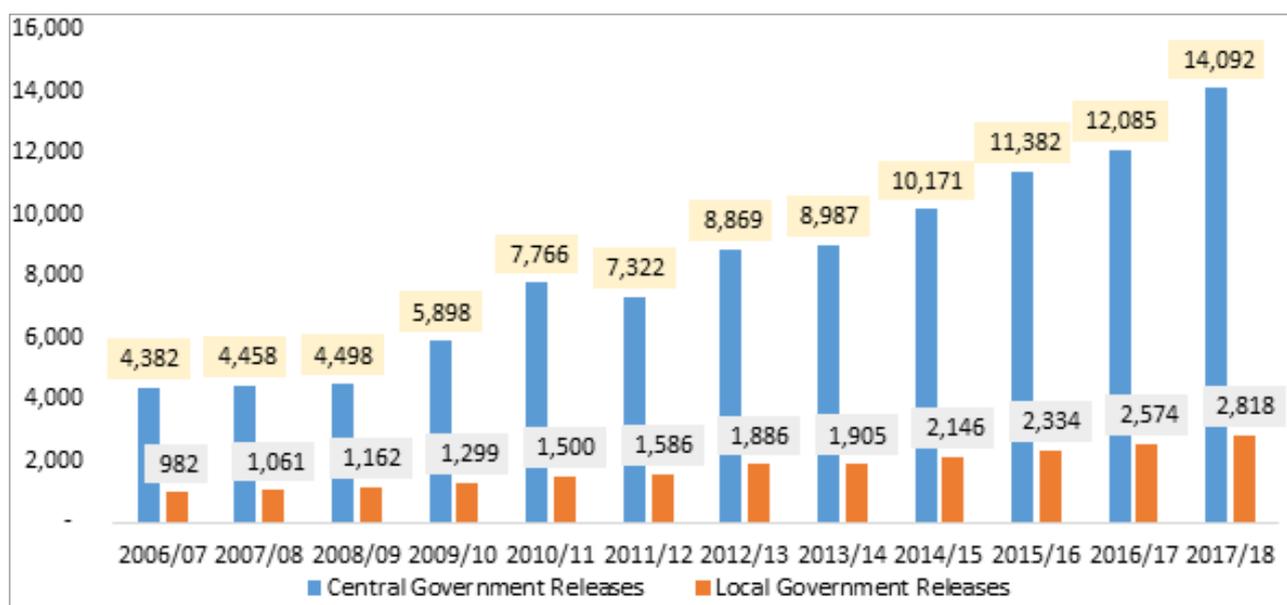
There are also functions that were decentralized that would be better performed at a regional level as opposed to the district level. For instance, at present, the Local Government Public Accounts Committee is appointed by the District Council which compromises their independence in vetting their fiscal performance. District Fisheries officers are appointed by the District Service Commission and report to the Ministry of Agriculture, Animal Industry and Fisheries. All the revenues collected from issuing of licenses are 100% deposited at the centre. In addition, the configuration of the function of regional audit committees remains ad-hoc and at the regional level, this committee remains a loose function with limited attachment to Parliamentary PAC and LGPACs. Most proponents desire that vetting of public accounts could be best served at regional than district level and ease the work of Parliament that would deal with 15 regional reports instead of 127. Lastly, the Ministry of Works and Transport has regional work stations which oversee technical works per region, just as in the health sector are regional referrals. This modular could be extended to other devolved functions.

Policy recommendation: Review of the Local Government Act on the criterion for recentralization of hitherto devolved functions especially Presidential directives not enshrined within the law.

A3: Inadequacy of Local Government Financing

Local Governments continue to rely heavily on the Central Government (CG) for funding. Currently, grants from CG to LGs constitute over 85% of all financing to LG budgets with more than 90% of this funding coming in the form of conditional grants. This heavy reliance on the central government for financing has left LGs with very marginal opportunity for local fiscal autonomy and discretion in resource allocation decisions. While conditional grants to LGs have

grown in nominal terms, most of this growth has been in wages with no real-growth in non-wage recurrent grants and little towards capitalization and development. This development coupled with limited flexibility in the grant system have compelled LGs to provide less allocation towards operations and maintenance of infrastructure as well as monitoring and evaluation of service delivery functions. While the national budget has been going up annually, the allocation to LGs has increased at a rate slower than the national budget and yet targeted to meet service needs of over 75% of the population.



