



**Action Oriented Study to Identify Gaps and Bottlenecks  
in the Legal and Institutional Frameworks, Resource  
Allocation, Human Resource and Governance (Quality  
of Leadership and Oversight) that Govern Local  
Governments in Uganda**

**REPORT STATEMENTS**

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# Abbreviations And Acronyms

ACODE	Advocates Coalition for Development and Environment
CG	Central Government
CSO	Civil Society Organisation
FDS	Fiscal Decentralization Strategy
FY	Financial Year
GoU	Government of Uganda
LED	Local Economic Development
LGA	Local Governments Act
LGBC	Local Government Budget Committee
LGFC	Local Government Finance Commission
LHT	Local Hotel Tax
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
NRC	National Resistance Council
NGO	Non-Government Organisation
PPP	Public Private Partnership
RC	Resistance Councils
RDC	Resident District Commissioner
SFG	School Facilities Grant
ULGA	Uganda Local Governments Association
VAT	Value Added Tax

# Executive Summary

Under the 1995 Constitution and the Local Government Act 1997, the three major aims of the decentralisation policy are (i) Participation in governance through the election of leaders, (ii) Bringing services closer to the people, and (iii) Building the financial generation and management of the Local Governments. Decentralization has three distinct dimensions that can be categorized as the political, administrative and fiscal categories. Each dimension has unique characteristics, objectives and conditions for success. The political component refers to the transfer of authority from central to local authorities, the administrative component speaks to the transfer of functional responsibilities from central to local authorities, and the fiscal component addresses the financial relationship between all levels of government. Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be verified, and, in this way, the full potential of decentralization cannot be realized.

Action Aid Uganda (AAU) with support from the Democratic Governance Facility (DGF), is implementing a three-year project, the Citizens Actions for Greater Accountability and Improved Public Service Delivery (CCAIPS), from 1st May 2018 to 30th April 2021. The project seeks to enhance the interaction between citizens and the government for more responsive, transparent, and accountable leadership that prioritizes the development interests of citizens. The project has a broad range of actions to address the demand and supply side of accountability including: promoting access to information, monitoring delivery of public services particularly health, education, and agriculture, facilitating citizen actions against corruption and advocating for better resourcing of local governments for their improved responsiveness.

This report analyses Uganda's fiscal decentralisation policy, with a view to identifying opportunities and recommendations that AAU and its partners can utilise in their advocacy efforts for more effective service delivery. The specific objectives of this study are:

- To review and reflect on the implementation of Fiscal Decentralization Strategy (FDS) in Uganda
- To reflect on possibilities to review the current Intergovernmental Fiscal Decentralization Architecture focusing on financial adequacy-financial allocation and the conditionalities, human resource adequacy, decision making, management and accountability for decentralized quality service delivery; and

- To present policy recommendations on measures to enhance the significance of local governments in delivery of quality and gender-responsive public services in Uganda

The 1995 Constitution established the foundation for a legal and institutional framework to reform the decentralization systems and practices in Uganda. The Constitution provides that the system of local government in Uganda shall be based on the district as a unit under which there shall be such lower local governments and administrative units as Parliament may by law provide. From the onset, the local government system was meant to devolve, rather than transfer powers from the central to local government entities. The Local Governments Act was enacted in 1997 to operationalise the Constitutional framework, and then the Local Governments (Financial and Accounting) Regulations, 2007 were enacted to apply to all financial transactions and business of all local government councils and administrative units.

Other policy frameworks such as the Public Service Standing Orders are applicable to Local Government servants recruited through the District Service Commission or Public Service Commission. On the political leadership side, leaders are elected from LC1 at village or Zone to District or City levels. In 2015, The Public Finance Management Act was enacted with provisions which greatly affected the Local Government Act and the Regulations.

Some of the key challenges to effective fiscal decentralisation identified in this study are:

- **Inconsistency between laws, policies and practice.** This is partly as a result of challenges in aligning various amendments to the Local Governments Act, to the Public Finance Management Act and the operationalisation of these laws.
- **Accountability framework for LGs:** LGs are legally body corporate, and so have a high degree of autonomy, which poses a challenge to the supervisory function of the Ministry of Local Government (MoLG).
- **Inter-Governmental Relations:** Relationships between national and local government authorities are not always consultative, participatory, and do not foster holistic development. Specific concerns have been raised by local governments (LGs) about the constant roll out of new policies and programmes, without consultation with LGs on how to do this effectively.
- **Local Government Funds retained at the Centre:** Considerable amounts of funds which would be allocated to local governments, and which are intended for decentralized service delivery and local development, are retained by central-government Ministries, Departments and Agencies (MDAs).

- **No service delivery Standards:** Local governments lack service delivery standards. Only 5 out of 19 sectors have service delivery standards. This therefore constrains inspection, supervision and monitoring of service delivery.
- **Staffing and Personnel:** The majority of LGs do not have sufficient staffing, especially in the new and smaller districts.
- **Limited Generation of Local Revenue:** The limited capacity to generate local revenues to finance LG operations hinders service delivery. Part of this challenge is the slow appreciation and uptake of the principle of LGs a revenue generation units, vis a vis administrative units per se. In addition, existing opportunities for generating local revenue have been affected by policy changes that empower URA to play a greater role.

This report makes the following key recommendations to address the challenges identified above:

1. Conduct a comprehensive audit/review of the current establishment of local govts in Uganda in relation to fiscal decentralization, and assess the capacity of LGs to discharge their mandate of delivering quality public service to the citizens of Uganda
2. In tandem with the above audit/review, conduct a comprehensive review of key policies and legislation governing fiscal decentralization. This should include but not be limited to the following:
  - Review the impact of the PFMA Act on the effectiveness of LGs, identify what has worked well, as well as the challenges and make necessary revisions to the Act that will promote more effective fiscal decentralisation and financial sustainability of LGs.
  - Amend the Local Governments Act to provide for a minimum qualification for election to the DLC be a minimum of Senior Four Certificate of Education. This will ensure that the council has the capacity to grasp complex developmental processes and challenges.
  - Reform the Corporate status of DLCs: Whereas the corporate legal status implies little interference and a greater degree of autonomy, the arrangement creates confusion at supervisory levels. The laws and system should be reformed to allow for accountability by DLCs to the parliament.
  - Create a LG Revenue Unit: Legislation should be amended to create a LG Revenue Unit at the district level, akin to the Uganda Revenue Authority (URA) at national level. The LG Revenue Unit should be staffed with competent people, facilitated and equipped to perform revenue generation tasks.
  - Policy and legislative changes should be introduced gradually and where possible, in consultation with LGs to allow LG to understand and fully test their efficacy.



- Government should review the National Local Government Capacity-Building Policy because there has been a change in the nature of capacity challenges that Local Governments face. Emphasis should be directed towards the technical and resource-related aspects of sustaining human resource development and staff retention to foster service provision.
  - Provide standards on the minimum staffing levels a Local Government so that LGs have the minimal and critical personnel. In addition, a balance should be found in the recruitment of the more technical personnel like accountants, doctors and engineers and the administrative personnel.
3. CG to support LGs to implement key aspects of LG that will ensure accountability and greater effectiveness
- Constitute the LGPACs: The central government should support the LGs to establish the LPACs by providing financing and issuing technical guidance. The Parliamentary Accounts Committee (PAC) should render technical guidance and develop operations guidelines or rules for the committee.
  - Support LGs to think more critically about local economic development, and identify opportunities that they can test. This should include the MoLG investing in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance
  - The Central Government votes should devolve projects to LGs and only keep the monitoring function. This will enable adequate fiscal space to be released to local governments but also build their capacity in the management of such projects.
  - Involve Local Governments in Negotiations with development partners: The CG/MoFPED should involve the LGs during negotiations with development partners for development financing. Involving LGs at the project design or budgeting stage because they have more knowledge about the local situation on the ground better than the technocrats at the CG.
  - In order to attract highly skilled personnel, the government needs to increase the salaries of public service employees in Uganda to meet the increasing cost of living. The revision of remuneration for DLG employees should correspond with governmental statutory agency pay scales. Furthermore, the government should review the incentive schemes with a view to enhancing them especially for remote or hard-to-reach areas.
4. MOLG and ULGA to strengthen capacity of LGs to fulfil their mandates on fiscal decentralisation more effectively, by among others
- Work towards more collaboration, strategic and evidence-based engagement by local governments through ULGA to challenge systems that are stifling the effectiveness of decentralisation.
  - The MoLG should invest in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance.
  - The MoLG and the LGFC should carry out a comprehensive local revenue

- assessment and registration for all the local revenue sources at LGs. This will make property valuation, billing systems and revenue collections easier.
- The DLG should consider implementing a system of hiring technical staff on contract and not on a pension basis in order to enable evaluation of their performance against the set targets. This will reduce complacency and motivate the staff to deliver on their targets.
  - DLGs should be encouraged to hire staff from across the country instead of ring-fencing employment opportunities to the “sons of the soil”.
5. Strengthen CSO collaboration on issues related to decentralisation. Interventions should be evidence based and involve consistent engagement with key stakeholders for changes in policy, law and practice.

*“Decentralization will meet our goal to attain an equitable distribution of resources between and within districts, thereby spreading the benefits of economic growth and development to districts or groups traditionally disadvantaged.”<sup>1</sup>*

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<sup>1</sup> Document.4: Uganda’s Decentralisation Policy, Legal Framework, Local Government Structure and Service Delivery. Paper by Edward Mugabi, 2004, Florence Italy

# 1.0 Introduction

In 1986 when the National Resistance Army (NRA) government took over power, they understood that democracy was only practical if citizens were free to participate in local governance, and in the election of their leaders. In their 10-Point Program, restoration of democracy was point number one. In an address to the nation referred to as “Ours is a Fundamental Change”, President Museveni said,<sup>2</sup>

*“In our liberated zones, the first thing we started with was the election of Village Resistance Committees. My mother, for instance, cannot go to Parliament; but she can surely, become a member of a Committee so that she, too, can make her views heard. We have, therefore, set up village, muluka, gombolola and district committees...but right now, I want to emphasize that the first point in our political programme is democracy for the people of Uganda”*

The election of National Resistance Councils (NRC) in the early days of the National Resistance Movement (NRM) government set the foundation of a local government system based on the aspirations of local people. Resistance Councils (RCs) performed the duties of the defunct state organs including service delivery, whose powers and responsibilities were previously a reserve of the central government. It is this experience that provided the base for devolution.<sup>3</sup>

In 1987, the National Resistance Council (NRC) enacted the Resistance Councils and Committees Statute, which gave Resistance Councils (RCs) political, administrative, financial, planning and judicial powers. The RCs took charge of management, development and welfare of the people in their localities. The Resistance Council (RC) system was renamed the Local Council (LC) system when the Decentralisation Policy was passed in 1997.

