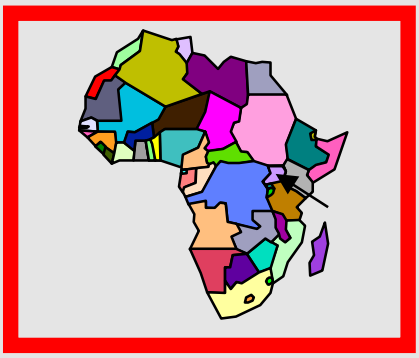
Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision In Uganda



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MAIN REPORT

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CHAPTER ONE
FISCAL DECENTRALISATION AND SUB-NATIONAL FINANCE IN SUB-SAHARAN AFRICA

1.1 Introduction and Objectives

This report examines decentralisation from the central to the sub-national level of government[1] in Uganda. The analysis reviews the structure of local governments, the strategy and objectives of decentralisation, the experiences of fiscal decentralisation, infrastructure and service provision (ISP), the regulatory and legal framework for local governments and their institutional environment. The report has been prepared for the World Bank as a part of a regional research project to study local governments and fiscal decentralisation in six countries of Sub-Saharan Africa: Zambia, Senegal, Ghana, Uganda, Swaziland and Zimbabwe.[2]

Decentralisation and effective devolution of responsibilities from central to strong sub-national governments can be an effective way to address service provision, economic development and the involvement of citizens and private investors in the provision of common goods. Decentralisation of responsibilities has been shown to increase the level and quality of public services and lead to a more efficient use of scarce resources.[3] Thus, many countries now seek to increase the extent of decentralisation through a variety of strategies. In this regard, many African countries are developing new systems of local government finance and methods of infrastructure services provision. They are also reforming their regulatory and institutional frameworks. This Project investigates the recent experiences in six Sub-Saharan African countries by ascertaining the degree to which they have realised their set objectives using specific decentralisation indicators.

The long-term objective of this Project is to strengthen the process of decentralisation within the region by bringing local governments closer to financial markets, strengthening the system of ISP and establishing effective and stable administrative and legal environments. The strengthening of human resources capabilities is seen as an important part of this process.

The immediate objective of this Project is to undertake an analytical and consultative approach to this subject in the six Sub-Saharan countries identified above. The results of this work are intended to provide useful new information and bring a greater degree of clarity and consistency to regional understanding of the requirements of decentralisation. This, in turn, is expected to lead to more efficient mobilisation of donor, public and private sector resources.

The main objectives of the Project, more specifically, are to:

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[1] In this report, the terms "local government" and "**sub-national government**" are used to describe the level of government below the central government. The type of sub-national governments varies from country to country; however, in all cases, emphasis was placed on selecting authorities that, to some extent, were directly accountable to local populations through some type of an electoral process.

[2] The countries have been listed in the order in which the research was undertaken.

- Facilitate the *identification of priorities* within each of the case study countries regarding the appropriate systems, procedures and processes of decentralisation. The findings, including the identification of decentralisation indicators, will also allow the future monitoring of the extent and nature of decentralisation in the research countries. The data should make it possible to measure progress toward achieving the objectives of decentralisation in the participating countries in the future.
- Foster *cross-national learning on best practises* within the field of decentralisation *vis-à-vis* ISP. The Study examines various models for decentralisation and alternative ways of providing and financing infrastructure and other local government services.

Support private and public investors, as well as the donor community, in the *identification of future needs and possibilities for investment* in infrastructure and service provision at the local level and in the identification of future projects within the field of administrative and human resource capacity building. This research, with its database of decentralisation indicators, should provide a valuable guide to potential investors and international development banks (IDBs) in promoting the emergence of a regional market. It is hoped that by using this database and resultant private and IDB infrastructure investment plans, bilateral donors and the countries themselves will be able to plan capacity building programmes more effectively.

The study focuses on "*decentralisation*". The definition of decentralisation varies across countries and between actors within various countries. In the Study, decentralisation is defined as "*devolution*"[4] of power to independent sub-national governments that are given responsibilities for determining the level and the quality of service to be provided, the manner in which those services are to be provided, and the sources and types of funding for the delivery of those services. Decentralisation is seen as a gradual process where no countries are either fully decentralised or centralised. The study concentrates on the relationship between the central and the sub-national governments and not on the deconcentration or delegation of power within the central government system to regional or local agencies/offices.

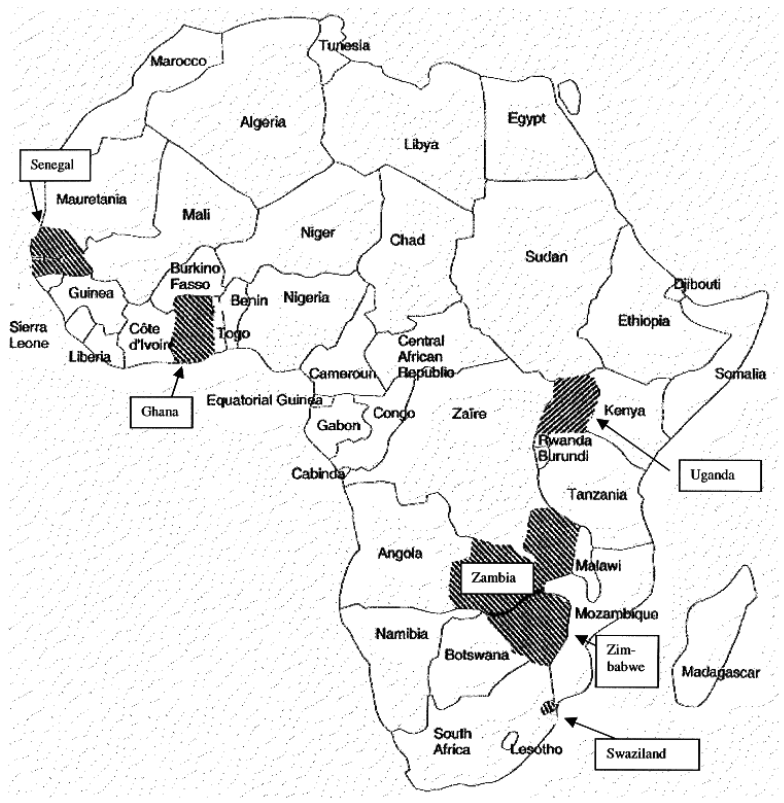
The study analyses the major elements of decentralisation from central to sub-national governments, e.g. fiscal, administrative (tasks and decision-making power) and personnel management (e.g. competence within the field of hiring and firing) decentralisation.

1.2 The African Context

The Study focuses on six African Sub-Saharan countries (indicated below) selected for their expressed commitment to decentralisation of the public sector.

[4] This is in line with the definition made by Richard M. Bird, Robert D. Ebel and Christine L. Wallice (eds.), *Decentralisation of the Socialist State, Intergovernmental Finance in Transition Economies*, Regional and Sectoral Studies, World Bank, l995, pp. 11-13. The term 'devolution' implies the transfer of responsibility and competence to democratically independent lower levels of government. This term is to be viewed as opposed to the term "deconcentration" that implies transfer of responsibility from central ministries to field officers at the local or regional level, thereby becoming closer to the citizens while remaining part of the central government.

COUNTRIES INVOLVED IN THE IBRD-STUDY



The Africa region is experiencing increased demand for infrastructure. This arises in part from rapid growth of rural and urban populations that require basic infrastructure for well being and productivity. Well-functioning infrastructure is also a pre-requisite for productive investment and economic growth. In most African countries, fiscal resources are woefully inadequate to meet these demands, and/or the fiscal arrangements are not appropriate for this purpose. In addition, the structure of inter-governmental fiscal relations often does not provide adequate resources or incentives for improving infrastructure and services.

Decentralisation efforts in the African region are shifting much of the burden of infrastructure management and finance to sub-national levels. Many SNGs are newly formed and lack the capacity to fulfil these responsibilities, cf. the key-information on the figure.[5]

[5] The data on the finance are drawn from the present Study on Fiscal Decentralisation and Sub-national Finance in Relation to Infrastructure and Service Provision (ISP) (1998-2000): Figures from Zambia is an average of l994-97, Uganda account fig. from (1997/98), figures from Swaziland and Senegal are from l997. Figures from Ghana are from l996.

PROFILE OF COUNTRIES INVOLVED IN THE STUDY

ZAMBIA

Population:
Total: 9.215 mill. (1996)
Annual growth rate: 2.8%
15-64 years age: 5 mill.
Above 64 years age: 3.7%

Local Government (LG):
Year of recent LG-reform: 1991
No of levels of LG: 1
No. of LG: 72
Average Population: 128,000
Average staff: 1133 (1)

Geography:
Area: 762,000 sq. Km.
Density: 12.1 inhab/sq. Km.
Vegetation: High Plateau Savannah
Climate: Tropical

Public Finance (revenues):
Total revenue share of GDP: 21%
LG revenue share of GDP: 0.8%
Sources of LG revenue: (97)
Own taxes: 21%
Transfers: 3.4%
Fees/charges: 23%

SENEGAL

Population:
Total: 8.534 mill. (1996)
Annual growth rate: 2.5%
15-64 years age: 4 mill
Above 64 years age: 4.6%

Local Government (LG):
Year of recent LG-reform: 1996
No of levels of LG: 2
No. of LG: 60 urban, 320 rural
10 regions
Average staff: 474 (1)

Geography:
Area: 197,000 sq. Km.
Density: 43.3 inhab/sq. Km.
Vegetation: Savannah Semidessert
Climate: Tropical

Public Finance (revenues):(97)
Total rev. share of GDP: 24%
LG rev. share of GDP: 2%
Sources of LG revenue: (97)
Own taxes: 43%
Transfers: 22%
Fees/charges: 23%

GHANA

Population:
Total: 17.522 mill. (1996)
Annual growth rate: 2.7%
15-64 years age: 9 mill.
Above 64 years age: 4.8%

Local Government (LG):
Year of recent LG-reform: 1998
No of levels of LG: 2 (2)
No. of LG: 110 Districts + units
Average Population: 159,300
Average staff: 540 (1)

Geography:
Area: 238,000 sq. Km.
Density: 73.6 inhab/sq. Km.
Vegetation: Rain Forest
Climate: Tropical

Public Finance (revenues): (96)
Total rev. share of GDP: 5.3%
LG rev. share of GDP: 2,5%
Sources of LG revenue:
Own taxes: 18%
Transfers: 64%
Fees/charges: 18%

UGANDA

Population:
Total: 19.741 mill. (1996)
Annual growth rate: 3.2%
15-64 years age: 10 mill.
Above 64 years age: 3.6%

Local Government (LG):
Year of recent LG-reform: 1997
No of levels of LG: 3
No. of LG: 1050
Average Population: 18.800
Average staff: 446 (1)

Geography:
Area: 236,000 sq. Km.
Density: 83.6 inhab/sq. Km.
Vegetation: Savannah
Climate: Tropical

Public Finance (revenues):97/98
Total rev. share of GDP: 16.1%
LG rev. share of GDP: 4.5% *
Sources of LG revenue:
Own taxes: 15%
Transfers: 66%
Fees/charges: 5%

SWAZILAND

Population:
Total: 0.926 mill. (1996)
Annual growth rate: 3.1%
15-64 years: -
Above 64 years age: -

Local Government (LG):
Year of recent LG-reform:
No of levels of LG: 1
No. of LG: 13
Average Population: 15.380 (1)
Average staff: 118 (3)

Geography:
Area: 17.000sq. Km.
Density: 47.1 inhab/sq. Km.
Vegetation: Savannah
Climate: Sub-Topical

Public Finance (revenues): (98)
Total rev. share of GDP: 33.8%
LG rev. share of GDP: 0.7%
Sources of LG revenue:
Own taxes: 71%
Transfers: 18%
Fees/charges: 6%

ZIMBABWE

Population:
Total: 11.248 mill. (1996)
Annual growth rate: 2.4%
15-64 years age: 6 mill.
Above 64 years age: 4.7%

Local Government (LG):
Year of recent LG-reform: -
No of levels of LG: 1
No. of LG: 81
Average Population: 138,860
Average staff: N/A

Geography:
Area: 390,000 sq. Km.
Density: 28.8 inhab/sq. Km.
Vegetation: Savannah
Climate: Tropical

Public Finance (revenues): (97)
Total revenue share of GDP:36%
LG revenue share of GDP: 3.0%
Sources of LG revenue:
Own taxes: 21%
Transfers: 33%
Fees/charges: 35%

(1.)Average staff in sample SNGs (unweighted average). (2) Ghana has a large number of sub-units from 1998, approx. 16,000 units, public elected. (3) Only urban areas, estimated to cover approx. 200,000 inhabitants with 13 SNGs.

As part of their decentralisation efforts, many African countries have begun to address *fiscal resource allocation and mobilisation*. This is an absolute necessity, but the Study has shown that public resources are clearly not enough. Considerable *private financing* is needed to meet the demand for infrastructure and services. In general, Africa has yet to attract significant private investment in commercialisable infrastructure (especially electricity, urban water, and solid waste), although some successes are starting to be registered.

To promote private sector participation, much more work needs to be done to ensure sound macro-economic fundamentals and good governance. Effort also needs to be made to develop capital markets and enhance the regulatory framework, institutional capacity and creditworthiness of utilities and local governments. In addition, the right mix of public financing (taxes, grants and user charges) is crucial for an efficient public sector.

Capital markets in African countries remain underdeveloped, and macro-economic stability, an essential requirement, is often lacking. Banking systems are weak and lack an effective regulatory framework. An enabling environment does not exist in most cases for long-term investments by social security agencies, pension funds and insurance companies.

Many governments are choosing to pursue decentralisation/municipal-strengthening programmes for a variety of reasons. The transfer of responsibility for local services to local authorities can help to limit demands on over-stretched central government budgets. Decentralisation can also allow a more efficient response to the needs of rapidly growing populations dispersed across extensive hinterlands. Broader government objectives to foster local democracy and accountability may also be supported through decentralisation processes, e.g. by bringing a closer relationship between the assignment of tasks and the financing of these tasks.

In recent years, multilateral and bilateral donors have also been broadly supportive of decentralisation initiatives in Africa and throughout the developing world. Many donors share the common objectives of linking enhanced service and infrastructure provision to the promotion of democratic processes and improved governance. Donors have naturally tended to focus their support on aspects of the decentralisation process that match their institutional strengths. Many bilateral donors have focused, for instance, on capacity building at the local level, legal and legislative reform and municipal administrative systems. IDBs have followed their comparative advantages by focusing on finance provision for key infrastructure and, increasingly, addressing market reforms required to mobilise private participation in provision of local services. In an increasing number of cases, donor support has been co-ordinated to assist government reform programmes more effectively.

The existing and proposed World Bank-assisted municipal infrastructure and strengthening projects in Sub-Saharan Africa encompass hundreds of millions of dollars in financing and include tens of millions of dollars required for complementary capacity building activities. To date, co-ordination among donors has been achieved by supporting country-specific projects. However, this approach has limited the scope of reform efforts, particularly in terms of promoting capital flow within the region into municipal infrastructure.

Among the diverse motivations and strategies of both governments and donors, the factors common to all decentralisation initiatives are the need for co-ordinated access

[6] Financial data are drawn from the present Study on Fiscal Decentralisation (1998-2000). Figures shown for Zambia represent the average of l994-97. Figures for Uganda date from 1997/98. Figures for Swaziland, Senegal and Ghana are from l997.

to finance for critical infrastructure and services in tandem with *capacity building* at the local level. Some regional studies in Europe and Latin America show that the transfer of responsibilities for tasks to the local level without a parallel transfer of financial responsibilities (or the opposite) may lead to inappropriate results.[7]

1.3 The Regional Approach and the Methods of Work

Sufficient experience around the world has now been gained to allow development of a more systematic definition of the types of reforms and modes of assistance required to support government decentralisation initiatives.

The countries in which the World Bank is active in the Sub-Saharan region are at various stages in the decentralisation process. Indeed, taken as a group, these countries comprise a virtual continuum of the steps necessary to build strong municipal governance and infrastructure delivery systems. Given the rapidly emerging regional economy, the common goals of each of these countries in terms of delivering infrastructure through strong local governments, and the successful country-specific co-operation of the Bank and other donors, it would appear that a *regional approach* to building local government capacity and developing municipal finance markets would achieve a number of key efficiency gains.

Primary among these potential efficiencies, the research should improve *information flow* and assistance to participating countries in the region. By drawing participating countries into a regional effort, individual reform efforts should be greatly strengthened by the sharing of information on specific activities being undertaken in different countries. In addition, a regional programme should provide a *focal point* for private investors seeking to invest and participate in infrastructure and service provision. Finally, a regional approach should allow more efficient programming of donor resources over longer time horizons.

A key element in organising a successful regional programme of municipal capacity building and financial market development is a definition of a reform framework that builds on regional examples, systematizes the key areas of reform and emphasises the interdependence of these reforms, leading to the desired ends. The first step of such a *framework* has been developed and is discussed in the following chapters. The framework contains indicators on the following five subjects:

- The division of tasks and responsibilities between various governmental levels and the general context for local governments, including the central government's commitment to decentralisation (Chapter 3)
- Municipal finance systems, including indicators on local government revenues, expenditures and inter-governmental fiscal relations (Chapter 4)
- Elements of well-functioning municipal infrastructure delivery systems and infrastructure investment inventories (Chapter 5)
- The regulatory and legislative environment (Chapter 6)
- The institutional framework and basic capacity building requirements, including civil service reforms (Chapter 7)

[7] One example of this is the World Bank Policy Research Working Paper, No. 1387, "Fiscal Decentralisation and the Size of Government", Jaber Ehdai, December l994.

Chapter 2 also contains an overview of international experience in the field of decentralisation, particularly as it relates to fiscal concerns. The elements of importance regarding local government infrastructure and service provision are dealt with separately, but are linked in the conclusions and recommendations presented in Chapter 8.

1.4 Indicators of Decentralisation[8]

As mentioned above, the analysis examines not only fiscal elements of decentralisation (e.g. revenue and credit possibilities), but also the institutional and regulatory environment for local governments and its interface with the financing of services and infrastructure. A large range of indicators covers different elements of decentralisation, although they are only partial measures of a complex system. Many of the indicators of decentralisation are interdependent and are assumed to have an impact upon each other. It is, for instance, not sufficient to have a large local government sector ratio in public expenses without a certain degree of influence and autonomy on the revenue and expenditure side. On the other hand, there is no value in having a high level of own expenditure decision-making power without some degree of control over the finance for services and infrastructure and access to stable revenue sources. The type and number of controls operating across levels of government are also key factors for measuring the level of decentralisation. Analysing the finance of infrastructure and services is necessary, but not sufficient. The regulatory and institutional framework must also be considered. It is, for instance, not appropriate to transfer all responsibility for service and infrastructure provision to local authorities that lack the human resource capacity to carry out their functions and to manage their financial autonomy.

There is no standard model for decentralisation applicable to all countries in the world or in the region. Appropriate decentralisation approaches have been initiated with different speed, form, content and procedure in various countries. Nevertheless, some major characteristics must be in place for decentralisation of government power actually to take place. Analysis of similarities and differences between country-specific decentralisation experiences should help identify practical solutions for making central/local government relations more efficient, effective and accountable to citizens. The indicators for decentralisation will be systematised in a final synthesis report for the six countries.

A regional framework for municipal strengthening and infrastructure investment aims at being useful as both an analytical and an organisational tool. At the analytical level, compilation of data on infrastructure investment requirements, municipal finance systems, and relevant reforms inform each of the participating countries of the *tasks ahead,* while, at the same time, allowing quantification of country-specific and

[8] The problem of available data should be mentioned here. No common system of compiling statistics in the field of local government exists worldwide. There are several systems, each with its own logic, but none of them currently approaches the issue of finance from the sub-national government viewpoint. Therefore, the data should be evaluated with great caution. Despite these problems, the inevitable imperfections of this project should not hinder a first step in development of measures for comparisons and evaluation of progress.

overall regional *needs for assistance*. On an organisational level, compilation of this framework should allow governments and donors to share information and programme assistance more efficiently over a longer time frame corresponding to each country's anticipated needs. It is also our hope that programming assistance on a multi-country or regional basis will provide greater flexibility to deploy resources in response to the rate at which key reforms are achieved in specific countries.

1.5 Finance and Organisation

A programme of the type described above is very ambitious. Therefore, the World Bank has identified a manageable *first step,* as embodied in its "*Fiscal Decentralisation and Sub-National Finance"* programme which has been approved for funding under the Danish Trust Fund and USAID. This programme, which covers analysis of decentralisation in six countries (Zambia, Senegal, Ghana, Uganda, Swaziland and Zimbabwe), has been carried out in co-operation between the World Bank, the National Association of Local Authorities in Denmark (NALAD), USAID and local consultants in each of the six countries.[9]

The programme has emphasised the involvement of local experts in all phases of the country analyses and close contacts with the central and local government levels. The system in each country is examined both at the aggregate level and by use of sample local authorities representing different types of sub-national governments. These sample local authorities have been analysed in-depth and compared with the aggregate data at the central level.[10]

The *second step* is a discussion of the results of a national workshop held in each country and involving stakeholders from all levels of government, donors and experts within the field. The major findings of the national workshop are summarised in Chapter 9. A Sub-Saharan regional seminar will be held in mid-2000. There, research findings for the six countries will be compared, and regional lessons drawn.

The *third* step will entail the preparation of a regional synthesis report. The regional synthesis report includes broader benchmarks and indicators of progress in implementing decentralisation programmes on a regional basis.

1.6 Executive Summary (Main Findings And Recommendations)

This Study has been funded by the World Bank and Danida and is based on a collaborative effort between the National Association of Local Authorities in Denmark (NALAD) and the Economic Policy Research Centre (EPRC), Uganda. The

[9] The World Bank and NALAD have coordinated the work in all six countries. The Danish Trust Fund has financed the majority of the costs in four of the research countries and a part of the costs in the two other countries. USAID has financed the majority of research costs in the two of the countries (Ghana and Zimbabwe) and supported the study within the Zambia and Senegal.

[10] Official statistics (IMF, OECD, national statistics etc.) combined with information from the sub-national and central governments has been used in the analysis. No single, unanimously accepted source of statistics for all countries in the world exists for finance, infrastructure and service provision of sub-national governments. Therefore, it has been necessary to adopt a pragmatic approach, where the official data have been combined with information available in the country and through experts at the central and local levels.

study is part of a larger Sub-Saharan Regional initiative, covering six countries (Swaziland, Zambia, Senegal, Uganda, Ghana, and Zimbabwe), with the following main objectives:

- identify priorities in each of the six countries regarding systems, procedures and processes of decentralisation;
- foster cross-national learning on best practices; and
- support private and public investors (national as well as international) in the identification of future needs for investment in infrastructure and service provision at the local level and for investment in capacity building in the field of administration and human resources.

The focal point of the Study is the sub-national governments (SNGs) and their environments in each of the countries.

The system of SNGs in Uganda has been investigated by using data and material from the central and the SNG levels. The findings are based both on sources at the aggregate level, such as figures for all SNGs, as well as on more detailed analyses of 10 selected sample SNGs in Uganda. The 10 sample SNGs represent various types of SNGs: cities, districts, municipalities, towns and sub-counties. The samples SNGs are Kampala City Council; Bushenyi, Kotido, Lira, Mukono and Rakai District Councils; Lira and Mbale Municipal Councils; Mukono Town Council: and Nama Sub-County.

The **overall conclusion** from the research is that the SNGs in Uganda are assigned a large range of infrastructure and service provision (ISP) responsibilities and that they constitute a comparably important share of the public economy. Within a very short time, Uganda has achieved one of the most decentralised and stable systems of SNG in the entire Sub-Saharan Region. A strong political commitment towards decentralisation and the use of a consultative process among stakeholders (comprising politicians in central government and SNGs, government officials, private sector representatives, donors, non-governmental organisations and the civil society) in the design and implementation of the legal framework have facilitated these results.

The decentralised system has functioned for a short time, and the improvement of ISP is still modest. The macro-economic stability and sustained economic growth have provided a good basis for further improvement.

The overall conclusion from the research is that the coverage of ISP at the SNG level poses a considerable challenge, as the prevailing coverage is far behind the needs of the population (approx. 50-60% of the needs are covered in the main areas of health, water supply, sewerage, sanitation, solid waste management, roads, etc.). Substantial progress has been made in education, and the priority to water supply has generated good results. In all functional areas, considerable efforts are required to ensure the sustainability of the improvements. Sanitation and solid waste management represent fields of ISP that require more attention in view of the heavy impact of less favourable performance on the health and living conditions of the population.

The history of decentralisation in Uganda is short (5-10 years). Many of the ISP functions stipulated in the Law are not fully devolved to the SNGs in terms of

financing of tasks, and implementation of some of these tasks is lacking. Some of the tasks stipulated as SNG functions in the constitution and in the Local Government Act are therefore still carried out by central government and NGOs or financed 100% by central government. Most sectors lack a full-scale realisation.

There are many reasons for these shortcomings, but some of the key factors have been that the gradual process of decentralisation has started with development of the political system, decentralisation of the tasks and responsibilities and establishment of a detailed and clear regulatory framework. In addition, a parallel establishment of a viable system of SNG finance has been lacking, including a clear system of compensation when tasks are transferred between levels of government, i.e. corresponding transfer of sufficient revenue sources. There has also been a lack of a clear revenue sharing mechanism between levels of government and discrepancies between responsibilities for tasks and their financing. An indication of the latter is that approx. 80% of the SNG expenditures are financed by sources other than SNG own revenues. Other constraints within the SNGs have added to these problems, both at political and administrative levels. At the SNG political level, the willingness to adjust revenues to expenditure needs has not always been available; and, at the administrative level, the capacity (to register tax payers, collect taxes, introduce systems to deals with defaulters, etc.), though improving, is generally still weak in most sector areas.

Another fundamental issue in relation to the mobilisation of financial resources and sustainability for maintaining and further improving ISP at the SNG level concerns the introduction of appropriate user fees and charges. In order to ensure ISP sustainability, it will be necessary to maintain a continued focus on the principle of cost-recovery in the financial processes and mobilisation of resources, formulation of a strategy and associated implementation plan for a further development of tariffs and user fees for various ISP components. The awareness of the population of the necessity of payment for services calls for much attention, as this issue is a prerequisite for private sector involvement in ISP. The development of methods for calculation and the registration and transparency of these user payments need to be addressed in parallel with this.

Both the central government and SNGs are aware of these problems, and policies and strategies have been designed in order to address some of the key problems in the near future. Key authorities and institutions - such as the Local Government Finance Commission (LGFC), the Decentralisation Secretariat and the associations of local authorities in Uganda - have facilitated dialogue between central and SNGs in the process of addressing the future challenges. Some of the most urgent problems - such as the question of revenue enhancement at the SNG level, fair revenue sharing between the levels of government, development of databases on SNG finance and decentralisation of the development budget - will be addressed through initiatives by the LGFC. A number of appropriate initiatives have been taken within the field of financial management and the relations between central and SNGs in the field of budgeting, e.g. initiatives from the Ministry of Finance on the Budget Framework Process and strengthening of the dialogue with the SNGs on the future financial conditions, especially the grants.

It is recommended that these initiatives be given continuous support if the second phase of the decentralisation is to be successful. Other supplementary initiatives are important, such as the establishment of a more formal and permanent forum for budget negotiations between the various levels of governments**.**

Below are only listed the main findings, conclusions and recommendations from the present study. See chapters 2-7, and especially the concluding chapter 8, for a more detailed treatment.

International Experiences with Decentralisation (Chapter Two)

Chapter Two highlights some of the international experiences with decentralisation. The analysis shows that there are many ways to obtain the most efficient level of decentralisation and the right mix between local autonomy, local capacity and the central government's need for co-ordination, especially in the field of finance. However, certain principles for revenues/expenditures and budgetary autonomy are generally accepted. Specifically with respect to the main chapters of this Report, a number of conclusions and recommendations are made below.

The Context of Decentralisation in Uganda (Chapter Three)

The findings of this Study should be considered in the context of Uganda's stable economic development from 1988 to 1997, with an average annual growth in GDP above 6% and an annual inflation rate of 7.4% from 1993-97.

Chapter Three reviews the structure of the system of government, councils' tasks and the official policy concerning decentralisation. The decentralisation policy in the country has obtained political support and commitment from the highest to the lowest level of government, cf. below:

Chapter Three:

Policy and objectives (central government)	Findings	Comments	Recommendations
Gradual transfer of real decision-making power (devolution) to SNGs in parallel with increase in the SNG administrative capacity Decentralisation as the guiding principle applied to all levels of government to ensure citizens' participation and democratic control in decision-making Develop a system of SNG with several layers (tiers) each with functions appropriate to their size and capacity and each with independent responsibility and finance Develop organisational structures tailored to local circumstances The central governments should play a regulatory, facilitation, mentoring and monitoring role of the decentralisation process	The Constitution of 1995 and the Local Government Act of 1997 constitute possibly the most detailed and comprehensive legislative framework in the Sub-Saharan Region, and they are generally perceived as appropriate instruments in the daily life of the SNGs The system of SNG is divided in urban and rural areas, each with several tiers of SNGs not subordinated to each other, but with separate functions and financial systems The Local Government Act provides strong support for decentralisation but lacks implementation in terms of the devolution of functions and fiscal decentralisation The major concern in the	The basic legislative framework has been developed but needs to be fully implemented and supported by certain guidelines, cf. Chapter 6 There is considerable difference between the law and the practise concerning the responsibility for the tasks The number of SNGs in Uganda is comparably large. The advantages of this great number of SNGs have to be compared with the disadvantages, in terms of lack of economy of scale, administrative capacity and co-ordination among many various units	Short term (ST)/ Medium Term (MT): Continue the gradual devolution of more tasks and responsibilities to the SNG along with increased finance and human capacity empowering initiatives (CG) ST: Focus on administrative and financial strengthening of the existing units rather that establishment of additional SNGs (MoLG) Strengthen the dialogue between CG and SNGs in the field of budgeting and finance, e.g. by establishment of a permanent budget co-operation forum based on the experiences from the Budget Framework Process (MoF) ST: At CG level, the signals regarding the extent of SNG autonomy should be better co-

	relationship between CG and SNGs is the field of finance; other areas are generally functioning well, including the relationship between the SNG councils and the Resident District Commissioner		ordinated, functions of various bodies clarified and a clear strategy for supervision and support of SNGs developed (CG, especially MoLG and MoF)

SNG: Sub-national governments, CG= Central government, ISP= Infrastructure and service provision, ST= Short term, MT= Medium Term, LT = Long Term, MoLG= Ministry of Local Governments, MoF: Ministry of Finance, LGFC: Local Government Finance Commission.