As seen from the chart above³, the allocation to LGs has increased from UGX 982 billion in 2006/07 to 2.8 Trillion for FY 2017/18. The rate of growth of expenditure assignments to LGs is on average 186% compared to 221% growth of national budget between 2006 and 2017 as analysed from the chart above. 75% of Ugandans reside in LGs and require public services and yet receive less than 20% of the national budget.

This means that over 80% of the national budget is spent at the centre. In fact, UNRA annual

budget (UGX 3.8 trillion) is greater than the entire total allocation to all local government of Uganda combined by comparing the chart above with works and transport sector BFPs for FY 2018/19.

Policy Recommendation: Embed the reviews made to the Fiscal Decentralization Architecture (FDA) into the broader Public Finance Management (PFM) Act in order to protect the adequacy of LG financing with the law with clear vertical sharing of national budget .

3 This analysis was computed by authors of this paper using BFP and LG Allocation data

A4. The Challenge of Raising Local Revenue

Constitution and the Local Governments Act CAP(243) empowers local governments to control, regulate and also raise revenues from activities in their jurisdiction. In so doing they collect revenues from taxes imposed acts of Parliament and also impose other levies and rents on the economic activities as a way of generating funds for their operations. The various ways LGs generate revenue internally are through the levy of property tax, business licences, market dues, parking fees, fines, permits etc.

One of the major sources of revenues for LGs was graduated tax which was suspended in FY2005/06 and abolished in 2008. As a means to compensate for the loss of this revenue, two major sources were proposed by central government namely:

- i. Graduated Tax compensation as a non-conditional grant to LGs aligned to the value collected in the year preceding its suspension;
- ii. Value added tax was introduced in Uganda on July 1 1996 at a rate of 17%. In 2005/06 financial year, it was increased to 18% on the objective of creating parity under the East African Community States but also to generate revenue to compensate for loss on GT to LGs. The challenge of GT is that it faced high administrative and social-political costs in its collection. It was viewed as politically regressive especially in apprehending defaulters. Over the years, GT compensation has dwindled.

In addition, as shown in the table below, if the value of rising in VAT from 17-18% was appropriated to LGs it would add very insignificantly i.e. only UGX 124 billion today. This option, therefore, would still not be sufficient in enhancing local revenues although most LG leaders and CSOs feel that it could have still made a difference.

Year	Value of VAT in billions Uganda Shillings	Value of 1% supposed to be part of GT Compensation (UGX billions)
2007/08	480.7	4.807
2008/09	526	5.26
2009/10	671.4	6.714
2010/11	724.2	7.242
2011/12	934.3	9.343
2012/13	1,279.1	12.791
2013/14	1,353.9	13.539
2014/15	1,602.2	16.022
2015/16	1,284.56	12.8456
2016/17	1,683.1	16.831
2017/18	1,951.45	19.5145
TOTAL	12490.91	124.9091

Source: Author's computation

LGs are also facing challenges in raising local revenues. A review of existing laws and regulations for financing LGs shows 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. The Auditor General in his annual reports for Local Authorities reported significant under collection of local revenue by LGs. The report for the financial year 2017/18 revealed that UGX. 5.3 billion of the planned local revenue was not realised This adversely affects service delivery in terms of quality and reach in communities. Additionally, the Auditor General reported that in FY 2013/14, 22 local government entities accumulated outstanding commitments amounting to UGX.3.9 billion as a result of insufficient funds realised (source analysis of Auditor General Reports).

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.

Also, the 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 yet to be operationalized, and there are no guidelines in place. Through a review of existing regulations governing revenue sources, the following gaps have been identified. This table shows various tax categories which under the law ought to accrue to LGs but facing challenges:

Tax Category	Governing Law	Comments
Local Service Tax	LG (Amendment No2)	LST law on private owned businesses not yet Operationalized
Local Government Hotel Tax	LG (Amendment No2) Act- 2008 Part III sec 8(2) of the fifth schedule of the LG Act	Section 7 (1& 2) – a rate shall be levied on hotels and lodges accommodation per room per night, this excludes day occupants that form majority clientele for lodges and hotels in LGs Long period of one month for remittance of the deducted hotel tax to LGs by the hotels. This is long period for the hotel to hold the deductions
Trading Licence	Trade Licensing Act	Penalty of 10,000 shillings for non-compliance is too low to foster compliance. LGs should be allowed to recruit their own Enforcement officers like Urban councils.
Property Rates	LG (Rating) Act –2005,2006 Second schedule Part 1 of LG (Rating) Act 2005	LGs are not allowed to collect property rates without an approved property valuation list. Exemption of owner occupied residential houses in urban areas yet they form a large percentage of properties in Urban areas
Ground Rent	Land Act Cap 227	Non-payments of ground rent having to be referred to land tribunals yet not all LGs have the tribunals in place
Markets (Rent and Dues)	Markets Act Cap 94	A fine not exceeding five hundred shillings or imprisonment for a period not exceeding three months for non-compliance as provided for by the Act is quite low to foster compliance.
Royalties	Electricity Act 1999 National forest and tree planting Act 2003 (Sec 39-64)	The rates for royalties agreed upon are never reviewed even though the generation company prices and inflation keep on increasing. LGs do not share on revenue generated from forest reserves
Agency fees	Fisheries Act Statutory instrument no.38- 4(11) Animal Disease ACT	Agency fees from fish licences collected on behalf of MAAIF are never received. Animal movement permits collected are sent to central government