President Museveni while addressing the participants said;

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<sup>2</sup> Document 4: Uganda’s Decentralisation Policy, Legal Framework, Local Government Structure and Service Delivery. Paper by Edward Mugabi, 2004, Florence Italy

<sup>3</sup> Previous regimes had made institutional reforms that functioned poorly and had limited impact for instance the military government of President Idi Amin dissolved district and urban administrations, replacing them with provincial administrations led by Governors, most of whom were high-ranking military officials

*“Our actions were based on our conviction that Decentralization comprehensively facilitates the realisation of our development and political objectives. First, Decentralization will give power to the people to move steadily on the path of democratisation. Second, Decentralization will meet our goal to attain an equitable distribution of resources between and within districts, thereby spreading the benefits of economic growth and development to districts or groups traditionally disadvantaged. Third, we have committed ourselves to improving public sector performance and to eventually reduce public sector spending. This will be achieved by eliminating expenses caused by excessive centralisation of decision making in Kampala, by increasing the generation of Local Authorities’ revenue through improved local tax collection and by making political leaders and employees of local authorities more responsible in the expenditure of public resources. In this way, Decentralization will facilitate local democratic participation and our national efforts at macro- economic reform and efficiency.”<sup>4</sup>*

Under the 1995 Constitution and the Local Government Act 1997, the following are the three major aims of the decentralisation policy,<sup>5</sup>

1. Participation in governance through the election of leaders,
2. Bringing services closer to the people, and
3. Building the financial generation and management of the Local Governments.

Understanding the genesis of the decentralisation policy is instructive in appraising the success and performance of the system.

Decentralization has three distinct dimensions that can be categorized as the political, administrative and fiscal categories. Each dimension has unique characteristics, objectives and conditions for success. The political component refers to the transfer of authority from central to local authorities, the administrative component speaks to the transfer of functional responsibilities from central to local authorities, and the fiscal component addresses the financial relationship between all levels of government.

Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be verified, and, in this way, the full potential of decentralization cannot be realized.<sup>6</sup>

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<sup>4</sup> *At the launch of the East African Local Government Forum at Uganda excerpted in Decentralization and Local Development in Uganda Report by Ministry of Local Government, 2004*

<sup>5</sup> *See Chapter Eleven of the 1995 Constitution in particular Article 176 and Section 2 of the Local Government Act, 1997*

<sup>6</sup> *Feruglio, N (2007), “Fiscal Decentralization: An Overview”, World Bank.*

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- To present policy recommendations on measures to enhance the significance of local governments in delivery of quality and gender-responsive public services in Uganda

## 2.0 Legal & Institutional Framework For Fiscal Decentralization And Effective Service Delivery

### 2.1 Existing Legal & Institutional Framework

The legal and institutional framework for fiscal decentralization and effective public service delivery in Uganda consists of a number of policies and laws.

The key policies and legislation are:

- The Constitution of Uganda, 1995
- The Public Finance Management Act
- The Decentralisation Policy
- The Local Governments Act
- The Local Government Financial and Accounting Regulations
- The National Gender Policy
- Vision 2040
- The National Development Plan
- The Fiscal Decentralisation Strategy
- The Economic and Finance Management Program (EFMP I & II)
- The Financial Management and Accountability Program (FINMAP I, II & III)

### 2.2 Analysis of Existing Legal & Institutional Framework

The 1995 Constitution established the foundation for a legal and institutional framework to reform the decentralization systems and practices in Uganda. The Constitution provides that the system of local government in Uganda shall be based on the district as a unit under which there shall be such lower local governments and administrative units as Parliament may by law provide. From the onset, the local government system was meant to devolve, rather than transfer powers from the central to local government entities. The Local Governments Act was enacted in 1997 to operationalise the Constitutional framework, and then the Local Governments (Financial and Accounting) Regulations, 2007 were enacted to apply to all financial transactions and business of all local government councils and administrative units.

Other policy frameworks such as the Public Service Standing Orders are applicable to Local Government servants recruited through the District Service Commission or Public Service Commission. On the political leadership side, leaders are elected from LC1 at village or Zone to District or City levels. In 2015, The Public Finance Management Act was enacted with provisions which greatly affected the Local Government Act and the Regulations.

To understand the relevance of the legal and institutional set up in the local government, it can be examined from the three principle tenets of the decentralisation policy i.e. democratic participation, service delivery and fiscal decentralization. These are further elaborated upon below:

### **Objective 1: Democratic participation.**

The Local Governments Act provides for the election of representatives to the councils from the lowest levels of LCI to LCV at the district levels, and requires only the District Chairperson and City Mayor to have an “A-level” or its equivalent in academic qualifications. The rest of the elected councillors do not have specific academic requirements. Elections are conducted through universal adult suffrage. The Local Governments are governed through the Local Councils, which are the highest political authority within the area of jurisdiction of a local government and are vested with both legislative and executive powers<sup>7</sup>. At the District Level, the District Council is the highest body. At Sub-County levels in rural areas it is the Sub-County Council and Division Council for Urban areas. The Council at the district is headed by Chairperson LCV, while in urban areas it is headed by the Mayor. The Councils are tasked with powers to analyse and approve district plans and budgets under the fiscal decentralisation framework. Advocates Coalition for Democracy and Environment (ACODE<sup>8</sup>) scorecards<sup>9</sup> indicate mixed results in performance of councils in rural areas and urban areas. Scrutiny of budget framework papers and plans attracts low ranking in rural councils and significantly higher ranking in urban centres.

Accountability and legislative roles seem to be poorly performed by most councils.

### **Objective 2: Service Delivery.**

As earlier on noted, the second principle objective of the Decentralization policy is to bring services closer to the people. The Local Governments Act makes service provision a key role of the local government. However, in practice, the functionality of this role is largely determined by the extent of fiscal decentralization and the capacity of the local government to generate local revenues. Planning and budgeting for services, ideally starts from the LCI and LCII levels (parish level) where citizens identify priorities which should be financed. The priorities are then forwarded to LC III at sub-county or division level (in a Municipality), where a budget and plan is framed. The District Council then consolidates the sub-county level plans and budget into district plans and budgets, then submits these to the Ministry of Finance for national level consolidation. From this overview, it appears that the local governments have significant influence in determining services. However, over the years, local governments have generated not more than 5 %<sup>10</sup> on average of local revenues to finance service delivery. This leaves the majority of the services to be financed by the central government. This reality is instructive in assessing whether the decentralization policy enhanced service delivery or if in practice it still remains under the control and direction of the central government.

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<sup>7</sup> Section 9 of the Local Government Act, 1997 (as amended).

<sup>8</sup> A Non-Governmental Organization (NGO).

<sup>9</sup> ACODE has developed a score card to measure various aspects of Local Government performances since 2011.

<sup>10</sup> According to the Local Government Finance Commission.

### **Objective 3: Fiscal Decentralization.**

Of the three principle objectives of decentralization, this is perhaps the most complex and important in realizing the second objective. Fiscal decentralization refers to the public finance dimension of intergovernmental relations. It specifically addresses the reform of the system of expenditure functions and revenue source transfers from the central to sub-national governments. Fiscal decentralization is a key element of any decentralization programme because without appropriate fiscal empowerment, the autonomy of local governments cannot be substantiated and in turn, the full potential of decentralization cannot be realized.<sup>11</sup> Designing an appropriate fiscal decentralization system involves the assignment of expenditure responsibilities, allocating revenue sources, designing inter-governmental transfers and structuring borrowing/debt at the local government level.<sup>12</sup> The Constitution of Uganda, 1995 provides that there shall be established for each local government unit a sound financial base with reliable sources of revenue<sup>13</sup>. The Local Government Act gives the local government powers to levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties, personal graduated tax, and registration and licensing fees<sup>14</sup>. It also gives powers to LGs to appropriate the funds upon approval by the Local Council.

### **2.3 Gaps, Challenges, and Opportunities in the Legal and Institutional Framework**

The following are gaps, challenges and opportunities in the legal and institutional framework:

**The fusion of political, legislative and executive powers:** The Local Government Sector institutionally comprises the Ministry of Local Government, Local Government Finance Commission and the Local Governments which itself consists of the Upper and Lower local governments. The Constitution establishes local government to be based on a council which is the highest political authority within its area of jurisdiction and which shall have legislative and executive powers. This fusion of critical roles in one institution, without corresponding capacities, is a source of challenge.

For example, the law does not prescribe any minimum academic qualification for the district councillors except for the District Chairperson and City Lord Mayor. Yet, the nature of businesses transacted, and the powers wielded by the council are so enormous and entail responsibilities such as analyzing the Budget Framework Papers (BFPs), debating, scrutinizing and passing By-Laws, reviewing agency technical reports, scrutinizing the District Development Plan etc. There are many lower councils whose business are conducted in local languages and yet the official language for the record is English.

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<sup>11</sup> Feruglio, N (2007), "Fiscal Decentralization: An Overview", World Bank.

<sup>12</sup> Feruglio, N (2007), "Fiscal Decentralization: An Overview", World Bank.

<sup>13</sup> Article 176 (2)

<sup>14</sup> See Section 79 of the LGA as amended



**Institutional misalignment:** The other institutional challenge is the set -up of the local government itself. The Ministry of Local Government’s role largely focuses on polic initiation with some advisory function, coupled with a very restricted supervisory role that they play with the recognition that local councils are legally body corporate with the powers to make independent decisions on some issues. The LGFC similarly has an only policy related function. This kind of institutional alignment means the LGs are ‘splinter groups’ with no authoritative and direct supervisory role.