( ) shows the main responsible institution for the initiative.

Chapter Four: Sub-National Government Finance:

Policy and objectives (central government)	Findings	Comments	Recommendations
Establishment of strong and viable SNGs	The SNGs constitute a considerable weight in the total public expenditure and revenue accounts, i.e. more than 25% of the expenditures and 30% of the revenues. The share of the SNG expenditure, compared to total public expenditure, has tended to decline in recent years The analysis of the composition of expenses shows that recurrent costs account for the lion's share of the SNG expenditure (more than 80% in the period from l995-98), i.e. very limited funds for capital investments are available at the SNG level. In most SNGs, the wage bill constitutes more than 50% of the expenditures, and general public services constitute 21% of the total recurrent expenditure in FY l997/98 Education, health care and feeder roads are the main expenditure areas, accounting for 60%, 13% and 4%, respectively, in FY l997/98 The analysis revealed a severe lack of funding of ISP at the SNG level	Compared to other countries in the Sub-Saharan Region, the SNG share of the public expenditure and the GDP is very high (the highest among the six countries involved in the Study) The most significant expenditure area is education. This is in line with the CG policy where education has top priority The SNGs have stressed that the transfer of functions and tasks is characterised by severe imbalances with the *existing assignment of revenues*, i.e. that the SNGs have been assigned minor and non-stable, low yield revenue sources compared to their present tasks. A study has been launched by the Local Government Finance Commission to review this matter.	ST: The decentralised functions and services need to be *cost-evaluated* and matched with local government funding (LGFC and MoF) ST: The study on revenue sharing should be fully supported (LGFC, MoLG and MoF)
Decentralisation of the SNG budget in two phases: 1) Recurrent budget and 2) Development budget	Within certain pilot district, the decentralisation of the development budget has not yet taken place. Concrete plans and a strategies for this have been developed	The phased development seems appropriate	ST: Continue to support the coming programmes on decentralisation of the development budgets (CG, especially MoF)
Strong SNG revenue and large SNG autonomy on revenues	The increased proportion of conditional grants, combined with low local revenues, have restricted the SNG autonomy on revenues Own revenue sources constitute less than 25% although more in the larger cities and towns. User charges and fees have increased, but the share of the total revenues has remained comparable small The SNG exercise significant discretion within certain limits in	The urban SNGs have a higher share of own revenue sources but lack sufficient finance to provide funding for ISP investments The large variation in revenue from taxes suggests that a great potential exist. Sub-counties/districts, which have paid more attention to this matter, have improved their tax yields.	ST/MT: The effectiveness and *efficiency of tax collection, user-fees and charges* should be enhanced by streamlining procedures, including the establishment of a more efficient billing system and systems for coping with defaulting clients. Tax strategies dealing with the question of increasing tax base, defaulters etc. should be decided in the Council each year and made public. (MoLG and SNGs) ST/MT: Statistics on *tax collection* should be developed at

	setting taxes rates and user charges and fees, but these revenues constituted a comparably small share of the total revenues in the districts Graduated taxes and property taxes constitute the main taxes for the SNGs (graduated tax is nearly the only tax source in the rural areas). Local tax revenues have remained low in most SNGs Less than 60% of the present revenue potential is realised Donor support contributes significantly to the finance, although not equally distributed across the SNGs		both the central and SNG levels. In addition, a review and publication of best practises on SNG tax collection (valuation, assessment and collection) should be initiated. (LGFC/MoLG) ST: The central government should encourage the *updating of the tax base for property taxation,* possibly by financial incentives for carrying through a new and actual valuation in order to promote the justifiability of tax burdens among citizens. (MoF) ST: Adjustment of the entire *property tax system* and related legislation to be more suitable for better tax yield within the rural areas should be closely reviewed (LGFC/MoF) ST: The coming *study on SNG revenue enhancement* deserves the strongest support, as the present Study has confirmed a great potential for improved tax collection. The CG should support the SNGs in administrative development within areas such as valuation, registers, databases etc. (LGFC/CG) MT: In the medium term, the strengthening of the SNG tax revenue and strengthening of the local revenue base may lead to a reduction of the state transfers/changes in revenue composition at the SNG level.
Autonomy on SNG expenditures	There are few legislative constraints on the SNG's expenditure discretion (the SNGs should comply to the national development plans, they should balance expenditure with revenues, and a max. ceiling on 15% can be spend on expenditure related to the politicians/ boards/councils). Only the last restriction is anticipated as a real constraint As a small part of the SNG revenues is own revenues and as the conditional grants are increasing in importance, the SNG discretion on the expenditure composition is evaluated to decrease Capital expenditures/development budgets are still to be decentralised (apart from certain pilot projects in selected districts)	The rule, which stipulates that maximum 15% of the total expenditure can be spend on councillors, has been heavily criticised by the SNG politicians In some places, the resources are not available to finance the politicians in a proper way, whereas in other places the costs are biased towards allowances for the politicians compared to the real ISP needs.	ST/MT: A larger share of total SNG expenditures should be reallocated from *general administration* toward more customer-oriented ISP. The first step is a review of the present SNG structures in order to look for efficiency gains. (SNG/MoLG) ST: A detailed review of the whole area covered by the rule on ceilings on expenditures to politicians and boards should be initiated in order to reform the remuneration of the SNG councillors, e.g. by setting a fixed salary/allowance according to the size and demands of the territory (supplemented by other criteria) (MoLG)
Parallel transfer of tasks and functions and implementation of effective, efficient and equity-promoting system of central government transfers	The SNGs have stressed that the transfers of functions and tasks are characterised by severe imbalance with the existing assignment of revenues, i.e. that the SNGs have been assigned minor and non-stable revenue sources compared to their many tasks.	The general use of many conditional grants to fund decentralised services may erode the power of SNGs since they are reduced to being an implementing agency of central government programmes instead of being a policy making body, especially when grants are not negotiated. The tendency to	ST: The increased use of various conditional grants should be scrutinised and carefully reviewed and the objectives clearly spelt out. The balance of grants should favour a larger share of unconditional grants. The conditional grants are appropriate in some key areas, but the more than 15 vari-

	The equalisation grants have only been introduced from l999/2000 on a limited scale, and only covering the districts The conditional grants have increased much faster than the unconditional grants during the reviewed period, a fact that has restricted the SNG autonomy in decision-making The SNGs are only, to a limited extent, involved in the dialogue on the transfers from central government, e.g. decisions regarding the size, the procedures for the transfers, the timing, the criteria for distribution, etc. The transfers are made too late for proper SNG budgeting and budget follow- up.	transfer all additional resources to SNGs in form of detailed conditional grants seems to undermine local democracy and create unnecessary bureaucratic procedures and lack of cross-sectoral priority settings The unconditional grants should balance the transfer of additional functions to meet the costs of the decentralised functions	ous earmarked grants should be streamlined and new conditional grants introduced only after a close review of the whole area (LGFC/MoF) ST: The decentralised functions need to be cost-evaluated and matched with SNG funding (LGFC/MoF) The study, recently launched by LFGC on revenue sharing, should be fully supported both by CG and by SNGs (CG and SNG) ST: The equalisation grants in l999/2000 for the districts should be expanded and followed-up by equalisation grants to the urban authorities to address the horizontal inequalities (MoF) ST: The donor contribution should also be seen in the context of horizontal variations in expenditure needs and revenue capacity (donors) ST/LT: The grants formulae needs currently to be revised in order to promote more equity and efficient sharing of the limited resources (LGFC and MoF)
Establishment of good financial relationship between the central and SNGs	The SNGs are not involved directly in the co-operation and negotiations on the future budget framework (including central government transfers for the coming year). The present meetings are mostly of "informative" character	The expertise of the SNGs in this area could be made much better use of	ST: The right of SNGs to participate, in an appropriate manner, in establishing the rules governing the general *transfer of resources* should be expressly recognised. The *information flow* on local government finance between the levels should be strengthened (MoF) ST: The possibilities should be investigated for establishing a formal budget co-operation (or grant commission) forum where the central government and SNGs negotiate the future economy and seek consensus. The law should be respected and all conditions for transfers negotiated with the SNGs (MoF) ST: The present Budget Framework procedure with a dialogue between central and SNGs in good time in advance of the FY should be further developed by ensuring that the level and the distribution procedures for the final central government transfers are finally decided and (possibly legally backed) in sufficient time before the budget year starts in order to enhance the possibilities to make proper SNG budgeting (MoF)
Strong financial regulations and accounting manuals, including budgetary procedures and a well-functioning financial information	The study has revealed a number of remedies in the present financial control, accounting and budgeting procedures	A number of initiatives have been launched the recent years to address these problems, but the challenges are still great, and a	ST: The weaknesses discovered in financial control, accounting procedures, and in financial monitoring should be addressed

system	The study has also shown that many of the *accounts* have not been audited in recent years and that the accounts are often hard to compare and evaluate. This is a problem for all stakeholders, including the possibilities to become credit-worthy in the longer run The data on SNG budgets and accounts are scattered over a large number of institutions and not sufficiently co-ordinated	considerable effort is needed the coming years.	and further supported by the CG (MoLG) ST: Donor support should be better co-ordinated in order to avoid different accounting and audit systems being established, even within the same SNG, to comply to the rules of the donors. (donors) ST/MT: A strong emphasis should be placed on strengthening the *financial budgeting and accounting system* and procedures to bring them up to modern standards, achieve effective internal financial control and accountability, and ensure harmony between the requirements of the various key ministries. Audit of the SNG accounts should be strengthened as a part hereof.[11] (MoF/MoLG) ST: Establishment of a comprehensive database on SNG finance, accessible to all stakeholders and including all relevant statistics on revenue and expenditure, should be supported in a co-ordinated manner and such that all present available statistics are centralised. The key stakeholders should have access to this database (MoLG)

SNG= subnational governments, CG=Central government

Chapter Five: Infrastructure and Service Provision:

Policy and objectives (central government)	Findings	Comments	Recommendations
The SNGs should be the main provider of ISP, with a clear division of tasks and responsibilities in relation to the central government	The study has revealed that although the responsibilities are clearly defined in the legislation considerable over-lap exists at the level of control/management of the ISP, and insufficient co-ordination between the stakeholders is a general problem The contribution by the donors and NGO is not sufficiently co-ordinated There are often great differences between the basic legislation and practise in terms of responsibilities, competencies and finance of basic ISP	The SNGs in Uganda are responsible for a comparable large amount of ISP functions, although the most of the activities are carried out in co-operation (support from) with the CG	ST: The co-ordination among the different levels of government should be strengthened by the creation of a co-ordination framework and by strengthening the leading role of the SNGs in the co-ordination activities concerning ISP-components (CG/SNG) ST: Decisions related to *investments* in ISP that are the responsibilities of the SNGs should be made by the SNG councils and benefiting communities (CG) Development of service delivery standards should be supported in connection with better IPS monitoring system to evaluate the actual provision compared to stated objectives (MoLG)
The provision of ISP should be adequate to cover the most urgent citizens needs Strong commitment to rehabilitate and maintain basic infrastructure	ISP - comprising services like community amenities, education, health facilities and transport - is woefully inadequate to meet the basic demands and needs of the population		ST/MT: Both central SNG institutions should develop and implement comprehensive infrastructure development and maintenance strategies, including a clear policy for tariff setting within the *frame-*

[11] Part of this will be covered by the Local Government Budget Framework Paper (LG-BFP) process, which deserves full support.

	The enrolment in primary education has rapidly increased, but there is an acute shortage of classrooms, teachers and materials; in 5 out of 7 sample SNGs, the number of teachers is 25-40% below the satisfactory level 8 out of the 10 sample SNGs have only covered 40-50% of the basic needs within health care area The water supply has improved the recent years, but still 3 out of 10 sample SNGs have a non-satisfactory coverage of the basic needs The performance concerning sanitation/sewerage/latrine reveals a quite depressing picture, with most of the sample SNGs below 60% coverage of the basic needs Waste management in the urban areas covers often only approx. 40% of the basic needs There is a lack of comprehensive development and maintenance strategy; lack of placement programme for tools, equipment and machinery; and a rise in vandalism of public property		*work of a cost recovery principle*. The cost recovery issue should address the following elements: 1) adjustment for inflation effects, 2) current costs (e.g. for water, also covering the necessary purifying chemicals, etc. 3) the necessity for preventive maintenance and repair costs and 4) the depreciation costs in order to allow for re-investment. In order to counteract the non-affordability of full cost-recovery of the poor, systems of fee differentiation or special support to weak income groups should be introduced (MoLG) ST/MT: Central government and SNGs should develop a strategy and implementation plan for improving sanitation (including sewerage and latrines) and household waste management, including the introduction of user charges for financial mobilisation (CG)
The private sector should have a strategic and important role in the infrastructure and service provision at the SNG level	There is a very long way to go for a substantial involvement of the private sector in the ISP at the SNG level The absence of clear principles for user charges is one of the major constraints There is a lack of a clear strategy to involve the private sector in ISP	The experiences from the larger cities, e.g. Kampala City Council might be useful examples for some of the other SNGs	MT: A framework and strategy for systematic involvement of the private sector in ISP should be implemented by SNGs and developed in order to gather experiences concerning the possible contribution of the private sector in addressing local needs, better maintenance and responsibility for facilities (MoLG)
The ISP should be adequately financed, and the user charges/fees constitute an important part of this	Very few of the service areas are fully financed by user charges, and, generally, there is a weak connection between the costs of the ISP and the level of the charges. There is a clear lack of an enforcement strategy on user charges and a large number of defaulters. People, especially in the rural areas, regard most utilities (such as water and solid waste treatment) as free and will only contribute when there is a breakdown	The user charges constitute a comparable low share of the SNG revenues (compared to the Region and world-wide) The low affordability of the population sets strong limits on the size of the user charges/fees in various areas but the present potential is not fully used Many user charges are not registered in the SNG budgets and accounts – a fact which reduce the transparency and the accountability	ST/MT: Both central and SNG need to develop a clear policy for tariff setting within the framework of a costs recovery principle. The costs recovery issue should address the following elements: 1) adjustment of inflation, 2) current costs, 3) preventative maintenance and repair costs and 4) depreciation costs in order to allow for future re-investments. In order to counteract the non-affordability of the full cost recovery of the poor, systems for fee differentiation or special support to weak income groups need to be considered (MoLG/SNG) ST/MT: Awareness campaigns and the involvement of the political leadership in awareness building of the necessity for payment for these basic amenities constitute steps to improving performance of ISP (MoLG). ST: SNGs, in relation to ISP, should duly consider the preferences, affordability and willing-

			ness to pay of the citizens within their jurisdictions by adoption of a participatory approach in their decision-making (design, planning and implementation of ISP) (MoLG/SNG) MT: Projects aimed at developing better *accounting and budgeting procedures* within the major ISP areas should be addressed in order to establish a prompt and adequate user-fee revenue system. User fees should be registered in the SNG accounts (MoLG)

SNG= subnational governments, CG=Central government

Chapter Six: Regulatory Framework:

Policy and objectives (central government)	Findings	Comments	Recommendations
The legislative framework should be of support in the development of the Cg's decentralisation policy, based on devolution of power to the SNG level	The constitution of 1995 and the Local Government Act of 1997 constitute an appropriate and solid regulatory framework for the SNGs and few complaints from SNG have forwarded during the study The legislative framework has not been fully implemented within a number of key areas, i.e. there are severe discrepancies between the law and the reality The Local Government Act needs to be supplemented by a number of regulations and guidelines within important areas, e.g. within the field of planning There is a lack of regulations concerning the involvement of the private sector	The Constitution constitutes one of the world's most detailed guarantees for the SNGs and the principles of decentralisation in Uganda Unlike many other countries in the sub-Saharan Region, interference by CG in the daily life of the SNGs is not seen to be a major problem	ST: The Local Government Act should be up-dated currently and amended to reflect the present needs and requirements. The prevailing regulatory framework concerning the many different aspects of ISP requires that it be re-adjusted in order to create a comprehensive and non-conflicting administrative basis for the SNGs. The basic legislation should be supported by relevant guidelines and regulations (MoLG) ST: Strengthen awareness of the present legislation and dissemination of knowledge to lower levels of SNGs (MoLG)
Promote effective, efficient and sustainable SNGs by issuing of financial regulations and guidelines	The accounts and audit pro??cesses have shown severe weaknesses According to the Constitution, the conditional grants should be negotiated with the SNGs – in reality, this is often not the case The present financial regulations (1998) is a good working tool for many SNGs, but should be supported by other guidelines and manuals, especially also for the urban councils The property tax law/decrees lacks an up-dating as well as the regulations on the graduated tax in order to strengthen the revenue base of the SNGs The financial data is scattered over a large number of institutions and the system lacks co-ordination in terms of collection, processing, storing, etc.	The first appropriate attempts to address these problems have been made, but a clear agreement among the key stakeholders on the basic principles is very urgent.	ST/MT: The existing legal framework of Financial Regulations has to be fully implemented and supplemented by good practises, guidelines, manuals and auditing and store manuals. The regulations should be developed by the Ministry of Local Government (MoLG) ST/MT: The CG should be encouraged to fulfil its present obligation to negotiate the conditional grants and transfer of tasks with the SNGs (MoF) ST: The tax laws within the field of property and graduated taxes should be reviewed with a view toward enhancing the yield at the SNG levels (CG/MoF) ST: Stakeholders should create a central bank, especially for SNG financial data. Data should be stored and available to major stakeholders in the agreed upon formats, through electronic facilities to ease analysis, monitoring and evaluation. Standardisation of the definitions and formats should

			allow for comparison. It should be the clear legal obligation for all SNGs and relevant central government institutions to "feed" this data bank, and regulations for this should be issued (LGFC/MoLG)
Ensure efficient SNG administration and democratic development at the local level	One of the few restrictions on the SNG budgetary autonomy is the ceiling on the payment to the councillors (and other boards/political functions), i.e. 15% of the own revenues. This rule has been heavily disputed and is seen by the SNGs as a severe constraints in their daily life The present payment of allowances (various forms) to politicians, board members and others seems to be very cost heavy and time-consuming The districts service commissions are seen by all key stakeholders to be appropriate institutions, but lack funding for the implementation of their important tasks	The rules have to ensure a balance between the need to safeguard the system against political misuse of authority and SNG autonomy	ST: Regulations guiding the payment of politicians and members of commissions and boards should be closely reviewed in order to introduce more stable, fixed, affordable and fair compensation for time spent on these duties and better adjusted to the available SNG resources (MoLG/SNG)

SNG= subnational governments, CG=Central government

Chapter Seven: Institutional Framework:

Policy and objectives (central government)	Findings	Comments	Recommendations
The SNGs should have the power to manage their own human resources including the power to hire and fire as well as to supervise the efficiency of the CG staff deployed in their jurisdiction The function of the district service commissions are to safeguard, as intermediate institutions, between the councils and the employees in terms of hiring and firing and to safeguard against political manipulation and political appointment of civil servants	The district council, which is elected by universal adult suffrage, is seen as the highest political organ in the district The civil servants refers in reality to the SNGs The civil servants are appointed by the district service commissions, which are appointed by the district councils The district service commissions lack funding of the most basic tasks The sitting allowance of the district service commissions are very costly and time-consuming		ST: The operative functioning of the district service commissions should be strengthened by tackling the barriers associated with the present remuneration system for members- a system that enhance regular and responsive meetings corresponding to the needs of the SNGs (MolG) The payment system of politicians and members of various commissions should be reviewed in order to introduce a more stable, fair and less time-consuming administrative arrangement for payment, e.g. by establishment of fixed payment regulations based on size and numbers of duties, the size of the SNG. etc. (MoLG)
Support capacity building	A number of good initiatives within the field of training have been launched the most recent years The SNG lacks qualified staff in most key ISP areas The most severe lack of staff is within the area of finance and budgeting, especially the capacity to develop realistic budgets and control the expenditures The SNGs have difficulties in attracting staff due to low payment and poor logistical support The present man-power is unequal distributed across the SNGs	There seems to be certain overlapping initiatives among the donors in the field of training and lack of an overall training strategy	ST/MT: The possibility should be promoted for further development of the training centre for local government councillors and staff to conduct sustainable and ongoing specialist training within all sector areas. This training should be demand-driven (MoLG) ST/MT: The existing institutions involved in training - ULAA, UAAU and the Decentralisation Secretariat - should strengthen their ties and co-ordinate their activities more closely. SNGs should investigate the possibilities of undertaking training as a joint activity and establishing central (and regional) SNG training centres (MoLG/SNGs)

	There is still an acute and comprehensive need for training of politicians and administrative people at the SNG level		MT: Strong *budget, accounting and auditing units,* manned by highly qualified and competent personnel, should be further developed at the local level and financial management currently improved. The system and structure of financial management should be further upgraded, and the monitoring/auditing of performance improved. ST: The first step should be continued training and exposure to new technology and financial accounting systems (MoLG/SNGs) ST: Central government guidelines concerning the budgetary process and budget formats should be revised regularly. Books of accounts in councils and ministries need to be brought up to date, and the budgeting and accounting requirement from various ministries vis-à-vis the SNG harmonised (MoF/MoLG)
Streamline the public sector organisational structure, introduce result-oriented system with proper information exchange, improved personnel payroll systems, appropriate financial control etc.	"Ghost-workers" have been weeded out Tender boards have been established The administrative organisation has been streamlined at both central and local government levels Institutions in support of the decentralisation process such as the Decentralisation Secretarial and the Local Government Finance Commission have been established The long lasting and very expensive firing procedure is a constraint for reorganisation of the SNGs		ST/LT: The SNGs should up-grade their human resource function in order to improve the recruitment and upgrading capacity concerning general managers and key staff, especially within the technical areas (SNGs) ST/MT: The central government should be more supportive within the field of SNG tax administration, e.g. by issuing of guidelines, performance indicators, monitoring systems, by supporting valuation and information on best practises (MoF) MT: The SNG staffing levels need to be reviewed in relation to the decentralised functions and services and manpower gaps addressed, so that they may undertake the functions and services being decentralised. The SNG council should search for methods of hiring services of specialists and consultants whose jobs do not justify employing them on a full-time basis. but whose services may be required from time to time. The districts could co-operate among themselves to hire specialists on a contract basis (SNGs) MT: SNGs should develop their decision-making and administration along the lines of the concept of "*Good Governance*" by a systematic involvement of the citizens within their jurisdiction employing user-surveys, community participation and by delegation of management functional areas of ISP in accordance with target-oriented performance management (SNGs)

To pursue a bottom up planning procedure	The new District Land Boards lack management and qualified staff A number of districts have still not elaborated real development plans or developed these without use of the consultative procedure due to lack of financial resources Introduction of IT has begun in most SNGs, but there is still a need for large investments in this area	The attempts to use the development plans as a strategic tool is appropriate, but these plans are still in their infancy The absence of this type of information in most sample SNGs militates against the central and SNG's ability to respond accurately and promptly to incoming signals and emerging trends. The SNG's capacity for economic forecasting, programming and strategic planning also depends on the availability of timely and reliable data (data that might be established through the billing and revenue generating process).	ST/MT: The barriers related to decentralisation of handling of land requires a readjustment of the financial set-up and proper attention in order to support the physical planning and the development of the SNGs (CG) MT/LT: A supportive and effective sustainable *management information system* should be established in all SNGs that can provide accurate, reliable, timely, and user friendly data that is required, not only for organisational performance monitoring of key ISP indicators, but also for the broader aspects of policy analysis. Furthermore, the possibilities to share/reuse data (e.g. ownership-, property-, land-, and land-use files) among various ISP functions should be investigated and emphasised. The CG should support the establishment of such a comprehensive system and the linkage of information between levels of government, supported by the donor community (MoLG/LGFC)

SNG= subnational governments, CG=Central government

CHAPTER TWO

DECENTRALISATION OF THE PUBLIC SECTOR – OBJECTIVES, METHODS, AND EXPERIENCES

2.1 Introduction

The development of democracy and decentralisation at the local level has increasingly captured international interest, especially developing countries and Eastern European countries in transition. The main objective of this development is to improve public sector operations and thus contribute to the quality of life of citizens.

Decentralisation has been an important method of tackling many of the challenges of the nation states. These include increasing demands on public services, demographic pressure (more elderly and young people) and growing public expectations regarding the quality of services.

Decentralisation is characterised by public accountability, as the local self-government is subject to democratic control. Decentralisation allows citizens to participate in and influence the decisions made by the councils of local authorities. Decentralisation thus forms an important component of the development of democracy, as reflected in the *European Charter of Local Self-Government* adopted by the Council of Europe in 1985. The basis for decentralising public tasks and financing consists of several components, of which the following are of major importance:

- Local self-government denotes the rights and the abilities of local authorities, within the limits of law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population (art. 3.1.)
- Public responsibilities shall generally be exercised, in preference, by the authorities, which are closest to the citizens. Allocation of responsibility to another authority should weight up the extent and nature of the task and the requirements of efficiency and economy (art. 4.3.)
- Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers (art. 9.1) [12]
- At least a part of their own resources should be derived from local taxes and charges of which, within the limits of the statute, the local authorities shall have the power to determine the rate [13]

[12] European Charter of Local Self-Government adopted by the Council of Europe 1985. ”Own” resources means the ”possibility freely to dispose of”.

Decentralisation to lower levels of government is a complex phenomenon. It involves issues of finance, administration, control, regulation, reporting and accountability – all comprising part of the interrelationship between levels of government and with semi-public and private actors as well. The complex system of intergovernmental relations comprises the term **governance,** where "g*ood governance*" implies a focus on accountability for performance and results, i.e. the provision of services to the citizens in an efficient, effective and responsive manner. The shift from jurisdictional and procedural concerns to "good governance" marks a shift in paradigm that is of vital importance for the functioning of the public sector.

The importance of decentralisation can further be seen from the development in the democratic perspective of the European Union, where the role of local authorities is being strengthened. Recent amendments to the Treaty of the European Union state that the Union is one "in which decisions are taken as closely as possible to the citizens" – the so-called principle of **"subsidiarity".** This principle has also been the main strategy in other parts of the world and a guiding principle for many countries in development and transition.

Local and regional authorities in this way play a central role by having a close relationship to citizens and have greater influence on how democracy, efficiency and transparency develop. This ensures that the provision of public services is most responsive to local needs and conditions.

Most public services to households and enterprises are generally most efficiently provided by local government. Efficient decisions must be based on good information, and it can be very difficult at the central level to secure necessary information about local matters. Local government service provision also makes it easier to adjust the service level and quality to meet the expectations and needs of the citizens within a given area.[14]

Fiscal decentralisation is generally accepted as the way to enhance political, institutional and economic development. The economic benefits from decentralisation are difficult to quantify, but evidence in Denmark, Norway and other countries shows that there is a U-shaped relationship between average expenditure for administration and the size of the authority. This suggests that both very small and very large units are costly compared to those of medium size.[15] Evidence shows that local government in most countries with less than 5,000 inhabitants will generally be too costly to provide services at the local level.[16]

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[13] Alain Decamp: Working group on "The European Charter of Local Self-Government, Finances of the Local Authorities " (implementation of Article 9 of the Charter), Strassbourg, Oct. 21, l997.

[14] The argument for more efficient operation of the public sector was mentioned in the debates in the Nordic countries when local governments were legislated in the mid 19th century.

[15] Cf. e.g. in Kenneth Davey and Gábor Péteri: "Local Government Finance: Options for Reform", Nagykovácsi, l998, p. 19 ff.

[16] Kenneth Davey: "Political and Fiscal Decentralisation-Reforms in the Baltic Sea States – Proceedings of the Regional FDI Conference", Section on: Public Administration in Central and Eastern Europe, November 24-25, l999 Copenhagen.

Parallel to this development, the international community, especially donors, increasingly demand democratic progress and decentralisation by the recipients of aid, and of applicants wishing to join their clubs. Crucial in the development of a democratic society is the establishment of local authorities with elected councils, functions to perform and financial backing.

This Chapter describes trends in the development of the modern, decentralised public sector and some of the major *indicators* of decentralisation. The presentation primarily focuses on and trends in the OECD countries, but also provides a comparison to the situation in some of the Sub-Saharan countries involved in the research. This overview of international decentralisation experience, particularly within the field of local government finance, allows the results of the country research to be seen in a more global context.

Despite common decentralisation objectives among many countries and within international fora, the experiences have shown that the practical implementation of decentralisation and the time span required for it vary greatly from one country to another. [17]

In some of the OECD countries, the historic development took the form of federations of states with independent legislative powers. This occurred because people, for historical reasons, were unwilling to accept central authority, or because cultural and other differences made it impossible for them to live together in a unitary state[18]. The federal constitutions guarantee the rights of the member states to perform specific functions, and it secures their methods of financing. The federal countries often have strong anti-central attitudes, but decentralisation beyond the intermediate state level is left for the states to decide upon, and decentralisation to the local level is not impressive.

In the unitary countries, decentralisation was historically initiated by a centre and was driven by reasons of democracy and/or of efficiency.

Unitary and federal decentralisation policies are very different issues. Decentralisation in the federal sense is usually very clear and absolute, but this is rarely the case when unitary countries delegate functions.

The parliaments of unitary countries rarely decide to decentralise all of the functions suited for delegation to local authorities. Often, decentralisation has been viewed as being a more effective way to deliver centrally delegated public services than would have been the case with central provision. Countries torn by internal religious, ethnic, linguistic or other tensions often need to apply a federal model with an independent regional tier of government. Countries organised as unitary states may have internal divisions, and they may benefit from including features from the federal model in the organisation of local government. In both cases, to gain the benefits from efficiency

[17] The information about particular countries relates to a recent year. It has not been possible to check if reforms that are more recent have changed the situation.

[18] In the case of Germany, the allied forces imposed the federal solution after the war in order to prevent the re-emergence of a strong German state.

and democracy, decentralisation to the lowest level should not be neglected. The present study on decentralisation in African countries focuses on decentralisation to the lowest level, the towns and municipalities (and in some countries districts/regions), and not on federal solutions.