Source: Analysis by ACODE (2019)

In order to enhance local revenue the following actions are critically required:

- i. There is a need for the government to harmonise the laws and regulations that are concerned with the collection of taxes and especially the local government taxes. It should be clearly spelled out who has to collect what tax from who.
- ii. Enact a new policy or law on all local revenues to clarify who collects what revenue and what should be the sharing arrangements in terms of royalties between the centre and LGs, Higher LGS and Lower LGs, and if possible urban council with districts. It would be prudent for URA to collect all non-tax revenue and remit an agreed to vertical share to LGs since LGs contribute to these taxes starting with share of contribution from national park fees, wood logging, and fisheries.
- iii. Local expenditure assignments could also be met by their respective raised revenue. For instance, for a fish landing site of 30 boats and a 1 kg fish-per boat levy. A typical landing site would collect a 30-day value of UGX 8,100,000 going at the UGX 9,000 per fish kilogram market rate. This would be sufficient to manage the fish resources across the country sustainably.

Policy Recommendation: Amicably address the challenge of Locally Raised Revenues within the law with responsibility centres and tax administration guidelines to enhance transparency and accountability with attendant reviews the URA Act

A5. The need for Implementation of the Regional Tier

The regional tier system was introduced to the Constitution during the amendment of article 5. The tier system would involve districts in a given area or region uniting to form one political administrative entity. The regional tier system was the answer or proposal from different circles for the demand of greater regional autonomy.

From Prof Fredrick Ssempebwa's led constitutional Review Commission in 2000, the majority of regions expressed a desire to be granted a federal status. Since 'federo' demand was mainly from areas with traditional centers of power especially Buganda. The Regional tier system of governance was supposed to start on July 1 2006 according to the constitution, but it did not because Buganda Lukiiko rejected it as the institutional alignment fell short of federo expectations. Aware of the fallout, this reform has been halted since then. However, the implementation of Regional Tier would also require an Act of Parliament to fully operationalise it.

The Regional tier system was called the LC6 since it was viewed to be above LC5 which was similar in structure to the district setup. Article 178 of the constitution gave the regional government a right to adopt names suitable to the different regions and the envisaged regions would be around 20 mostly based on tribal inclinations of the particular region in question. The regional Government was supposed to be in charge of secondary and tertiary institutions, except national universities and institutions which puts them in position to handle Universal secondary education, in charge also of roads, referrals hospitals (with exception of national ones), issuance of national identity cards (IDs) monitoring and supervision of agricultural programmes among others. In addition, the regional government would inspire closer responsibility over cultural and traditional lands, promote local languages, crafts and

antiquities, and support collection of taxes. In so doing regional structures would be supported with a specific conditional grant.

There have been recent calls within government, especially in 2018, led by the Attorney General William Byaruhanga, to re-introduce the regional tier system by firstly closing all the loopholes in the regional tier bill (it has been overtaken by events) and tabling it before Parliament despite it failing to pass in the 8th and 9th Parliament to implement the regional governments or completely be removed from the Constitution. Without a regional government, it is still possible to set up regional functions and structures as long as they enhance decentralized service delivery. This has been the case with the health sector which has health sub-districts, work and transport which has regional workstations as well as Ministry of Defence and Veterinary Affairs which has regional military installations, similar to Regional Police Commandant officers as administrative extensions of the centre but not decentralized.

Policy Recommendation: Execute the constitutional provision to implement the Regional Tier since there are critical functions that are better served at regional and not district level.