**Lack of an oversight body at LG levels:** The law<sup>15</sup> also established the Local Government Public Accounts Committee (LGPAC) whose major function is to examine the reports of the Auditor General, Chief Internal Auditor as well as documentation related to commissions of inquiry which may require the attendance of councillors or officers to explain matters arising from the reports. The LGPACs have generally not been operationalized by districts owing to financial and technical challenges. This as a result, hampers active and effective scrutiny and oversight over the council especially the executive and political aspects.

The other challenge is the **dysfunctional Parish Development Committees (PDCs)** which are the first point of contact (institutional setup) for planning, budgeting and discussing real issues affecting the people. All members of the villages and parishes are required to meet regularly to discuss important issues. However, these committees are largely dysfunctional due to lack of funding, poor coordination, and apathy.

**Revenue mobilization function:** The LGs were expected to have a sound financial base with reliable sources of revenue.<sup>16</sup> However, in practice, the function of planning, assessing and generating revenues are left to the office of the Town Clerk, Assistant Town Clerks and Parish Chiefs for Municipal/Town Board, Division/ Sub-County and Parish/Ward respectively<sup>17</sup>. The job descriptions<sup>18</sup>require these positions to have qualifications in various fields including social sciences. Furthermore, revenue policy and management require technical competencies in areas of revenue which most occupants of the above positions do not have.

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<sup>15</sup> Section 88 of the Local Government Act, Cap 243

<sup>16</sup> See Article 176 (2) (d)

<sup>17</sup> See the Local Government (Finance and Accounting) Regulations, 2007

<sup>18</sup> Ministry of Public Service: Job Descriptions and Specifications for Jobs in Local Governments, 2011

Consistent changes in the legal and policy framework with little room to test their efficacy: In a meeting with the LCV Chairperson, Gulu district he pointed out that

*“...I think the Centre needs to carefully consider how to introduce new changes because now for the last two three years you find almost quarterly there is a new financial policy coming up so you find many local governments are struggling to cope. Every time the finance officials are being trained on new systems, there is one, there is tier two, there is this, there is single treasury system so new policies keep on changing and then the ministry says it is to regulate and instil financial discipline but you see it is partly responsible for poor absorption for local governments, many local governments are failing to absorb the funds so that also needs to be looked into. It is not bad to introduce these changes but you need to take it gradual and allow people to get to know. You can imagine last financial year as the financial year was ending, the ministry of finance decided that all local revenue now will be collected by URA and then we said how does that happen? Is URA an agent of the local government? URA is not part of decentralization so we protested.... and a letter was sent withdrawing that decision..... So decentralization is getting rapidly eroded, our activities are getting crippled and it is likely to collapse if government doesn't quickly realize what needs to be done.”*

Ojara Mapenduzi, LCV Chairperson, Gulu district

## **2.4 Recommendations**

1. Constitute the LGPACs: The central government should support the LGs to establish the LPACs by providing financing and issuing technical guidance. The Parliamentary Accounts Committee (PAC) should render technical guidance and develop operations guidelines or rules for the committee.
2. Amend the law for constitution of DLCs: The law should be amended to provide for a minimum qualification for election to the DLC be a minimum of Senior Four Certificate of Education. This will ensure that the council has the capacity to grasp complex developmental processes and challenges.
3. Reform the Corporate status of DLCs: Whereas the corporate legal status implies little interference and a greater degree of autonomy, the arrangement creates confusion at supervisory levels. The laws and system should be reformed to allow for accountability by DLCs to the parliament.
4. Create a LG Revenue Unit: The laws should be amended to create a LG Revenue Unit at the district level, akin to the Uganda Revenue Authority (URA) at national level. The LG Revenue Unit should be staffed with competent people, facilitated and equipped to perform revenue generation tasks.
5. Policy and legislative changes should be introduced gradually and where possible, in consultation with LGs to allow LG to understand and fully test their efficacy.

### **3.0 Relationship/Engagement between Local and Central Government**

There has been an increase in the number of districts in Uganda from 16 in 1959 to 127 as of 1st July 2018<sup>19</sup>. Overall, LGs are supervised by the District Council (led by the LC V Chairperson) to whom the Chief Administrative Officer and the internal audit unit report directly. There are 8 departments within the district, and these include, finance and administration, education, health, planning, production, works, community development and natural resources<sup>20</sup>. At sub-county level, a sub-county chief is in charge, a position set at Senior Assistant Secretary grade.

#### **3.1 Existing Interventions for LG and CG Engagement and their Effectiveness**

The structure of LGs interfaces with the Central government through the Ministry of Local Government (MoLG) and the Local Government Finance Commission. The Local Government Finance Commission (LGFC) is an autonomous arm of Government responsible for advising central and local governments on issues of fiscal decentralisation. The mandate of the MoLG is to guide, harmonize, mentor and advocate for all Local Governments in support of the government's vision of bringing about socio-economic transformation of the country and . The Ministry is responsible for mentoring, compliance inspection and support supervision of Local Governments.

In addition to the MoLG and the LGFC, pursuant to Article 193 of the Uganda Constitution and S.83(3) of the Local Governments Act, the Uganda Local Government Association (ULGA) and the Urban Authorities Association of Uganda (UAAU), established the Uganda Local Government Negotiation and Advocacy Team (UNAT) in 2004. ULGA and UAAU acted on behalf of LGs with the aim of negotiating on their behalf with sectors on programmes and conditions for Conditional grant utilisation. The last such negotiations were held in August 2018 and related to the FY 2019/20 budget.

Generally, the engagements between the LGs and CG have been effective where the tasks are about increasing the number of LGs. However, there is no real impact when it comes to fiscal space and the details of how conditional grants should be allocated and managed.

#### **3.2 Challenges, Gaps, and Opportunities**

There is a major concern amongst LGs that the central government is trying to re-centralise and make decentralisation ineffective. In an interview with the LCV Chairman of Gulu district, he shared the following experience, that was echoed by participants from LGs during a validation meeting for this study.

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<sup>19</sup> Ministry of Local Government, 2018; Statistical Abstract 2018

<sup>20</sup> Ministry of Public Service, 2016; Approved structure of LGs as at May 2016

“...The number one challenge is that the kind of changes the centre is making right now, are not very friendly to the feature of decentralization. There are lots of policy changes that are defeating the purpose for which decentralization was put in place. For example the current Public Finance Management Act, much as the intention is to create financial discipline there are lots of areas that contradict the principles of decentralization but also contradict the provisions of the Constitution. For example, right now we don't have the powers to make supplementary budgets, our own supplementary budget now requires the approval of parliament. That is wrong because our powers are being hijacked so why should our local revenue budget be determined by parliament when they have no clue what we are actually trying to do? And then, now even the powers to open an account for the local government lies with the Accountant General, even if you want to open an account for a sub county, you now need the permission of the Accountant General. Even the powers to pay, to carry out transactions with the new system, the integrated finance management system, this system removes the power from the accounting officer, actually the accounting officer will generate the requisition, will process it and then it is the ministry of finance to approve it. So now the ministry of finance has to determine how much you spend. They give you what they call a cash warrant, they also give you the cash limit. These are changes that are not friendly to decentralization. I think some level of micromanagement that the ministry of finance is coming up with and is eroding the intention of decentralization. So local governments now are handicapped. Let me give you an example, last financial year, our local revenue projection was 760m. We struggled and ended up generating 1.2billion and because we generated above the budget, we were not allowed to spend the excess. You know what happens with the new system, we are operating under what is called a single treasury account, you put money into what is called a general account and within 24 hours that money automatically goes into bank of Uganda and now if you want to spend, first the ministry of finance will have to determine how much you should spend then they give the cash deposit. They told us that the excess was not on our budget and so they cannot give us our money. I actually met the minister of finance, and the secretary to the treasury, we have pushed, so far they have given us only 100million, So the question is, how do you expect local governments to feel motivated to generate even more when you don't use the excess? Because ordinarily our projection was 760million and we generated more so we said since we have been able to generate more money why don't we come up with more activities within our budget and we spend? Then we said ok, let us make a supplementary budget, we sent the supplementary budget to parliament and parliament refused to approve, when we asked why, they said that is poor planning, you have to plan bigger but that is idiotic, why do you plan much bigger?”

Ideally ULA should provide a platform for the LGs to engage collectively with the central government on their concerns. However, despite the fact that every District and Lower Local Government Council is eligible to become a member of the Association, not all LGs have subscribed to ULGA. These organs are eligible to Association membership once they have passed a council resolution, adopted the constitution and paid their membership and subscription fees. There is also an opportunity with the ULGA negotiation and advocacy team (UNAT) that could negotiate for fewer restrictions on grants that are sent to the LGs. This, however, can only be fully explored if LGs are explicit about the funding gaps illustrated in their development plans. This, as opposed to general requests for percentage allocations, will be evidence to leverage the resource requests.

Whilst there has been progress in this regard, lack of coordination amongst some Civil Society Organizations (CSOs) that are working to improve the governance of LGs creates the possibility of duplication of efforts without clear follow up on the results. Just like LGs have attempted to organise themselves for advocacy purposes, it would be useful for CSOs (irrespective of the sectors they work in) to conduct periodic consultations to assess the impact of advocacy efforts, where possible, demonstrate explicit collaborations with ULGA.

### **3.3 Recommendations**

Recommendations for more effective and equitable engagement between local and central government.

1. Review the impact of the PFMA Act on the effectiveness of LGs, identify what has worked well, as well as the challenges and make necessary revisions to the Act that will promote more effective fiscal decentralisation and financial sustainability of LGs.
2. Work towards more collaboration, strategic and evidence-based engagement by local governments through ULGA to challenge systems that are stifling the effectiveness of decentralisation.
3. Strengthen CSO collaboration on issues related to decentralisation.

## **4.0 Resource Allocation, Revenue Generation & Implications on Service Delivery**

### **4.1 Analysis of the Existing Situation**

One of the objectives of establishing the LG system in Uganda was to decentralise fiscal systems and processes to empower the LGs to generate finances and provide essential services. However, the most common narrative about LG financing system today is the phrase “allocation from the centre”. The allocation from the centre is the life blood of LGs and without it, they would all, but collapse. The Local Government Finance Commission estimates that LGs raises, on average, 5% of their revenues. The bulk comes from the centre. This is an indicator the fiscal decentralisation system is not living up to expectations.