2.2 The Global Trend of Growth of the Public Sector, Financial Constraints and Conditions for Decentralisation

The role of the public sector as supplier of services and welfare benefits has constantly increased since the age of industrialisation, as witnessed by the development of tax ratios over the years. OECD records show that tax ratios (tax revenues as percentages of GDP) have increased since 1965 by half: from 26% to 38% (see T*able 2.1)*.

Table 2.1: Tax Ratios as per cent of GDP 1965-94, OECD Countries

Ratios in per cent	1965	1970	1975	1980	1985	1990	1994
OECD-countries	26.3	29.5	32.5	34.1	35.9	37.0	38.4

Source: Revenue Statistics. OECD. 1997.

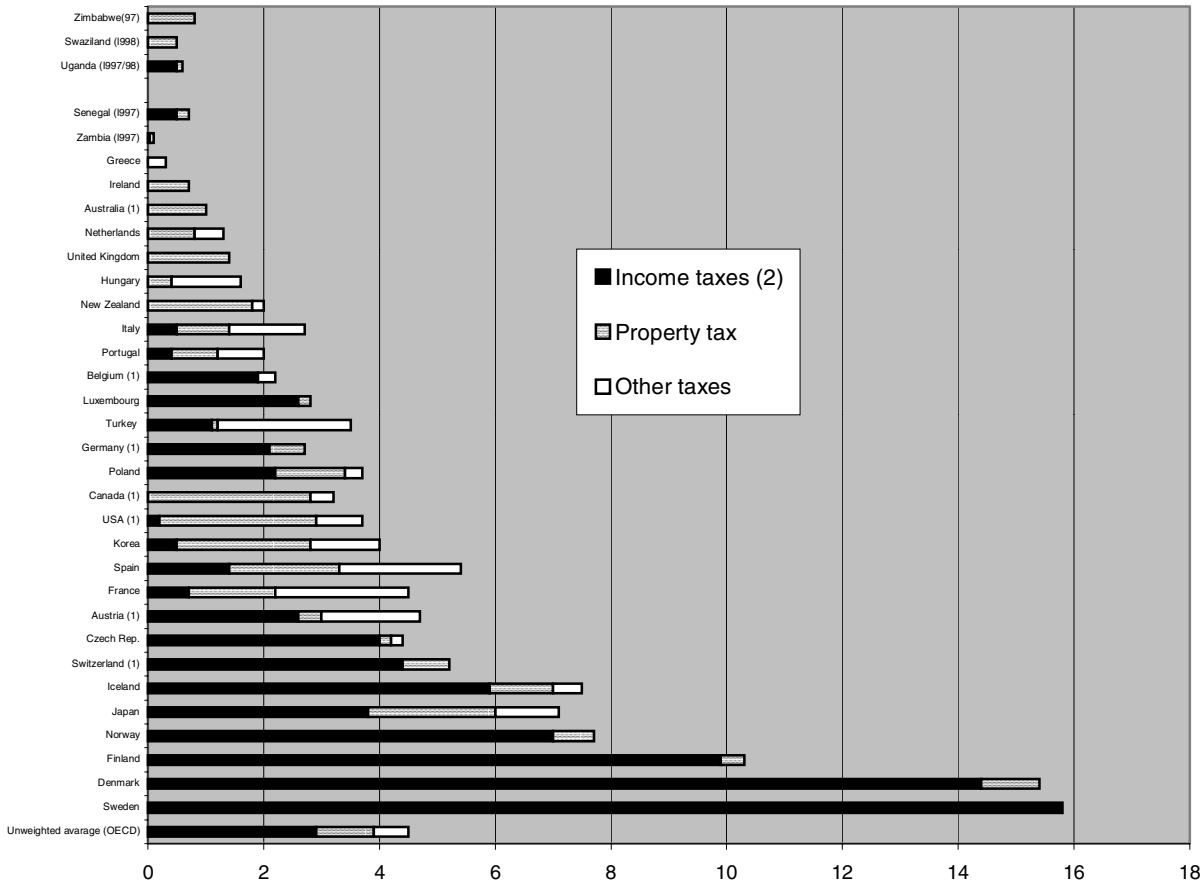
In this three-decade period, most countries have experienced a steady increase in demand for public services. The political willingness to meet this demand has prevailed within the concept of the welfare state, the result being a substantial increase in the provision of services. Among the most important reasons for the increased demand for institutionalised welfare services has been the trend toward an increasing number of elderly people in many countries and the longer duration of education combined with increased employment of women outside the home. However, there is no single, generally accepted economic explanation for this growth in public services. Income elastic demand, new knowledge and technology, imperfect organisation and decision making all have been shown to contribute.

One reason why it has been so complicated to explain the growth of the public sector is that it is not a direct result of the working of economic forces; rather, it is a product of political decisions. Any service may be public if it is politically decided that it is to be tax financed, supplied free of charges or subsidised. Therefore, the concept of public services is not given and not uniform between countries.

The importance of the *local government sector* is shown in Table 2.2, which indicates local government tax as a share of GDP (see also Appendix No. 1 to Chapter 2):

Table 2.2

Local tax revenues as per cent of GDP. 1997 for OECD countries and l997/98 for African countries



Source: OECD, Revenue Statistics l965-l998, OECD 1999. African countries: Data from the present Study on Fiscal Decentralisation and Sub-National Finance, collected from varies sources (unofficial data). Zambia, l997 figures, Source: Central Statistical Office. Swaziland 1998, Ghana 1996, Senegal 1997, Uganda 1997-98, Zimbabwe 1997.

The tax financing of services in any country is a political choice, and it is a political responsibility to ensure that taxpayers are only burdened with the cost of such services, and only for very good reasons. Welfare services and transfer levels for redistribution can be unrealistic when considering the economic capacity of the country. The result then becomes high taxes or inflation followed by low economic growth and a decline in available resources.

Decentralisation is sometimes seen as one way to create greater accountability in the public sector, e.g. a way to keep spending within the capacity to tax. However, experience from a number of countries shows that decentralisation may also take place under conditions of general financial constraints, where central government transfers responsibilities for public service provision to lower levels of government without a

corresponding transfer of financial means.

In many cases, there has been a tendency that the financing was not decentralised with the public service functions. In the post World War II decades, expenditure on public welfare services grew quickly in many countries, resulting in so-called "vertical im-balances" and the need for central government grants. The same process is now being repeated in several of the countries in transition in Eastern Europe, Asia and Africa. It is noteworthy that decentralisation in some Latin American countries seems to follow a reverse pattern: to guarantee decentralisation revenue before decentralising responsibilities.

Decentralisation can be a less painful way in the short-term for central governments to overcome national budget constraints and unbalances. [19] It can be justified to the extent that efficiency gains are generated by decentralisation of responsibilities. This again requires lower levels of government to be furnished with some degree of managerial and/or financial discretionary power and autonomy in order to be able to compensate by innovation, flexibility and adaptability to local needs and conditions. In this way, decentralisation can be seen as a major option for promoting "good governance".

The size and organisational structure of the public sector in any country is very much a result of political choice. However, data suggest that it is most likely that the public sector's role will increase for countries in early stages of development.

Therefore, the role of the public sector will remain one of the most important political issues in any country. The central and local governments´ ability to collect taxes is crucial to finance public services. The public sector of developing countries can be expected to grow with economic development. Developing countries must prepare their institutions so that this development is efficient, government spending is controlled and resources are mobilised. Decentralisation is one way to mobilise needed resources and improve performance.

The benefits of public expenditures have to be carefully weighted against their costs. Poor management and wasteful misallocation in the public sector can easily result in stagnation of the whole economy, popular mistrust of politicians and increased levels of tax non-payment. These risks can be minimized under certain conditions by decentralising the public sector and thus mobilising local populations to scrutinize and control the level of expenditure and taxes.

An inefficient public sector will not become efficient by decentralisation alone. First, problems of control/supervision and of local organizational and administrative capability must be solved. The need for justice must be satisfied, legal rights

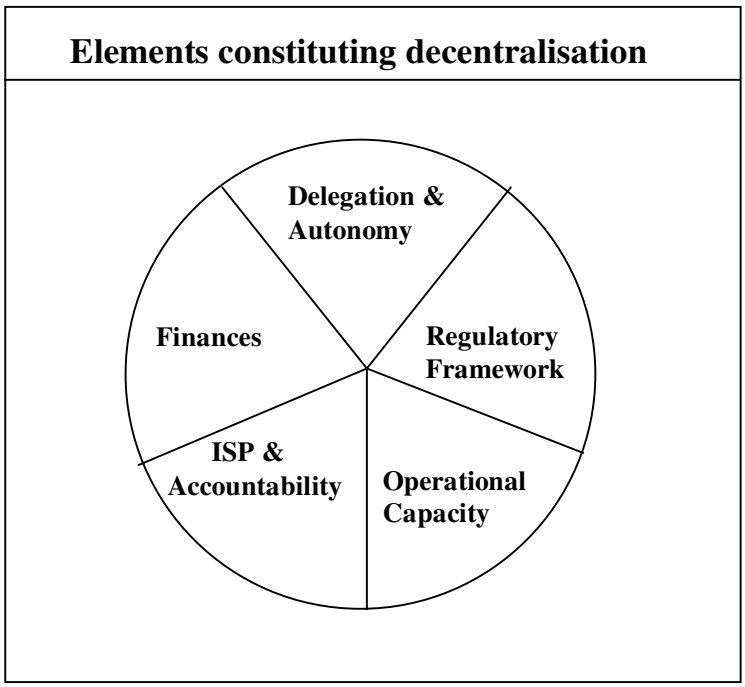
[19]. Unfunded mandates may also preclude the implementation of legislation and new tasks and jeopardise cordial central/local government relations. . This has especially been the case in a number of Central and Eastern European countries (in transition), where many tasks have been transferred without sufficient finance, cf. Ricard M. Bird, Robert D. Ebel, and Christine L. Wallish (editors), "Decentralisation of the Socialist States, Intergovernmental Finance in Transition Economies, International Bank of Reconstruction and Development, Regional and Sectoral Studies", 1995.

guaranteed and democratic controls established[20]. Related efficient administrative systems such as budget and accounting systems, indicators for services provision/performance, and audit and tax systems should be developed as well. Without these conditions, decentralisation of the public sector cannot serve its purpose.

2.3 Indicators of the Decentralisation of the Public Sector

The major elements constituting decentralisation of the public sector are shown in the figure below.

Figure with Indicators



ISP = Infrastructure and Service Provision

2.3.1 Delegation, Responsibility and Autonomy

Some of the necessary indicators of decentralisation are the relative sizes of local government revenues and expenditures.

2.3.1.1 Decentralised public purchasing power by disbursements and actual local government consumption

The extent of actual decentralisation is difficult to describe, but one of the first appropriate indicators is local government expenditure. An analysis of public

[20] These issues are central in the IBRD World development report 1997, which concludes (pg. 162) that ”strengthening the rule of law must be a vital first step” For African development.

expenditures shows that only four of the eighteen OECD countries allocate less than 7 per cent of GDP to local government (see the tables below).

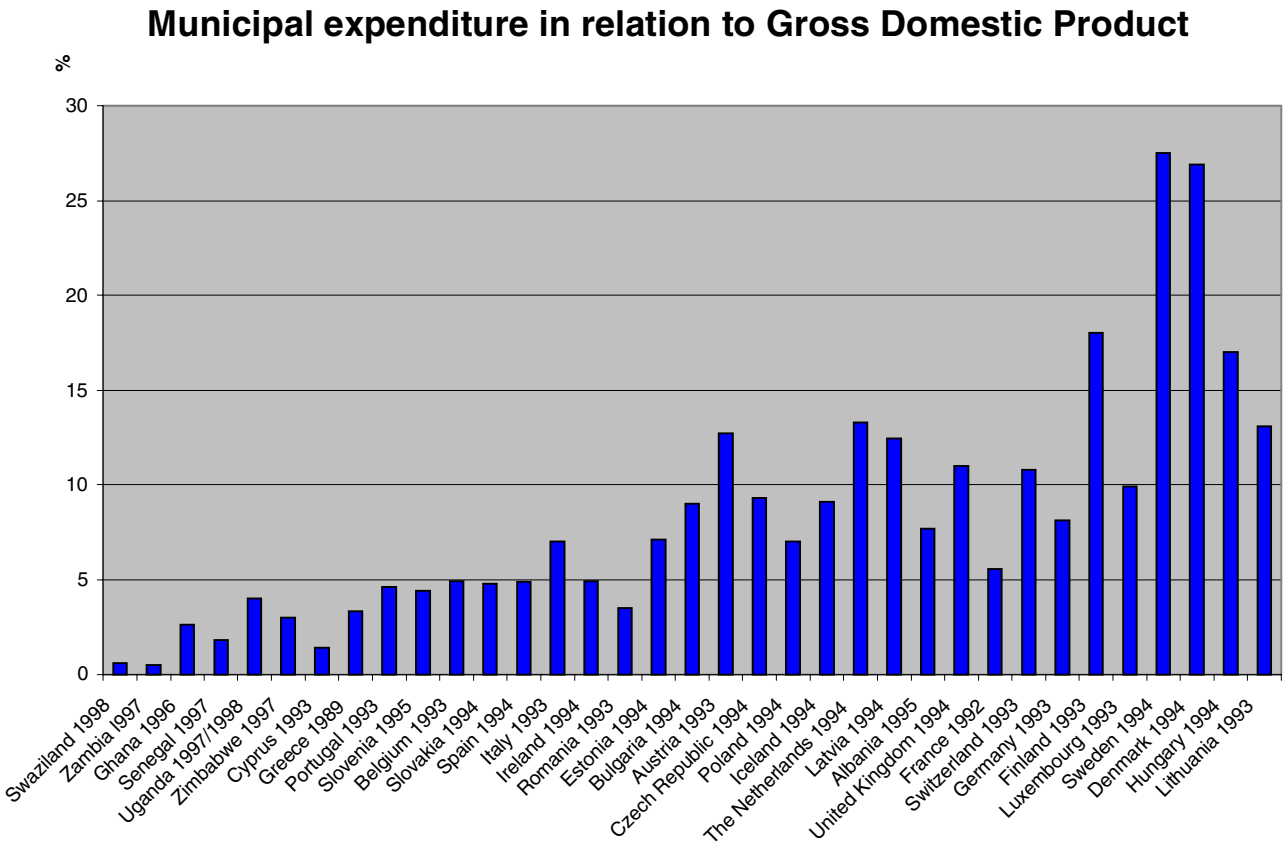
Table 2.3: Local Government Disbursements as per cent of GDP (1995)

	Disbursements	Consumption
Zambia (1997)	0.5	
Senegal (1997)	1.8	
Ghana (1996)	2.6	
Uganda (97/98)	4.0	
Swaziland (1998)	0.6	
Zimbabwe (1997)	3.0	
OECD-countries:		
Australia	4.1	0.0
Austria	7.1	3.7
Belgium	7.0	4.4
Canada	11.2	8.9
Finland	18.4	14.4
Denmark	24.4	17.5
France	7.9	5.1
Greece 94	3.8	3.2
Germany	5.8	3.8
Iceland	7.7	5.3
Ireland 94	10.6	7.7
Italy	12.0	7.5
Japan	12.8	7.4
Korea	10.1	4.8
Netherlands	14.0	6.9
Norway	16.9	12.6
Portugal 93	3.9	2.9
Spain 94	9.8	6.2
Sweden	22.2	17.8
UK	10.1	7.3
US 93	13.7	9.5

Source: The table is based on OECD National Accounts Statistics. The figures show net of fees and charges. The figures from the Sub-Saharan countries are of various sources and from the Study and should be treated with due caution. Zambia: Data from 1997, Source: Ministry of Finance. The concept of local government includes provinces and regions, but not the state level in federal countries. For Australia, the OECD figures have been adjusted to exclude state finances.
Disbursements include: Transfers as well as service expenditure. For Denmark, agent-type transfers have been deducted from the OECD figures. Capital expenditure is not included.
Consumption is local government salaries and purchases. The figures for the African countries are derived from the present research (different sources), and a direct comparison should be made with great caution. Figures for the African countries are drawn from the case studies on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provision and not from official figures. Senegal: 1997 figures based on extrapolation. Uganda 1997/98 figures and Swaziland 1997 figures.

Table 2.4 below shows local government expenditure in relation to central government expenditure:

Table 2.4: Local Government Expenditure in Relation to Central Government Expenditure



Council of Europe, "Local Finance in Europe", No. 61, Strasbourg, l997. Only the municipal level of local governments. Figures from African countries were collected as a part of the study on Fiscal Decentralisation and Sub-National Finance, l998-2000 (unofficial figures) and include all sub-national governments. 1) Figures from DK include expenditures, which are 100% reimbursed by the State.

Developing countries seem to have a lower local government share of the GDP and of total public expenditures. This tendency has been confirmed by the present study. An example is Zambia, where the local government expenditure only constituted approximately 3% of the total public expenditure in l997.[21]

Such figures are, of course, only a first step in comparing the differences between countries. For example, tightly controlled countries, such as Japan, may rank higher than justified by the actual degree of decentralisation. In the Netherlands, the high figure for local government expenditure is very much due to decentralisation towards private non-profit organisations/associations and not to democratic local authorities. This pattern is also seen in El Salvador, Bolivia, and a number of the research

[21] Data are from the Study on Fiscal Decentralisation and Sub-National Government Finance. The figures are based on data from the Ministry of Finance in Zambia.

countries. It is clear that an analysis like this has to be supplemented by other indicators of autonomy as well. [22]

2.3.1.2 The decentralisation of tasks and responsibilities across levels of government

Local Government responsibilities for the provision of public services vary greatly from country to country. These responsibilities are in some countries decreed by the constitution, in others by separate legislation and in a few by a presidential decree. The responsibilities could be fully decentralized or they could be decentralised in some cases and shared among different levels of government in others. Furthermore, the distribution of responsibilities can be seen in close relation to the issue of the degree of autonomy concerning specific responsibilities. Information concerning distribution is not available in a systematic way for all OECD countries, and, accordingly, the table below only includes countries with available information.

Table 2.5: Local Government Responsibilities[23]

	Education	**Health**	Social Security & welfare	Housing	Community amenities	Recreational & cultural affairs	Economic services
Uganda	S	S	S	SG	SNG	SNG	SNG
Senegal	S	S	S	S	S	S	S
Ghana	CG	CG			S	S	S
Swaziland	CG	CG			CG/SNG	CG	CG
Zambia	CG	CG	S	S	SNG	NA	SNG/S
Zimbabwe	S	S	S	S	SNG	S	SNG
Latvia {1}	S	S	S	S	S	S	S
Austria {2}	S	S	S	SNG	S	S	S
Belgium {2}	SNG	S	S	SNG	SNG	S	S

[22] One example of very controlled functions recorded as local expenditure is Japan, where functions delegated to local authorities until recently have been regarded as central expenditure disbursed by local authorities ("agency delegated functions"). Another example is Slesvig-Holstein, a German land, where decentralisation of the schools only means that the local authorities can build the schools. The Ministry strictly details everything taking place inside the schools. Chapters 6 and 7 explore these indicators further.

[23] The table shows where the **major** responsibilities are assigned. Within each category, some minor tasks may be carried out by another level. The following sources have been used to complete the table:

2nd Questionnaire on the Responsibilities of Local Authorities" contributions from Country Experts to the Council of Europe's Working Group on "the European Charter of Local Self-Government"

"Regional and Local Government in the European Union" by the Committee of the Regions: Sub-Commission on Local and Regional Finances, February 1996.

"Strategy Development on Decentralizing Public Administration Structure", by VNG: Association of Netherlands Municipalities, 1996.

"Kap. 7: Opgavefordelingen i andre lande – Opgavekommisionen" by the Danish Minister of the Interior, October 1998.

"Managing Across Levels of Government", OECD Report 1997.

"The Reform of Inter-governmental Fiscal Relations in Developing and Emerging Market Economies" by Anwar Shah: The World Bank's Policy and Research Series no. 23, 1994.

"Nordic Local Government" by E. Albæk, L. Rose, L. Strömberg and K. Ståhlberg: The Association of Finnish Local Authorities, Helsinki 1996.

Denmark {1,3,4}	S	SNG	SNG	SNG	SNG	S	S
Finland {1,3,4}	S	SNG	SNG	SNG	SNG	S	S
France {3,2}	S	S	S	SNG	SNG	S	SNG
Germany {2,5}	S	S	SNG	SNG	SNG	SNG	S
Iceland {1}	S	S	SNG	S	SNG	S	S
Ireland {2}	CG	CG	CG	SNG	SNG	S	S
Japan {5,6}	S	S	S	SNG	SNG	SNG	S
Netherlands {1,2}	S	S	S	SNG	SNG	S	S
Norway {3,7}	S	SNG	SNG	SNG	SNG	S	S
Portugal {1,2}	S	S	S	S	SNG	S	S
Spain {2}	S	S	S	S	SNG	S	S
Sweden {1,2}	S	SNG	SNG	SNG	SNG	S	S
UK[24] {1,3,2}	S	S	S	S	S	S	S
US {5}	S	S	S	S	SNG	SNG	S

The tabulation comprises: CG=Central Government, S=Shared & SNG=Sub-National Government.

Comparisons of functions delegated to various levels of governments show a surprisingly uniform pattern between countries. The difference between a highly decentralised country, with strong local authorities and a high degree of autonomy, and a very centralised one is seen, not so much in the number of functions delegated, but in the degree of freedom left to local authorities to decide which services to offer their citizens and how to implement such services.

The basic local functions - sanitary measures, road maintenance, street lighting etc. – have traditionally been purely local services financed out of local fees, charges and taxes. As far back as 200 years ago, the responsibility for redistribution responsibilities like free schools, poverty assistance, and care for the poor and sick was also in several countries delegated to local authorities.

The latter type of expenditure has been growing in importance with the development of the modern welfare state. Where these responsibilities are delegated to the local levels of government, disputes arise on who has the responsibility and the power to decide. The problems arise not only in the case of primary schools, but it has proven difficult to distribute functions like social assistance and health. A study of the EU countries has shown that local governments in all EU countries are responsible for physical planning, public health control, waste collection and disposal, parks and open areas, recreational amenities and culture, public transport and some social services (including services for elderly people and child care). The degree of local government responsibility for other services varies between countries. [25]

[24] Northern Ireland is not included as it differs too much from the rest of UK. Another particularity in UK is that many services are not the responsibility of sub national governments but are provided by agencies of central government e.g. water supply, post-16 education, urban development; housing and the provider of these and other responsibilities varies from region to region in UK.

[25] Kenneth Davey and Gabor Peteri (ed),"Local Government Finance- Options for Reforms", Oct. 1998, Local Government know how programme, p. 12.

The issue of distribution of functions by level of government is now under discussion in several countries. For example, commissions have been set up in Denmark and Norway. In Sweden, experiments are being made with new types of enlarged regions.

One lesson to be drawn is that central Parliaments, generally speaking, are only willing to delegate a share of their responsibility for the supply of free public services in the modern welfare state. These services are dependant on what counts at the ballot, and they are the issues picked up by the press in its search for "stories".

The unwillingness of central Parliaments to share their powers with local authorities may also express political resistance against democracy. Decentralisation means that they have to share their influence regarding government expenditures and taxation.

2.3.1.3 The Decision-Making Power of Local Authorities: the Degree of Autonomy at the Local Level

Decentralisation is a means of distributing political power. It has now been strongly established in former communist countries and in countries like Belgium and Spain. As early as the mid 19th century, the Scandinavian kings formed coalitions with local authorities to counterbalance the power of the nobility.

Political decentralisation depends on the central government's willingness to allow for local differences in service levels, and the two issues tend to merge into one.

Countries with strong anti-centralist traditions, such as the USA, prefer decentralised solutions. This is true of federal countries concerning the distribution of functions between the central and the state level – but not between the state and local authorities. Table 3 suggests that the federal countries, which developed on the idea of decentralisation, are generally not those that delegate most to the local level.

It can also be seen from Tables 2.3 and 2.4 that none of the large countries are among those most decentralised. The distribution of functions to different levels of government is a highly political question. Because large countries typically have histories of minority suppression, they have needed strong central governments to create stability. Such countries seem to have two ways to go: they develop either federal solutions or centralist traditions. In the latter case, the tables indicate that they typically prefer comparatively centralist arrangements.

As mentioned above, there are economic gains in efficient decentralisation. However, decentralisation is also a political question, and there is no "right" way for any given country to decentralise.

The issue of autonomy is related to the, often quite complex, degree of discretion that local authorities exercise in their various functions and responsibilities. This issue is also tied to the main reasons for decentralisation of the public sector: to increase overall efficiency and effectiveness by allowing local authorities (with a close relationship to the people), to improve responsiveness, accountability and performance of service production and delivery. In many countries, dynamic and

innovative leadership of some local authorities has been used to find new ways and means of generating improved efficiency in the handling of functions.

Several elements can be used to describe the degree of autonomy of local authorities. One of these concerns the possibility for the central government to withdraw or limit the discretionary power of the lower level of government. The constitution of some countries protects the discretionary power of local governments. Another element concerns their potential command over self-generated resources: the share of and nature of own taxes, decisions regarding taxation rates and the establishment of the tax base, and the power to apply user charges and to borrow money. A high degree of autonomy is experienced in the Nordic countries, France and United States, whereas this kind of financial autonomy is quite limited in the Netherlands and Ireland. [26]

Autonomy can be seen in connection with central governments´ overall objectives for economic policy and for the equitable provision of public services nationwide. In order to balance local wishes for autonomy with these national objectives, many countries have adopted minimum standards for different types of public services. These minimum standards have been established by considering the viewpoints of the local authorities and by involving associations of local authorities in their elaboration. A number of countries have established various fora for co-operation concerning the establishment of guidelines influencing decisions of local authorities in the field of own taxes, local expenditure targets and related matters. In this regard, associations of local authorities often play a major role.

2.3.2 The Operational Capacity Reflected in the Structure of Government Related to Number of Levels and Sizes of Local Authorities

2.3.2.1 The Municipal Level

Two traditions of local government structure can be identified. There is the British tradition of ad-hoc authorities, developed at the end of the 18th century in response to new urban needs following industrialisation. Special boards were created for paving roads, street lighting, police and garbage removal. Later, these functions were gathered under multi-purpose districts and counties. The *single purpose* model for local government has survived, for example, in the United States, where numerous elected boards, each with its own specialised functions and financing, are common. An advantage of this model is the close democratic influence on the public service delivery and the economy of scale that is often achieved. Some of the disadvantages are the lack of overall priorities, the lack of co-ordination and accountability, the lack of simplicity and the obscured visibility of the tax rates.

The other tradition is a *multipurpose* local government organisation developed out of very old local structures. These were mostly church districts or central subdivisions created and staffed by the King for control purposes that subsequently evolved into authorities with locally elected councils to handle the joint affairs of the local population.

[26] Alan Decamp (editor), Working Group on The European Charter of Self-Government", Oct. 1997.

The social pressures shaping local governments, however, were the same in both cases: migration to the cities paired with growing expectations regarding the level and quality of free welfare services since the world war required newly structured and organised local governments.

Century-old units have become depopulated and unable to meet the demands of the new age, and large reductions in the number of local units have taken place. Figures have been collected for different countries by the Council of Europe (see *Table 2.6).*

Table 2.6: Number of Local Authorities, 1950 and 1992

COUNTRY	Reduction in number since 1950. Pct.	Number 1992	Average size 1992	Per cent less than 10.000 inhabitants 1992
Zambia (l999)		72	140.230	Very few SNGs
Uganda (l999)		1050	19050*	Few of the sub-counties
Swaziland (l999)		13	15000**	Many of the rural SNGs
Senegal (l999)		433	214780	Many of the rural districts
Ghana (l999)		110*** + 1800 urban/Zonal councils and 16000 unit com.	N/A	Many of the lower tiers of SNGs
Zimbabwe (l999)		81	145680	Few of the rural SNGs
Council of Europe Countries				
Austria	42	2301	3340	91.5
Belgium	78	589	16960	17.3
Bulgaria	88	255	35000	8.2
Czech Rep.	44	6196	13730	95.7
Denmark	80	275	18760	6.9
Finland	16	460	10870	49.5
France	5	36763	1580	95.2
Germany	67	8077	4925	84.0
Greece	1	5922	1700	96.7
Iceland	14	197	1330	96.5
Italy	plus 4	8100	7130	72.9
Netherlands	36	647	23200	11.2
Portugal	plus 1	305	32300	8.5
Spain	12	8082	4930	86.2
Sweden	87	286	30040	3.1
Switzerland	3	3021	2210	92.0
UK	76	484	118440	N/A.

Source: The size of municipalities, efficiency and citizens participation. Council of Europe. Local and regional authorities in Europe, No. 56. Council of Europe Press, 1995. Data from the African countries has been collected during the study on Fiscal Decentralisation and Sub-National Finance, l998-2000. Senegal figures includes 43 arrondisements

*, Uganda: The 45 districts are very large, all with more than 100.000 inhabitants, but the lower tiers of SNGs are characterised by smaller units.

** Swaziland: Only the urban population is estimated to cover approx. 20% of the country, i.e. approx. 200,000 inhabitants.

*** *Ghana has a great number of smaller SNGs under these district assemblies, cf. the country study. The system was introduced in l998, and is still not fully implemented*

Since 1980, the move towards larger units has slowed, and only very few recent examples can be found. One example is the reforms in Scotland in 1992. These were part of a large change of power for the Scottish office, and as the existing local government structure was quite new, deep-rooted feelings of belonging had not yet been established. In Central and Eastern Europe, a large number of smaller local

authorities have been established in connection with the transition, which has created some problems of fragmentation. [27]

In Africa, many new units have been established in the last 20-30 years, e.g. in Zambia, Uganda, Ghana, Senegal and Swaziland.

Although efficiency gains may be achieved through amalgamations of local authorities, political resistance at the local level has been significant; very few reforms have been implemented without an element of force from the central government. This may explain why the speed in conglomeration seems to have been reduced by the modern political climate and the increasing powers of the media, both of which have made reforms against the will of the local people more difficult. Instead, the structural reforms have been supplemented by trends toward making a split between, on the one hand, local authorities as providers, and, on the other hand, the public institutions as more or less independent – perhaps even private - suppliers. There are countries (Germany and the Netherlands) where associations and non-public organisations are responsible for many of the decentralised functions: for example, social welfare and health. Another possibility is to join in different forms of inter-municipal cooperation arrangements[28].

