

# LOCAL REVENUE GENERATION: UGANDAN EXPERIENCE

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## Background on Participatory Budgeting, Revenue Generation and Accountability in Local Governments

- **Introduction and Background;** Decentralization - devolving responsibilities and authorities from central to local governments is pursued in many Countries.
  - Poverty reduction strategies (PEAP)
  - Financing mechanisms
- **Fiscal decentralisation** – definitions and concepts; is the division of fiscal responsibilities between central and local governments and the transfer of such responsibilities with accompanying resources from the former to the latter

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**Fiscal Decentralisation needs to be based on a foundation which includes:**

- Strengthened local government through administrative reforms;
- Political devolution to empower local government;
- Enhanced local governments' capacity and financial autonomy;
- Symbiotic relationships between and clear understanding of roles of local and central government;

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**Fiscal Decentralisation needs to be based on a foundation which includes: Cont...**

- Strong central government;;
- Established financial arrangements to support functions between the various levels of government; and;
- Strengthened monitoring and accountability of local fiscal performance;

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## **Importance of local revenue to local governments**

- Financing administration costs (e.g. in Uganda councilors' emoluments and employee costs);
- Financing maintenance costs and thus promoting ownership of projects;
- Permits collection of localized and low yielding revenues;
- Guarantees sustainability of service delivery and autonomy of local governments

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## **Importance of local revenue to local governments *cont.....***

- Regulates businesses and provides important infrastructure and services such as markets and public conveniences at a charge;
- Reduces pressure on central governments and reliance on donors;

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## **Legal and Regulatory Framework for Participatory Budgeting and Revenue Generation**

- The Constitution ;
- Local Government Act;
- The Local Governments, Financial and Accounting Regulations (LGFAR) (Uganda):
- Operational Guidelines (Uganda);
  - Revenue guidelines
  - Planning and budgeting

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## **The Project on Participatory Budgeting and Revenue Generation**

- **Background;** The World Bank Institute in conjunction with MDP have formulated a project on Participatory Budgeting (PB) and Revenue Generation, whereby researchers will be undertaking a study on the linkage between PB and Local revenue generation. It is believed that adequate participation by citizens in the planning, budgeting and monitoring processes encourages them to comply by paying local taxes to fund development projects in their localities. The study seeks to explore the extent to which citizens in four African countries (Swaziland, Zambia, Malawi and Tanzania) participate in planning and budgeting for development projects in their localities, and the degree of responsiveness by revenue generation as related to level of participation. Participatory budgeting processes lead to comprehensive engagement of all stakeholders including councilors, executives, CSOs and beneficiaries in the communities in the processes of project formulation, conception, design and execution, and therefore it is expected that accountability for resource utilization and responsibility is enhanced. The study will explore the linkage between accountability and local revenue generation.

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## **The Project on Participatory Budgeting and Revenue Generation** ***cont ....***

Most decentralized countries have structured policy, legal, regulatory and institutional frameworks for planning and budgeting, as well as implementation, accountability and reporting. In addition countries have set up monitoring and evaluation mechanisms to track performance. The study will attempt to explore what is existing in terms of the enabling environment for participatory budgeting and revenue generation as vehicles for improved governance and local economic development.

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## **The Project on Participatory Budgeting and Revenue Generation**

- **Purpose of the Study;** The purpose of this study is to explore the participatory budgeting mechanisms in the four African countries in the following three contexts: normative—**what should be happening** based on the institutional, legal and political framework; positive —**what is happening** based on fieldwork to be carried out in June 2008; and prospective —**what could be happening** in terms of opportunities for further participatory governance and resource mobilization. The paper will thus examine the foundation for participatory budgeting in the four African countries by attempting to understand expenditure assignment and revenue generation, exploring the potential for revenue generation at the local level and discovering critical new directions for participatory budgeting.