The LG units established under the Act are all body corporate<sup>21</sup>. This implies, the LGs are effectively alienated from the central government structure built on civil service with all the control and supervisory centres. The LGA provides that a council shall be the highest political authority within the area of jurisdiction of a local government and shall have legislative and executive powers to be exercised in accordance with the Constitution and this Act<sup>22</sup>. The Executive powers here include the powers to levy, charge, collect and appropriate fees and taxes in accordance with any law enacted by Parliament<sup>23</sup>. The Local Governments Revenue Regulations under the Fifth Schedule to the LGA provides an illustrious framework of revenue sources, rates and distribution of revenues amongst the LG Councils. This is further buttressed by the Local Government Finance and Accounting Regulations of 2007.

The Public Finance Management Act 2015<sup>24</sup> establishes a framework for planning and budgeting which starts at the Parish levels combining LCI and LCII. The issues generated are consolidated into the Budget Framework Paper for the Sub County in rural areas or a Division in Urban councils. These BFPs are then consolidated into the District BFP which themselves are consolidated into the National Budget Framework Paper which should all be prepared by Accounting officers by 15<sup>th</sup> November of each year<sup>25</sup>. These BFPs include the revenues, expenditures amongst other things<sup>26</sup>. The consolidated national BFP is approved by Parliament by 31<sup>st</sup> March of every year. The Local Government Councils also approve their respective BFPs. These strict timelines in the Act are meant to ensure accountability, however in practice, LGs spend more time planning and preparing accountability, and as a consequence have less time to focus on actual service delivery.

#### **4.2 Key Sources of Revenue for LGs**

The most important aspects of the BFPs, especially for LGs are the revenues and finances to provide the services the citizens have identified in the consultations processes. The LGs have only two streams of financing; Local Revenues and Central Government transfers.

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<sup>21</sup> See S. 6 of the Local Government Act.

<sup>22</sup> See S. 9 LGA

<sup>23</sup> See Article 191 of the Constitution. See also Sections 77 (1) and S. 80 LGA.

<sup>24</sup> Which repealed the Public Finance Act Cap 193 and the Budget Act 2001

<sup>25</sup> See S. 9 of the PFMA

<sup>26</sup> See Schedule 3 of the PFMA.

**4.2.1 Local Revenues:** At the beginning of the Local Government policy in the 1990s, the most available form of revenue was the Graduated Tax (GT) which contributed up to 75% of the Local revenues<sup>27</sup>. When the GT was abolished in 2005, the government had to find alternative sources of revenue for the LGs. Presenting the 2007/2008 national budget proposals, the Finance Minister then, Ezra Suruma, said the government had introduced two new taxes; Local Service Tax and Hotel Tax<sup>28</sup>. Apart from these two, LG also collect dues from the markets, levies, licences and permit fees and other forms of revenue generation.

This study interviewed some LG officials to identify good practices in local revenue generation that are provided below:

**Pursuing Local Economic Development and Generating Local Revenues in Gulu district:** In Gulu, the district undertook a survey and inventory of the assets that they have at their disposal. They then identified redundant assets and entered into public private partnerships to develop and utilise these assets. For example, they are currently partnering with Toyota Uganda, and signed an MOU with them to lease land on which they have built their regional workshop and they are paying the local government about 4million shillings monthly. There are other examples of some redundant assets that the district has signed MOUs with NGOs who have invested resources in reviving them and they pay rent to the district. A specific example is many years back, the ministry of agriculture decided to build a regional fish drying centre, this is a centre that helps in supporting fish farmers. However, the process was mismanaged and the contractor stopped after doing about 70% of the work. So, the Gulu LG has requested government to hand it over to them because they have failed to finish the project. The district has now contacted a partner/investor, Agromax who have accepted to get into a private public partnership first of all to inject their resources to finish the facility and then we come with a sustainability plan because the facility generates money. So the aspect of public private partnership is very important.

**Gulu Compulsory School Feeding Programme:** In 2017 when we sat to review the performance of the education sector one of the things I realised was that part of the poor performance in our schools is because majority of our children especially those from the rural areas go the whole day without food, most of them come from families that are poor and so children have to endure the whole day without anything to eat. We then commissioned a team to study this situation and identify practical and sustainable recommendations.

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<sup>27</sup> LGFC, *A Case for Continued Collection of Graduated Tax, 2001 Report*

<sup>28</sup> See *Budget Monitoring and Accountability Unit Briefing Paper 15/19*

We then developed a policy that (i) looked at how to make even the poorest parent makes a contribution and therefore emphasizes a lot of in-kind contribution e.g. the policy specifies whether the parent is giving grains, beans, pigeon peas or giving millet flour and the schools have to accept.

The schools have to be flexible enough to accommodate every parent. The LG also determined the quantity, the amount of contribution to be given because they realized that a number of the private schools especially in towns that had embraced school feeding program were instead exploiting the parents. So the policy sets a standard around which every school will have to operate. The benchmark is about 8kgs of beans for a primary school child for a full term, about 12kgs of posho, about 2kgs of sugar then a cash contribution of about 1000shillings for every child, for firewood and paying the cooks. And it is working. For this compulsory school feeding policy, the LG encouraged different partners at different stages, right from the formulation stage we encouraged a number of NGOs, Save the Children, World Vision, Action Aid and many other NGOs and the level of engagement and participation was massive.

**Generating income through leasing property in Kabale District:** The LG in Kabale district has sought to raise revenue from existing resources. For instance, the district is now generating rental income from the Kikungiri Housing estate, where tenants living in former district staff houses are now required to pay monthly rent. In addition, the district leases land to communities for agriculture. The land is leased to the best bidder after having paid application fees. With often several bidders, these fees are a source of local revenue in addition to taxation imposed on farmers for the agricultural products.

However, despite efforts by LGs to generate their own revenue, the Budget Monitoring and Accountability Unit (BMAU) field findings<sup>29</sup> indicate that the local revenue collected across most LGs cannot even cover the sitting allowances for councillors in a Financial Year (FY). Over the years, analysis shows that there have been several efforts to improve local revenue collections, but their contribution to the LG budgets has remained low, at less than 3% for district local governments, and 7% for Town Councils and Municipalities<sup>30</sup>. The Commission undertook the analysis of local revenue performance for period 2005/06 to 2015/16, in which it noted a slight improvement in the performance of local revenue from UGX 100 billion in FY 2005/06 to UGX 194.207 billion in FY 2015/16. All these are against the estimated local revenue potential of UGX 680 billion. This improvement is due to technical support in innovative strategies by the LGFC and MOLG and individual efforts by some local governments.

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<sup>29</sup> See BMAU Briefing Paper 15/19 above titled "Financing Local Governments: Exploiting the potential of local revenue"

<sup>30</sup> According to the LGFC



**Table 1:** Trend of Local Revenue Performance by Source (Ug. Shs'000)

Source	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Local Service Tax	6.542	7.115	10.786	10.114	11.670	11.719	15.657
LGHT	0.928	1.164	1.065	1.279	2.855	0.989	1.324
Property Tax	31.557	29.290	33.049	38.679	45.109	52.483	34.490
User Fees	21.975	20.931	29.004	34.058	36.359	37.506	27.063
Licences	6.564	15.560	8.807	11.037	12.339	14.578	23.195
Others	43.478	43.482	56.042	57.837	68.879	76.929	94.935
<b>Total</b>	<b>111.045</b>	<b>117.541</b>	<b>138.753</b>	<b>153.004</b>	<b>177.211</b>	<b>194.207</b>	<b>196.666</b>

Source: Source: LGFC Fiscal Data Bank

As noted above these two heads of taxes were introduced to compensate for the losses that GT abolition would cause. The rates and category exemptions make administering LST an insignificant contributor to revenues. For example, for persons in the gainful employment group – one getting a monthly salary between UGX 100,000 to UGX 200,000 pays only UGX 5,000 a year. This leaves out the many persons earning below UGX 100,000 a month. In addition, the rate of UGX 5,000 is too small and uneconomic to collect, so LST has not reached the expected targets. Its contribution has averaged between UGX 4.8 billion and UGX 10.5 billion in FYs 2008/9 and 2009/10, respectively far below the targeted UGX 67 billion <sup>31</sup>

The Local Hotel Tax, which is paid by the room occupant, is levied on hotel and room accommodation per room per night, has not fared any better as a revenue source. The LGFC report shows that between 2008/2009 and 2015/2016 FYs, this tax raised only about UGX 12 billion implying an average of UGX 1.3 billion out of the projected UGX 44 billion per year. This tax is hard to collect because most hotel owners do not keep accurate records of guests and make assuagements hard for Local Councils.

#### A Key Challenge

**Limited understanding and appreciation of the concept of local economic development by LGs:** Most LGs rely on funding from the CG and have not investing time nor resources in generating their own revenues beyond local tax collection. According to participants in the validation workshop for this study, one key challenge is the inability of some local governments to understand the concept of local economic development, which empowers local governments to creatively think and initiate development plans that can income both for the local population but also in form of local revenue.

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<sup>31</sup> SEATINI Policy Brief: Addressing Policy and Practice Challenges of Local Government Revenue Mobilisation in Uganda, December 2017

**4.2.2 Central Government Transfers:** Before the 1995 Constitution, central government transferred funds to local governments as a block unit for service delivery. In 1995, this changed when the Constitution was enacted and provided that the central government shall transfer funds to the LG under three distinct categories; Conditional, Unconditional and Equalization Grants.<sup>32</sup> Unconditional grants are intended to fund the decentralized functions as outlined in the Act. The Conditional Grants are supposed to fund national priority programme areas. While the conditionalities have to be mutually agreed upon by Central and Local Governments. Equalization Grants are supposed to be given to local governments lagging behind the national standard of service delivery. Inter-governmental fiscal transfer systems are generally recognized as being one of the most challenging tasks within the field of public finance. The specific manner in which a transfer system is developed is often based on a complex mixture of political choice, economic principles, historical reasons and country contextual factors (including the size and structure of the system of local government).<sup>33</sup>

### **4.3 Status Quo of Fiscal Relations Between Central and Local Governments**

By and large Local Governments continue to be heavily reliant on the Central Government, which undermines the purpose of devolution. One respondent to this study said, “.....currently Local Governments that are meant to implement their mandate are not doing so because they have been rendered financially handicap....”