A6: Challenges in Implementation of the PFM Act 2015

Government of Uganda has initiated various macro-economic reforms to enhance the efficiency and effectiveness of the public sector. The Public Finance Management Act, 2015 and its regulations which were gazetted in 2016 are part of these reforms. The coming into force of the PFM Act repealed the Public Finance and Accountability Act, 2003. There is however, still concern that key aspects of this Act were repealed yet served a lot for LGs. One such example is the elimination of vetting time and resources for internal auditors. To a great extent, this has compromised the rigor of fiducial oversight.

A study by CSBAG in 2017 on Government compliance to PFM Act 2015 found out that some LGs lacked land titles for the land where the council properties were located which exposes Council land to the risk of land grabbers.

Also, the assessment noted that the work plans and cash flows were not followed in some cases as they were reported mischarges, virements and supplementary requests during the FYs

An assessment of government compliance to PFM Act 2015 notes that there is low absorption of funds among externally financed developed projects. Disbursement reduced from 49% in FY 2014/15 to 16% in FY 2015/16. Budget performance contracts signed between the PS/ST and the Accounting Officers are not fully enforced (CSBAG Annual report, 2018).

The assessment also reports that according to the Auditor General, 34 out of 70 corporations did not submit their consolidated financial statements. This shows differences in accounting standards and guidelines in reporting of financial statements.

There are several key concerns that remain outstanding in as much as the PFM Act was put

in place as below:

- i. Unspent Balances that are by law to be remitted to the Consolidated Fund
- ii. Limited time allocated for the design of district plans
- iii. Limited room for flexibility for spending on unique expenditure assignments under various grants
- iv. Lack of clarity of financing of public projects that cut across more than one LG
- v. An annual planning sequence that requires LGs to submit District Plan and Budgets by Nov. 15th yet planning takes different timelines as guided by NPA
- vi. Lack of provision of legal space for LGs to obtain supplementary budget just as for line ministries
- vii. No vertical sharing formula from national revenues such as from oil.
- viii. Provision of budget ceilings for LGs by the centre yet LGs are supposed to generate local needs against budget ceilings are set. This is reversal of a discretionary powers of LGs;
- ix. A contingency fund that remains uninformed by local realities. It is well known that contingencies are often in LGs including natural disasters.
- x. Use of automated reporting systems like IFMIS in LGs which lack the technical and technological facilities to do so.

Policy Recommendation: Review PFM Act (2015) since in some aspects planning, budgeting, accountability that has left LGs fiscal autonomy usurped by the centre ministries that determine planning guidelines and ceilings.

A7: Limited Follow-up and Political Will to implement various Recommendation on Local Governance

Office of the Auditor General Reports

- The role of the Local Government Public Accounts Committee is not well facilitated for members to undertake on-site verifications. As a matter of policy, it is important that the appointment of members to LGPACs is either performed by the Public Service Commission or some Regional Authority.

NPA Certificate of Compliance Reports

- There is an urgent need to harness the benefits of planned urbanization to propel the country to a faster growth path.
- There is a need to incorporate **Local Economic Development (LED)** and other emerging functions and clarification of roles of the sectors/MDAs with respect to devolve functions

ACODE Local Government Council Scorecard

- As national priorities, especially infrastructure and energy, dominate the budget, they have crowded out financing for key sectors including LGs. The budget ceiling on LGs set by the centre limits their capabilities to address critical and special needs. The government should address identified capacity limitations of **LGs rather than diluting their authority through re-centralization of roles.**
- Academic qualification of councillors remains a big issue as it impacts on the quality of debate in District Council. **It is important that an Ordinary Level Qualification or its equivalent be set as a minimum academic requirement for all District Councillors** especially now

that there is UPE and USE. Government should fund the wage requirement for LGs to at least 80%. This would boost staff morale and attract high cadre staff to LGs

- Districts lack funds to support their supervisory and monitoring work –this is critical in curtailing shoddy work and leakage of funds.
- In some communities, women councillors and PWDs do not compete favorably with male counterparts during debates which calls for a broader consideration of gender sensitivity and equal participation.
- The government should again evolve administrative measures to improve the efficiency of revenue management such as changing tax payer attitudes, establishing independent revenue management department at HLGs, logistical support for the estimation of revenue potential, focus on improving existing sources.
- Review the process and legal regime to enable access revenues (royalties) from natural resources.
- Streamline exemptions, property rates, LST, permits ad user charges
- Special support for mass property valuation and assessment
- Instead of government creating more and more administrative units such as districts and municipals, it should focus on strengthening service delivery among the old units. This can be done through increased supervision, more frontline staff, and incentives for staff working in remote and hard to reach areas.
- In 2014/15, the government decentralized both the salaries and pension payrolls which originally were centralized by the Ministry of Public Service. Pension payments is facing **severe delays and**

bureaucracy in several offices at LG level which needs to be addressed.