It can be seen from Table 2.6 that in some cases small units were maintained in thinly or unevenly populated countries (Finland, Iceland, Norway and perhaps Austria, Greece and Spain), though the example of Sweden demonstrates that this need not necessarily be the case.

Reforms have not been implemented on a major scale in countries such as France, Italy, and Germany, and there has been convergence between contrasting traditions in recent years. In the latter case, reforms have been implemented in some länder, while others have refused reforms. Recent reform efforts in France have failed because of political resistance.

The question of the optimal size of local authorities has been a subject of concern to local government experts in recent years. Evidence gives no clear answers, but many investigations indicate that local authorities with less than 5,000 inhabitants have increasing costs and declines in efficiency with their present tasks and functions. Results from investigations give no clear answers in the case of local authorities with over 5,000 inhabitants.

2.3.2.2 The Middle Tier

Many counties have established an intermediate level of government between the central government and municipalities. Sometimes, these are merely local representatives of the central government [29], and, in federal countries, the state level

[27] In some countries (for example, Latvia and Estonia) there are still ongoing reform plans with the aim to reduce the number of local authorities.

[28] This is very common in countries such as Netherlands and Finland, but is experienced in almost all European countries.

[29] Nearly all countries have a certain central government presence at the regional level, and many countries also at the local level. A good example is Senegal.

often has legislative powers similar to that of the central government. Such authorities are not local authorities. However, in a number of countries there is a local authority placed between the central and the municipal levels. As to the responsibilities of the intermediate authorities, there are two models.

One model is the Nordic model (Denmark, Finland, Iceland, Norway, and Sweden), where the intermediate level consists of units so large that they can handle functions for larger population units than exist at the municipal level. This is also the model in some African countries such as Senegal. In Senegal 10 districts were established in 1997 to conduct some regional tasks, e.g. regional planning. The units of the intermediate level are in this model parallel to the municipalities, though with different responsibilities. In most cases, they have their own elected boards. In other countries (Belgium, Finland, the Netherlands, and Spain), small local units co-operate in the provision of local services. The role of intermediate government in the Nordic countries is under discussion, especially with regard to hospital service.

Another model is an intermediate level of regions overseeing and controlling local authorities (Belgium, France, Italy, and Greece). They may even include elements of ministerial regional administration and, in this way, become one of the possible instruments of central control. This is a very common model in a number of African countries, e.g. in the so-called prefect systems.

There has been a number of recent reforms creating a regional level of government between the central and the municipal levels (Finland 1994, France 1982, Greece 1994, Ireland 1994). However, the tendency is not clear. In Scotland, Wales, England and some German länder, the intermediate level has been eliminated. In the Dutch province of Friesland, a four-year experiment has been initiated to test a model with clearer and less interwoven distribution of responsibilities between the two levels.

Some general conclusions seem to have emerged. Firstly, there is a connection between the size of municipalities and the role played by the intermediate level. Small municipalities seem to be more in need of supervision and control. Secondly, there is a correlation between the role of intermediate government and the degree of decentralisation. A high degree of decentralisation is often correlated with the intermediate level.

Recent developments have not influenced either of these models. The new Finnish regions have been made responsible for regional planning and environmental functions, and are voluntary municipal associations. In France, the new regional authorities have been given responsibilities within the field of education and transport. In Greece, regional planning and primary education have been decentralised to the new regions.

New thinking on the role of local government in other countries has resulted in political discussions on the need for an intermediate level. Proposals have been made in Denmark, Sweden and Norway to take functions from the intermediate levels and transfer them to municipal partnerships, to central governments or (for hospitals in particular) to independent units in market like constructions.

In the East European countries, the reforms after the communist regime have been

mixed; but the general picture seems to suggest a two tier local structure, with quite large upper tier authorities having controlling functions in some cases.

2.3.3 Infrastructure and Service Provision and the Issues of Accountability

2.3.3.1 Efficiency and Responsiveness in Local Government Infrastructure and Service Provision – Public Accountability

Delegation of responsibilities for infrastructure and service provision to local governments can result in very different types and levels of services by area, depending on local conditions and priorities. The consequence of local self-government is that the client or service orientation of decision-making and administration re-orientates the focus away from mere production and towards effective distribution of public services. From a local perspective, the resulting disparities of quantities and qualities of public services throughout local authorities may appear questionable, and the voters can express their opinion at the next council election thus securing public accountability of the decisions made.

Participatory decision-making and other types of user involvement can further extend the deviation from the national average for service provision by user boards of schools, kindergartens or advisory committees for the provision of services to the elderly. These boards have been established recently in many countries. Indirectly, the councils of local government can also ensure that their decisions comply with the opinion of their electorates by the carrying out user-surveys. These surveys may question citizens' willingness to accept a reduction in the level and quality of services in order to obtain a corresponding reduction in the level of local taxes or question whether or not they are satisfied with the present balance between expenditure and revenue. The use of these surveys has increased in recent years in many countries.

However, disparities in the level and quality of services provided by various local governments can conflict with national policies and priorities. To secure compliance with national priorities with respect to type, quantity and quality of services, the central government can establish guidelines or minimum standards after consultation with the local governments..

Alternatively, the central government, by use of the financial resource allocation mechanism of earmarking transfers, can heavily influence local government decision-making in terms of the type, quantity and quality of services provided. The issue of different types of financial transfers is analysed further in Section 2.3.5.2 below.

The consultative and coordinative approach by setting guidelines and national minimum-standards to secure national priorities and increased equity has become more widespread and, furthermore, complies with the European Charter of Local Self-government instead of having rigid control and detailed legislation.

2.3.3.2 Effective Administration - Managerial Accountability

Managerial accountability emphasises efficiency in the optimal use of resources compared with achieved results related to expressed targets. The focus is not merely on

compliance of services provided with the legal, regulatory and procedural framework, but also on performance and quality of the output related to different service areas.

The focus on managerial accountability as a means to achieve effective public administration is in accordance with theories and experiences of managerial economics of the private sector, which uses delegation of competence to enhance entrepreneurship and innovative approaches to service provision

The delegation of competence within the context of the local government entities calls for a division of power and responsibilities between the political leadership (the domain of local policies and priorities) and the administrative leadership (the domain of optimal compliance and performance related to the targets established by political decision-making). The clearer the division between the two types of leadership, the more potential there is for effective administration.

Performance related managerial accountability shifts the focus of the political leadership away from a project-level to a policy-level orientation. The mechanism of target performance leadership often leads to even further delegation of power and decentralisation to institutions under the domain of the local government. An increase in performance is quite often experienced in association with the increased flexibility in service production and distribution. This in itself legitimates and initiates the sub-delegation of responsibilities. In the forefront, there is the effective use of human resources, administrative capital and information technology.

Managerial accountability can be constrained by the institutional (and, partly, the regulatory) framework of local governments. It is influenced by the degree of competence that the administrative leadership possesses and by its ability to recruit and develop the heads of departments and sub-government institutions as well as the staff. The autonomy of hiring and firing is in compliance with the civil service code or more generally the labour market code and the human resource management by capacity building through restructuring of the local government organisation and systematic training of major categories of staff. With respect to administrative capital and information technology, the accountability is related to the degree of autonomy of the administrative leadership to introduce innovative approaches in the carrying out of the different tasks of the local government administration. In many countries, e.g. within Europe, there has been a tendency to ease these constraints and let the local authorities more freely organise their human resources. This matter will be dealt with in more in detail in Chapter 7.

The central government needs to be able to draw upon managerial accountability, which it may do by the introduction of a framework for “experimentation”. This framework has more flexibility in relation to the division of responsibilities among different levels of government, often on an ad-hoc basis, for a single or a few local governments in specified functional areas of administration. A number of countries (such as Germany, the Nordic countries, Switzerland, Canada and U.S.A) have this kind of framework to influence the division of responsibilities among different levels of government. Other countries have instead, or supplementary to this, established co-ordination mechanisms to secure more optimal solutions in the cases of shared or partly overlapping responsibilities.

2.3.4 Regulatory Framework

2.3.4.1 Legislative and Regulatory Framework of Local Governments as Entities

The highest protection of the autonomy of local governments is the constitution. The Nordic Countries, some of the federal countries and some of the new countries in Central and Eastern Europe are examples of this high level of security[30]. In other countries, autonomy is a part of the special legislation concerning local authorities, and, in a few cases, the autonomy of local authorities is established by a presidential decree offering only quite limited security of local self-government in cases of controversy.

A clear regulatory framework, first and foremost a clear law on local governments, is a very important condition for the provision of services by local governments. A clear division of responsibilities, a broad legal framework for local government functions and a clear description of the relationship between the different levels of government and competencies is a prerequisite for a well-functioning system of sub-national governments. In recent years, many reforms have been initiated in order to bring greater clarity in this area, especially in Central and Eastern Europe.

Another closely linked factor is the degree of control exercised by the central government (e.g. control of the use of expenses; decision-making power regarding land, property, human resource management; and organisational structure).

Most countries, especially in the OECD, have recently attempted to stimulate consultation and co-ordination among different levels of governments, rather than strengthen formal controls, e.g. through prefect systems[31]. There has been a tendency to move away from strict legislation and detailed rules towards more goal-oriented and performance related dialogue between different levels of government[32].

2.3.4.2 Restraints and Controls on the Functions of Local Government

Apart from the regulatory and legislative framework for local governments as entities, there may exist restraints on their various functions and competences. Such restraints could take the form of special legislation, by-laws, letters of instruction from line ministries and special codes (such as building codes and hygienic codes).

Restraints could also entail formal requirements for approval, prescribed procedures or co-ordination prior to local government decision-making. For example, in many countries, local governments are empowered to take loans but must seek prior approval, despite being deemed creditworthy by the lending institution.[33] Thus, a procedure that

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[30] In many countries, the principles of local self-determination are included in the constitution (for example Austria, Belgium, Greece, Denmark, Italy, Netherlands, Sweden, Bulgaria and Latvia). The same is the case in a number of African countries, most directly in the Constitution in Uganda, l995. In England and Wales, it is part of common law. However, the parliaments of these countries normally determine which functions are to be decentralized.

[31] For a more detailed treatment of this subject see, ”Managing Across Levels of Governments”, OECD, l997, p. 2.

[32] cf. above.

[33] See e.g. Council of Europe: ”Local Authorities´ Budgetary Deficits” and Excessive Indebtedness”, Strassbourg.

appears to be in favour of autonomy of the local government decision-making in practice may be a restraint.

The co-ordination type of restraint often refers to systems of regular agreement on guidelines for local government activities established between the central ministries and the national associations of local governments. The co-ordination agreement is considered more flexible than a legislative framework, easier to adapt to changing circumstances and thus more comprehensive. Again, however, it is necessary to consider the total regulatory framework in order to be able to estimate the degree of autonomy of local governments.

2.3.4.3 Regulatory framework related to private participation in infrastructure and service delivery

A field of special importance for local governments to enhance their flexibility and competitiveness concerns private sector participation in infrastructure and service provision.

Until recently, in many countries the regulatory framework restricted methods for improving service provision by local authorities, especially in periods of financial constraint. The intentions of the local councils could be to use the market mechanism to effectively improve the administration by creating incentives for innovation or changes in working procedures and norms.

For councils seeking a flexible mix of public, private or public-private partnerships, the steps for provision of the regulatory framework may appear complex and troublesome. The way the private sector could be involved covers a whole range of conceptual and practical solutions where public function may be commercialised, management delegated or ownership transferred to the private sector.

The trend in many countries shows an increasing awareness of the necessity to create a competitive environment for the provision of infrastructure and services. This development is enhanced by a requirement from central government or, in the case of the European Union, from the European Commission to undertake tendering processes in more and more fields of public sector functions.

2.3.5 Fiscal Decentralisation

Fiscal indicators are important to delimit local government autonomy and the level of decentralisation.

Section 2.3.3 and 2.3.4 gave a short overview of local government *expenses* and some indicators of autonomy. Of equal importance is the subject of local government revenues.

2.3.5.1. Composition of Revenues

Careful consideration of the *composition of revenues* is very important. The composition of revenues varies greatly from one country to another. Typically, the following main types of local government revenues can be identified:

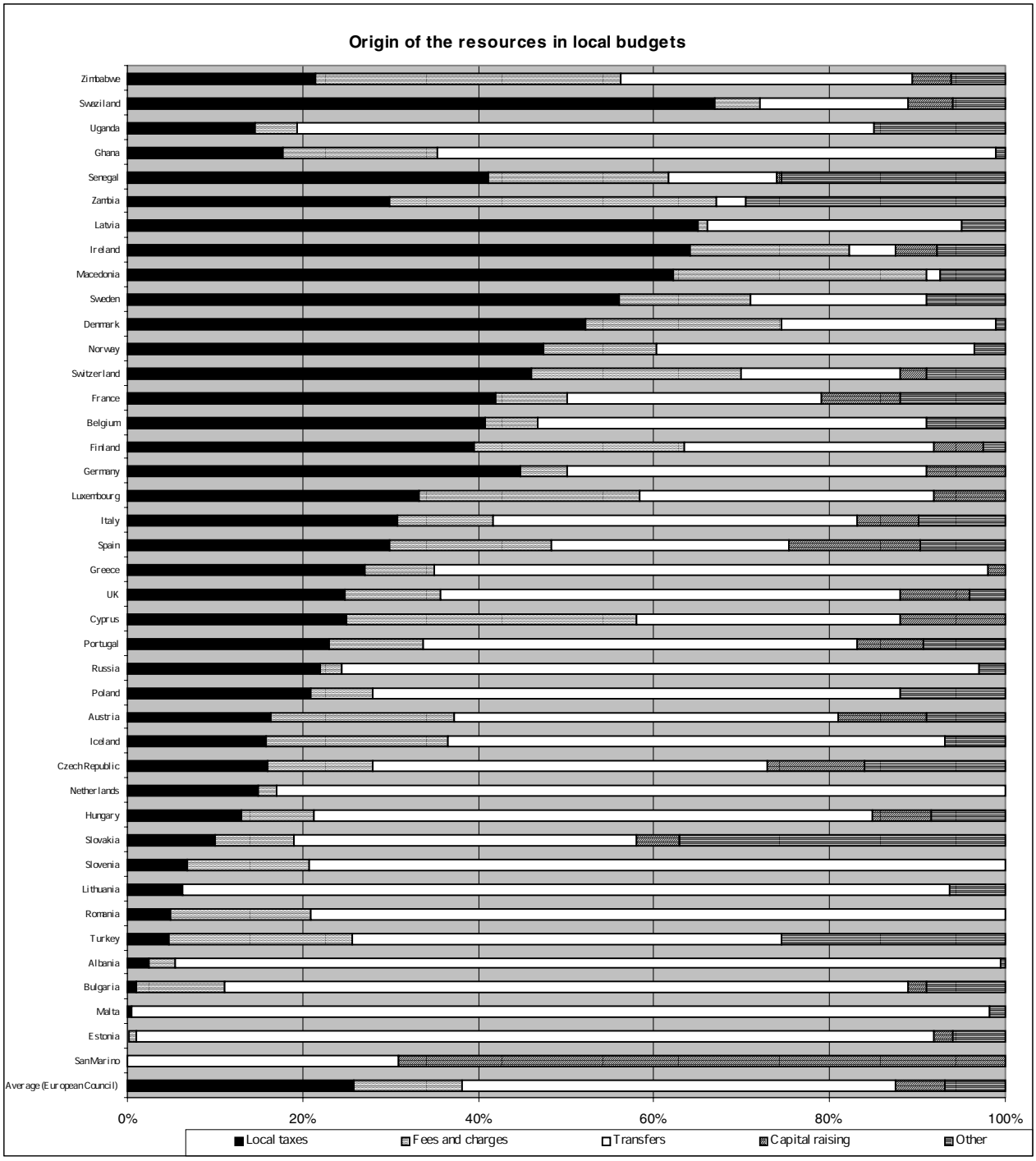
- Revenue from the sale of services - non-tax revenues and user charges/fees.
- Tax revenues - local taxes or shared national taxes.
- Different types of grants (e.g. general and specific) made available to local governments from the central government.
- Borrowing, e.g. for investment expenditure.

"Own revenue sources" are understood as resources where the local governments can influence the revenue level and are able to dispose of the revenues freely give the highest level of autonomy. These are often connected with local taxes and different kinds of user charges[34].

The distribution of these categories varies greatly from country to country (see Table 2.7 below):

[34] It is difficult to make a rank order of revenues according to the level of autonomy, as other factors have an impact as well. However, generally, the following order is useful: 1) own revenue sources (own taxes and user charges), 2) shared taxes, 3) general grants, 4) conditional grants, 5) specific and discretionary grants and 6) grants given to "agent functions". In the definition of own taxes, factors such as the possibility to set the tax rate, to define the tax base and to influence the collection of taxes (indirectly influence the level of revenue) are important. All these factors will be investigated in Chapters 4 and 6.

Table 2.7:



The table is based on reports by members of the group of experts, the work by the DEXIA and in the absence of any such figures, statistics included in the so-called CDLR report. Paper from the working group on "The European Charter of Local Self Government", Strassbourg 21, October l997, Finance of Local authorities (impl. Of Art. 9 of the charter, cf. also appendix No. 2). Africa: Cf. this report.

Economic and political problems at the central government level sometimes result in the delegation of responsibility without the delegation of tax powers or grants; the difference is referred to as *the "vertical imbalance*" in the public sector economy.

Small vertical imbalances ex ante (i.e. before the local budgets are made) in favour of the government are indispensable instruments for the control of local authorities. They give incentives for local authorities to improve their tax effort and their efficiency in the delivery of local services. In Brazil, Colombia and Venezuela, revenues have preceded the delegation of responsibilities. Such imbalances in favour of local governments tend to promote excessive spending [35].

However, large vertical imbalances in favour of central government easily result in uncontrolled deficit financing and accumulation of local debt. At some later stage, they must be replaced by grants to the local authorities to cover the vertical imbalance ex post, and at this late stage, decisions on excessive local expenditure may be difficult to reverse. The present research has confirmed is the case in many African countries.

There is a delicate equilibrium point between ex ante and ex post imbalance. The point here is not to misuse the introduction of good incentives for local efficiency so that the institution of local government becomes discredited.

Vertical imbalances ex post can be defined as grants received by local governments. Once local provision is decided, the major choice is between grants and local taxes. Local taxes may be grant-like tax sharing receipts (see below) or own local taxes. Own local taxes are those where the local authority has some influence over taxation (level, base or collection). This means that the local population must suffer higher taxation if they want better services or if the local authority is inefficient and wasteful. Modest service standards and good management are rewarded by low local taxes. This gives the right incentives for the local population at election time. A high level of own taxation also deprives the local councils the possibility of placing responsibility for failing delivery of local services on the lack of money from the central government.

The advantage of own local taxes over tax sharing arrangements is that own taxation results in *accountability;* it affects the behaviour of the local population and the local councils in a positive way. The combination of ex ante, non-financed small vertical imbalances with the existence of own local taxes is a strong recipe for better efficiency in a decentralised public sector.

The table below gives some indications of the choice between grants and taxes in different countries. The table shows that the proportion of local taxes varies greatly from country to country.

[35] Kiichiro Fukasaka and Ricardo Hausmann (eds.): "Democracy, Decentralisation and Deficits in Latin America", OECD Development Centre, l998.

Table 2.8: Relationship between Taxes and Grants for Local Authorities in Different Countries. 1995

Per cent	Grants /Donor Contribution	Local taxes[36]
Uganda (1997/98)	76.9	23.1
Swaziland (1998)	17.7	82.3
Ghana (1996)	63.8	36.2
Senegal (1997)	22.0	78.0
Zimbabwe (1997)	33.3	67.7
Zambia (97)	3.4	96.6
OECD-countries		
Australia	15.9	84.1
Austria	15.1	84.9
Belgium	54.2	45.8
Canada	47.4	52.6
Czech Rep.	28.7	71.3
Denmark (1)	21.6	78.4
France	35.9	64.1
Germany	31.4	68.1
Iceland	9.9	90.1
Ireland	73.9	26.1
Mexico	4.2	95.8
Netherlands	72.6	27.4
Norway	38.7	61.3
Poland	29.4	70.6
Spain	86.0	14.0
Sweden	18.0	82.0
UK	72.3	27.7
US	38.8	61.2

Source: Revenue Statistics 1965-97. OECD 1998. The data from Sub-Saharan countries are from the Study on Fiscal Decentralisation and Sub-National Finance, 1999-2000. Zambia: based on data from Ministry of Finance (l997 figures: User charges is included in local taxes)
Uganda: l997/98 figures. Ghana: Only based on on six sample SNGs. Swaziland: l998 figures.(loans excluded).
(1) Figures adjusted for SNG administration of national transfers (old age pensions).

The countries with the largest share of grants are English-speaking countries: Canada, Ireland, UK and the US. In these countries, local governments have been left with insufficient tax capacity to cover the costs of the delegated functions. They have only access to property taxation, and the property tax has limited revenue potential. Property tax is regarded as a perfect local tax by economists, but, politically, it is a very unpopular tax and yields no more than 4 per cent in any OECD country. Only in Canada, Japan, Luxembourg, UK and US does it yield more than 3 per cent. This is in most cases less than the cost of a modern primary school system.

The importance of grants vs. local taxes ranks average in Germany. However, this masks the inclusion under taxes of figures for tax sharing receipts.

Local councils seem to prefer tax sharing for grants, as they believe that they receive a

[36] Including tax-sharing revenues. For African countries also other revenues.

fixed proportion of the taxes the central government collects in their jurisdiction[37]. Local authorities believe that this is a guarantee against cuts in revenue in the case that the central government needs to save. The disadvantage of tax sharing is the same seen from the point of view of the central government; tax sharing weakens its instruments of control.

In Germany, sharing of the income tax is the traditional way of filling the vertical imbalance, and the German tradition has been adopted in German-speaking Europe. In the OECD statistics (the basis for the figures in this report), tax-sharing receipts are included under local taxes and cannot be separated (a reform within this area has been initiated)[38].

The Nordic countries (Denmark, Sweden, Norway, Iceland and Finland) are traditionally countries with the highest proportion of taxes and of own taxes. This is explained by the use of the personal income tax as a local tax. Personal income tax has large revenue potential in Europe. In Denmark and Sweden, it yields more than 15 per cent of the GDP, leaving very limited needs for grant financing.

2.3.5.2. Local Taxes

Local taxes are normally the greatest source of income, and they represent one of the most important features of local authority autonomy. The possibility of influencing either the tax base, the tax rate or the collected revenues is a very important condition for the local authorities, making them able to adapt the service level to the financial possibilities.

The arguments for the introduction of own local taxes have been made above. However, a number of conditions should be met for a tax to be a good "own" local tax.

- Firstly, the revenue of a good local tax should develop over time in the same way as the costs of fulfilling the growing need for local public services.
- Secondly, local taxes should not be too sensitive to cyclical fluctuations, as the local services normally are not suitable as instruments for demand management.
- Thirdly, a good local tax should be distributed relatively equally among local authorities. Equalisation of the taxes throughout the local authorities may reduce this problem, but not eliminate it.

[37] Jørgen Lotz, "Procedings of the Regional FDI Conference", November 24-25, l997 Copenhagen, p. 113.

[38] The OECD has initiated work to produce figures making it possible to distinguish between tax shares and local taxes. In the present research, we have tried to make a distinction between the two types as they differ in terms of degree of autonomy.

- Fourth, the size of the potential revenue is important. If the local authorities are allowed only relatively small yielding taxes, vertical imbalances result that will have to be otherwise covered.

- Fifth, there should be a close relationship between the citizens who pay and the citizen who benefit.

- Sixth, the tax administration should be without major problems, i.e. the tax yield should be much higher than the administrative costs.

As has been shown above, the size of the vertical imbalance in different countries is closely related to the local government tax structure. It was shown that the dependency on grants in the countries relying on property taxes was much higher than the reliance on grants in the countries relying on more buoyant taxes, like a local income tax. These findings may not be directly applicable to the African region, where property tax seems to be more buoyant than the income tax. However, this research has shown that property tax alone cannot finance the present tasks.

There is considerable variation in the national styles of local taxation, as can be seen from the table which shows groupings of countries with somewhat similar composition of local taxes, based on figures from the previous table.

Table 2.9: Local Government Taxes, per cent of Total Local Tax Revenue (1997)

	Income taxes (2)	Property tax	Other taxes	Total
Zambia (3) (l997)	16.1	36.2	51.3	100
Senegal (Dakar) (4)	15.1	29.8	55.1	100
Ghana	N/A	N/A	N/A	N/A
Uganda (1997/98)	82.6	17.4	0	100
Swaziland (1998)	0	100	0	100
Zimbabwe (1997)	0	100	0	100
Sweden	99.7	0.0	0.3	100
Finland	95.8	4.0	0.2	100
Denmark	93.4	6.5	0.1	100
Luxembourg	93.1	5.7	1.2	100
Norway	89.9	9.4	0.7	100
Czech Rep.	89.2	5.2	5.6	100
Switzerland (1)	84.4	15.0	0.5	100
Germany (1)	77.1	21.7	1.1	100
Belgium (1)	82.4	0.0	17.6	100
Iceland	78.2	14.7	7.1	100
Poland	59.5	32.5	8.2	100
Japan	52.6	30.4	17.0	100
Austria (1)	35.5	9.4	55.1	100
Turkey	30.8	3.0	66.2	100
Portugal	22.7	38.8	38.5	100
Spain	26.4	34.9	38.7	100
France	15.5	31.4	53.1	100
Korea	12.3	57.1	30.6	100
USA (1)	6.0	73.3	20.7	100

Italy	18.4	34.4	472	100
Ireland	0.0	100.0	0.0	100
Australia (1)	0.0	100.0	0.0	100
United Kingdom	0.0	99.1	0.9	100
New Zealand	0.0	90.6	9.9	100
Netherlands (1)	0.0	66.2	37.8	100
Hungary	0.0	22.2	72.8	100
Unweighted average (4)	44.7	34.8	20.4	100

(1): Federal states. Only tax revenues of local government are included, not state taxes.
(2): Includes personal and company income tax revenues.
(3): Personal levy is classified as personal income tax. Data from Central Statistical Office, Zambia
(4) : Unweighted average of 26 OECD countries.
Source: OECD, Revenue Statistics 1965-1998, OECD 1999. Data from the African countries is from the Study on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provion in the Sub-Saharan African Countries, 1998-2000. Uganda: Decentralisation Secretariat, l997/98. Senegal, Dakar 1997 as example. Zimbabwe 1997 figures, Swaziland 1998 figures.

Table 2.10: Local[1)] Tax Structures, 1994 (Unweighted Averages, Per Cent)

Taxes (tax sharing receipts included) on:	English speak-ing: Canada, USA, New Zealand, Australia, UK	Nordic countries: Denmark, Sweden, Norway, Finland.	Federal German speaking: Austria, Germany, Switzerland.	Unitary, Europe centre/ south France, Italy, Spain
Income	1	95	72	18
Property	89	5	14	39
Others	10	-	14	44
Total	100	100	100	100

Source: Revenue statistics. OECD 1996. (See appendix 1).
All levels except central and federal state governments.

The tables also show that the English speaking countries and the Netherlands have local tax structures dominated by property taxes, while those, for example, of the Nordic countries emphasise local income taxation.

The local tax structure of the German speaking countries is dominated by the sharing of income tax. Another feature of these countries, which is also found in the last group of countries, is the widespread use of "business taxes," like the "Gewerbesteur" in Germany and the "Taxe professionelle" in France. They are taxes collected on composite tax bases of items such as the rental value of buildings and equipment, local payroll and turn over. In the table, they are classified as by the OECD according to the different tax bases.

In spite of generally accepted economic advantages, the neutrality of the local property tax, and the buoyancy of the local income tax, changes from one major tax source to another are not frequent. Introduction of local taxes is politically sensitive, new taxes are difficult to introduce, and once introduced they are difficult to replace with other local tax sources.

These are the patterns for the financing of decentralisation in the old OECD countries. These patterns are found also in the countries having later developed systems of local government financing. The tentative findings in the African research countries are that the most important local government tax type is the property tax, with a potential for other types of taxes and revenues.

In the Eastern European countries in transition, the local tax systems are only in the early stages of development. The "own" revenue sources consist typically of limited revenue from property taxes, often with central government restrictions on the local rate, and income tax. The German model of income tax sharing is widely used. These revenues have left the local governments with little own revenue. In Japan and Korea, the major tax revenue is property tax, which is also supplemented with tax sharing receipts.

2.3.5.3 Grants and Local Government Equalisation

2.3.5.3.1 The Vertical Imbalance

In most countries, the central government provides grants to local authorities (see the tables above). The primary reason is that the state has not allowed local authorities sufficient tax powers to finance the expenditure assignments of local government; but there are a number of other good reasons for a certain amount of state grants/transfers to lower levels of governments.

2.3.5.3.2 Grants

Grants offer a good instrument for central government to bring local authorities into the general macroeconomic management of the economy. Local services like schools and social services should not bear the brunt of adjustments in stabilisation policies; but, in periods of severe imbalances, adjustment of such services cannot be avoided, as witnessed by recent experiences in welfare states like Sweden and Finland.

Grants may also offer instruments to influence priorities in expenditure decisions at the local level. Firstly, it must be ensured that the grants are transformed into local services and not into the private wealth of local citizens. (In rich countries, economists have given this phenomenon the derogatory name of "the flypaper effect": the money sticks where it hits). Secondly, the central government wants to be able to influence local priorities so that they conform to central government priorities. Therefore, some of the grants are commonly designed as *special* grants for specific earmarked purposes. In contrast, *general* grants are for the free use by local authorities. Thirdly, grants can be used for equalisation purposes: to level out the differences between the "rich" and the "poorer" local authorities and to stabilise development across the different regions of a country.[39] Finally, grants can be appropriate to use for adjustment of the economy in situations when tasks are transferred between the levels of governments (as a kind of compensation).

[39] In Swaziland, it is discussed whether grants can compensate for the fact that the inhabitants from some informal settlements use the services within certain local authorities (as a form of cost-sharing).

Specific Grants
In terms of autonomy, grants vary from general grants, designed and distributed by objective criteria (high), to specific grants, made on a discretionary basis (low).

One way to follow some of the above-mentioned objectives is to use what has been called specific grants. One example is a grant for capital purposes that can be conditioned so that the local authority must have prior approval of a project before the grant is given. Grants for operational expenditure may be automatically conditioned by local spending in accordance with specific rules, but discretionary grants are known also for operational expenditure, often in order to promote new kinds of services among local authorities. To compensate for the central lack of information and to test the strength of local priorities, some local co-financing is often required.