<sup>34</sup>For instance, grants from CG to LGs contribute over 80% (preliminary assessments of the FY 2018/19 budget performance indicated that LG grants – including LR, were only 18.6% of the total revised budget for service delivery) of financing to LG budgets.

Accordingly, their magnitude and operations are critical to the ability of LG to deliver services effectively. There are two main grants to local governments: (i) Conditional grants which are distributed with clear formulas and guidelines to the departments in LGs; (ii) Discretionary grants that are categorized in unconditional grants and the discretionary development equalization grants and they layer upon the districts and the urban centers (town councils, municipal councils and divisions)

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<sup>32</sup> See Article 193 of the 1995 Constitution

<sup>33</sup> Jesper Steffensen ,*Fiscal Decentralisation and Sector Funding Principles and Practices*

<sup>34</sup> Interview with Lillian Muyomba, former coordinator of the ACODE Local Governments Score Card project

After the suspension of Graduated Tax (GT) during the 2005/06 financial year, and later its abolishment in 2008, local government revenues plummeted and over the years, districts have become much more reliant on the center for financing- making distant the reality of real fiscal autonomy – a fundamental basis for decentralization policy. This is worsened by the ever-growing number of both higher and lower local governments. Today we have 127 district LGs and 47 Municipal Councils all drawing from an inelastic pool of resources.

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#### **4.4 Impact of CG Financing on Service Delivery at LG**

Sectors are required to allocate conditional grants to local governments depending on the agreed- upon allocation formula with the LGFC, and the previous budget ceiling of the respective LG. However, the allocation of conditional grants to the Local Government does not take into consideration the formula agreed upon with the LGFC, resulting in funding gaps for LGs. For example, whereas there is an agreed allocation unit rate of UGX. 41,000 and UGX. 47,000 for O' Level, UGX. 80,000 and UGX. 85,000 for A' level per student for government-aided and private partnering schools, respectively, secondary schools are allocated lower amounts that could not cater for the agreed unit rates. Education needed UGX.

128,194,140,000 for USE grants to LGs for the FY 2014/15, MoFPED only provided UGX. 105,599,623,538 leaving a deficit of UGX. 22,594,516,462. The USE grants deficit was attributed to increased enrolment not being matched with an increment in funding. Reduced allocations to the LG sector negatively impact on the ability of the schools to provide quality education. Furthermore, analysis of conditional grant transfers to LGs established that in addition to inadequate allocations, the actual transfers were not in line with the approved budgets, resulting in shortfalls in funding for FYs between FY 2011/12 and FY 2015/16.

**Table 2:** Annual Conditional Grant allocations to Local Governments

Financial Year	Budget	Actual	Variance
2011/12	1,460,835,851,692	1,398,985,815,830	61,850,035,862
2012/13	1,629,573,701,963	1,536,915,852,286	92,657,849,677
2013/14	1,784,196,017,228	1,733,150,059,867	51,045,957,361
2014/15	2,075,790,417,035	1,926,390,100,000	149,400,317,035
2015/16	2,084,511,909,796	1,931,489,054,057	153,022,855,740

Source: Analysis of releases by MoFPED

From Table 2 above, while there are general increments in approved budget allocations for conditional grants, the shortfall in actual releases increased from UGX. 61.85 billion in FY 2011/12 to UGX. 153.02 billion in FY 2015/16. MoFPED attributes the inadequate allocations and budget shortfalls to limited resources and policy reversals that have moved the spending from LGs to sectors. Consequently, local governments have since been receiving similar or even reduced amounts of conditional grants for service delivery irrespective of macroeconomic changes that would warrant a change in funding to take care of the net changes that accrue to the different Local Governments.

#### 4.5 Recommendations

In light of the status quo described above, the following are possible ways in which grant system can be improved:

1. Support LGs to think more critically about local economic development and identify opportunities that they can test. This should include the MoLG investing in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance
2. The Central Government votes should devolve projects to LGs and only keep the monitoring function. This will enable adequate fiscal space to be released to local governments but also build their capacity in the management of such projects.
3. To collect more revenue, LGs can explore issuance of Municipality Bonds that could be issued by the State and LGs to raise money for public works projects like the construction and maintenance of bridges, hospitals, schools, and water treatment facilities. Introducing municipal bonds will increase revenue and promote more transparency and accountability.
4. The MoLG should invest in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance.
5. The MoLG and the LGFC should carry out a comprehensive local revenue assessment and registration for all the local revenue sources at LGs. This will make property valuation, billing systems and revenue collections easier.

6. Involve Local Governments in Negotiations with development partners: The CG/MoFPED should involve the LGs during negotiations with development partners for development financing. Involving LGs at the project design or budgeting stage because they have more knowledge about the local situation on the ground better than the technocrats at the CG.

## **5.0 Impact of Human Resources Capacities on Quality Service Delivery**

### **5.1 Analysis of policies and procedures that govern human resource management for local governments.**

The functions that were devolved to Local Governments are set out in The Local Governments Act, 1997 (the Second Schedule). The schedule lists, Medical and Health Services, Education Services, Water Services, Road Services and Agricultural Extension Services among others as some of the functions of the local governments. The decentralization of administrative duties also meant the decentralisation of human resource management and development. The transfer of staff hiring and firing decisions to the district governments through the District Service Commissions (DSCs) is considered to be one of the cornerstones of the Ugandan decentralization reforms.<sup>35</sup> Prior to civil service decentralization, local government staff were appointed by either secondment to local governments or were by being placed in a unified personnel system for all local governments in the country.<sup>36</sup> With the introduction of decentralization, civil servants posted to the districts were transferred to local governments and separate DSCs were established to take care of human resource management in districts and local administrations.

The power to appoint, discipline and promote staff in Local Governments is exclusively vested in the District Service Commissions which are appointed by the Local Governments themselves. This includes the power of appointment of persons to hold or act in any office in the service of a district/urban council; confirmation in service; promotion of staff; career development; disciplinary management; and retirement and termination of duty.

The DSCs are appointed by the district council on the recommendation of the district executive committee with approval of the central government's Public Service Commission. (PSC). In order to qualify to be a member of the DSC, one should ordinarily be a resident of the district; be a person of high moral character and proven integrity; possess a minimum of ten years working experience in a responsible position; and be in possession of a diploma qualification. They hold office for a period of four years and are eligible for appointment for one more term. While exercising their mandate, DSCs are by law required to conform to standards established by the PSC for the Public Service generally.

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<sup>35</sup> Bossert, T.J. & J. Beauvais.2002. *Decentralization of Health Systems in Ghana, Zambia, Studies Quarterly*, 11(4):1-24

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However, some of the powers of the DSC have since been recentralised. In 2005, powers of local government human resource administration were reassigned to the centre following a Constitutional amendment. For instance, the powers to hire and fire Chief Administrative Officers of districts, their deputies and town clerks of municipalities were shifted from DSCs to the central government's Public Service Commission. (PSC) The goal of recentralizing the high- level administrators was to improve accountability and enhance the performance of local governments.<sup>37</sup> It was further intended to make them more effective since they were increasingly reported to clash with the local politicians or work under their patronage.<sup>38</sup> Some of the criticism for the recentralization of appointment of top most administrators in local governments was that it would result in a snowball effect, where local accountability mechanisms would become totally undermined and thus would not provide solution to the administrative problems in local governments.<sup>39</sup> Nevertheless, the majority of the powers of human resource management were retained by the DSC. As a result, the success of the decentralisation policy and its effectiveness is directly linked to the competence, capacity and number of staff the DSC hires and the conduct of affairs by the DSC itself.

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<sup>38</sup> *Inspectorate of Government (IGG). 2008. Final Report of the Third National Integrity Survey. Kampala: Inspectorate of Government.*

<sup>39</sup> *Steffensen, J. 2006. Local Government Organization and Finance: Uganda. In Anwar, S. (ed.), Local Governance in Developing Countries, 93-136, ed. Anwar, S. Washington, DC: World Bank.*

## 5.2 Analysis of Challenges and Opportunities

The government acknowledges that the effectiveness of the decentralisation policy has been compromised by low human resource capacity.<sup>40</sup> The human resource challenges of district local governments include the difficulty in attracting and retaining highly qualified personnel, non-meritorious appointments and inadequate staff due to funding gaps among others, as further described below:

### **Difficulty in attracting, recruiting and retaining highly qualified staff:**

District Local governments have been constantly faced with the challenge of attracting and retaining highly skilled staff.<sup>41</sup> This challenge is majorly faced by the DLGs in rural areas. There is a large disparity between the quality of staff that are employed by rural districts and the more urban ones. Past studies have shown that the urban local governments attract more highly skilled staff especially in technical professions like certified Engineers, Physical Planners and Doctors among others as compared to the rural ones.<sup>42</sup> Factors like quality of life, access to social amenities and remuneration influence professionals who are generally more qualified to opt for employment in urban districts. Even in the few cases where DLGs manage to attract and recruit highly qualified personnel, it is difficult to retain them. Therefore, the inability of local governments to attract and retain skilled and experienced manpower in key positions undermines the implementation of public programmes and thus service delivery.<sup>43</sup>

- Low technical capacity: Low capacity of human resource of the DLGs is one of the challenges that has continuously affected the effectiveness of the decentralisation policy.<sup>44</sup> In order to address the capacity gaps of the Local Governments, the central government initiated the National Local Government Capacity Building Program which was partly implemented with support from donors like UNDP.<sup>45</sup> However, capacity building needs to be continuous and flexible to address changing needs, as well as factor in high staff -turn over. The capacity gaps have evolved from institutional gaps in the earlier stages of decentralisation, to more technical and resource-related aspects of sustaining human resource development and staff retention to foster service provision.<sup>46</sup>

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<sup>40</sup> The most recent admission of this challenge coming from the Rt. Hon. Prime Minister, Dr. Ruhakana Rugunda in his speech at the National conference on decentralization held at Hotel Africana on August 13, 2019

<sup>41</sup> Ministry of Local Government (MoLG), (2015) Ministerial Policy Statement Presented to Parliament for 2015/16 Financial Year. Kampala

<sup>42</sup> Kakumba, U. & Fennel. S., (2014). Human Resources Retention in Local Government: Review of Uganda's Policy and Institutional Mechanisms for Performance, *Journal of the Social Sciences* 2014.