- Restoration of Graduated tax. Much as a civil society want graduated tax to be reintroduced to inculcate a sense of responsibility among the citizens to demand for accountability from the government, the latter is opposed. Most stakeholders have requested Government to reinstate GT because most men have resorted to drinking beer and other sorts of gambling thereby forgetting their responsibilities at home. This is according to several agencies that have been reporting on the performances of the Local governments in Uganda.
- Another aspect needing reform is and as pointed out by various Office of the Auditor General Reports is the facilitation of District Public Accounts Committee for it to undertake routine on-site verifications of public works. As a matter of policy, it is important that the appointment of members of the District PACs are performed by the Public Service Commission and not the same District Councils whose performance they are supposed to vet. Government has been provided various recommendations that can change the landscape of decentralization in Uganda. A legislative process can commence on some aspects that require legal redress – and hence review the Local Governments Act CAP 243;
- Other issues are of operational nature and require adjustments within the budget structure; while some concern human and technical aspects that can be implemented in a sequenced manner as resources are enhanced overtime for their action. This could give confidence that issues that pertain to LGs are being addressed in an understood trajectory

recommendations of the Auditor General, NPA Compliance Certificate, Government Annual Performance Reports with awards and sanction mechanisms to inspire good performance.

Policy Recommendation: Revitalize the role of Parliament to ensure follow-up of

A8. Restore Cost-sharing to Enhance Service Delivery

In February 2001, government suspended cost-sharing beginning with health sector and later in in some aspects of education and agriculture. At this time Government promised to extend UGX 1 billion to Local Governments to compensate for lost revenue as a result of the scrapping of cost sharing (MoH Press Release, February 2001). This additional allocation was not sustained after 2003.

The provision of free medical services and free primary and secondary education as well as free agricultural inputs have been endeavours to cover for income shortfalls at household level as an incentive to (i) improve disposable incomes; (ii) keeping out-of-pocket costs low and (iii) reduce household poverty. While this has improved enrolment in primary and secondary education, as well as health outcomes, the quality, particularly for public services has remained low and in some cases declined.

Today 50% of health care service provision is by private clinics where citizens pay in cash for what they perceive as a better quality service as opposed to that provided by government. The high rate of growth of enrolment in private schools, shows that citizens are willing and able to pay if serviced were of the desired quality.

The suspension of cost sharing (2001) was a time when poverty levels were at 38.8%. After 18 years with 78.6% above the poverty line, it is time for government to allow citizens to pay a little for services they receive and re-think the policy on cost-sharing. The current surge in occurrences like sports betting, bars and wide of social media and other entertainment places allude to the reality that citizens can afford such fees.

For instance: today, the current financing gap for a HC II is estimated to be 1,975,419; HC III is 6,556,392 while that of HCIV is 3,224,763 per unit

per month. Payment of just 500, 1000 and 1,500 shillings respectively for each of the units would cover the financing gap if 300 people visited either units (at-least twice a month in a year)! Secondly, the per capita spending on a UPE child is 12,000 shillings per term, (where by and large services are lower) compared to per capita spending of 32,000 shillings per term in private schools which households have sent more than 53% of all school going children (Education Abstract 2017). These figures suggest that the population is willing and able to pay for higher value services wherever they are and not necessarily because of income poverty. In a sector like agriculture, what is required is not necessarily inputs but rather storage infrastructure and markets. Credibility is higher when demand for services are for those the population has contributed to than freely received. Revenue from service payment would go a long way enhancing service delivery, staff motivation, increase the stock of infrastructure and increasing performance/outcomes.

Policy Recommendation: Set up legal provisions for the restoration of cost-sharing in critical sectors such as health and education that was suspended in 2001.

A9: Enforce Minimum Standards, Inspection, Performance Contracts, Audit and M&E at Local Levels

The National Planning Authority working with various sectors set up the National Service Delivery Standards (including for education, health, water, and works and transport) together with their client charters. However, this work and other works done before have mainly been at the sector level and not widely disseminated and enforced at the sub-national levels. The main concern for various stakeholders is that public works are not being followed up, monitored and inspected strictly to ensure both timeliness and quality in execution. This is mainly because, technical minimum service standards are not well known.