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## **The Project on Participatory Budgeting and Revenue Generation**

**Research Methodology** Research will be done primarily through field work in select upper local governments, lower local governments and urban councils depending on the institutional structure of the local government system of the country. Decision-making centers in the local government structure will be explored, as well as the centers for local revenue collection. Researchers will seek to understand the opportunities and potential for citizen participation and revenue generation by mapping some of the activities occurring in the selected study areas with regard to participatory planning and development, community behavior and attitudes, the role of politicians, culture and experiences, accountability mechanisms and the willingness of citizens to contribute to prioritized projects and services. It is expected that over 600 people will be consulted by means of semi-structured and informal interviews, meetings, focus group discussions and observations. Informants shall include policy makers and members of advisory bodies at the national level; selected political heads and technical officials in the upper (rural and urban) local governments; councilors and opinion leaders at lower local governments; civil society organizations' national-level leadership; prominent members of the public with wide experience in decentralization, planning, and budgeting at national and local governments levels; and other stakeholders. Private service providers and beneficiaries of funding from local revenue sources like schools and health centers will be sampled.

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## **The Project on Participatory Budgeting and Revenue Generation**

Survey findings will be analysed and a draft report made. A presentation workshop will be convened in one of the countries (because of time constraint) to bring together representatives of relevant stakeholders to discuss the findings. Researchers will present key findings and also make some recommendations as to what opportunities exist that should be exploited to strengthen the process, particularly in terms of aspects of participatory budgeting and revenue generation.

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## **The Project on Participatory Budgeting and Revenue Generation** ***cont.....***

- **Organization of the Study;** is funded by the World Bank and organized by Mr Victor Vergara, coordinated by the Municipal Development Programme for Eastern and Southern Africa (MDP-ESA), represented by Dr Takawira Mumvuma. The group of researchers will be guided by Ms Ziria Ndifuna, Consultant with MDP-ESA, and there will be country focal point officers to guide the researchers and link them to relevant institutions and individuals for the field survey.

Field surveys will be carried out simultaneously in the four countries of the study area and they are scheduled to take around one and half weeks. Relevant literature on the subject matter will be sought from relevant institutions with assistance from the country focal point officers. Analysis of relevant literature with field findings and validation of information will be made. The first draft report will be written and reviewed by the Consultant. The coordinator will hold a meeting with the Consultant to review findings and the draft report. The presentation workshop will be held for one day and revisions to the draft report made thereafter. The researchers are scheduled to produce a final report by 27th June, 2008.

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## **The Project on Participatory Budgeting and Revenue Generation** ***cont.....***

- **Rationale for Design of the Study;** The study was designed that way from experience of the pilot study undertaken in Uganda in January 2008. It was discovered that despite elaborate legal, regulatory and institutional framework for participatory budgeting and revenue assignment, there was little participation of citizens and communities and local revenue collections had been declining progressively for the last 5 years. The revenue assignment is also clearly stipulated in the Local Governments Act and other laws.

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## **The Project on Participatory Budgeting and Revenue Generation** ***cont.....***

- **Rationale for Design of the Study;** If the findings from the Uganda case study are anything to go by, then there is need to explore the legal, regulatory and institutional framework for participatory budgeting and revenue generation and compare what is in practice as compared to how the system and processes were designed. The study needs to explore factors related to the implementation process and to ascertain whether the operating environment leads to effective participatory budgeting and revenue generation. The level and quality of participation needs to be explored, whether PB is being implemented in a cost-effective manner, as well as factors that facilitate or limit citizen participation. There is need to find out if there is increased participation which amounts to representation, as well as actual participation in the debates and decision-making processes by citizens and other stakeholders. There is also need to ascertain if actual planning and budgeting are done in the process of participatory budgeting.

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## **The Project on Participatory Budgeting and Revenue Generation** ***cont.....***

- **Rationale for Design of the Study;** As regards revenue generation, financial management and accountability, there is need to explore existing potential revenue generation against actual collections and the contribution locally generated revenues make to total local government financing. It has been found in many countries that when the level of contribution of local revenues to local government financing is low, then LGs will tend to ignore these sources and depend on grants transfers and direct donor funding. The link between contributions and service delivery will be established, as well as the link between accountability and revenue generation. With respect to financial management there is need to explore if the system is efficient and effective and able to report objectively and timely on expenditure in implementation. Existing mechanisms of accountability will be explored and the extent of compliance. The function of internal audit is crucial for instilling internal controls. It will be necessary to ascertain the extent to which this function exists and operates and also find out if Value for Money Audits are done to check on efficiency and effectiveness of funds utilisation and with due regard to economy and appropriate quality.