<sup>43</sup> Ministry of Local Government (MoLG). (2015). Ministerial Policy Statement Presented to Parliament for 2015/16 Financial Year. Kampala Pp. 25

<sup>44</sup> Ministry of Local Government (MoLG), (2015) Ministerial Policy Statement Presented to Parliament for 2015/16 Financial Year. Kampala

<sup>45</sup> This has been done under the Local Government Management And Service Delivery Programme

<sup>46</sup> Kakumba, U. & Fennel. S., (2014) *supra* at note 34.

- Inadequate staffing of Local Governments: The effectiveness of the human resource of DLGs is significantly affected by the inadequate levels of staffing. In 2012, the approved structures of Local Governments were on average filled up to 55% and as low as 10% in new districts.<sup>47</sup> In 2016, these figures had improved slightly to average understaffing levels of 25-55%.<sup>48</sup>

These inadequate staffing levels have been felt in the education and health sectors where the quality of the services offered is directly linked to the number of staff available. According to a 2007 report by the Japan International Cooperation Agency (JICA) the education sector, for example, was forced to hire a greater number of unqualified (licensed) teachers in Ugandan primary schools during 2000 – 2007, due to the sharp increase in pupil enrolment with the introduction of Universal Primary Education (UPE).<sup>49</sup>

- Non-meritorious appointments: The appointment of staff by the DSC have increasingly become flawed and based on non-meritorious considerations. Previous studies carried out on the appointment of local government staff have revealed that the DSCs have adopted unethical appointment considerations when recruiting staff.<sup>50</sup> “Some people have misconceived decentralisation to mean localization – recruiting their own sons and hence entrenching corruption, nepotism and misapplication of guidelines, standards and procedures from line ministries.”<sup>51</sup> The starting point of these flawed appointments is often the appointment of the DSCs themselves. Whereas the law provides for the appointment of the DSCs by the district councils, on the recommendation of the district executive committees with approval of the PSC, the actual appointments on the ground have taken on unethical patronage practices based on considerations and criteria other than merit.<sup>52</sup> It has been reported that those appointed into the DSC are former campaign managers/agents of the political heads of the districts or are appointed on the recommendations of local politicians.<sup>53</sup> This has established the culture that such appointments are rewards for political support or favours.

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<sup>47</sup> Ministry of Local Government (MoLG), (2012) Ministerial Policy Statement Presented to Parliament for 2012/13 Financial Year. Kampala, 218 219, 220.

<sup>48</sup> Ministry of Public Service, (2016) Comprehensive review of local governments: review and restructuring of Local Governments Structures (Districts, Municipalities, Town Councils, Sub-Counties and Municipal Divisions)

<sup>49</sup> Japan International Cooperation Agency (JICA). 2007. Local Level Service Delivery, Decentralisation and Governance – A Comparative Study of Uganda, Tanzania and Kenya, Synthesis Report. Tokyo, Japan: Research Group, Institute for International Cooperation (IFIC) and JICA.

<sup>50</sup> Nabaho, L., Kiiza, A. (2018). Human Resource Management in Local Governments: An analysis of Recruitment and Selection Practices in Uganda. *The Journal of African & Asian Local Government Studies*. See also: Bashaasha, B., Mangheni, M.N. and Nkonya, E. (2011) Decentralization and rural service delivery in Uganda. IFPRI Discussion Paper 01063. Washington, DC: International Food Policy Research Institute.



- Inadequate Office Accommodation and Infrastructure especially in new Local Governments. The rate of creation of new districts has not been commensurate with the infrastructural needs of these newly created districts. As a result, members of staff of the DLGs are forced to work under deplorable conditions and travel long distances to and from work. In some cases, the members of staff of the newly created districts have even had to share space with those of the old district. A case in point is the Maracha-Terego District which was carved out of Arua in 2010. Four years after the new district was created, its affairs were still being run from Arua.<sup>54</sup> In the case of the newly created Nwoya District, it has been reported that its officials commute from Gulu Municipal Council every day.<sup>55</sup> On top of being costly, travelling long distances to and from work reduces the amount of time the district officers allocate to their jobs. These logistical shortages ultimately affect the capacity of the DLG to deliver services effectively and delay the benefits supposed to accrue to the local communities as a result of creation of the new districts.

### **5.3 Assessment of strategies applied by local governments to address any human resource challenges and/or gaps**

**Capacity Building Initiatives:** To address the challenge of low capacity, the DLGs have partnered with different stakeholders like the civil society organizations and development partners to support their capacity-building efforts. Attempts to build the capacity of the DLGs were initially led by the central government through the National Local Government Capacity Building Program with support from donors like UNDP.<sup>56</sup> Despite these efforts, there is still room for improvement and so proactive local governments have partnered with the civil society organizations and donors to train their staff and equip them with knowledge and skills to carry out their mandate. Some of these capacity building programs include the Governance, Accountability, Participation and Performance (GAPP) program implemented jointly by the United States Agency for International Development (USAID) and UKAID and the Local Government Capacity Program (LGCP) implemented by VNG International, the International Co-operation Agency of the Association of Netherlands Municipalities.<sup>57</sup>

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<sup>51</sup> *Comments made by Ms. Rosemary Seninde, the state minister for primary education at the National conference on decentralization held at Hotel Africana on August 13, 2019 quoted in Advocates Coalition for Development and Environment. (2019). Decentralisation; Trends, Achievements and the Way-forward for Local Governments in Uganda: Conference Report - Summary, Kampala: ACODE, Policy Dialogue Report Series No.33 at p. 20*

<sup>52</sup> *Nabaho, L., Kiiza, A. (2018).supra at note 48*

<sup>53</sup> *Nabaho, L., Kiiza, A. (2018).supra at note 48*

<sup>54</sup> *Kakumba, U. & Fennel. S., (2014) supra at note 34*

<sup>55</sup> *Kakumba, U. & Fennel. S., (2014) supra at note 34*

<sup>56</sup> *This has been done under the Local Government Management And Service Delivery Pro*

<sup>57</sup> *Buis.H, Boex, J. (2015) Improving local government performance by strengthening their 5 core capabilities. VNG International, The Hague.*

Embracing accountability mechanisms like the Local Government Councils Scorecard Initiative. (LGCSI): One of the most visible interventions of the partnership between DLGs and the civil society is the Local Government Councils Scorecard Initiative. (LGCSI) This scorecard was introduced by the Advocates Coalition for Development and Environment (ACODE), a public policy research and advocacy think tank in Uganda.<sup>58</sup> The LGCSI is an annual assessment of the performance of local government councils in Uganda that was introduced in 2009. The scorecard is intended to document performance of the local government councils and to increase accountability by measuring improvement in the quality of public services. Although initially resisted, the DLGs through their association the Uganda Local Governments Association (ULGA)<sup>59</sup> have gradually appreciated the importance of this assessment and embraced it.<sup>60</sup> In addition, ACODE works together with the DLG staff to improve their record-keeping, accountability and ability to convene and moderate council meetings. The Local Government Scorecard has aroused the interest of the local populations in the performance of their local governments and it is even used as a basis for determining whether to re-elect local government leaders hence increased accountability.<sup>61</sup>

## 5.5 Recommendations

To address the challenges identified above, the DLGs together with the central government with the support of other stakeholders will need to undertake a number of reforms including,

1. Government should review the National Local Government Capacity- Building Policy because there has been a change in the nature of capacity challenges that Local Governments face. Emphasis should be directed towards the technical and resource-related aspects of sustaining human resource development and staff retention to foster service provision.<sup>62</sup>
2. The DLG should consider implementing a system of hiring technical staff on contract and not on a pension basis in order to enable evaluation of their performance against the set targets. This will reduce complacency and motivate the staff to deliver on their targets.

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<sup>58</sup> *Advocates Coalition for Development and Environment (ACODE)* <https://www.acode-u.org/>

<sup>59</sup> *ULGA (www.ulga.org) is an association for all local governments in Uganda, with the mission of uniting them and building their capacity for efficient and effective service delivery.*

<sup>60</sup> *Muyomba-Tamale. L., Cunningham. K., (2017). Holding governments accountable for service delivery: the local government councils scorecard initiative in Uganda. Commonwealth Journal of Local Governance 2017, Available at: <https://doi.org/10.5130/cjlg.v0i20.6497>*

<sup>61</sup> *Muyomba-Tamale. L., Cunningham. K., (2017) Ibid*

<sup>62</sup> *Kakumba, U. & Fennel. S., (2014) supra at note 34.*

<sup>63</sup> *Office of the Prime Minister (OPM), (June 2019) Local Government Performance Assessment Report - FY 2018/2019, National Synthesis Report*

3. The central government should enact standards on the minimum staffing levels a Local Government so that LGs have the minimal and critical personnel. In addition, a balance should be found in the recruitment of the more technical personnel like accountants, doctors and engineers and the administrative personnel as well. The DLG have also been encouraged to indicate to the MoLG the departments lacking critical staff so that the ministry can engage the Ministry of Public Service and MoFPED on staff ceiling and wage bill.<sup>63</sup>
4. In order to attract highly skilled personnel, the government needs to increase the salaries of public service employees in Uganda to meet the increasing cost of living. The revision of remuneration for DLG employees should correspond with governmental statutory agency pay scales. Furthermore, the government should review the incentive schemes with a view to enhancing them especially for remote or hard-to-reach areas.
5. DLGs should be encouraged to hire staff from across the country instead of ring-fencing employment opportunities to the “sons of the soil”

## **6.0 Nature of Leadership and Implications on Governance and Civic Participation**

One of the key principles for establishment of the decentralisation system was to ensure peoples’ participation and democratic control in decision making and realization of democratic governance<sup>64</sup>. The key facets of democratic control and governance that are discernible from the policies and laws are: (i) Election of local leaders at all levels, (ii) participation in planning and budgeting, (iii) service delivery monitoring, (iv) participation in community affairs and (v) holding leaders to account. To understand how the quality of leadership and civic competency of citizens interplay, we must analyse these facets. Of these five facets, only the first one has been exercised nearly to the fullest, save for the LCI elections which were in abeyance the year 2000, after the constitutional court ruled that the manner in which LC polls were being conducted was contrary to multiparty political set up. It was not until 2019 that a new election for the LCI, II Chairpersons and Women Councils was held.