There are several problems with specific grants. Experiences from Chile (grants for schools and primary health care) and Colombia (matching grants for rural roads) showed that high reimbursement rates encouraged spending and became a drain on central government finances. Subsequently, reimbursement rates were reduced, but the result was that the richest authorities with the highest fiscal capacity also received the major proportion of the grants. In Chile and Colombia, this resulted in inequalities in spending [40].

Specific grants require controls, auditing and much bureaucracy. This has been found to result in inefficient decision-making and to weaken economic responsibility. The Council of Europe Charter of Local Self-Government, which has now been ratified by a number of countries, states that specific grants should be changed to general grants. In recent years, reforms have been introduced in the OECD countries to replace specific grants with general grants.

Grants and Equalisation
The need for grants varies among authorities because their expenditure needs are not the same. Roads and water supply may be most costly in mountainous regions, and the costs of education and social welfare may be highest in urban areas. If some uniformity of service levels is desired, it is necessary to compensate for these extra costs. Furthermore, if local authorities are allowed some tax powers, it must be taken into account also that tax capacity varies among local authorities. The method of grant distribution also must compensate for less than average local tax powers.

The compensation for low tax capacity and high expenditure needs is called local government equalisation. Systems that consider one or both elements are developed in many countries around the World [41].

Political critiques are often heard from losers who claim that their country's system of local government equalisation is too complicated. There are several reasons why it has

[40] Kiitchiro Fukasaka and Ricardo Hausmann (eds.): " Democracy, decentralisation and deficits in Latin America". OECD Development Center, l998.
[41] In a number of African countries, systems of equalisation are presently under development, e.g. in Uganda and in Swaziland. The Council of Europe has developed agreed principles for this: "Equalisation of resources between local authorities", Recommendation No. R (91) 4 and explanatory memorandum, Council of Europe.

to be so. Equalisation deals with the politically very difficult questions of redistribution; some have to give to others without getting anything in return. The result is that compromises have to be reached, and it is often politically expedient to compensate for needs of a petty nature.

Finally, it may be noted that equalisation can be implemented without central government grants if the so-called solidarity (or "Robin Hood") model is applied, as it is in Denmark, German länder, and Sweden. The idea is that the funds needed to support poor authorities are taken from the rich authorities. The method results in a more complete equalisation than is typical when grants are used, because the richest authorities are drawn into the system. The disadvantages of this system are political, and it has resulted in internal tensions between groups of local authorities. In contrast, grant financed equalisation seems to make everybody happy by some fiscal illusion, everyone gets something and nobody seems to have to pay. The potential for conflict built into this method means that it is not a model for countries in need of nation building, like Canada, China, Russia or Ukraine.

Changing from specific grants to general grants complicates the measure of equalisation of differences in local expenditure needs[42]. The idea of the general grants is to leave the local authorities to find the most locally efficient solutions. However, this means that the performance related criteria of the specific grants should be replaced by general "neutral" criteria for grants.

An example is the system inherited by a number of Eastern European countries from the communist regime. In some countries, criteria for needs are a set of "norms", a number of which measure the population and its age groups, but most of which measure the number of services being supplied. Each client is assigned a norm cost, depending on the kind of institution, all somewhat below average costs. The equalisation is implemented by paying these amounts to the local authority producing the service. Some elements of this still exist, and, in some countries, the measure of local expenditure need for old age care is based on the number of elderly staying in old age homes.[43]

This is quite different from the methods used in most Northern European countries, where the measures of expenditure needs do not include the *number of services* but are replaced by "objective" measures of needs, understood as the cost of the number of expected clients. In the Nordic countries, the measure for the same need for finance of the elderly care is the *number of elderly people*. This leaves it up to each local authority to deliver the desired services to the elderly people at an appropriate quality and amount.

The problems of finding acceptable objective criteria for measuring expenditure needs as a basis for grant distribution are formidable. Measures of expenditure needs based on objective criteria tend to be complicated. Furthermore, local authority needs may be so different that a comparison may not be possible, the problems being typically in the

[42] This is especially a problem in developing countries where data is very restricted/limited.

[43] In Bulgaria, a number the criteria for expenditure needs are based on the number of places in different social institutions.

extremes – the needs of small, thinly populated rural authorities measured against needs of large urban authorities.

The more functions that are delegated to local authorities, the more factors that must be considered and the more complicated the formula becomes. Therefore, the system can easily becomes a target for criticism, especially from the contributing local governments.

It can be seen that the design of the measure of expenditure needs is closely related to the choice between specific and general grants. The move towards general, objective criteria – as well as to general grants – must depend on the local capacity to administer and produce services. When these conditions are satisfied, gains in efficiency should be possible by shifting to general grants and objective criteria of needs, and this way leaves more discretion to the local authorities. Ideally, the design of grants should both support poorer areas and encourage revenue mobilisation and cost efficiency.

Procedures for Distribution
Besides the above-mentioned conditions, it is equally important for local authorities to have a clear knowledge and understanding of the principles, timing and organisation of the grant distribution process. In some countries, local authorities know of the grants 6 months before the budget year and the distribution is 100% transparent, while in other countries grants are insecure, non-transparent and transferred very late in the budget year with non-stable instalment rates.

Tax Capacity and Tax Effort and Links to Transfers
When local authorities are allowed their own tax collection, and significant tax sources are made available, the need for equalisation of the tax base arises as well.

The difficulty of measuring and comparing differences in the tax capacity of local authorities is first the role of the local authorities themselves in improving their tax capacity. If this is not controlled, equalisation gives adverse incentives for local tax efforts. For example, in China, one of the most pressing problems is the question of how to control that the apparent low tax capacity of certain provinces is not the result of the lack of effort by the local tax administration. For this reason, it is important to develop incentives for local authorities to collect taxes and at the same time secure certain equal financial possibilities across local governments to increase revenues and to balance the finance with the needs. Local efficiency in tax collection should not be punished by a reduction of the grants from the central government [44].

2.4 Concluding Remarks

[44] In some countries (for example, Latvia), there are instances where the system has provided the local authorities with incentives to increase the tax exemptions from property tax, thereby reducing the total revenues.

The above analysis of some of the indicators of decentralisation showed that many different models have been pursued around the world to set up the optimal financial system of local government and an appropriate regulatory and institutional framework for local government service provision and infrastructure. The analysis showed a trend in the direction of decentralisation, but with a great variation of methods and strategies. The following chapters contain the main findings from the country study of Uganda.

Appendix No. 1 (to Table No.2.2): Local Tax Revenues as per cent of GDP, 1997

	Income tax (2)	Proper-ty tax	Other taxes	Total local taxes
Sweden	15.8	0	0	15.8
Denmark	14.4	1	0	15.4
Finland	9.9	0.4	0	10.3
Norway	7.0	0.7	0	7.7
Japan	3.8	2.2	1.1	7.1
Iceland	5.9	1.1	0.5	7.5
Switzerland (1)	4.4	0.8	0	5.2
Czech Rep.	4.0	0.2	0.2	4.4
Austria (1)	2.6	0.4	1.7	4.7
France	0.7	1.5	2.3	4.5
Spain	1.4	1.9	2.1	4.4
Korea	0.5	2.3	1.2	4.0
USA (1)	0.2	2.7	0.8	3.7
Canada (1)	0	2.8	0.4	3.2
Poland	2.2	1.2	0.3	3.7
Germany (1)	2.1	0.6	0	2.7
Turkey	1.1	0.1	2.3	3.3
Luxembourg	2.6	0.2	0	2.8
Belgium (1)	1.9	0	0.3	2.2
Portugal	0.4	0.8	0.8	2
Italy	0.5	0.9	1.3	2.7
New Zealand	0	1.8	0.2	2
Hungary	0	0.4	1.2	1.6
United Kingdom	0	1.4	0	1.4
Netherlands	0	0.8	0.5	1.3
Australia (1)	0	1	0	1
Ireland	0	0.7	0	0.7
Greece	0	0	0.3	0.3
Unweighted average	2.9	1.0	0.6	4.5
Zambia	0.03	0.07	0.09	0.2
Senegal				0.8
Ghana	N/A	N/A	N/A	N/A
Uganda	0.54	0.11	0	0.65
Swaziland	0	0.5	0	0.5
Zimbabwe	0	0.8	0	0.8

(1): Federal country. Figures include only taxes at the local level.
(2): Personal and company income tax.

Source: OECD 1999, Revenue Statistics 1965-1998. Zambia figures (l997): Ministry of Finance and Central Statistical Office. Swaziland: l998 figures, Study l999. Senegal 1997 figures, Study l999. Uganda: Figures l997/98, Study l999. Ghana 1996, Study 1999. Zimbabwe 1997 figures, Study 2000. Alle figures from African countries are from the Study on Fiscal Decentralisation and Sub-National Governance Finance in Relation to Infrastructure and Service Provision.

Appendix No. 2 (to Table 2.2): Origin of the Resources in Local Budgets

	Local taxes	Fees and charges	Trans-fers	Capital raising	Other
Albania	2.5	3.0	94.0	0	0.5
Austria	16.3	21.0	43.7	10.0	9.0
Belgium	40.8	6.0	44.3	0	9.0
Bulgaria	1.0	10.0	78.0	2.0	9.0
Cyprus	25.0	33.0	30.0	12.0	0
Czech Republic	16.0	12.0	45.0	11.0	16.0
Denmark	52.2	22.3	24.5	0	1
Estonia	0.1	0.9	91.0	2.0	6.0
Finland	39.5	24.0	28.4	5.6	2.5
France	42.0	8.0	29.0	9.0	12.0
Germany	35.0	4.0	32.0	7.0	0
Greece	27.0	8.0	63.0	2.0	0
Hungary	13.0	8.2	63.6	6.7	8.5
Iceland	16.0	21.0	57.0	0	7.0
Ireland	64.2	18.0	5.4	4.6	7.8
Italy	31.0	11.0	42.0	7.0	10.0
Latvia	65.0	1.0	29.0	0	5
Lithuania	6.4	0	87.3	0	6.3
Luxembourg	32.9	24.9	33.2	8.0	0
Malta	0.5	0	97.8	0	1.7
Netherlands	15.0	2.0	83.0	0	0
Norway	47.5	12.8	36.2	0	3.5
Poland	21.0	7.0	60.0	0	12.0
Portugal	23.0	10.8	49.5	7.5	9.4
Romania	5.0	16.0	79.0	0	0
Russia	22.0	2.5	72.5	0	3.0
San Marino	0	0	31.0	69.0	0
Slovakia	10.0	9.0	39.0	5.0	37.0
Slovenia	6.8	13.9	79.3	0	0
Spain	29.8	18.5	27.1	14.9	9.7
Sweden	56.0	15.0	20.0	0	9.0
Switzerland	46.0	24.0	18.0	3.0	9.0
Macedonia	62.3	28.8	1.5	0	7.4
Turkey	4.8	20.9	48.9	0	25.5
United Kingdom	25.0	11.0	53.0	8.0	4.0
Average	**25.7**	**12.2**	**49.0**	**5.6**	**6.9**

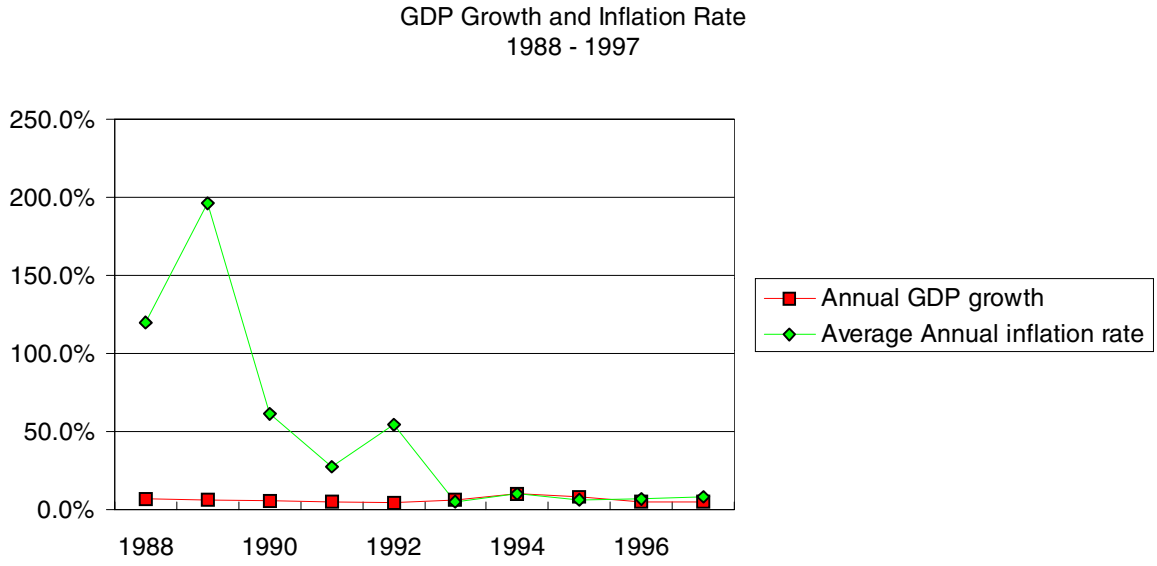
Zambia	29.8	37.3	3.4	0	29.5
Senegal	41.1	20.5	12.4	0.5	25.5
Ghana	17.8	17.6	63.8	0	1.0
Uganda	14.5	4.9	65.5	0	15
Swaziland	67.3	5.2	16.7	5.2	5.1
Zimbabwe	21.4	34.8	33.3	4.3	6.2

The table is drawn up on the basis of reports by members of the group of experts, the work by the DEXIA and in absence of any such figures, on the statistics included in a so-called CDLR report. Paper from a working group on "The European Charter of Local Self Government", Strasbourg 21 October 1997, Finances of Local Authorities (implementation of art. 9 of the charter). The figures from African countries were collected during the study on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provision in Sub-Saharan Countries, l998-2000. Zambia: Average l994-98 figures: Source: Central Statistical Office. Senegal l997 estimates, Local taxes for Senegal are composed of own taxes: 39.7% and shared taxes: 1.5%. Uganda: Figures l997/98. Swaziland: l998 figures. Zimbabwe 1997 figures, Ghana 1996 figures from 6 sample SNGs.

CHAPTER THREE
THE CONTEXT OF THE COUNTRY

3.0 Background

Uganda is a landlocked country covering approximately 241,000 square kilometres with a population of about 20 million. It attained independence in 1962. The post-independence government inherited a promising economy, with sound infrastructure. Economic growth (real GDP) averaged 5.8% per annum between 1962 and 1970, inflation was constantly kept in check and the balance of payments position remained healthy. The advent of the 1970's witnessed a dramatic turn in political and economic events. The Government was seized by the military, and the economy was devastated by the political instability and economic mismanagement. Widespread insecurity led to extensive destruction of infrastructure, loss of skilled manpower and the contraction of GDP by about 20 percent between 1970 and 1978. The economic and political climate was worsened by the 1978/79-liberation war and subsequent civil war, which ensued in the early 1980's. The National Resistance Movement (NRM) captured the reigns of power in January 1986 and by 1987 had restored peace in most parts of the country. It embarked on an Economic Recovery Programme, with the support of donors, which led to the reversal of the negative pattern of most economic indicators. Real GDP growth averaged 6.4 percent between 1988 and 1997 and inflation was reduced from three-digits in the mid-1980s to a single digit in 1993. The annual inflation rate averaged 7.4% between 1993 and 1997.



Agriculture is the mainstay of the economy, contributing over 40 percent in GDP, employing over 80 percent of the labour force and accounting for over 90 percent in export earnings. Coffee is the leading export, accounting for over 70 percent in foreign exchange earnings. In Uganda, issues of economic management are a subject of wide debate among stakeholders in seminars, forums and workshops held annually with

representatives of government, politicians, donors, the private sector and NGOs. In these settings, a number of topics are discussed, comprising policy formulation, implementation, monitoring, evaluation and the way forward.

3.1 The Government Structure

The post-independence constitution of Uganda, provided for decentralisation based on regional governments, which were abolished in 1966 when the constitution was abrogated and all executive powers were vested in the presidency. The post of prime minister was repealed. Central Government centralised almost all powers until 1993, when Parliament enacted the Local Governments (Resistance Councils) Statute and functions, powers and services were gradually transferred from the central government to the local governments. Before decentralisation, the central government decided how funds were to be utilised and remitted them directly to the departments in the district, with the district authorities having no control over their use.

In conformity with the Local Governments (Resistance Councils) Statute 1993, the 1995 Constitution of the Republic of Uganda provided for decentralisation of governance, with the district as a local government below which are lower local governments and administrative units. The Constitution followed the decision of the Constituent Assembly (CA) and the findings of the Constitutional Commission, whose report was a subject of debate by the CA. The local government councils have political, legislative, judicial and administrative power and they are corporate bodies with perpetual succession and with powers to sue and to be sued in their corporate names.

3.1.1 The Central and Local Governments

The Central Government structure has two solar offices of the President and Prime Minister and 15 line ministries, one of which is the Ministry of Local Government (MoLG), which oversees the local governments' administration[78]. There are currently 44 district councils (LCV) and one city (Kampala City Council) that exercise the powers of a district council. Kampala City Council has 5 divisions that constitute lower local governments with the status of sub-county councils. The rural districts' lower level governments comprise 903 sub-county councils (LCIII) and 63 urban councils with some autonomy from the district. The urban councils comprise 13 municipal councils (LCIV), with 34 municipal divisions and 50 town councils (LCIII). In addition, there are administrative councils consisting of County Councils (LCIV), Parish Councils (LCII) and Village Councils (LCI). There are currently 1,050 local governments, as may be seen from the table below:

[78]Mugasha F. M. K, The Restructuring of Government Ministries and its Implications for the Implementation of Decentralisation, National Forum of the Implementation of Decentralization, June 18-19, 1998.

Table 3.1: LOCAL GOVERNMENTS IN UGANDA

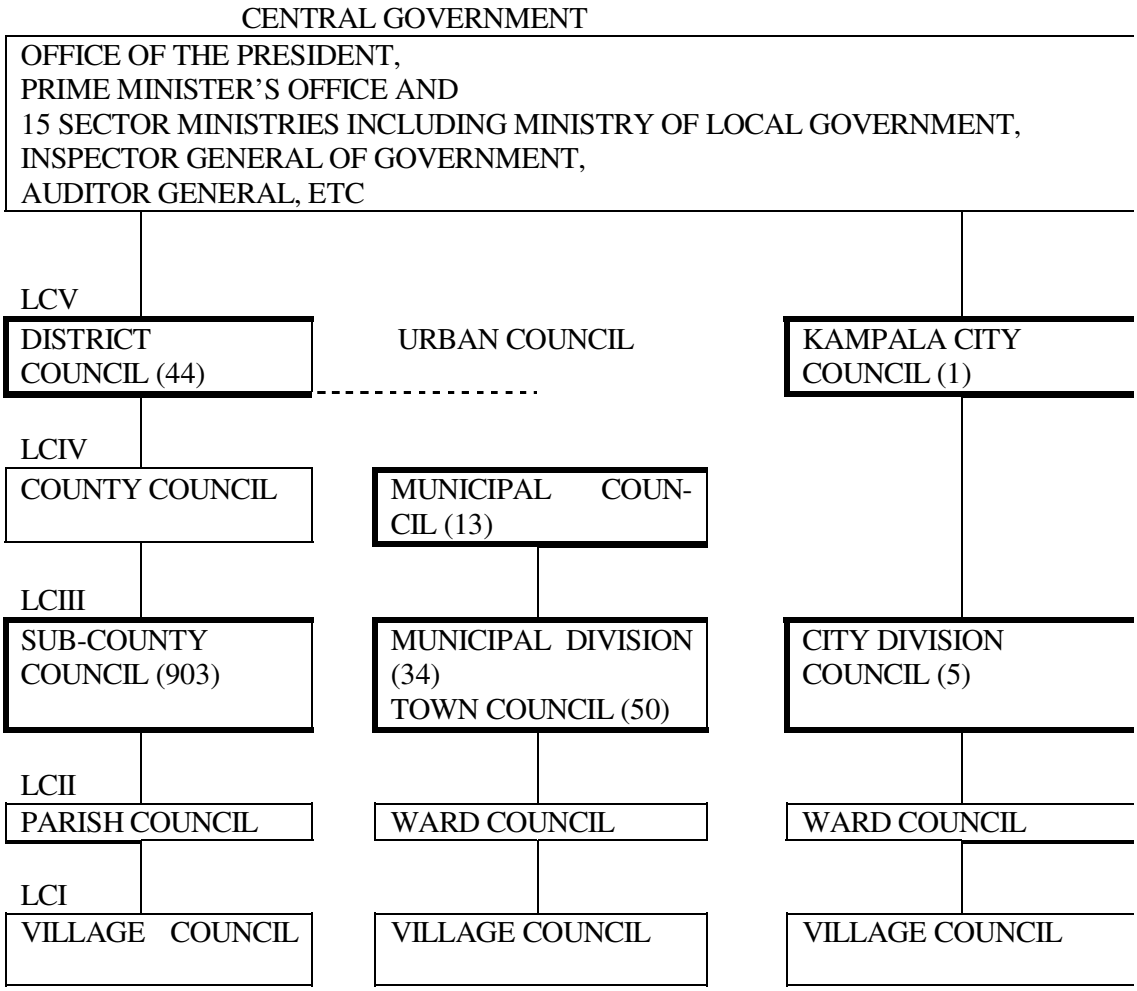
Category	Number
(a) District Councils	44
(b) City Council	1
(c) City division council	5
(d) Municipal Councils	13
(e) Municipal division councils	34
(f) Town Councils	50
(g) Sub-county Councils	903
Total	1,050

Source: Ministry of Local Government

In the administrative structure, a district is subdivided into Counties and Municipalities or Towns depending on their size and other criteria set by the Ministry of Local Government. Every County is further subdivided into sub-counties, while municipalities are subdivided into divisions. The Sub-Counties, Divisions and Towns are further subdivided into Parishes and Wards, respectively. The Parishes and Wards are further subdivided into villages, which are the lowest administrative units.

Councillors are elected on individual merit and not based on political party affiliation at all the above levels running from LCI (village) to LCV (district/city). The LCIII, LCV and some LCIV (municipal councils) are local governments, while the others are administrative units. Local governments in Uganda have legislative, financial and administrative powers. On the other hand, the administrative units largely have administrative roles. The law requires that the total number of councillors must not be less than 10, and their terms last four years. The electoral areas in a district are LCIIIs, which comprise sub-counties, municipal divisions, city divisions and town councils. As for lower local governments such as sub-counties, municipal divisions, city divisions and towns, every parish or ward is an electoral area for the relevant local government council. If an electoral area is very large, the Act provides for its subdivision into more electoral areas, depending on the number of inhabitants, means of communication, geographical features and population density. The next page shows a full overview of the local government structure, as well as administrative units.

CHART 3.2: POLITICAL AND ADMINISTRATIVE SETUP OF LOCAL GOVERNMENTS



Note: The bolded councils are local Governments while the remainders are administrative units.

This study will focus on the local governments, i.e. the units in bold boxes. There are two basic types of local governments: the district rural area and urban. Below the district council, there are other local governments, sub-county, municipal and town councils. The law guarantees the municipal and town councils some autonomy; they develop own plans, draw budgets and implement them. Kampala City Council has a special status since it exercises power of a district council, while its divisions have the status of sub-county councils although with unique responsibilities not found in sub-counties because of its urban nature.

The Counties and Parish/Wards are administrative units with no legislative powers. However, they have some limited political and judicial powers; for example, they constitute their own courts to settle minor disputes and elect committees to guide their development programmes.

3.1.2 The Political Power and Organisation

The district council is the highest political organ in a district and has legislative and executive powers. The district council comprises elected councillors who represent specific electoral areas and interest groups. The district chairperson is a member of the district council and is elected through universal adult suffrage based on individual merit and not political party. Political party activities were suspended in 1986 when the National Resistance Government assumed power, and, ever since, elections are held on individual merit. The 1995 Constitution upheld the suspension of parties until a referendum is held in the year 2000 for the people to decide if multiparty leadership should return.

The composition of the councillors is as follows: one councillor per electoral area in a district (a sub-county/town council constitutes an electoral area), two councillors representing the youth, two councillors representing persons with disabilities and women should constitute one-third of the councillors. All the councillors representing interest groups have to be elected by their respective groups. Mukono district is a characteristic local government, with 63 councillors including the chairperson; 32 of them represent the 32 sub-counties, 5 represent the 5 town councils (sub-counties and towns are electoral areas), 21 represent women, 2 represent the youth and 2 represent persons with disabilities. The councillors elect a speaker from amongst themselves who shall preside over all council meetings and enforce rules of procedure of the council.

The chairperson of the district is the political head, and he/she presides over meetings of the executive committee. The chairperson is authorised to exercise powers directly or through elected or appointed officials, but he/she is answerable to the district council. The chairperson monitors the general administration of the district, implementation of council decisions, co-ordination of activities of lower local governments and administrative units and co-ordination of central government functions in his/her district.

In every district, there are executive committees that perform executive functions of the council. The members of the executive committee have to be nominated by the chairperson from among the members of the council and approved by a simple majority of the councillors. The executive committee comprises of the chairperson and at least five secretaries responsible for the sectors, with one of them deputising the chairperson. In Mukono District, the executive committee consists of five secretaries whose portfolios are administration, finance and planning, technical services and works, health care, gender and community services, and education and sports. The executive committee initiates and formulates policy for the approval of council; oversees the implementation of central government and council policies; monitors the implementation of council programmes; recommends persons to be appointed to different district commissions, boards and committees; receives and solves problems and disputes forwarded to it from lower local governments; etc. While the councillors serve terms of 4 years, the executive committee is dissolved whenever a new chairperson assumes office.

The Act empowers district councils to appoint standing committees. The members of these committees have to be elected from among the members of the council but should

not belong to more than one committee. While other members of council can attend the proceedings, they do not have voting powers.

The District Service Commission (DSC) was established in each district, as required by the Local Government (Resistance Councils) Statute 1993[79] and Legal Notice Supplement 1 of 1994, with the mandate to appoint, confirm, promote and discipline all employees of the district and urban councils except the Chief Administrative Officer (CAO) and Deputy Chief Administrative Officer (DCAO). However, the coming to force of the 1995 Constitution empowered the DSC to take full charge of the appointment, confirmation, promotion and discipline of all civil servants serving in the district including the CAO and DCAO. Before decentralisation, the national Public Service Commission (PSC) appointed most of the staff serving districts and urban councils like other civil servants. They were also answerable to the PSC and not to the local councils they served. The main objectives of empowering the district councils to be in-charge of their staff were: to improve the accountability of staff to the people they serve, enhance cost effectiveness, ensure that the local governments develop structures tailored to the local needs and improve service delivery.

The commission consists of a chairperson and members of whom at least one represents the urban authorities. All of them have to be appointed by the district council on the recommendation of the district executive committee and with the approval of the central government public service commission. In order to qualify for appointment in the District Service Commission, one has to be mature, with knowledge of human resource management and development policy, with experience at a senior position in public service or reputable organisation, holder of at least advanced level of education and of high moral character and proven integrity[80]. The District Service Commission is independent and does not take orders and directions from any person or authority. The District Service Commission was a key reform in the whole decentralisation policy, the objectives of which were to ensure improved accountability, efficiency and effectiveness of the public servants and devolve real power, roles and responsibilities to the local governments.

The Chief Administrative Officer (CAO) is the accounting officer and supervises the technical staff serving the district. The functions of the officer are to implement district council decisions and policies; provide guidance to the chairperson, local government councils and their departments; supervise, monitor and co-ordinate activities; and act as a liaison officer between the central government and the district council. A town clerk is the head of administration in an urban council. The sub-county chief and the parish chief are the heads of administration in a sub-county and a parish, respectively. The sub-county chief is accountable to the council, which he/she services.

The Constitution and the Act provide for checks and balances of power amongst the three arms of government: legislative, executive and judiciary. At the local government level, the district council has legislative powers, while the executive committee, which is part of council, is responsible for the executive functions but is answerable to council.

[79] The Statute of l993 was repealed by the Local Government Act, l997.

[80] Ministry of Public Service and Ministry of Local Government, Guidelines of District and Urban Councils for the Management of a Separate Personnel System, 1994.

The council has no judicial powers, which remain the preserve of the central government judicial system. In addition, the Act provides for clear separation of powers between the central government and the local governments, civil servants and the politicians or councillors. The members of parliament and central government ministers are not permitted to hold local government political offices or be councillors at local government units. All civil servants should not hold any political office or be a councillor concurrently. The politicians as well as the district public servants are protected from wrongful dismissal by the constitution and the Act; each party to a dispute is entitled to a fair hearing and is free to resort to legal means for arbitration.

3.1.3 District Council Co-operation

The Act has a provision that allows two or more district councils to co-operate in the areas of culture and development or for purpose of co-operation, form and support councils, funds, trusts or secretariats. In addition, a local council may agree with any other local government council to appoint a joint committee for any matter in which they have common interest.

3.1.4 Relationship between the Central and Local Governments

There is a presidential appointee in every district who is known as a Resident District Commissioner (RDC) and who is a senior civil servant. The Commissioner represents the president and the central government in the district. He/She co-ordinates administration and sensitises the people on central government polices and programmes and advises the district chairperson on matters of national nature. The RDC has power to advise the relevant bodies to call for a special audit or cases of mismanagement or abuse of office. In order not to compromise the position of the RDC, the expenses of his/her office are met by the central government. The district council may recommend that the president remove an RDC by a resolution supported by two- thirds of the councillors. Prior to decentralisation, the RDCs were essentially political leaders; hence, they had a lot of power which was curtailed when the 1995 Constitution came into force.

The RDC may attend council, but he/she is not a member of council. The RDC presides over all security matters in the district and chairs those meeting. Issues of protocol have brought conflicts in the districts to LCV Chairpersons and RDCs because when the two are present in a function, it is not clear who precedes the other. According to the PS Public Service, the LCV Chairperson presides over local functions, while the RDC presides over national issues; however, conflicts between the two have been sighted by some of the sampled local governments.