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## **The Project on Participatory Budgeting and Revenue Generation *cont.....***

- **Rationale for Design of the Study;** For meaningful citizen engagement and participation, there is need for information on investment costs, opportunity costs, past performance reports and trends in order to facilitate citizen discussions on alternative projects, prioritisation and eventual selection of projects.

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## **Revenue Enhancement Mechanisms (Examples from Uganda)**

- **Background;** In Uganda, a Revenue Enhancement Study was carried out in 2000 and looked at the following: identification of tax base and revenue potentials; assessed these revenue potentials; assessed revenue performance; reviewed privatisation experiences and opportunities; assessed financial management performance; identified strengths and weaknesses of the revenue collection system; undertook socioeconomic assessment and agreed on action plans.
- **Extract of Local Revenue Challenges (Uganda) ;**
  - absence of statistical data on potential income sources for taxpayers due to lack of maintained database
  - no frequent surveys by LGs to identify new potential revenue sources
  - Some taxes lack legal backing mainly due to negative political pronouncements
  - no corrective action by authorities against defaulters and corrupt officers.
  - Some LGs lack adequate resources and facilitation, e.g. transport facilitation such as vehicles and motorcycles to reach periphery areas.

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## **Revenue Enhancement Mechanisms (Examples from Uganda) cont.....**

- elimination of check points which formally acted as strategic points to oversee collection of taxes from sources that could easily go uncollected
- Poor infrastructure of the markets encourages defaulting by tenderers, contractors and vendors.
- Subsistence production, commonly practiced by farmers in the country, is not registered making its assessment and monitoring more problematic.
- Rampant animal disease outbreaks that result into imposing quarantines on some markets thus closing for long periods. ..

### **Revenue Enhancement Initiatives**

- Privatization
- Capacity Building
- Taxpayer and Councilor education programmes
- Revenue Monitoring
- Assessment of LG Revenue Capacities

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## **Revenue Enhancement Mechanisms (Examples from Uganda) cont.....**

### **Extract of Strategies for Local Revenue Enhancement**

- Developing a **database of individual taxpayers**, **strengthen management information systems for revenue administration** and control.
- Institute **legal and cost effective revenue recovery mechanisms** to reduce on fraud and losses that undermine budget performance..
- Introducing **cost-effective mechanisms in revenue mobilization** to reduce administrative costs i.e. administrative costs should not exceed 10%.
- Establishment of **local revenue monitoring committees** at all level.
- Creation of **revenue taskforces** at all levels to ensure that at least 95% revenue from all collectable sources is realized
- There should be continuous **capacity building in form of mentoring** and support to LG staff on **good practices** in revenue mobilization, collection, monitoring and accountability.

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## **Revenue Enhancement Mechanisms (Examples from Uganda) cont.....**

### ■ Extract of Strategies for Local Revenue Enhancement *cont...*

- There should be continuous **capacity building in form of mentoring** and support to LG staff on **good practices** in revenue mobilization, collection, monitoring and accountability.
- Introduce a **System of reward and penalties for revenue collectors** to induce staff to collect more revenue
- **Linking tax payments to service delivery**
- **Effective and efficient contract management** of contracted out revenue sources.
- Conducting a **revenue baseline study** on current and potential local revenue sources to widen LGs revenue bases
- **Provide required** revenue collection **stationery to LGs** such as receipts, accounting stationery to be delivered on or before beginning of FY
- **Educate the population on the newly introduced revenue from alternative sources** that are capable of yielding more revenue.