For elections, the law does not provide any minimum academic requirements for all the local council positions except for the Chairperson of the District and City Mayor. The quality of leadership here is determined by factors such as the ability of the elected leaders to understand their roles, nature of proceedings and the ability to scrutinize complex budget and governmental processes. There is evidence<sup>65</sup> that some councils conduct proceedings in vernacular and that some councillors lack the capacity to grasp council businesses. The Budget Framework Paper which contains the financial nominal estimates for the budget to provide service

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<sup>64</sup> Article 176 (2) (b) and (c) of the 1995 Constitution

<sup>65</sup> See the Local Government Scorecard Initiative by ACODE

and spur development is a complex tool that requires some degree of schooling to follow. The lack of minimum education requirements for election to council therefore means the bulk of the BFP scrutiny is left to technical people to whom ordinary citizens don't interact with. The problem is compounded by Public Service requirements that Sub-County technical staff are Bachelor's degree holders.<sup>66</sup>

Past studies have found out that there is a “strong nexus between citizen participation and the quality of social service delivery: findings show that poor service delivery in health, education and water sectors is attributable to limited participation.”<sup>67</sup> Participation avails the opportunity to amplify citizens' inputs into decisions affecting their lives and can be used to achieve a variety of goals, including improving poverty targeting, building community-level social capital, and increasing the demand for good governance.<sup>68</sup> Participatory programs further serve to enhance the involvement of poor and marginalized persons in community-level decision-making bodies. Effective service delivery, designing pro-people development projects, and improvements in the targeting of beneficiaries are some of the other benefits that have been identified to arise out of participation. In recognition of this, effective participation in planning, budgeting and engagements in community affairs was a central element in the establishment of decentralisation system in Uganda. The planning and budgeting process starts from the Parish level with the Parish Development Committee (PDC) consisting of LCI and II. The PDCs were introduced by a joint effort of UNICEF and the MOH established at the parish or ward level, as the basic capacity building structure<sup>69</sup>. PDCs would focus on the development issues facing their communities and thus strengthen the planning and resource mobilization capacity of the local council II. In principle, this is still the structure known to the government for consultations and discussions of developmental issues at local levels is the PDC. However, the PDCs are not structured and without donor support, they have struggled to hold meetings. The consultations are sometimes done through the Barazaas that were introduced by the OPM in 2009, however, these Barazaas are not held regularly. They are held only ones in a financial year and there are no feedback or follow up mechanisms<sup>70</sup> The decision making in in the platforms are also ineffective owing to poor participation of relevant stakeholders.

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<sup>66</sup> See the *Pubic Service Job Descriptions and Specifications for Jobs in Local Governments, 2011*

<sup>67</sup> *Initiative for Social and Economic Rights (ISER), 2018. “Citizen Participation in Local Government Service Delivery Processes in Uganda”*

<sup>68</sup> *Initiative for Social and Economic Rights (ISER), (2018). Citizen Participation in Local Government Service Delivery Processes in Uganda.*

<sup>69</sup> See *Documentation of the Community Capacity Building Experience in Uganda GOUUNICEF Country Programme, 1995-2000*

<sup>70</sup> *ISER: An assessment of the role and effectiveness of Barazaas in decision making processes, 2018*

On downward accountability, the planning framework presupposes that citizens are engaged in planning and budgeting and are therefore better suited to know what their leaders; both technical and political, have planned for them. Accountability requires knowledge. And knowledge is facilitated by information. The planning guidelines and the PFMA framework requires that budget information is displayed at service delivery units of local governments. There are very few Sub Counties who display budget information with details such as contracts, social services deliverables etc. Even where some budget information is displayed, literacy levels are a limiting factor. Although Uganda ranks very high in budget transparency in Sub Saharan Africa in Open Budget Index, studies suggest up to 70% of Ugandans cannot access government information<sup>71</sup> Nevertheless, efforts have been made towards increasing citizen participation. For instance, the Government of Uganda have made considerable progress in increasing the transparency of the budget process. The Public Finance Management Act of 2015 has been a critical milestone for budget transparency in the country. Civil Society Organisations (CSOs) have reported increased space to participate in the budget process since the act was passed. Organisations such as the Civil Society Budget Advocacy Group (CSBAG) have played a particularly active role, with government including them in more key decision -making bodies, such as the public expenditure management committee. As a result, CSBAG's increased legitimacy has enabled them to actively demand improved fiscal transparency and accountability from government. These efforts are complemented by those of CSOs like Uganda Debt Network which empowers local communities to take interest in their local governance and demand accountability of public resources and delivery of quality public services. <sup>72</sup> Others like Forum for Women in Democracy (FOWODE) have trained leaders on how to achieve gender-responsive national and district budgets that address the needs of women and men, girls and boys equitably and give full attention to other marginalised groups such as Persons With Disabilities (PWDs).<sup>73</sup>

The introduction of the Budget website - a partnership between MoFPED and the Overseas Development Institute, in 2015 was another step forward in budget transparency. The website disaggregates government budgets, and funding releases publishing a variety of useful and important budget documents. It is linked to the output- based budgeting tool and has a search function, with embedded opportunities for communities to 'comment' through the system on budget and performance. The website has also been accompanied with a toll-free hotline, where information can be accessed through an operator.

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<sup>71</sup> *Twaweza Report: between paper and practice: Civil servants' views on citizen participation and access to information, Nov. 2019*

<sup>72</sup> *Uganda Debt Network, (2017), Annual Report 2017: Facilitating Citizens' Engagement and Ownership of Development Programmes*

## 6.1 Recommendations

1. Innovative ways of communication should be adopted to enhance citizen access to information. The platforms, branding and language adopted should be tailored to fit the particular target audience in order to interest them in the decision making of their respective local governments on the issues that affect them.
2. Communities should be sensitized about the existing committees, namely School Management Committees (SMCs), Water User Committees (WUCs) and Health Unit Management Committees (HUMCs) and be encouraged to take interest in their activities or seek membership.
3. The DLGs working together with the central government and the lower local councils should create cheap and accessible platforms to receive the views, concerns and complaints in relation to service delivery. In the past, Barazaas have provided a platform for community participation and flow of information from the citizens to their leaders and vice versa. Such initiatives should be supported to be held across the country and on a regular basis.
4. The committees at the village level should be supported to ensure not only their existence but also their functionality.

## 7.0 Good Practices from Analysis of Literature

In the last 30 years, decentralization has emerged and established itself as a political and institutional phenomenon in most countries around the world. These countries have local authorities, consisting of local assemblies elected by universal suffrage and an executive, both of which are expected, to different degrees, to respond to their citizens needs especially the provision of social goods and services. The term 'local government' is generically used in all countries to refer to these sub-state/sub-provincial units. In a few countries, other terms are used such as 'councils' in Australia and New Zealand, and district administration in Malaysia. In Japan, the preferred term is 'local autonomy' to indicate freedom from central control in making decisions and self-responsibility in managing local affairs. The global paradigm has resulted in wider recognition of the role and position of local authorities as well as a significant increase in their powers and financing, notwithstanding the many differences between countries. The emergence of new political leadership at the local level is reflected almost everywhere in the creation of associations of elected members or local authorities in more than 130 countries<sup>74</sup>. There is, in fact, an Association of the global-local governments called United Cities and Local Governments.

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<sup>74</sup> *Decentralization and local democracy in the world First Global Report by United Cities and Local Governments, 2008*

Whereas the local government system is established in virtually every country of the world, they differ in traditions, customs, historical circumstances, level of economic development, political systems and types of service delivery. It is therefore cumbersome to make a value judgement of one local government system over the others. However, the focus of this report is the fiscal decentralization and governance/ leadership. Assessing the powers, responsibilities and finances can help understand which characteristics of local government practice are uniform across the countries and which ones are unique due to the reasons mentioned above. The two selected countries for analysis and comparison have unique similarities to Uganda in terms of political, historical and economic set-up.

### **7.1 Comparative Country 1: South Africa**

The Apartheid system in South Africa was very instrumental in shaping the local government system. Prior to 1994, the entire local government system was racially defined. In fact, before 1977, local-level structures for black people were merely advisory or administrative. This system was in line with the general denial of permanent residential rights for Africans in urban areas outside the Bantustans, which in turn was intractably linked to denying them political rights. However, with the end of Apartheid in 1994, a new system emerged. In the 1994 constitution a chapter on local government was included and paved the way for far-reaching reforms in three major phases; the pre-interim phase, which started with the 1993 negotiations, continued until 1995. It entailed the establishment of local government negotiating forums. Under the 1993 Local Government Transition Act (LGTA), new interim municipal structures combined pre-democracy local governments with community structures. The new structures provided for the sharing of resources across racial boundaries but did not undo the racial bases entirely.

**The Legal Status and Autonomy of Local Government:** There are three spheres of Government in SA; National, Provincial and Local Government, and the Constitution assigns broad range of functions. National and provincial governments are concurrently responsible for such functions as school education, health, welfare, and housing, with the national government determining policy and the provincial governments responsible for implementing a few exclusive functions. Most local government functions involve such user fee services as electricity, water, and sanitation; the remaining involves the provision of public goods such as municipal and household infrastructure, streets, streetlights, and refuse collection.