3.2 Policy and Strategies for Local Government Finance

3.2.1 General Policies and Strategies

The decentralisation policy in Uganda evolved over a number of years and involved extensive consultations amongst stakeholders. The Local Governments (Resistance Councils) Statute, 1993 provided the law for decentralisation and empowerment of the popularly elected local leaders to make own decisions, budget, plan and monitor own programmes. The 1995 Constitution and Local Governments Act, 1997 provided for the

district to be a unit of decentralisation and they spelt out the functions devolved to local governments and the applicable funding mechanisms. The idea was to involve the people in the way they are governed i.e. they are involved in decision-making; identifying their own problems, setting priorities, planning their implementation and monitoring; ensuring better utilisation of resources both financial and human; ensuring value for money through participation, transparency and accountability and sensitisation. The decentralisation policy is enshrined in the Constitution and is guided by the following principles:

- The system shall ensure that functions, powers and responsibilities are devolved and transferred from the central government to local governments in a co-ordinated manner;

- Decentralisation shall be a principle applying to all levels of local government units to ensure people's participation and democratic control in decision-making;

- The system shall ensure the full realisation of democratic governance at all local government levels;

- There shall be established for each local government unit a sound finance base with reliable sources of revenue;

- Appropriate measures shall be taken to enable local government units to plan, initiate and execute policies in respect of all matters affecting the people within their areas of jurisdiction;

- The decentralisation policy is designed to achieve the following objectives:

  - transfer real power to the local governments and thus reduce the workload on the central government officials;
  - bring political and administrative control over services to the point where they are actually delivered, thereby improving accountability and effectiveness, promoting people's feeling of ownership of programmes and projects executed in their areas;
  - free local managers from central constraints and, as a long term goal, allow them to develop organisational structures tailored to local circumstances;
  - improve financial accountability by establishing a clear link between the payment of taxes and provision of services they finance; and
  - improve the capacities of councils to plan, finance and manage the delivery of services to their constituents.

In order to allow for the development of a flexible, committed and effective management, the laws had to be amended and a phased approach to devolution of powers, functions and funds was adopted. The relevant legislation was provided to enable the local governments to assume the responsibilities and powers decentralised. For example, the local government councils in 1994 were empowered to appoint District Service Committees, which became the appointing authorities for all civil servants serving in the districts. The Chief Administrative Officer became the head of technical staff in the district. The relationship between the different levels of government and the

functions and services to be rendered are clearly spelt out by the law and the manner of their financing.

Although the Local Government Act provides the legal framework for decentralisation and the functions of each level of government are clear, the implementation has taken a conscious and pragmatic approach, where the functions are transferred from the centre in an orderly manner, as the capacity is created. Some functions such as secondary school and special education are the responsibility of the local governments, but the centre is taking care until there is enough capacity at the local government level. The decentralisation of finances has taken a similar approach, with the decentralisation of the recurrent budget coming first, while the development budget is being implemented gradually to ensure the local governments formulate development plans and create enough capacity to implement them. The development budget decentralisation has been implemented on a pilot basis in some local governments.

The decentralisation policy is being implemented with other policies such as the public service reform programme, which calls for the right-sizing of the personnel serving the centre and the district, ensuring that they are efficient and well motivated. The districts manage own affairs including the hiring and firing of their staff. The private sector is encouraged to participate in the provision of services such as construction of roads, water, etc. to reduce the burden on government and ensure improved service delivery at a reasonable cost. A number of parastatals have been privatised, and some functions and activities like collection of market dues are partly contracted out.

The Central Government has been sensitising the local leaders on their responsibilities and training the technical staff serving the local governments to ensure that they can undertake the functions decentralised and ensure prosper management of resources entrusted to them. The training is in the areas of planning, accountability, personnel management, payroll systems, etc.

3.2.2 Specific Policies and Strategies

More specifically, the strategy of local government finance is to put services at an appropriate level and ensure improved service delivery to the people of Uganda. The local governments have been given responsibility to undertake specific functions and provide services, as shown in the Local Government Act Schedule 2 and parts II to V. In order to perform the functions, the Act also shows how the activities will be funded. The local Governments are mandated to formulate, approve and implement their own plans and budgets. The rationale of empowering the local governments is that the local people know their priorities, and they can make best use of resources including funds. Since the local people are involved in the formulation and implementation of local programmes, an element of ownership is introduced that is critical in achieving better results. It may also lead to reduction of costs since the central government staffs do not have to commute between their offices and the local governments. The local governments also do the implementation, supervision and monitoring themselves. Besides these reasons, the political reasons for fiscal decentralisation also had a strong impact on the policies and strategies in Uganda.

The main sources of revenue are grants, own sources and donations. The local governments receive grants from the central government: unconditional, conditional and equalisation grants. An unconditional grant is given to a local government to run decentralised services, while a conditional grant is to enable the local government to finance programmes agreed upon between the central government and the local government. An equalisation grant is given to a local government whose service delivery is below national average standard for particular services. The main objective of fiscal decentralisation was to ensure efficiency and effectiveness in the use of public finance.

The local governments are empowered by the Act to generate own sources of revenue through levying and collecting taxes, fees, rates, royalties and duties. This revenue is collected by the local government and used as budgeted to fund the activities of the particular local government. As an incentive for the local government to generate more local revenue, part of these funds remain with the lower local government that collected it, and part is remitted to the village, parish and the county councils. This also enables these administrative units to implement their own projects.

Donors participate in the development of the local governments though the support they offer, which includes funding of projects. The funding enables local governments to access more resources needed for provision of improved services.

3.3 Concrete reform initiatives

The government is implementing several major general reform initiatives, with implications for decentralisation. The reforms are mainly in the political, legal, public service, finance and planning spheres.

3.3.1 Legal and Political Reforms

The legal reforms or supporting legislation for decentralisation started with the 1987 statute, followed by the Local Governments (Resistance Council) Statute, 1993. These laws were later entrenched in the 1995 Constitution and further expanded by the Local Governments Act, 1997. The law provides for the district to be a unit of local government or sub-government, with the functions for the central government and the local governments clearly spelt out.

Major political reforms have been instituted in government including the requirement that all political leaders (LCI - LCV councillors) be popularly elected by the people. There is also a requirement that they appoint one day every year to report to the electorate. There is also a principle of non-subordination of the lower councils, even when they are lower councils, implying that they have the power to make decisions on matters affecting them without recourse to the higher local government. There are a number of checks and balances within the system. Although the political head of the district is the District Chairperson, the District Council has both executive and legislative power; hence, the Chairperson is answerable to council whose sittings are chaired by the speaker. Councillors elect the speaker from amongst themselves.

The District Service Commission was established in each district, as required by the Local Government (Resistance Councils) Statute 1993 and Legal Notice Supplement 1 of 1994, with the mandate to appoint, confirm, promote and discipline all employees of the district and urban councils. The Commission exercises independence in its work, although the district council appoints the members of the commission. The central government staffs formerly working in the District were taken over by the district council to form one unified staff, headed by the chief administrative officer, whose immediate allegiance also shifted from the president to the District Council.

3.3.2 The Public Service Reforms

The Public Service Reform Programme has wide implications on the central government and the local governments. The Public Service Review and Re-organisation Committee created in 1989 identified the problems affecting the performance of public servants and recommended reforms aimed at achieving efficiency and effectiveness in public sector management. It required the creation of a public service committed to national and local development. The five-year reform programme registered much success, although much remained to be done. A new five-year Public Service Reform Programme was launched in 1997, which was expected to consolidate the achievements and re-organise the public service further.

The Reform Programme consists of six core components:

- management and reform to ensure effective management and co-ordination of reform program;
- enhanced efficiency and effectiveness through streamlining of organisational structures, introduction of results-oriented management and divestiture of functions;
- management information and control systems to be used to improve personnel and payroll systems, budgeting and financial management systems, assets and records management, audit and inspection;
- developing human resources to ensure the availability of more professional, capable, motivated and honest public servants through better pay, established performance standards, training, appointments and promotions on merit and providing career opportunities;
- time management and organisational discipline through establishing and enforcing standards; and
- good governance, which is a prerequisite for better performance of public servants like any other actors in the economy.

The reforms had wide implications for the management of public servants in the local governments. District review task forces were set up by individual district councils to review the structures and establishments of the local councils and make recommendations. The major reforms that resulted from their recommendations are as follows:

- The power to appoint persons, including the power to confirm appointments, to exercise disciplinary control and to remove persons from office was decentralised to the District Councils and vested in independent District Service Commissions. Each Commission exercises independence in its work, although the District Council appoints the members of the Commission.

- The staffing levels were reduced to ensure rationalisation and affordability. Some posts were abolished and surplus staff retrenched. The district payrolls were weeded of non-existent employees.

- The administrative structure was reviewed and re-organised in light of the new responsibilities decentralised. New departments and posts were created; for example, a fully-fledged department of planning was created in every district.

- The formerly central government staff in the District were taken over by the District Council to form one united staff, headed by the Chief Administrative Officer, whose immediate allegiance also shifted from the President to the District Council.

- Records management was improved and strengthened.

- A system of Result Oriented Management (ROM) was introduced in local governments, with emphasis on value for money, concise workplaces, monitoring and evaluation reporting through the committees of council.

- More resources were dedicated to development of an efficient manpower through training and refresher courses, organised by the local governments, for both the civil staff and political leaders.

- The pension responsibilities were decentralised to the local governments.

- The payroll of all civil servants including teachers is currently being managed at the centre, but the payroll of civil servants serving the districts or urban councils will soon be decentralised. There is a committee, which will soon pilot the implementation of selected computer software for local government payroll management in a few districts.

- The public servants are protected against wrongful dismissal/punishment. Any official who feels unfairly treated can resort to the National Public Service Commission or courts of law for remedial action.

3.3.3 Financial Decentralisation Reforms

The local government decentralisation programme devolved functions and services to local governments. The local governments were allocated sources of revenue to be able to deliver services. Financial decentralisation was implemented in phases involving only recurrent expenditures. The first batch of 13 districts operated a vote system in 1993/94. The line ministries, whose services were decentralised, identified the activities and

computed the amount of money spent on those activities in the fiscal year before decentralisation was transferred to the local governments. The local governments had to implement the programmes of ministries. The second phase started in 1994/95 and the third phase in 1995/96 involved 14 and 12 districts, respectively. In the second and subsequent years, the districts received block grants. This system allowed the district council to allocate the funds according to its priorities since the funds previously provided under the vote system and earmarked for specific activities were aggregated and sent to the district as a block.

According to the Local Government Act 1997, the local governments are entitled to unconditional (block) grants, conditional grants and equalisation grants. The unconditional grants are intended to fund the decentralised functions as shown by the Act, while the conditional grants are supposed to fund national priority programme areas; the conditionalities have to be mutually agreed between the centre and local governments. Equalisation grants are supposed to be given to local governments lagging behind the national standard of service delivery. This practice implies that the grants benefits only local governments facing excessive expenditure pressure and having relatively limited revenue generation capacity since these may be the main causes of poor service delivery. As a first step in introduction of equalisation grant for districts, the Government set aside 2 billion shillings for allocation in the 1999/2000 national budget, after a close review and analysis of the allocation mechanism by the Local Government Finance Commission. The conditional and unconditional grants have been in existence for the last five years.

The Local Governments Act 1997 and 1995 Constitution gave local governments autonomy to formulate and approve own budgets and fund them through own generated revenues, grants and donations. The actual own budgeting started in 1994/95 with the first batch of the 13 districts that received a vote system, as indicated above. Section 78 of the Local Government Act requires them to ensure that they have balanced budgets, and priority must be given to National Priority Programme Areas (education, health, clean and safe water, feeder roads and agricultural extension).

The allocation of revenue sources to local governments was to enable them to collect own revenue and fund their priorities; hence, it ensures more autonomy in budget formulation and implementation. These sources of revenue are: graduated tax, market dues, trade licenses and fees, rates, rents, property tax, royalties, stamp duties, and registration fees. The local governments are believed to be the most competent in assessment and collection of the sources of revenue allocated to them since the activities and properties forming the base are within their areas of jurisdiction. Graduated tax remains the leading source of revenue for local governments, and it is based on the acreage of crops cultivated, livestock numbers and other economic activities. It was discovered in the evaluation that this could best be assessed and collected by the local government because of the seasonal nature and mobility of populations and livestock.

The law also provides for how the locally generated revenue has to be shared amongst local governments and administrative units. The sub-county (LCIII) collects local revenues and remits 35% to the district (LCV) council. Of the amount retained (65% of the total collections) at the sub-county, 25% is returned to the village (LCI) councils, 5% to the parish (LCII) councils, and 5% is passed over to the county (LCIV) council. The City

or Municipal division (LCIII) councils remit 50% of the amount collected to the city (LCV) or municipal (LCIV) council, depending on whether it is a city division or municipal division council. Of the amount retained at the division, 25% is returned to the lower councils. The local revenue is supposed to be collected by the lowest local government (LCIII) because of its proximity to population. These are taxes on locally based activities and assets, which are best known to local councils/communities, especially in cases where assessment, verification and collection may be very important (since people may appeal).

Revenue sharing is very important since each local government or administrative unit has mandatory functions to undertake. The sharing is indicative of the volume of functions and activities performed at each level of local government or administrative unit. The remission of funds to lower councils is intended to encourage people to pay taxes since the more they collect, the more they get back and the more they can fund their own priority activities. A local government may also collect fees or taxes on behalf of the central government as its agent, in which case the local government, subject to the agreement between the two parties, may retain a portion of the funds collected.

The local authorities have autonomy in the preparation, approval, control, monitoring and oversight of the implementation of their budgets. The chairperson of the local government has to ensure that the budget estimates are presented to council not later than the fifteenth day of June every year. The council has to approve the budget, which becomes a binding document thereafter and has to be implemented without recourse to any authority above or below. The budget of a local government has to reflect all revenues and expenditures. This implies that the budget has to incorporate all revenues including local funds, government grants, donor funds and others. The law requires them to run balanced budgets, which must take into account the approved three-year development plan of the local government, as well as the national priorities.

The Ministry of Local Government issued financial and accounting regulations in 1998, whose objectives are to ensure proper and orderly financial management, accountability and value for money. The Ministry is also in the process of completing the Local Government Internal Audit Manual 1999, the Local Government Tender Board Rules and Regulations 1999 and the Local Government Public Accounts Committee Regulations, 2000. These documents prescribe the financial and accountability measures to be followed by all local governments. The councils have the power to enact their own bylaws and regulations to strengthen financial management and accountability. All local government councils and administrative units are required by law to keep proper books of account and to prepare annual accounts and financial statements for auditing. The public officers are accountable personally for any funds used by them out of the Council's coffers. In addition, the council is accountable to the people who are the beneficiaries of the services.

The central government is not supposed to transfer any extra responsibility to a local government without transferring also the necessary funds; no financial obligation can be given to a local government without providing funds for the discharge of that obligation. A local government council has the power to borrow or raise a loan, provided the amount so raised does not exceed 25% of the locally generated revenue and will not infringe on the statutory requirements of the council. The rules behind borrowing are to

ensure that the local government has the capacity to repay the loan and, secondly, that the money is used properly. If the loan is used for non-developmental purposes, it will in the future cause financial strain on the local government and thus affect the level of service delivery.

There have been complaints by politicians and senior staff of local governments that the revenues do not match the functions and services decentralised to local governments. The Local Government Finance Commission is undertaking a revenue sharing study to determine how much it costs to deliver a service and to consider the fairness of the revenue sharing arrangement among local governments. Secondly, LGFC will undertake a revenue enhancement study to determine how the local governments can increase revenue from own sources and identify new sources of revenue. In addition, the central government has piloted the decentralisation of the development budget, which will provide more funds to local governments.

3.3.4 Development Planning Reforms

The local governments have been given authority to plan for the development of their areas. The local governments are required to formulate and implement integrated and comprehensive medium-term development plans, incorporating the plans of lower level local governments within their areas of jurisdiction. The district councils are required to submit their plans to the National Planning Authority for incorporation into the national development plan. The National Planning Authority has not been created; hence, the district plans are not being incorporated in the national development plans. The Ministry of Finance, Planning and Economic Development continues to prepare the national development plans without the input of local governments.

Every district has a technical planning committee composed of all heads of departments and chaired by the Chief Administrative Officer who formulate the development plans for the council to deliberate on and approve. A similar committee exists at the lower level of local governments including urban councils. All districts have established Planning Units composed of planners, economists, statisticians and population officers who guide and co-ordinate the planning process. The Councils discuss quarterly plans and monitoring reports, which examine the way resources have been utilised and the progress of the various developmental projects, including constraints encountered and propose the was forward.

3.4 Division of Tasks and responsibilities between Central and Sub-national Governments

3.4.1 The Central and Local Government Functions

The 1995 Constitution and Local Government Act, 1997 defines the functions of the central government and local governments, but these governments can devolve to lower council some functions, as agreed to by both parties. The resources pertaining to the devolved functions should be availed to the lower council, and the public has to be informed. In the same spirit, the district or any other lower local government can request the central government or any other higher local government to assume responsibility over certain functions and services; in this case, the higher local government has to retain

grants pertaining to the returned tasks. The constituents have to be informed of the transfer of responsibilities for accountability purposes.

The functions of the Central Government comprise defence, security, law and order, national policy formulation of taxation, agriculture, health, education, national planning, setting national standards, monitoring, inspection, co-ordination, provision of technical assistance and advice, support, supervision and training. Generally, the local governments are responsible for all service delivery functions such as education (primary, secondary, special education, trade, etc), medical and health service, water, some roads, agriculture, local government planning, trade licenses, etc. The functions and services of each level of government are shown in the Annex 3.

Table 3.2: Division of Tasks and responsibilities between Central and Sub-national Governments

SERVICE	CENTRAL GOVT	SUB-NAT. GOVT	SHARED
General Public Services			
. National and Sectoral Policy	XXXXX		
. Local Government's Policies		XXXXX	
. Administration and appointment of technical staff for LGs		XXXXX	
. Judiciary	XXXXX		
. Defence	XXXXX		
. Security, law and order			XXXXX
Education			
. Nursery		XXXXX	
. Primary		XXXXX	
. Secondary			XXXXX
. Trade, special & technical education			XXXXX
Health			
. Referral hospitals	XXXXX		
. District hospitals		XXXXX	
. Health centres, dispensaries, clinics		XXXXX	
. Primary health care & health education		XXXXX	
. Control/management of epidemics & disasters			XXXXX
Social Security and Welfare			
. Child welfare services & street children		XXXXX	
. Social rehabilitation		XXXXX	
. Probation and welfare		XXXXX	
Community Amenities			
. Water services			XXXXX
. Removal & disposal of waste and refuse		XXXXX	
. Street lighting		XXXXX	
. Public vehicle parking		XXXXX	
Recreational & cultural affairs			
. Sporting & recreation facilities		XXXXX	
. Cemeteries		XXXXX	
. Public halls, libraries and art galleries		XXXXX	
. Public parks/gardens and recreation grounds		XXXXX	
Economic Services			
. Roads (trunk roads)	XXXXX		
. Roads (feeder and community roads)		XXXXX	
. Trade licensing, produce buying license etc		XXXXX	
. Land administration		XXXXX	

. Agriculture and veterinary extension		XXXXX	
. Forests & wet lands		XXXXX	

Decentralisation has enabled the local governments in Uganda to exercise full powers except for limitations of funding, which affect central government activities as well. Although the functions are clearly provided for by law, the Constitution requires the Central Government to adopt a gradual and systematic approach to decentralisation of services to allow for the creation of sufficient capacity at the local governments level to perform them. The local governments are yet to assume full responsibility over certain functions such as secondary schools, technical schools, etc. The capacity is being created to allow them to take on all their responsibilities. The transitional nature has meant that a lot of co-operation is required to ensure that all the activities are co-ordinated between the centre and the local governments.

The law spells out the functions of each level of government, without room for ambiguity and overlap, but the implementation has introduced some element of sharing of some responsibilities. The security, law and order are clearly a central government role, but the Local Defence Forces/Units also enforce law and order and ensure security of persons and property among the communities. The central government has left this responsibility to the local governments, and yet, according to the law, it is a central government function. The decentralisation policy is quite new in the country; hence, the capacities required for effective implementation vary considerably, with those local governments nearest Kampala the seat of the Central Government relatively better off.

The local governments are quite satisfied with the functions and services decentralised because the level of service delivery has improved relative to the period before decentralisation. The sampled local governments did not propose any functions to be returned to the central government. The main problem facing the local governments is one of lack of funds to hire the right staff, train others and finance the services. According to all the sampled local governments, functions were decentralised without adequate funds accompanying them, and this has hampered their performance. The structure and capacity of the sampled local governments will be presented in the following chapters.

3.4.2 Role of Donors and NGOs

The decentralisation policy has implications for the relationship between donors and local governments. The districts and other local governments have the power to draw plans and own budgets and to approve them; hence, plans and budgets need to reflect all resources including those derived from donors and NGOs. The budgets should therefore reflect the planned activities, which are geared towards the development targets and goals.

The donors never used to consult local governments in the design and implementation of programmes and activities. In the past, the donors dealt with project managers who were mostly located in sectoral ministries. The managers used to oversee the implementation of activities in local governments, with little direct involvement of the local governments and benefiting communities. However, the stakeholders are currently involved directly in the project formulation and implementation, and the

local governments decide on their priorities as well. The Central Government is involved since they are responsible for policy, monitoring and supervision of service delivery. The donors send funds directly to the beneficiaries but inform the central government and the local government. The donors are also creating local offices in the districts where they operate; this enables the donors to interact more with the local politicians and the beneficiary communities.

The donors have been effective in supporting decentralisation in Uganda through strengthening of the capacity of local governments to enable them to deliver effective, quality services to the people. The donor projects include: Danida support to the decentralisation programme; institutional capacity building funded by the World Bank; and programmes of the Federation of Canadian Municipalities to strengthen local governments, support democratisation and ensure improved service delivery. Through twinning arrangements, some local governments have received substantial assistance such as Mbale Municipal Council from Royal Borough of Kensington and Chelsea Technical Co-operation Programme, Iganga Town Council from Daventry District Council, Kampala City Council from Kiklees District Council, Gulu Municipal and District from Lancashire County Council and Fort Portal from Hoje-Taastrup in Denmark. The Associations of Local Governments have been strengthened through donor assistance from Danida, European Union Fund for Regional Programme for Eastern and Southern Africa.

A donor co-ordination office was established in the Ministry of Local Government to ensure proper co-ordination and harmonisation of donor and NGOs interventions in districts and urban councils and to advise on distribution of projects throughout the country. It has been noted that NGO projects are unevenly distributed throughout the county, with consequences on service delivery

3.5 Sample Local Governments

The following introduces the sample local authorities examined in the research study.

3.5.1. Mukono District Council

Mukono is one of the largest districts in the country, with a population of about one million people and covering an area of 14,241 square kilometres. The district headquarters is within a 20 minutes drive from Kampala, the capital city, and it is situated on the Kampala-Malaba highway that connects Uganda to the port of Mombasa in Kenya. The district also has a number of tourist attractions, which include waterfalls and scenic sites in the Islands of Buvuma.

The district chairperson is the political head, while the chief administrative officer is the accounting officer and the head of the civil servants in the district. The district has 6 counties, 32 sub-counties, 5 town councils, 186 parishes, 19 wards and 1497 villages. Although there are elected councillors at each of the above administrative levels, only the sub-county councils and town councils constitute lower local governments. This implies that there are 37 lower local governments, comprising 32 sub-county councils and 5 town councils, while the county and parishes are administrative units. The assistant chief administrative officers are responsible for administration of the counties, while the

sub-county chiefs are responsible for the sub-counties. The parish chiefs are in charge of parishes, which are the lowest administrative units in a district. The town councils are managed by town clerks.

The district council has 63 councillors including the chairperson; 37 of them represent the sub-counties/towns councils or electoral areas, 21 represent women, 2 represent the youth and 2 represent persons with disabilities. The chairperson is elected by universal adult suffrage. The chairperson constituted an executive committee comprising five executive secretaries that have the portfolios of administration, finance and planning, technical services and works, health care, gender and community services, education and sports.

In order to ensure better service delivery to the people of Mukono, the staff is organised into 39 departments, which fall under 7 directorates. The directorates and departments are as follows:

Management support services: The directorate is headed by the chief administrative officer, and it offers general administrative support services to all the other departments. It is composed of the following departments: district council secretariat, administration, district service commission and boards, human resource, internal audit, information, administration police, administration prisons and urban administration.

The directorate is responsible for the following:
- formulation of district policies,
- monitoring and supervision of service delivery,
- strengthening administration,
- guiding lower administrative units,
- law and order,
- custody of offenders,
- information and public relations,
- human resources,
- urban planning and development,
- co-ordination of programmes,
- managing and controlling finance, and
- advising tender board on procurement matters.

Finance and planning: the directorate ensures proper planning, resource allocation, resource utilisation and accountability. The directorate consists of four departments, namely finance, statistics and planning, economic planning and population. The chief finance officer heads the department of finance, and the district statistician, planner and population officers head the other departments.

The directorate is responsible for the following:
- improved revenue collection,
- widening the revenue base,
- improved accountability and better use of resources,
- sensitisation of the need to pay taxes, and
- formulation of district economic plans, budgets and population reports.

Production and Extension Services: the directorate is responsible for promotion and facilitation to ensure increased agricultural production, trade promotion and industrial growth. The directorate has ten departments, namely agriculture, veterinary, fisheries, labour, game and tourism, environment, agriculture mechanisation, forestry, entomology, and trade and industry.

The directorate has the following main objectives:
- increased production and productivity,
- ensure food security, and
- modernisation of agriculture and other related activities.

Technical Services and Works: its mandate is to maintain and rehabilitate feeder roads and maintain buildings, vehicles, etc. The directorate consists of the following departments: engineering transport and plants, lands and physical planning, water, housing and roads.

The directorate has the following main objectives:
- management of land,
- provision of safe drinking water and sanitation, and
- Up-coming urban centre planning.

Education Sector: The directorate is in charge of administration and management of all education institutions i.e. primary schools, secondary schools, special education and tertiary institutions. The directorate is composed of administration, inspectorate, primary education, secondary education, adult and special education, and sports. The mandate of the directorate is to ensure the development and provision of quality education and the development of sports in the district.

Health Care: The health sector aims at reduction in child mortality, reduction of malnourished children, provision of essential drugs, control and prevention of diseases and general health promotion. The following agencies co-operate in the provision of improved health services: medical office, primary health care, maternity and child care, environmental health and vector control officials, hospitals, and lower health units.

Gender and Community Services: The directorate is comprised of 4 departments. These are community development, probation and social welfare, gender, culture and rehabilitation. The directorate has the following functions:
- to mobilise, sensitise and train women and youth in management, politics and any other relevant skills,
- to protect children and ensure their survival and proper development, and
- to promote positive cultural values.

Mukono District Council

Population: 1,095,900 inhabitants (1999 projection – the national census was carried out in l991).

Of which 554,700 male and 541,200 female

Area: 14,241 Km^2

Land area	4594 Km^2	
Water		9057 Km^2
Forest		589.6 Km^2

Expenditure: 11,104,070,100 Shillings (1997/98)

Revenue: 11,714,188,898 Shillings (1997/98)

Councillors:	63	
Executive Secretaries:	5	
Number of Staff:	Traditional	1,350
	Teachers	6,000
Sub-counties:	32	
Urban Councils:	5	

Economic Activities: Agriculture (crop farming, fishing and livestock husbandry), manufacturing and service industry.

Challenges: The district is quite large, stretching from Tanzanian border (within Lake Victoria) in the south to Lake Kyoga in the north, with vegetation ranging from rain forest in the south to comparative savannah in the north; almost three-quarters of the area is covered by water, which offers opportunities and challenges.

3.5.2. Mukono Town Council

Mukono trading centre was gazetted into a township in 1971. It became a town board in the early 1980s and a town council in 1989. The Town occupies two former parishes of Nama sub-county. It is a relatively small town, with a population of 45,000 and covering an area of 33 square kilometres. The town is within 20 minutes drive from Kampala City and is traversed by the Kampala-Malaba highway.

The chairperson is the political head of the town council, while the town clerk is the accounting officer and supervises the public servants in the service of the council. The Town has 4 Wards and 37 Villages. The Town Council has 16 councillors including the town mayor; 10 represent the five electoral areas (a man and woman per electoral area), 2 represent the youth and 2 represent persons with disabilities. The mayor is elected through the universal adult suffrage. The executive committee consists of six executive secretaries that assist the mayor and have responsibilities over information, education, environment, children's affairs, security, gender and community development and finance.

The town council has 4 departments namely: administration (headed by the town clerk), treasury (headed by the treasurer), town engineering (headed by the town engineer), and public heath (headed by the town health inspector).

Mukono Town Council

Population: 45,000 (1999 projection – the national census was carried out in l991)
Area: 33 Km^2
Expenditure: 421,431,000 Shillings (1998/99)
Revenue: 421,431,000 Shillings (1998/99)
Councillors: 16
Executive Secretaries: 6
Number of Staff: 57 employees (31 salary earners and 26 wage earners)
Wards: 4
Villages 37
Major Economic Activities: Trade and peri-urban agriculture
Challenges: The Town council is faced with rapid population growth, which calls for increased service delivery; however, the limited revenue, hampers service delivery.

3.5.3. Nama Sub-County Council

Nama Sub-county is one of the 32 sub-counties of Mukono District. It is within the environs of Mukono Town Council. Mukono Town Council used to be part of Nama Sub-county before it was gazetted into a town council. It is one of the very old sub-counties established by the traditional Buganda Kingdom. It was known as Mutuba IV Kyaggwe. The headquarters of the sub-county moved from place to place, partly due to the expansion of Mukono Town Council, and finally settled in Nama in 1996. The population of the sub-county was 25,625 at the time of the 1990 census, and it occupies 89 square kilometres. The sub-county has two tarmac roads traversing it: Kampala - Jinja - Malaba highway and Mukono - Kayunga road.

The LCIII chairperson is the political head of the sub-county. The sub-county has 6 parishes, which are sub-divided into 44 villages. The sub-county council is composed of 16 councillors including the chairperson, 6 representatives of the six parishes, 5 representatives of women, 2 representatives of the youth and 2 representatives of persons with disabilities. The chairperson is assisted by six executive secretaries whose portfolios are as follows: finance and administration, health, gender and community development, education and mobilisation, youth and security, production and marketing and a vice-chairperson responsible also for children's affairs.