Today, the most active standards inspection is in the education and works sectors which have sustained public resource investments for school and roads inspection. Other sectors are witnessing a diminished role of inspection sitting resource constraints. In cases where inspection and service maintenance roles have been taken over by user committees (like water or health unit community user committees) there have not been sufficient resources to facilitate their oversight work. In addition, Government has over the last decade focused on service delivery extension with limited focus on Operations and Maintenance (O&M).

The push to set up new infrastructure installations across various sectors had led to a scenario of achieving volume instead of value service provision. Without a strong reference for inspection, district political leaders (who undertake what is called 'political monitoring') only undertake missions to the field that are not rigorously guided to match performance with laid out standard requirements some of which

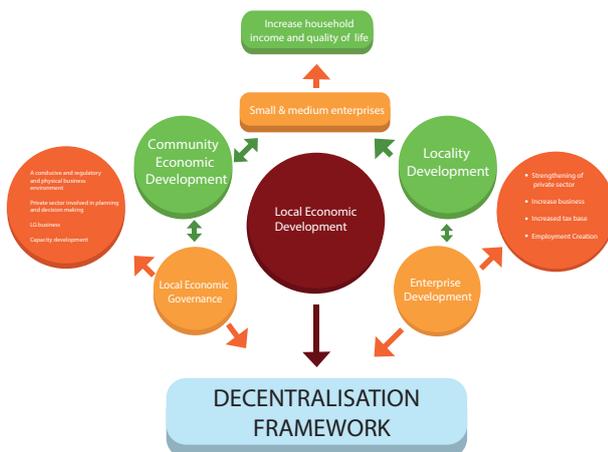
are not in place.

The weak appreciation of monitoring and evaluation at all levels of government and the inability to harmonize and rationalize the inspection and M&E functions of Government has created overlaps, resource duplication and technical loss. Inspection missions from sectors are poorly coordinated. Data from inspection, M&E, performance audits is mostly not jointly analysed. Shoddy work reported in various performance inspection reports would be curtailed if Service Minimum Standards at all levels were set, well explained and districts empowered to ensure they are enforced. It is important that an interface is made between various inspection, M&E and other audit functions to set-up joint missions to LGs at both inspection, monitoring and auditing stage but more importantly, provide joint feedback on the outcomes. Districts should be provided avenues to keenly vet sector level procurement plans so that service standards are followed as per contracts in instances where they works are to be implemented in Local Governments.

Recommendation: Revise public service orders to set-up and enforce minimum performance standards, contract management, and audit as well as M&E functions in LGs

A10: Review the National Local Economic Development (LED) Policy and Restructure its implementation

Local Economic Development (LED) policy of 2014 defined LED as: "a process through which Local Governments, the private sector and the communities form partnerships to mobilize, manage and invest resources effectively into economic ventures to stimulate development and growth of the locality." In a nutshell, LGs were supposed to be centres and springboards of their own economic development as shown below:



The challenge for the LED process in Uganda has that the initiative has faced legal and structural challenges to enable LGs to exploit local competitive advantages (like natural resources or skilled human capital) through which they could distinguish themselves as investment entities and not just administrative structures. On the other hand, critical bottlenecks continued to hamper private sector development (like lack of access to internet, stable electricity or tarred road connectivity). LGs lacked sufficient own-revenues, and grants from central government that can be used for LED, other external funding sources. With limited discretionary power, insufficient funds, the lack of leadership and capacity as well as poor governance – the LED

process in Uganda is yet to bear fruit.

Three vital interventions are required to save the LED process in Uganda:

- i. Finalize the investment profiling for all LGs and map investment potentialities
- ii. Decentralize the effort of the Uganda Investment Authority so that Investment profiling, attraction of investors, and revenue share from local investments is embedded with a revised policy and Act of Parliament. For instance, an investment plant in Tororo pays URA its takes, but a share of this revenue is recouped for Tororo's development needs as an incentive for the host district- the same discussion as for oil in the Albertan region
- iii. Enact the LED Bill into law that allows LGs to co-invest with Government as business entities so as to induce and investment profile for them and boost local revenues.

Policy Recommendation: Review the LED Policy and institute mechanisms for supporting LGs' owned priority investments from which they can generate own revenue through an elaborate act of Parliament.

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With technical inputs from **Reagan Wamajji, Asimwe John** and **Godfrey Mwesigye**



Centre For Policy Analysis (CEPA)
Plot 11, Unicarlo House
ArcherRoad, Kampala - Uganda
T: +256(0)414581664
E: info@cepa.or.ug