**Revenue:** The national government uses the local governments as agencies for services delivery. The constitution of South Africa local governments are exclusively empowered to impose property rates and surcharges on fees for services provided by or on behalf of the municipality (section 229(2)(b)). They are, however, prohibited from imposing income, value-added, or general sales tax or customs duties. In addition, national legislation could enable specific categories of local government to impose other taxes, levies, and duties. Property rates are one of the main sources

of revenues for the local governments, especially the municipal authorities. The revenues from property rates have accounted for about one-fifth of local revenue in recent years, and well over 30 percent in some of the big urban centres. Property rates were regulated by provincial ordinances in the era before 1994, resulting in much inconsistency. The ordinances allowed for further variation within their jurisdictions, with some municipalities taxing only site values, others taxing land and improvements at different rates, and others taxing the total improved<sup>75</sup> value at a single rate. Inter-Governmental Transfers: In aggregate, 10 to 16 percent of municipal expenditure is financed through intergovernmental transfers. National allocations to local government are announced in an annual Division of Revenue Act (DORA), published to enhance predictability and transparency over a three-year period. Provincial treasuries are also required to publish their transfers to municipalities. Reporting requirements are stipulated in each DORA. Currently, every municipality receiving assistance under a grant program must submit monthly reports to the transferring national or provincial department<sup>76</sup>

**Local Government Borrowing:** Since the late 1990s, the South African government has been working on creating an enabling environment for municipal borrowing. It published a wide-ranging policy paper on this topic in mid-2000 and has incorporated conditions in the MFMA to create the legal conditions for borrowing by municipalities and municipal entities. The 1996 constitution provides both implicit and explicit support for local-level borrowing. By recognizing the role of local government in governance and service delivery, it delineates a sphere of government and highlights the identity of local government and by implication the notion that it. Although the borrowing is largely subdued, only short-term credits from private sector is practiced. Almost half of the short- and long-term lending since 1997 has been provided by the Infrastructure Finance Corporation (INCA), a specialized municipal lending agency attached to one of the major commercial banks.

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<sup>75</sup> Shah .A ed., (2006), *Local Governance in Developing Countries, Public Sector Governance and Accountability Series, The World Bank, Washington, D.C.*

<sup>76</sup> *Op.Cit 3*



## 7.2 Comparative Country 2: Indonesia

Indonesia was governed through a centralized fiscal and political system, leaving little scope for the development of autonomous local government institutions. Regional autonomy was largely perceived by the Dutch as a threat to centralized colonial control and by the Sukarno and Suharto administrations as a threat to national unity. As part of a larger package to reform Indonesia's political system, in May 1999, after only a few months of preparation, the reform cabinet under President Bacharudd in Jusuf Habibie enacted two major laws that stipulated a redistribution of political authorities and financial resources among the country's three levels of government. Through the enactment of Law 22/1999 on regional governance, responsibility for much government expenditure was decentralized—largely to local (district) governments rather than provincial governments. Such a move had been advocated by Shah (1998a), who argued that decentralization to the provincial level might unleash centrifugal tendencies and precipitate the secession of some especially resource-rich units from the nation. Strengthening local governments would facilitate strengthening political and economic union while addressing long-felt local grievances.

Indonesia provides the most dramatic example of major legislative reform for enhanced local government autonomy. The 'big bang' decentralization took place on the basis of Regional Government Law 22 of 1999, which eliminated the hierarchical relationship between provincial and municipal governments. This significantly shifted resources and responsibilities from the central and provincial levels to urban (kotamadya) and rural (kabupaten) municipalities. Under Regional Autonomy Law 32 of 2004 these district governments were assigned 11 obligatory functions while provincial governments were given a secondary role. In line with these expanded responsibilities a major shift of staff resources (about 2.5 million civil servants, of whom about three-quarters were teachers or health workers) took place from the central and provincial governments to the districts during a short transition period (2000-2001). Law 33 on Fiscal Balance between Central and Regional Government in 1999 (later amended by Law 25 of 2004) provided a new intergovernmental fiscal framework for general allocation grants (DAU), which represent block grants to finance the administrative and other costs associated with newly decentralized functions<sup>77</sup>

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<sup>77</sup> *Op. Cit* , *First Global Report by United Cities and Local Governments*

**Inter- Governmental transfers:** The resources that local governments have at their disposal have been increased through the enactment of article 7 of Law 25/1999, which requires the central government to transfer at least 25 percent of domestic net revenues (total domestic revenue minus revenue sharing) to sub-national levels of government. Ten percent of that amount is accrued to the provincial governments, and 90 percent to the local governments, which carry out the bulk of expenditure responsibilities. As a consequence, the share of consolidated sub-national expenditures in total public expenditures rose from roughly 17 percent in financial year (FY) 2000 to about 27 percent in FY 2001. In FY 2002, the sub-national share rose to more than 30 percent of the total<sup>78</sup>

**Budget and Tax responsibility:** The main thrust of the decentralization policy was to devolve expenditure responsibilities. The tax assignments remained largely unchanged by the decentralization policy. All significant tax bases, including Value Added Tax (VAT), personal income tax, and corporate income tax, remain under the control of the national government. As a consequence, the vertical fiscal gap between sub-national expenditures and revenues is very large. Own-source tax and non-tax revenues of sub-national governments together account for only 5.1% of total public revenue, and most sub-national revenues come from transfers. Sub-national taxation is regulated by Law 34/2000 on regional taxes. There are four provincial taxes (motor vehicle tax, motor vehicle transfer tax, fuel excise tax, and groundwater extraction and use tax) and seven local taxes (hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, mining tax for class C minerals, and parking tax). The national government determines the tax bases, and there are rate caps for each of these taxes, within which sub-national governments can set their rates.

Law 33/2004 prohibits local governments from establishing own-source revenues that impose high costs on the economy or restrict the mobility of people and goods and services across internal borders or constrain international imports and exports. However, article 2 of Law 34/2000 states that local governments have the right to impose new local taxes as long as those taxes comply with eight general “good tax” principles:

- They are taxes, not user charges
- The tax base is located in the region and immobile
- The taxes do not conflict with public interest
- The tax base is not subject to provincial and national taxation
- The revenue potential is adequate
- The taxes do not exert economic distortions
- Equity concerns are taken into account
- Environmental sustainability is taken into account

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*78 Op.Cit , Anwar Shah*

## 8.0 Overall Conclusion and Recommendations

Overall, political devolution has been a major milestone of the decentralisation in Uganda. In particular, the election of local leaders, political representation and legislation in councils has been positive. The citizens have been enabled to choose their leaders periodically through adult suffrage. Another achievement of the decentralisation policy has been the reversal of centrally driven planning and budgeting to area-based planning. This has facilitated the inclusion of locally felt needs and dealt with unique locality challenges such as bridges, food security, needy students' scholarships that could not be anticipated or determined at the central government level.

Notwithstanding the outstanding achievements of the decentralisation policy in Uganda, a number of challenges still persist. There therefore exists a gulf between principles and implementation. Inadequate financing and investment in human resources and facilities, weak systems and coordination, conflicting legislations and local leadership incompetence still abound.

Each section of this report has specific recommendations; however, the following constitute the overall **key recommendations**:

1. **Conduct a comprehensive audit/review** of the current establishment of local govts in Uganda in relation to fiscal decentralization, and assess the capacity of LGs to discharge their mandate of delivering quality public service to the citizens of Uganda
2. In tandem with the above audit/review, **conduct a comprehensive review of key policies and legislation** governing fiscal decentralization. This should include but not be limited to the following:
  - Review the impact of the PFMA Act on the effectiveness of LGs, identify what has worked well, as well as the challenges and make necessary revisions to the Act that will promote more effective fiscal decentralisation and financial sustainability of LGs.
  - Amend the Local Governments Act to provide for a minimum qualification for election to the DLC be a minimum of Senior Four Certificate of Education. This will ensure that the council has the capacity to grasp complex developmental processes and challenges.
  - Reform the Corporate status of DLCs: Whereas the corporate legal status implies little interference and a greater degree of autonomy, the arrangement creates confusion at supervisory levels. The laws and system should be reformed to allow for accountability by DLCs to the parliament.
  - Create a LG Revenue Unit: Legislation should be amended to create a LG Revenue Unit at the district level, akin to the Uganda Revenue Authority (URA) at national level. The LG Revenue Unit should be staffed with competent people, facilitated and equipped to perform revenue generation tasks.
  - Policy and legislative changes should be introduced gradually and where possible, in consultation with LGs to allow LG to understand and fully test their efficacy.

- Government should review the National Local Government Capacity-Building Policy because there has been a change in the nature of capacity challenges that Local Governments face. Emphasis should be directed towards the technical and resource-related aspects of sustaining human resource development and staff retention to foster service provision.
  - Provide standards on the minimum staffing levels a Local Government so that LGs have the minimal and critical personnel. In addition, a balance should be found in the recruitment of the more technical personnel like accountants, doctors and engineers and the administrative personnel.
- 3. CG to support LGs to implement key aspects of LG** that will ensure accountability and greater effectiveness
- **Constitute the LGPACs:** The central government should support the LGs to establish the LPACs by providing financing and issuing technical guidance. The Parliamentary Accounts Committee (PAC) should render technical guidance and develop operations guidelines or rules for the committee.
  - Support LGs to think more critically about local economic development, and identify opportunities that they can test. This should include the MoLG investing in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance
  - The Central Government votes should devolve projects to LGs and only keep the monitoring function. This will enable adequate fiscal space to be released to local governments but also build their capacity in the management of such projects.
  - **Involve Local Governments in Negotiations with development partners:** The CG/MoFPED should involve the LGs during negotiations with development partners for development financing. Involving LGs at the project design or budgeting stage because they have more knowledge about the local situation on the ground better than the technocrats at the CG.
  - In order to attract highly skilled personnel, the government needs to increase the salaries of public service employees in Uganda to meet the increasing cost of living. The revision of remuneration for DLG employees should correspond with governmental statutory agency pay scales. Furthermore, the government should review the incentive schemes with a view to enhancing them especially for remote or hard-to-reach areas.
- 4. MOLG and ULGA to strengthen capacity of LGs** to fulfil their mandates on fiscal decentralisation more effectively, by among others
- Work towards more collaboration, strategic and evidence-based engagement by local governments through ULGA to challenge systems that are stifling the effectiveness of decentralisation.
  - The MoLG should invest in building capacity for technical staff in LGs to adequately conduct enumeration, assessment, and registration for improved local revenue performance.

- The MoLG and the LGFC should carry out a comprehensive local revenue assessment and registration for all the local revenue sources at LGs. This will make property valuation, billing systems and revenue collections easier.
  - The DLG should consider implementing a system of hiring technical staff on contract and not on a pension basis in order to enable evaluation of their performance against the set targets. This will reduce complacency and motivate the staff to deliver on their targets.
  - DLGs should be encouraged to hire staff from across the country instead of ring-fencing employment opportunities to the “sons of the soil”.
- 5. Strengthen CSO collaboration on issues related to decentralisation.** Interventions should be evidence based and involve consistent engagement with key stakeholders for changes in policy, law and practice.



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