Although, the sub-county, like other sub-counties in the country, does not have clearly established departments, there are 22 employees, excluding teachers. The sub-county chief supervises the civil servants at the sub-county. 6 parish chiefs, each of them responsible for a parish, assist the sub-county chief. The sub-accountant is in charge of budgeting, planning and general bookkeeping. The other employees comprise of public health care workers and support staff.

Nama Sub-County Council

Population: 25,629 (1990)
Area: 89 Km^2
Expenditure: 64,099,015 Shillings (1997/98)
Revenue: 64,099,015 Shillings (1997/98)
Councillors: 16
Executive Secretaries: 6
Number of Staff: Traditional civil servants 22
Teachers -
Major Economic Activities: Crop farming, fishing and livestock husbandry.
Challenges: Low revenue, which cannot meet the high expectations of the public for improved service delivery.

3.5.4. Mbale Municipal Council

Mbale is one of the largest municipalities in the country, with an estimated population of 56,634 and covering an area of 24.35 square kilometres. The municipality is located on a highway connecting most of the districts in the east and northeastern part of Uganda. The municipality is located at the foot of Mt. Elgon, and it has good hotel accommodations suitable for tourists on mountain climbing expeditions. In addition, the municipality is an administrative, commercial and industrial hub, serving mostly the districts.

Semei Kakungulu, who had fallen out with his European superiors, founded Mbale in 1902. It later developed into a camping site for European and Arab traders. These traders were dealing in ivory, hides and skins, mostly from Karamoja (Moroto and Kotido districts). It was gazetted into a township in 1910 and upgraded into a municipal council in 1959. The Municipality, like most urban councils, is multiethnic, with each major tribe in the country represented.

The mayor is the political head of the municipality, while the town clerk supervises the civil servants. The municipality has three divisions (namely: Industrial, Northern and Wanale), 12 wards and 79 villages. The municipal council and the three division councils constitute lower local governments, while the ward and village councils are administrative units. A division is headed an assistant town clerk.

The municipal council has 25 councillors, including the chairperson; 14 of them represent the wards/electoral areas, 6 represent women, 2 represent the youth and 2 represent persons with disabilities. In council, there are 10 women, or 40 percent of the councillors. The mayor is elected through universal adult suffrage. The mayor nominates executive secretaries to oversee the different sectors. The municipal council has 7 executive secretaries in charge of finance, economic planning & poverty eradication, gender, health, child welfare, youth & sports, education, manpower development & employment, information & mobilisation, works, environmental protection & physical planning, community development & housing, and security.

The municipal council has 4 standing committees and one board. These are: gender, health, education & community services committee, works, housing, physical planning & environment committee, management, finance & economic development committee and the urban tender board.

There staff are organised in basically five departments: town & general management, public works department, public health department, finance and audit headed by the deputy town clerk, municipal engineer, medical officer, chief finance officer and senior internal auditor, respectively. The municipal council has a workforce of 164 traditional civil servants and 329 teachers.

Mbale Municipal Council

Population:	59,634 inhabitants (1999 projection)
	Of which 25,358 male and 31,276 female
Area:	24.35 Km^2
	Land area 24.35 Km^2
	Water -
	Forest -
Expenditure:	439,910,218 Shillings (1998/99)
Revenue:	502,753,613 Shillings (1998/99)
Councillors:	25
Executive Secretaries:	6
Number of Staff:	Traditional civil servants 164
Teachers:	329
Divisions:	3
Wards:	12

Economic Activities: Trade/commerce, manufacturing and service industry e.g. tourist services, hotels etc, recreational activities and peri-urban agriculture.

Challenges: The informal sector needs to be supported if local revenues are to be realised since it is one of the largest employers in the municipality. Secondly, the municipality is faced with increased numbers of street children who are destitute and in dire need of assistance.

3.5.5. Lira Municipal Council

Lira municipal council has experienced relatively rapid growth. It has a population estimated at 34,000 inhabitants, occupying an area of 30 square kilometres. It is located in northern Uganda, and it is at a terminus of the tarmac road connecting the Gulu – Kampala highway. The town is centrally located in the north and serves traders from the neighbouring districts of Kotido, Kitgum, Apac, Gulu and Lira. The municipality hosts the administrative headquarters of Lira district. Lira district headquarters was established in 1914 and was gazetted into a township authority in 1933. It became a town council in 1962 and further upgraded into a municipality in 1985.

The mayor is the political head of the municipality. Lira municipal council has four divisions namely: Central, Ojwina, Adyel and Railways, below which are 18 wards. The municipal council and the division councils are lower local governments. The town clerk supervises the civil servants in the municipality, assisted by assistant town clerks in charge of the divisions.

The municipal council has 34 councillors including the chairperson, 20 representatives of wards/electoral areas, 9 representatives of women, and 2 representatives of the youth and 2 representatives of persons with disabilities. The whole council has 9 women, constituting about 33 percent. The mayor is elected through universal adult suffrage. The mayor is assisted by 6 executive secretaries that are in charge of finance, technical services, education and sports, health and environment and community services and a vice to the mayor. The municipal council has an urban tender board.

The municipal council has seven departments: mayor's office/urban council, management department, finance, education, engineering, public health and environment, headed, respectively, by the town clerk, deputy town clerk, municipal treasurer, municipal education officer, municipal engineer, senior health inspector and environment officer. The urban council formulates policies, the management department co-ordinates activities of the other departments, the finance department mobilises and administers finance resources, the education department ensures accessibility of education and ensures that standards set by the municipality are implemented. The municipal council has 135 traditional civil servants and 837 teachers.

Lira Municipal Council

Population:	34,988 inhabitants (1999 projection)
	Of which 19,009 male and 15,979 female
Area:	30 Km^2
	Land area 30 Km^2
	Water -
	Forest -
Expenditure:	869,425,000 Shillings (1998/99)
Revenue:	869,425,000 Shillings (1998/99)
Councillors:	34
Executive Secretaries:	6
Number of Staff:	Traditional civil servants 135
Teachers	837
Divisions:	4
Wards:	18

Economic Activities: Trade/commerce, agro-processing, formal employment, service industry and peri-urban agriculture.

Challenges: Because of insecurity in neighbouring districts, the municipality has to cater for more people who come in and go, depending on the situation back home. This increases pressure on the services of the council. There is lack of proper planning in the urban council generally.

3.5.6. Kotido District Council

The District was founded in 1971, when it was carved out of the former Karamoja district. Kotido is one of the largest districts in the country, occupying 13,208 square kilometres, it is located in the northeastern part of the country and it has a population of 245,800. The district is largely semi-arid and has unreliable rainfall. Karamojong people, who are nomadic and search for water and pasture for livestock especially during the dry season, inhabit the district. The district is faced with frequent food shortages, leading to widespread malnourishment of children, lactating mothers and the old. The people live in clusters, known as *manyatta,* for security purposes because the three sub-tribes (Jie, Dodoth and Labwor) who inhabit the district are hostile to each other. They have frequent hostilities, leading to loss of life and property (especially livestock, which is the main source of livelihood in the district). The infrastructure is generally poor, the roads are impassable during the rainy season, water is quite scarce and telephone services are non-existent. The district has some gold deposits, and it is home to one of national game parks. The district has a wide variety of wildlife, amongst other resources, but the poor communication network and insecurity has denied the district income from these resources.

The chairperson of the district is the political leader, and he/she is accountable to the district council. The district has 3 counties (namely Jie, Dodoth and Labwor), 19 sub-counties, 85 parishes and 527 villages. Kotido town council is the only town council in the district. The town has 5 wards and 16 villages. There are 20 lower local governments in Kotido district, excluding the district council since it is composed of the sub-counties and the town council only. The chief administrative officer is the accounting officer, and he supervises the civil servants in the district. The assistant chief administrative officers are responsible for counties, while a town clerk is in charge of the town council. The sub-county chiefs and parish chiefs are the chief technical heads at their respective levels.

The district council has 38 councillors including the chairperson, 20 representatives of sub-counties/town council or electoral areas, 13 representatives of women, 2 representatives of the youth and 2 representatives of persons with disabilities. The chairperson is elected through universal adult suffrage. The chairperson is assisted by 6 executive secretaries presiding over finance and administration, health, production and marketing, education and social services, information and general purposes and a vice-chairperson who is also in charge of children's affairs.

The staff are organised in 15 departments namely: Chief Administrative Officer's Office, Finance Department, Internal Audit, Education, Agriculture, Veterinary, Medical, Trade and Marketing, Entomology, Community Development, Forest, Water, Works district, Information, District Service Commission and Probation & Social Welfare.

Kotido District Council

Population:	245,800 inhabitants (1999 projection)		
	Of which 117,400 male and 128,400 female		
Area:	13,208 Km^2		
	Land area	11,075 Km^2	
	Water		Nil
	Forest		2,133 Km^2
Expenditure:	146,809,838 Shillings (1997/98)		
Revenue:	146,809,838 Shillings (1997/98)		
Councillors:		38	
Executive Secretaries:	6		
Number of Staff:	Traditional	450	
		Teachers	502
Sub-counties:	19		
Urban Councils:	1		
Economic Activities:	Agriculture (herding and crop farming).		

Challenges: The district is faced with limited local revenue and insecurity of person and property due to intermittent cattle rustling. The general literacy levels are relatively low. The district is semi-arid with unreliable rainfall and as a result the people are faced with frequent food shortages and lack of pasture and water for livestock.

3.5.7 Lira District Council

Lira district is located in northern Uganda, with a population of 635,300 and occupying 7,251 square kilometres, of which 1,042 square kilometres is water and wetlands. In 1974, the former Lango district was split into two districts: East and West Lango. East Lango was renamed Lira in 1981, with its headquarters in Lira town. The Lango ethnic tribe, who speak luo and belong to the Nilo-hermitic group that originally migrated from Ethiopia, mainly inhabit the district. The district is low lying, and some parts are faced with floods, which destroy crops and property. The districts suffered from insurgency and cattle rustling in the past, which led to massive destruction of property and loss of livestock. The road network in the district is poor, with only one tarmac road connecting the Gulu -Kampala highway. Some of the roads become impassable during the rainy season.

The district chairperson is the political head of a district. Lira district has 5 counties (Erute, Otuke, Moroto, Dokolo and Kyoga) and 24 sub-counties (Muntu, Namasale, Awelo, Aputi, Kangai, Agwata, Bata, Dokolo, Kwera, Olilim, Adwari, Orum, Okwang, Abako, Apala, Aloi, Omoro, Amungu, Aromo, Ogur, Lira, Adekokwok, Bar and Amach). Lira municipal council is the only urban council in the district. The district has 155 parishes and 2080 villages. The chief administrative officer is the accounting officer and supervises all civil servants in the district. The assistant chief administrative officers are responsible for counties. The sub-county chiefs are responsible for sub-counties, while the parish chiefs are responsible for parishes.

The district council is composed of 49 councillors, of whom 33 represent the sub-counties/division council or electoral areas, 12 represent women, 2 represent the youth and 2 represent persons with disabilities. The chairperson has an executive of 6 members, with each of them responsible for a sector: finance and administration, health and social affairs, education, information and mass communication, works, lands and water supplies, production, marketing and environment and the vice-chairperson. The statutory bodies in the district are: district public accounts committee, district service commission, district land board and district tender board. In addition there is an administrative hospital management committee in the District.

The are seven departments in the district, namely: management services, production, education, planning unit, works, lands and water supply, finance and health.

- *Management services* – co-ordinate the activities of the other departments.
- *Production* - promotes agricultural production, promote agro-technology.
- *Education* - promotes accessibility to quality education.
- *Planning unit* – facilitate the local governments in budgeting and the preparation of the economic plans.
- *Works, lands & water supply* - builds and maintains infrastructure such as roads, schools, water sources etc.
- *Finance* - mobilises and manages financial resources.
- *Health* - ensure efficient health services delivery.

Lira District Council

Population:	635,300 inhabitants (1999 projection)		
	Of which 316,800 male and 318,500 female		
Area:	7,251 Km^2		
	Land area	6,151 Km^2	
	Water		1,042 Km^2
	Forest		58 Km^2
Expenditure:	15,963,992,991 Shillings (1998/99)		
Revenue:	15,256,092,050 Shillings (1998/99)		
Councillors:	49		
Executive Secretaries:	6		
Number of Staff:	Traditional	1,182	
		Teachers	4,193
Sub-counties:	24		
Urban Councils:	1		
Economic Activities:	Agriculture, commerce, fishing, small scales industries like agro-processing, animal husbandry.		

Challenges: The district is faced with frequent drought (especially in Otuke county), poor sandy soils, floods in the low lying areas of Kioga and Dokolo sub-counties, cattle rustling by the Karamojong nomads and the on and off insurgency.

3.5.8. Kampala City Council

Kampala is the capital city of Uganda, with a resident population of about 890,800 and occupying 184 square kilometres. Most of the central government offices are located in Kampala, while a few are located in Entebbe municipal council. In addition, the city has good hotels that serve tourists, and it has an extensive road network connecting it to other towns in the country. The city is located within one of the counties of the former Buganda Kingdom, and it is said to have been established by King Kimera II in 1350. Kampala became a town in 1905, a municipality in 1951, a city on 1st January 1962 and a capital city on 8th October 1962.

The mayor is the political head of the city. The town clerk is an accounting officer and supervises the civil servants employed by the City Council. The city has 5 city division councils. The city has 99 wards and 802 villages. The principal/senior assistant town clerk supervises technical staff serving the divisions.

The city has 31 councillors of whom 16 represent divisions/electoral areas, 11 represent women, 2 represent the youth and 2 represent persons with disabilities. A mayor is elected by universal adult suffrage. The executive committee consists of 6 secretaries, each of them presiding over a sector. The sectors are finance, planning & administration, education & sports, health & environment, works, traffic & physical planning, community services, gender & production and a deputy mayor. The city has constituted 5 statutory bodies: district service commission, district human rights committee, district public accounts committee, district land board and district tender board.

The city council has 10 departments namely:

- Town Clerk's Office - offers management support and co-ordinates the activities of other departments.
- Finance Office - mobilises and manages finance.
- Internal Audit - monitors adherence to rules and financial/policy discipline.
- City Engineering and Survey - provides technical and scientific/engineering support and services.
- City Education Office - provides education service monitoring and supervision, including games.
- City Medical Services – provides curative and preventive medical and health services.
- Chief Town Planner – oversees physical planning in the city.
- City Advocates Office – provides legal advice and litigation support.
- Community services, gender, labour welfare and production – provides community, gender, labour, welfare and production services.
- Clerk to Council - serves the council and statutory boards.

Kampala City Council

Population: 890,800 inhabitants (1999 projection)
Of which 436,492 male and 454,308 female
Area: 184 Km^2
Land area 169 Km^2
Water 31 Km^2
Forest 3.7 Km^2
Expenditure: 23,592,261,766 Shillings (1998/99) Budget
Revenue: 17,561,810,333 Shillings (1998/99) Actual
Councillors: 31
Executive Secretaries: 7
Number of Staff: 4,249 (Traditional 1,541 and Teachers 2,708)
Divisions: 5
Wards: 99
Villages: 802

Economic Activities: Trade/commerce, industry (including manufacturing), services, and urban agriculture including animal husbandry.

Challenges: urban shadow effect (high day population), urban footsteps (the city is growing along the literal transit roads and not within the borders of the city) posing planning problems, pollution and environmental degradation and low resource base.

3.5.9 Bushenyi District Council

Bushenyi is located in south-western Uganda and has a population projected in 1998 at 739,000. The district was curved out of the former Ankole district in 1974. The district has an area of 3,949 square kilometres, of which 370 square kilometres is covered by water. It is mainly inhabited by Banyankole. The population is engaged primarily in farming (both crop and livestock), fishing and forestry activities. The main crops grown are bananas, beans, coffee, finger millet, cassava and sweet potatoes. Although the Bushenyi Town, the district headquarters, is connected to Kampala by a good tarmac road, some roads become impassable during the rainy season.

Bushenyi has 5 counties namely: Buhweju, Bunyaruguru, Igara, Ruhinda and Sheema, 27 sub-counties, two town councils, 148 parishes, 8 wards and 2028 villages. The district has 979 civil servants, excluding teachers. The administrative set-up is like any other district, with the chief administrative officer as the accounting officer and assistant chief administrative officers, who are responsible for counties.

The district council is composed of 49 councillors (31 represent sub-counties/electoral areas, 14 represent women, 2 represent the youth and 2 represent persons with disabilities). The executive committee comprises the chairperson, vice chairperson, secretaries for finance, production and marketing, education and sports, works and technical services and social services. The statutory bodies include district public accounts committee, district service commission and district tender board.

There are seven departments namely: management and support services, production and marketing, education & sports, works & technical services, finance & planning and medical, gender & community services.

Bushenyi District Council

Population: 739,800 inhabitants (1998 projection)
Of which 359,200 male and 380,600 female
Area: 3949 Km^2
Water 370 Km^2
Wet land 183 Km^2

Expenditure: 12.736 billion Shillings (1998/99) Budget
Revenue: 12.736 billion Shillings (1998/99) Budget
Councillors: 49
Executive Secretaries: 6
Number of Staff: 979 civil servants
Counties: 5
Sub-counties: 27
Town councils 2
Parishes 148
Wards 4
Villages 2027
Economic Activities: Crops and livestock husbandry, dairy farming, fishing and forestry activities.

3.5.10 Rakai District Council

Rakai is located in the central region of Uganda and is inhabited mainly by Baganda. Its population is estimated at 383,501. The district was curved out of Masaka in 1974 and has an area of 4,989 square kilometres, of which 1,089 is covered by water/wetlands. The population is mainly engaged in crop and livestock farming, fishing and trade.

Rakai has 4 counties, namely Kyotera, Kabula, Kakuuto and Kooki, 22 sub-counties, 3 town councils, 104 parishes and 894 villages. The district has 785 civil servants, excluding teachers. The chief administrative officer supervises all employees of the district.

The district council is composed of 46 councillors, of which 26 represent sub-counties/electoral areas, 15 represent women, 2 represent the youth and 2 represent persons with disabilities. The executive committee comprises the chairperson, vice chairperson, secretaries for finance, administration & planning, production, education & social welfare, works, health, water & environment and security. The statutory bodies include the district public accounts committee, district service commission, district tender board and land board.

There are 7 departments namely: administration, production, education & sports, works & communication, finance, planning and health & water.

Rakai District Council

Population: 383,501 inhabitants
Of which 189082 male and 194,419 female
Area: 4989 Km^2
Water/wet land 1089 Km^2
Expenditure: 6.858 billion Shillings (1998/99)
Revenue: 6.409 billion Shillings (1998/99)
Councillors: 46
Executive Secretaries: 6
Number of Staff: 785 civil servants
Counties 4
Sub-counties 22
Town councils 3
Parishes 104
Villages 894
Economic Activities: crop and livestock husbandry, fishing and commerce.

CHAPTER FOUR
THE FINANCES OF THE PUBLIC SECTOR

4.1 Introduction

4.1.1 Background

Decentralisation is enshrined in the Constitution of Uganda, 1995. Chapter 11, Articles 176-207 of the Constitution, spells out the system of local government in the country. Local governments are based on districts, under which are lower governments, such as municipalities and sub-county councils and administrative units. Article 191 of the Constitution provides for local governments to levy, charge, collect and appropriate fees and taxes. Article 193 provides for the central government to pay money to local governments as unconditional, conditional and equalisation grants. In March 1997, Parliament enacted the Local Government Act to give effect to the constitutional provisions.

The system of local government in Uganda is based on the district. Each district has a District Council. There are lower local councils, which consist of urban (city, municipal, town) councils and sub-county councils. The central government gives financial support by way of transfers to both district and urban local councils. Urban councils receive transfers through the district councils.

Financial decentralisation, among other important elements in Uganda, is understood as a system whereby local governments are given autonomy to collect revenue and decide how the revenue is utilised. Financial decentralisation was effected in 1993/94. Initially, it covered only 13 districts out of the 39 in the country. In 1994/95, coverage was expanded to 26 districts. Full financial decentralisation was achieved in 1995/96. For this reason, FY1995/96 has been taken as the base year in this study.

At the end of 1996/97, six new districts were created, having been curved from existing districts. These districts became financially autonomous in 1997/98. In terms of coverage, the yearly aggregate data covered even the new districts since the original districts, from which they were curved, had provisions that covered the whole districts, as originally delineated.

The policy of financial decentralisation, in effect, meant shifting funding from the "vote" system to the "block grant" system[81]. The vote system was where funds were transferred from the central government to the local governments, with specific guidelines on how much should be spent on district services. In contrast, the block grant system means the central government transfers funds to the local government in lump sum and allows the local governments discretion to distribute the block grant, together with locally raised revenues, according to its priorities.

[81] Permanent Secretary, Ministry of Local Government: Analysis of 1994/95 Budgets for Districts on Block Grants System

It has been observed that many local governments make unrealistic budget forecasts of local revenue and donations[82]. At the same time, expenditures are planned that cannot be implemented within the resource envelopes available to the local governments. This means the local governments' revenue budgets do not balance with expenditure estimates, with the latter being higher. In such cases, expenditure programmes cannot be fully implemented. Besides, this is illegal according to the Local Government Act.

According to the Local Government Act, local government expenditure should conform to national priority areas, as identified by the Ministry of Finance, Planning & Economic Development. On the other hand, during implementation of the budget, non-priority administrative expenses, such as Councillors' allowances, tend to get first call on the available resources; thereby leaving very little for areas identified as national priorities. Therefore, arising from this apparent contradiction, the Ministry of Finance has proposed extensive use of conditional grants[83] to ensure adherence to the priority areas. This is supposed to be an interim arrangement when local government budgetary discipline is being built.

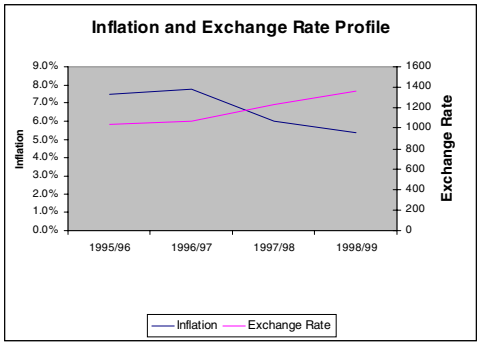
The study has focussed at two levels; the aggregate level for all sub-national governments and specifically for the sample local governments chosen for this study: six district councils, three urban councils and one sub-county council. The district councils were: Bushenyi, Kampala, Kotido, Lira, Mukono and Rakai; the urban councils were Lira, Mbale and Mukono; and the sub-county selected was Nama in Mukono District.

In this study, accounts figures have been used for the period 1995/96 to 1997/98 and budgeted figures for 1998/99. All figures are stated in current prices.

The following macroeconomic indicators should be borne in mind when comparing the figures. The rate of inflation fell from 7.5% in 1995/96 to 6% in 1997/98. The inflation rate for the year ending April 1999 was 5.4%. The Uganda shilling depreciated against the US Dollar by 8.6% between 1995/96 and 1997/98 from sh. 1,041.40 to sh. 1,231.02. The exchange rate as of January 1999 was sh. 1,369.21.

[82] Ministry of Local Government: Analysis of Districts and Urban Councils Budgets for 1997/98 financial Year, Para 4.0, pp 3.
[83] Ministry of Finance, Planning and Economic Development: Background to the Budget 1998/99, Para 7.6.10, pp 105.

Chart: Inflation and Exchange Rates Movement, 1995/96 – 1998/99



While the study was designed to cover expenditures and revenues for all levels of local government councils, only district and urban councils (Local Council V & IV) have been covered in this study. It was not possible to get data for lower councils (Local Councils I – III).[84]

Data for central government accounts were obtained from publications of the Ministry of Finance, Planning and Economic Development, mainly the Draft Estimates of the Recurrent and Development Budgets, the Background to the Budget and the Statistical Abstract. For local governments, the main source was the Decentralisation Secretariat's Analyses of the Districts and Urban Councils Budgets. Part of the data is incomplete and some inconsistencies have been revealed.

For 1995/96, out of the then 39 districts of Uganda, data for only 28 districts was available and for 1996/97, for 35 districts. Six more districts were created in 1997, which raised the total number of districts to 45. For 1997/98 and 1998/99, data was available for 36 districts out of 45, cf. the annexes for further details on the figures.

In many cases, there were gaps in the data provided. For example, for 1995/95, out of the 28 districts, only 23 provided figures for locally collected revenues (graduated tax, property tax, market dues and licences & fees); none provided figures on expenditures related to locally generated revenues. There was no data for urban councils for 1995/96. For 1996/97, data was available for only 17 out of the 50 urban councils. For 1997/98 and 1998/99, data was available for 34 out of 69 urban councils (new councils were created in 1997).

Adjustments (linear projection) were made on the observed data to give estimates for the whole country by multiplying the aggregates by the total number of districts then dividing by the number of districts for which data was available. The data from the Decentralisation Secretariat was supplemented with data collected directly from the sample local governments. However, whenever there was a difference between the two sources, data collected directly was used.

The central government financial year runs from 1st July to 30th June. Until 1997, the local government financial year ran from 1st October to 30th September. The Local

[84] It is estimated that the districts and the municipalities account for more than 80% of the total sub-national government expenditures

Government Act, 1997 synchronised the local government financial year with that of the central government. This affected the length of FY1996/97, which was cut short to nine months (October 1996 - June 1997). The figures for revenue and recurrent expenditure for that year were accordingly adjusted by prorating for the extra three months to make the year comparable to other years. However, the capital expenditure figures were not adjusted because it was considered that capital expenditures are not uniformly spread over the months. It was assumed that the last three months would not have significantly changed the capital outlay.

4.1.2 General Data on Expenditure and Revenues

Expenditure figures include donor/aid support funds. Officially, negotiated loans and credits are channelled through the central government, and local governments can only benefit from them through transfers from the central government. Central government recurrent expenditure figures include interest payments. Local governments do not directly borrow from abroad due to restrictions imposed by the Ministry of Finance and the debt management policy.

Central government total expenditure increased from sh. 697.9 billion in 1995/96 to sh. 868.0 billion in 1996/97. This represents an increase of about 24.4%. Expenditure for 1997/98 increased further by another 24.1% to sh. 1,077.2 billion. Budgeted expenditure for 1998/99 is sh. 1,807.5 billion. Likewise, local governments' total expenditure grew from sh. 172.0 billion to sh. 331.9 billion to sh. 279.3 billion for the three years, respectively. The 1998/99 expenditure budget is sh 370 billion.

Local government expenditure as a proportion of central government rose from 24.6% in 1995/96 to 38.2% in 1996/97 then fell to 25.9% in 1997/98. The increase in 1996/97 may partly be due to the adjustment made on actual expenditures. The ratio is projected to fall further to 20.5% in 1998/99.

Revenue efforts at both the central and local government levels were hampered by the El Nino weather phenomenon, which occurred in 1997.

The Gross Domestic Product (GDP) of Uganda has been growing at a relatively fast rate over the past eight years, although in recent times the rate has somewhat slowed down. GDP, at constant (1991) prices, in 1995/96 was sh. 2,856.3 billion, in 1996/97 it was sh. 3,005.7 billion and in 1997/98 was sh. 3,170.5 billion. The annual growth rates were 8.1%, 5.2% and 5.5%, respectively. The slow down in growth was attributed, in the main, to the El Nino weather. The respective GDP figures at current prices for the same period were 5,639.6 billion, 6,323.2 billion and 6,963.6 billion. Local government total expenditure forms less than 4% of the Gross Domestic Product. Similarly, the share of local government revenue in GDP is between 3.5% and 4.5%.

Net public debt at the end of June 1996 was sh. 3,415.3 billion, which increased to sh. 3,554.4 billion as at end of June 1997. Since 1995/96 Government has adopted the policy to limit domestic borrowing. In fact, Government made net savings rather than borrowing. These were recorded as credit balances with the Bank of Uganda. Domestic public saving moved from sh. 112.1 billion in June 1996 to sh. 195.7 billion

in June 1997[85]. Foreign debt, in contrast, grew from US$ 3,563 million (sh. 3,527.3 billion) as at June 1996 to $ 3,653.7 million (sh. 3750.1 billion) in June 1997[86]. There is no borrowing by the local governments because of a combination of legal and policy restrictions.

Bushenyi District

Table 4.2.1-(a) shows Bushenyi District Council's Aggregate Expenditures and Revenues. Total expenditures rose from sh. 5.62 billion in 1995/96 to sh. 7.39 billion in 1996/97 and further increased to sh. 9.0 billion in 1997/98. The annual increase was about 27% over the three years. Budgeted expenditure for 1998/99 is sh. 12.40 billion. The share of the district total expenditure in all local governments' total expenditure remained about the same over the years: between 3.2% and 3.4% except for 1996/97, when it dropped to 2.2%.

Bushenyi District's total revenue increased by 21.5%, from sh. 5.83 billion in 1995/96 to sh. 7.06 billion in 1996/97. The District, however, said the increase should have been higher if it were not for the somewhat lower than expected tax collection. In 1997/98, total revenue increased by nearly 37% to sh.9.67 billion despite the bad weather effects. The increase was attributed mainly to the increase in transfers from the central government (which nearly doubled) and a tripling of receipts from donations. The budget for 1998/99 shows the district total revenue expected to increase further to sh 12.73 billion. As a share of all local government total revenue, Bushenyi district features at 3.1% - 3.3%, similar to that of expenditure, although in 1996/97 its share dropped to 2.0%.

Kampala City

Table 4.2.1-(b) shows Kampala City Council aggregate expenditures and revenues. City Council total expenditures increased steadily over the period, from sh. 9.28 billion in 1995/96 to sh. 13.36 billion in 1996/97 and subsequently to sh. 21.3 billion in 1997/98. The 1998/99 budget shows a small decline to sh. 20.9 billion. It should be noted that the 1995/96 and 1996/97 accounts did not include expenditure financed from central government funds.

The share of Kampala City Council in all local governments' total expenditure rose from 5.4% in 1995/96 to 7.6% in 1997/98.

The City Council total revenue likewise increased from sh. 16.15 billion in 1995/96 to sh.19.3 billion in 1997/98. The1998/99 budget shows a big increase of nearly 40% to sh. 27.05 billion. This increase is expected mainly from property tax. The share of the City Council in local governments' total revenue stayed between 2.4% and 3.0%.