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## **Revenue Enhancement Mechanisms (Examples from Uganda) cont.....**

### ■ **General Recommendations for Encouraging Improvement in Local Revenue Generation**

- LGs should provide **incentives to mobilize own revenue**, which ensures sustainability of local investments.
- Tax collection should be carried out early enough to coincide with harvest periods
- Monthly accountability to taxpayers through publications
- **Proper bookkeeping** is a prerequisite if revenue mobilization is to improve.
- Adequate **facilitation of monitoring departments** to fully participate in the monitoring exercise.
- Councils should **meet monthly with the mobilization teams** to review the challenges and **suggest best practices**

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## **Revenue Enhancement Mechanisms (Examples from Uganda) cont.....**

### ■ **General Recommendations for Encouraging Improvement in Local Revenue Generation. Cont...**

- Positive and active involvement of politicians in revenue enhancement, since politicians are directly accountable to their communities.
- continuous valuations and assessments of markets
- The ministry of Local Government should **develop contextual training modules** to address differing training needs in local governments.

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## **Challenges and Way Forward**

### ■ **General Challenges**

- **Political environment for revenue generation**
- the critical lack of information systems to routinely produce clear information about how much resources are transferred, borrowed or generated locally

### ■ **Challenges as observed from the Practice (Uganda case)**

- **Electoral politics and local revenues.** Those who stand for elections promise anything including scrapping of payment of taxes.
- some expenditures like **funding council emoluments was tagged on a percentage of local revenues**
- **local revenues are usually insignificant in local government budget.** This has an effect on accountability to local stakeholders.
- **If the revenues are highly conditional, the level of participation and accountability is also low.**

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## **Challenges and Way Forward cont....**

- **Challenges as observed from the Practice (Uganda case) cont...**
  - Multiple accountability requirements and to many centers creates a disincentive to the promotion of participation and accountability to stakeholders. It also becomes costly.
  - Lack of a clear leadership in decision making on reporting and accountability issues.
  - Implementation of sanctions and incentives to promote good governance practices in the country. Sanction and incentives promote responsiveness to good management practices. However, in case of sanctions, the target is usually not the cause of the problem. The victims are usually the service beneficiaries.

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## **Challenges and Way Forward**

- **Way Forward**
  - a) Develop a comprehensive Strategy for Fiscal Decentralisation. This strategy should clearly spell out the system for democratization (decision-making) in the processes of Revenue generation and Expenditure management. The strategy should also spell out clearly the forums and systems for negotiation and dialogue to build consensus on resource allocation in the budgeting process. There should be institutions that facilitate the continuous building of capacity for efficient LG budgeting and revenue generation. Coordination between various key stakeholders in the areas of revenue generation and expenditure management should be supported by appropriate forums spelt out in the strategy. The information system for LG revenue and expenditure management should also be articulated.

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## **Challenges and Way Forward cont...**

### **■ Critical Issues for Revenue Generation and Accountability (Uganda Case)**

- In Uganda, the law provides that local governments should have sound financial basis to facilitate the provision of decentralized services
- There should be clear assignment of revenues between different levels of government which also have clear decentralized services. This is in line with the rule according to Roy Bhan that Finance follows function. If the revenue assignment system between different levels of government and among local governments results into inequity, then there must be a grant system from the central government that should be designed to address the problem of both vertical and horizontal imbalances.
- The issue of which level of government enacts the laws on revenues, designs the policies and sets the guidelines will have an impact on the management of revenues especially at the local level.


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## **Challenges and Way Forward cont...**

### **■ Critical Issues for Revenue Generation and Accountability (Uganda Case) cont...**

- The revenue assignment should also provide for incentives that promote service delivery, upward and down ward accountability. It should also promote autonomy of local governments. This is important because with autonomy to decide, there is an obligation to account to the stakeholders for the decision taken. The revenue assignment should also have a framework where the tax payers should demand for accountability for the tax revenues paid. Therefore, at the local government level, direct taxes are more common.
- In order to create incentives in local revenue generation at the local level, revenue from the local governments need to target services which are visible and not administrative expenses which are rarely appreciated by the service beneficiaries and tax payers.
- There should also be a reporting and monitoring framework that feeds stakeholders with both financial and physical performance indicators. The performance indicators should be clearly designed to reflect on different cost centers.
- For decentralization to promote accountability and revenue generation, the proportion of the local governments services and investments funded from local revenues should be significant. If the proportion funded by the central government transfers is so big, and the grants are accompanied by guidelines which originate from the central government, there is a likelihood that it will be biased towards the centre and accountability will also focus at the centre as a priority.

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- Thank you
  - Merci beaucoup
  - Obrigado