Kotido District

Kotido District lies in the remote northeastern part of Uganda. In the words of the chief administrative officer, Kotido is the poorest district in the country. It was difficult to get the financial records of the District. The key people in the Finance Department were

[85] Bank of Uganda Annual Report, 1996/97; Appendix 14.
[86] Ministry of Finance, Planning and Economic Development, 1998 Statistical Abstract, Table E10, pp 48.

reportedly sick and off duty. Attempt was made to get the data from the District Planner. The figures that follow are the result of these attempts. Because of this limitation, the analysis is in some areas very subjective and based on discussions with the CAO and a few other officials of the District.

Table 4.2.1-(c) shows the expenditure and revenue figures for Kotido District. It must be pointed out that getting the figures was very difficult, and the figures may not be very accurate. Figures for 1995/96 are the most unreliable and have been ignored.

The figures show a large increase in expenditure from l997/98 to l998/99, especially due to a large increase in the capital expenditure (approx. half of the expenditure from l998/98).

The District echoed the general complaint that they are not meaningfully involved in the budget discussion process with the central government. They emphasised that the present institutional set-up with or through the Ministry of Local Government is not effective, and they recommended setting up a more effective interface between the central government and the local government. The District strongly urged that the development budget be decentralised as soon as possible. The District also complained that requiring all NGOs to report through the office of the Prime Minister imposes some kind of censorship. They feared that the office, for example, could advise the NGOs to direct their assistance to other districts or areas instead of where they would have originally intended. Instead, they recommended that Districts should deal directly with NGOs to exclude the possibility of interference.

Lira District

Lira District is largely a subsistence economy, with 81% of the population engaged in subsistence agriculture. There is a nascent industrial base, engaging about 3.1% of the population, while 10.4% are property owners. There is relatively high poverty, with nearly 53% of the population estimated to be living below the poverty level.

Lira District, at the time of carrying out the study, did not have up-to-date books of accounts. There were no audited final accounts for any of the years under review. This was attributed to lack of qualified staff. The District appointed a substantive Chief Finance Officer only in 1998, and he found the accounts several years in arrears. He has begun updating the books, but he reckons it will take some time to accomplish the task especially as he must also keep abreast with current accounts. The figures shown in the attached tables were derived from various performance reports.

Table 4.2.1-(d) gives Lira District's expenditure and revenue accounts for 1995/96 to 1998/99. Revenue nearly doubled from sh. 5.48 billion in 1995/96 to sh. 10.49 billion in 1997/98. Its share in all local government total expenditure rose from 3.2% to 3.8% over the same period.

The District's revenue rose from sh. 5.05 billion to sh. 8.51 billion. The district's revenue showed a slightly lower share in all local governments' revenue of about 2.7%.

Mukono District

Mukono District is one of the well-endowed districts in Uganda, in terms of its natural resources. Its location places it near cosmopolitan Kampala City, and this allows it access to bigger markets and services such as the highway, electric power, etc. For the above reasons, Mukono District is above average in its budgets ranking.

The District's expenditure and revenue performance is shown in Table 4.2.1-(e). Total expenditure grew at about 22% annually between 1995/96 and 1997/98, from sh. 5.45 billion to sh. 8.12 billion. However, its share in all local government expenditure slightly declined from 3.2% to 2.9%. In 1998/99, expenditure is budgeted to reach sh. 10.92 billion, an increase of 34.4%.

Likewise, revenue grew from sh. 7.07 billion to sh. 11.35 billion between 1995/96 and 1997/98. The 1998/99 revenue budget is sh. 19.53 billion. It should be observed that revenue figures between 1995/96 and 1997/98 were 30% – 40% higher than expenditure figures. No clear explanation for this discrepancy was obtained from the District authorities.

Rakai District

Rakai District suffered serious devastation during the war to topple dictator Idi Amin from Government. AIDS decimated the population of the district. It is said that most of the adult population was killed in the district. In some reports, it is stated that over 85% of the children have lost at least one of their parents. Because of that history, a number of NGOs have had sympathy toward the district, and various forms of assistance have been extended to the district. Today, Rakai District boasts of being in the top fire districts in terms of its revenue budget, though this is mainly based on donor support. The biggest donor is DANIDA, which is involved in a number of sectors in the district.

The accounts of the district are computerised, and there is rigorous monitoring and auditing of the projects by the donors. The accounts for each donor are prepared separately. However, consolidation of the accounts appears to be problematic. The accounts, which have been submitted to the Ministry of Local Government, vary from year to year in their scope. For example, in the 1997/98 accounts, expenditure for construction of the trunk road to the district financed by DANIDA appears in the capital expenditure accounts, but it is not reflected in the revenue account. Therefore, revenues and expenditures do not balance in many instances.

Table 4.2.1-(f) shows the district's expenditure and revenue position for the financial years 1995/96 - 1998/99. Total expenditure dipped slightly in 1996/97 to sh. 4.85 billion from sh. 5.08 billion the previous year because of lower revenue. However, it grew to sh. 9.05 billion in 1997/98. The district's share of total local government expenditure slightly increased from 3.0% in 1995/96 to 3.22 in 1997/98.

As mentioned above, revenue dropped in 1996/97. This was attributed to the bad El Nino weather in that year. Revenue performance improved the following year, rising to sh. 5.43 billion. The district's share in all local government total revenue declined from 2.7% down to 1.7% over the same period.

Lira Municipal Council

The books of accounts of the Council were found to be in arrears because the accounts staff who should have been working on the books had been deployed in the Municipal Divisions as sub-accountants. It was explained that, at the time, the positions of sub accountants had not been substantively filled. Budget estimates for 1996/97 – 1998/99 were obtained. The quality of the budgets was good and showed a balanced budget. However, there were no serious commitments to the budgets. As an example, in his 1998/99 Budget speech, the Secretary for Finance and Planning of the Municipal Council stated thus;

> "On the question of the loan for the previous year, this was included in the budget merely to balance the budget for the sake, otherwise the Council did not follow it up in terms of borrowing the loan."[87]

The budgets were generally prepared late, and no final accounts were available. At the time of the visit, the Treasurer said he was still new in office, having been appointed only one month before. The Treasurer and his team were working on the backlog while striving to keep abreast with current records. The Council has now acquired one desktop computer to assist the Accounts department. More personnel will be required to bring the state of affairs to acceptable levels.

Performance figures for 1995/96 and 1996/97 were availed. For 1997/98 the figures covered only six months. Adjustments were made to reflect for 12 months. In some cases where performance figures were not appropriate, budget figures were used instead. The results are shown in Table 4.2.1-(g).

The expenditure figures show a decline over the years. These figures are net of the 30% transfers back to Divisional Councils, as required by the Local Government Act, 1997. This is abnormal and reflects the inaccuracy of the data rather than a real decline.

The revenue figures, on the other hand, give a rising trend, as is expected. Total revenue increased by an annual rate of 31% from sh. 410 million in 1995/96 to sh. 574 million in 1996/97 then to sh. 702 million in 1997/98. These figures include the share of the Division Councils' revenues as well. The Municipal Council obtained a short-term bank loan of sh. 10 million in 1995/96 as bridge finance. Budgeted revenue for 1998/99is sh. 869 million.

[87] 1998/99 Budget Speech by Mr Benjamin Okii, Secretary/Finance and Planning page (ii).

Mbale Municipal Council

Mbale Municipality is among the biggest five towns in the country. It is regarded as the regional capital of eastern Uganda. As such, Mbale enjoys bustling commerce. The financial base of the Municipality is therefore centred on commerce.

The finances of Mbale Municipal Council appear to be fairly well managed. The accounts have been computerised. Except for 1995/96, the budgets have been prepared and presented within the prescribed time.

Table 4.2.1-(h) shows the Mbale Municipal Council's expenditures and revenue for the period 1995/96 – 1997/98 and the budget for 1998/99.

Mukono Town Council

Mukono Town Council is in Mukono District. It lies between Jinja and Kampala City and is only 18km from Kampala. This gives Mukono the unique opportunity of accessing the national electricity power grid and easy communication. The town has experienced rapid economic growth in the recent years and may one day become a satellite city of Kampala.

Mukono Town Council appears to have a well-staffed and well-managed accounts department. In 1997/98, the Council acquired one desktop computer for the Accounts Department. However, being the only computer, it was saddled with many demands, including word processing, and, therefore, it could not cope with the original purpose for which it was acquired. Also, at the time of the visit, the Council was still trying to identify people to be trained in its operation.

Mukono Town Council expressed the feeling that urban government councils had not much felt the impact of decentralisation. They complained that it is only recently that the central Government had shown signs of recognition by inviting the urban councils to participate in budget seminars.

Mukono Town Council observed that the format for Local Government Accounting is more suited for the districts and does not adequately cater for urban council activities. The Council further complained that urban councils are not given conditional grants for priority programmes such as roads, education, health services, etc. This seems to portray lack of appreciation on the part of the Government. According to them, a common misconception was that urban centres have no feeder roads. They even complained that they were made to pay taxes on road maintenance equipment, which they bought in 1998.

Nama Sub County

Nama Sub-County in Mukono District was the only sub-county selected in the study. It is one of 32 sub-counties in Mukono District and is relatively more prosperous than the average for the District.

The study team received very useful information including the sub-county's Budget Estimates for 1998/99. Those met were the Secretary for Education and Mass Mobilisation, the Chairperson of the Production & Education Services Committee,

and the Secretary of the Investment Committee. The budget included the draft accounts for 1997/98.

The figures show the very weak revenue base of the sub-counties – only 143 mill sch. in l998/99 compared to the districts, e.g. to Mukono district 19,527 sch, although increasing from l997/98.

4.2 Data on Local Governments

4.2.1 Overview on General Sub National Revenues and Expenditures

The Ministry of Local Government, under the provisions of the Local Governments (Resistance Councils) Statute of 1993, issued the Local Governments (Financial) Regulations, 1995. The regulations, among others, gave guidelines on how to prepare budgets of local government councils. There was, however, no uniform format for all the districts. Each district, therefore, developed its own format. Using the Local Government Act of 1997, the Ministry issued new guidelines, titled the Local Governments Financial and Accounting Regulations in 1998. This gave a detailed format for budgeting.

Lack of standard format before 1997 has made it difficult to compare the accounts of the districts. Furthermore, it was not easy to separate capital expenditure from recurrent. The figures for capital expenditure given herein, therefore, understate the actual amounts. While it is true that the bulk of local government expenditures are of recurrent nature, the ratios for capital development expenditure given in the tables presents a lower figure than is actual.

Figure 4.2.1 gives an overview of general local governments' expenditures and revenues vis-à-vis the central government. Local governments' total expenditure has increased over the years at an annual rate of over 27%. In 1995/96, local government total expenditure was sh. 172.02 billion and increased to sh.279.33 billion by 1997/98. Over the same period, central government total expenditure increased by 54.4%, from sh. 697.87 billion to sh. 1,077.2 billion. The local government total expenditure, as a proportion of that of the central government, only slightly increased from 24.6% to 25.9%. The budget figures for 1998/99 show that central government expenditure will rise nearly 68% to sh. 1,807.5 billion, while that of local government will only rise by 32.4% to 370 billion. This translates in the latter's share dropping to 20.5%.

The share of recurrent expenditure to total expenditure of local government is very high: over 80%. In part, this is due to the mixing of recurrent and capital development expenditures in the accounts. In 1995/96, local government recurrent expenditure totalled to sh. 141.0 billion and accounted for 82% of local government total expenditure; in 1996/97, recurrent expenditure more than doubled, and its share went up to sh. 94.2%. In 1997/98, the share of recurrent in total local government expenditure dropped to 83.8%. Again, this was due to the disproportionate growths between the central government expenditure and that of the local governments'.

The proportion of local government recurrent expenditure to that of the central government has increased over the years from 22.6% in 1995/96 to 25.0% in 1997/98.

This shows that the central government policy to allocate greater resources and responsibility to the local governments is being followed. For 1998/99, the budget figures indicate that the share of local government expenditure to that of the central government will jump to 34.9%, albeit at the expense of capital expenditure.

Local government revenues, like expenditure, have also progressively risen over the years. From sh. 177.8 billion in 1995/96, local government total revenue grew by about 32% per annum to sh. 312.0 billion by 1997/98. Central government total revenue similarly increased from sh. 647.3 billion in 1995/96 to sh. 747.6 billion in 1996/97, then to sh. 810.5 billion in 1997/98. The local government revenue, as a proportion of that of the central government, has risen from 27.5% in 1995/96 to 38.5% in 1997/98. This further confirms that the local governments are fast building capacity to take the responsibilities they are being assigned under decentralisation.

As stated in the previous section, only the central government is allowed under law to contract external loans. For this reason, debt service is for the concern of the central government only. New debts contracted in 1995/96 amounted to $109.1 million. In 1996/97, new loans contracted dropped to $75 million.

Bushenyi District

Table 4.2.1-(a) gives a breakdown of Bushenyi District Council expenditures and revenues. Due to lumping together of the accounts, the expenditures have been shown under recurrent for the years 1995/96 – 1997/98. Comments earlier said of the district's total expenditure are therefore also true of the recurrent. The 1998/99 budget distinguishes between recurrent and capital development expenditures. This, as stated before, arises from the new coding format prepared by the Ministry of Local Government.

Total expenditure of the district is less that 1% of the central government's total expenditure, while those of revenues are about 1.2-1.3%.

The district has no debts. In 1996/97, the Council attempted to borrow sh.500m to finance construction of its district headquarters building. This attempt did not succeed because the district failed to secure approval from the Ministry of Finance, as was procedurally required then. It was also noted that the District at that time did not have title to any of the land where it is located.

Kampala District

Total expenditure of the district has more than doubled from sh. 9.3 billion in 1995/96 to sh. 21.3 billion in 1997/98. For 1995/96, sh. 8.14 billion, or 87.7% of total expenditure, went on recurrent items. Capital development only received sh. 1.1 billion, or 12.3% of the total expenditure. The accounts for the years 1996/97 and 1997/98, unfortunately, lumped together both capital and recurrent expenditures.

Kotido District

The district's total expenditure for 1996/97 was sh. 3.85 billion but dropped to sh. 2.09 billion in 1997/98. The budgeted expenditure for 1998/99 is expected to more than double to sh. 5.37 billion. The District's share in all local government total expenditure declined from 1.2% in 1996/97 to 0.7% in 1997/98 and is expected to rise to 1.5% in

1998/99.

Total revenue increased by 8.7% from sh. 3.06 billion in 1996/97 to sh. 6.33 billion in 1997/98. It is expected to jump to sh. 5.62 billion in 1998/99, according to budgeted figures. The share of the district's revenue to all local government revenue has remained constant at around 0.4%.

Lira District

Figure 4.2.1-(d) shows that Lira District Council has been running on very tight expenditure budgets. Because of the low revenues, difficult choices have had to be made among several demands competing for the available resources.

Lira District's total expenditures have grown over the years in line with revenue increases. However, the expenditure figures do not tally with those of revenue. For 1995/96 and 1997/98, expenditures exceeded revenues. Total expenditure was sh. 5.48 billion for 1995/96, sh. 4.52 billion for 1996/97 and sh. 10.49 billion for 1997/98. Expenditure budget for 1998/99 is shown as sh. 16.04 billion, which is higher than that of 1997/98 by 52.9%. This is inconsistent with the revenue budget of sh. 7.56 billion.

The Districts' total expenditure, as a share in all local government expenditure, is significantly higher than that for revenue. In 1995/96, Lira District's total expenditure constituted 3.2% of all local government total expenditure. This ratio dropped drastically to only 1.4% in 1996/97. Total expenditure dropped to sh. 4.52 billion in 1996/97, while revenue increased to sh.6.46 billion. Although there could have been a drop, it is believed that this level is a reflection of the spurious database of the district, as there appears to be a revenue surplus of sh. 1.9 billion in that year. The 1997/98 expenditures totalled to sh. 10.49 billion or 3.8% of all local government expenditures. As pointed out before, these figures are not reliable, as expenditure was sh. two billion above revenue for the same year. Compared to central government total expenditure, Lira district takes a share of 0.8% - 1.0%. This is the same ratio as for revenues.

The bulk of the expenditure is channelled to recurrent items. The accounts for 1995/96 and 1996/97 do not lend themselves easily to separation between recurrent and capital development. The 1997/98 accounts shows recurrent expenditure taking a share of 97.2% of total expenditure – amounting to sh. 10.2 billion - and capital development only sh. 292 billion. The share of the district's recurrent expenditure in all local government recurrent expenditure in 1995/96 was 3.9% in 1996/97, 1.4% in 1996/97 and 4.4% in 1997/98. The budget figures for 1998/99 show that the share will only marginally drop to 4.3%. The corresponding shares of the district to central government recurrent expenditure were 0.9%, 0.6%, 1.1% and 1.5% for the four years.

Lira District's revenue base has grown fairly rapidly over the past four years, at over 29% per annum from sh. 5.05 billion in 1995/96 to over sh. 8.5 billion in 1997/98. In 1996/97, revenue collection amounted to sh. 6.46 billion. The budget estimates of revenue for 1998/99, however, show a slight decline to sh. 7.6 billion, but they did not include provision for donations.

Lira District's revenue takes a share of 2.3 - 2.8% in all local governments' revenues. However, its share has been sliding somewhat downward. This means that revenues of the district have been growing at a slower rate than the average for all local governments. In fact, in 1998/99 the share of the District's revenue budget shows a drop to only 1.7%. In contrast, the share of the District revenue in central government revenue has been growing. In 1995/96 Lira District's revenue constituted 0.8% of central government revenue. In 1996/97, its share increased to 0.9% then further to 1.0% in 1997/98.

Like all other districts, Lira District has never borrowed funds from other sources. It was stated that the District has no assets to pledge as security, but that, even if it could have put up the security, lack of proper accounts would have been a big setback in any approach to the banks.

Mukono District

Table 4.2.1-(e) shows aggregate figures of expenditure and revenues of the district compared to the central government. The revenue of the district has been growing very fast over the years, from sh. 7.07 billion in 1995/96 to sh. 11.35 billion in 1997/98; this represents a growth rate of about 25% per annum. The 1998/99 revenue budget is sh. 19.5 billion. This is an increase of over 70% over the previous year. The major increase is expected from central government transfers and donations from NGOs. The District's revenues constituted 1.3% of the central government's revenue in 1997/98. Its share in all local government revenues has fallen from 4.0% in 1995/96 to 3.6% in 1997/98.

Mukono District's total expenditure has grown in tandem with the revenue. In 1995/96, total expenditure was sh. 5.45 billion. This grew at an annual rate of 22% to sh. 8.1 billion by 1997/98. The District's total expenditures constitute about 0.8% of the central government total expenditure. Its share in all local government expenditure is the same as for revenue. There appears to be a surplus of about 20% on the district's revenues.

Recurrent expenditures of Mukono District have grown from sh. 4.39 billion to sh. 6.92 billion in 1997/98. Recurrent expenditure took 80 – 85% of total expenditure. The capital development expenditures grew by an impressive 59% from sh. 75 million in 1995/96 to sh. 119.8 million in 1996/97. The 1997/98 growth was more modest, and capital expenditure stood at sh.139.3 million. The district has not borrowed any loans, and, therefore, there is no debt servicing in place.

Rakai District

Table 4.2.1-(f) gives the aggregate figures of expenditure and revenues for the district. Revenue increased from sh. 4.74 billion in 1995/96 to sh. 5.43 billion in 1997/98. The major source is grant from the central government. Local revenue is low, as the adult tax-paying population of the district is low. The budgeted revenue for 1998/99 is shown as nearly sh. 7.87 billion. This shows an increase of 45% from l997/98 to l998/99. Again, the increase is expected mainly to come from grants from the central government.

Rakai District Council's total expenditure for all the years is consistently higher than its revenues. This, as pointed out earlier, arises because certain donor contributions are not captured on the revenue side but are shown in the functional sectors of expenditure. Expenditure for 1995/96 totalled sh. 5.08 billion compared to revenue of sh. 4.74 billion. Recurrent expenditure amounted to sh. 3.42 billion (or 67.4%), while capital development took about sh. 1.7 billion (32.6%). In 1996/97, total expenditure amounted to sh. 4.85 billion, of which sh. 4.42 billion (91%) was on recurrent while sh.435 million was for capital development. The total 1997/98 expenditure was sh. 9.05 billion. This figure is more than one and half times the revenue shown as 'realised' in the same year. More money was channelled into capital expenditure than to recurrent expenditure. Shillings four billion was used to finance recurrent expenditure, while sh.5.03 billion was used under capital development, of which sh. 4.5 billion went specifically to pay for road construction to connect the district headquarters with the rest of the country.

The district's total expenditure share in all local governments' is about 3%. This is a higher share than in revenue. A similar level portions to recurrent revenue share of just 2.7%. However, on capital account, Rakai takes a very high share. In 1995/96, Rakai District took a share of 5.3% of all local government capital expenditure. This dipped to 2.3% in 1996/97 but then rose to 11.1% in 1997/98. The explanation for this trend is that more resources are being channelled into capital development than to recurrent, and there are many capital projects underway in the district. The road construction was one of the major (and now completed) projects.

Lira Municipal Council

Table 4.2.1-(g) shows aggregate figures for Lira Municipal Council. The total expenditure of the Council declined from sh. 360 million in 1995/96 to sh. 314 million in 1997/98 at an annual rate of 6.5% and 15%. The expenditure budget for 1998/99 shows a drop further to sh. 261 million. These figures are net of the 30% transfers back to Divisional Councils, as required by the Local Government Act, 1997. The Council's share in all local governments' total expenditure is about 0.2%. Its share in the district's total expenditure has declined from 6.6% to 3.0% over the same period.

Recurrent expenditure accounted for more than 90% of the total expenditure. In 1995/96, recurrent expenditure amounted to sh. 328 million or 91% of total expenditure. By 1997/98, recurrent expenditure had dropped to sh. 291 million, though its share rose slightly to 92.7% of total expenditure. Performance on capital development account mirrored those within the recurrent sector, i.e. falling from sh 32 million in 1995/96 to sh. 23 million in 1997/98.

In contrast, Lira Municipal Council revenues increased by over 71% over the years, from sh. 410 million in 1995/96 to sh. 702 million in 1996/97. The increase mainly came from local revenues. Its share in all local government revenues remained at just 0.1%. The budgeted figures for 1997/98 and 1998/99 were sh.702 million and sh. 869 million, respectively. These figures do not include revenue passed back to the Division Councils. The Council obtained a short-term bank loan of sh. 10 million in 1995/96 as bridge finance. Details of the loan are, however, not available.

Mbale Municipal Council

Table 4.2.1-(h) gives the aggregate data for Mbale Municipality. The accounts clearly differentiate recurrent from capital expenditures, and their budgets are prepared separately. Total expenditures of the Municipal Council dropped over the years, as did revenues. Expenditure declined from sh. 863 million in 1995/96 to sh. 538 million by 1997/98. Recurrent expenditure dropped from sh.55 million to sh. 432 million over the same period. In contrast, capital expenditure rose from sh.32 million in 1995/96 to sh. 106 million in 1997/98. The decline in the recurrent expenditure was mainly from the reduction in the road maintenance sector, which was shifted to capital development. A drop in general public administration also contributed to the overall decline in recurrent expenditure.

The Municipal Council's revenues declined between 1995/96 and 1997/98. This was attributed mainly to the poor weather occasioned by the El Nino weather phenomenon. However, the 1996/97 figures, when adjusted for the shorter length, indicated that revenue in that year could have surpassed that of 1995/96 by 156%. The share of the Municipal revenue in all local government revenues is negligible.

The 1998/99 budget shows that while revenue is expected to grow by 55.4% to sh. 993 million, expenditure is expected to quadruple to sh. 625 million. The increase is expected from a more than ten-fold increase on the capital account. This figure appears unrealistic and does not conform to previous performance.

Mukono Town Council

Mukono Town Council prepares a well-balanced budget. Table 4.2.1- (i) shows the aggregate expenditure and revenue figures for the Town Council vis-à-vis the local governments. The Councils' total expenditure rose from sh. 279 million in 1995/96 to sh. 296 million in 1997/98. The 1998/99 budgeted total expenditure is sh. 596 million. This is more than double the previous year's performance and, therefore, appears unrealistic. Recurrent expenditure constitutes about 80% of total expenditures.

The revenues of the Town Council have increased from sh. 234 million in 1995/96 to sh. 267 million in 1997/98. The revenue performance exceeded the budgeted figures. This arose due to adjustment of the tax rates upward during the year. The budget was subsequently revised accordingly. The shares of the Town Council's expenditures and revenues in both the central and all local governments are negligible.

Mukono Town Council has been receiving short-term bank overdrafts from commercial banks. In 1995/96, an overdraft of sh. 30 million was obtained and repaid in the same year. In 1996/97, no loan was sought, but in 1997/98, another overdraft of sh. 50 million was secured. The 1998/99 budget estimates provide for an overdraft of sh.40 million. These loans, while acknowledged, have not been reflected in the table because they are of short-term nature.

Nama Sub-County

Table 4.2.1-(j) gives the aggregate revenue and expenditure of the sub-county for the year 1997/98 and the budgeted figures for 1998/99. It was learnt that the yearly revenues of the Sub-County have been limited due to a combination of factors (although a budgeted increase expected in l998/99).

First, the District Council has not been passing back to the sub-county council the full 65% of graduated tax revenue, which the District Council collects directly from employees of big companies that are operating in the sub-county. Under the law, sub-counties are supposed to collect the revenue and remit 35% to the district council. However, the law also permits the district council to directly collect the revenue, but it must pass back 65% to the sub-county council. The district council has therefore been defaulting. This matter will be discussed in more details later in the section on revenues.

Secondly, the sub-county reported that the number of graduated taxpayers has been declining over the past three years. In 1995/96, 3,997 people paid graduated tax; in 1996/97, the number shrank to 3,512; and, in 1997/98, only 2,634 paid graduated tax. The drastic fall in 1997/98 was attributed to the elections politicking. In that year, elections for local council representatives were held. Those campaigners did not want to enforce compliance in tax payment, as it would make them lose potential votes. New aspirants campaigned that they would lower the tax burden on the electorate, if they were elected.

Market dues and other user charges such as licences, permits, etc. come second in their contribution to the sub-county's revenues. Their contribution is still small, however, at about sh. 3.5 million per annum. Property tax is virtually non-existent because of the rural setting of the sub-county. However, in its place, the sub-county charges development tax at the rate of sh. 1,000 per head for all taxpayers. Miscellaneous sources such as and fees are negligible.

The sub-county stated that its revenues are small and therefore cannot support big expenditure programmes. The sub-county has decided to widen its revenue base by introducing new levies, namely a project fund and a capacity building fund. In recognition of this general problem, Mukono District Council decided in 1997/98 to raise the revenue retention ratio for the sub-counties from the statutory 65% to 80%. This, however, introduced another problem. The District Council found it impossible to carry out cross subsidy between the sub-counties; i.e. assisting poorer sub-counties with extra funds from the district's purse, which would have been accumulated by the higher payments from the richer sub-counties. For this reason, the District Council intends to revert to the statutory ratio of 65:35 in 1999/2000.

The total expenditure of the sub-county was sh. 64 million in 1997/98 and was budgeted to more than double to sh.143 million in 1998/99. These figures are 0.8 – 1.2% of the total expenditure of Mukono District (district + municipality).

4.2.2 Sub National Recurrent Expenditures

Figures on local government recurrent expenditures are given in Tables 4.2.2 A and B. In 1995/96, local government recurrent expenditure was sh. 141.0 billion out of total expenditure of sh. 172.0 billion. In 1997/98, recurrent expenditure increased to sh. 234.1 billion out of the total of sh. 279.3 billion. The budget figures for 1998/99 show recurrent expenditures will increase by more than sh. 100 million to sh. 347.5

billion. The share of recurrent to local government total expenditure remains high: between 80% and 90%.

Table 4.2.2.B shows the local government recurrent expenditure broken down by functional sectors. Expenditure on general public administration rose from a meagre sh. 19.1 billion in 1995/96 to sh. 95.3 billion in 1996/97 before dropping to sh. 49.4 billion in 1997/98. Its share in recurrent expenditure grew from 13.6% to 21% in 1997/98. The rest of recurrent expenditure was channelled to the priority areas, as laid down by the Ministry of Finance, Planning & Economic Development, albeit with lower emphasis. For the time being, the priority areas cover education, health, feeder roads infrastructure, provision of clean water and food security.

The education sector had the highest share of expenditure over the three years, followed by the health sector and next the economic sector (especially the feeder road sub-sector). In 1995/96, education received sh. 89.4 billion, health sector sh. 23.2 billion and the road infrastructure sh. 4.7 billion. Their shares in total recurrent expenditure were, respectively, 63.4%, 16.5% and 3.4%. In 1996/97, expenditure on education, in absolute terms, rose by 57.6% to sh. 141.0 billion. However, its share in total expenditure for the year fell to 45.1%. Expenditure on health dropped slightly to sh. 27.8 billion, and its share also dropped to 8.9%. Expenditure on road maintenance shot up to sh. 13.1 billion, though its share remained small at 4.2%. These shifts were the result of greater expenditure on general administration sector arising from a general salary increase that was effected by the Government. Other sectors that also received funding, but at much lower scales, were water protection, agriculture extension support services and other local government services like local government police, prisons, etc. The budget allocation in 1998/99 for the category, “others”, has increased disproportionately, partly because of the change in the categorisation of expenditures.

In 1997/98, out of total recurrent expenditures of sh. 234.1 billion, sh. 140.2 billion (or 59.9%) was spent on Education Services, sh. 49.4 billion (or 21.1%) was spent on General Administration and sh. 30.9 billion went into the health sector. Road infrastructure received sh. 11.9 billion and Agricultural Extension Service got sh.3.4 billion.

The budget figures for 1998/99 show that Education will remain the major beneficiary of the resources available; it has been allocated sh. 147.5 billion or 42.4% of local governments’ total recurrent expenditure budget. Health services will get sh. 37.9 billion (or 10.9%), while road infrastructure has been allocated sh. 13.2 billion (3.8%). General Administration (which included Gender & Community Services expenditure of sh. 72.1 billion in the 1998/98 classification) has been allocated sh. 147.45 billion. The expenditure allocations generally reflect the same order of priority as stipulated by the Ministry of Finance, Planning and Economic Development.

The Local Government Act stipulates that expenditure on local councils should not exceed 15% of the district’s locally generated revenue. However, in almost all districts, especially in the earlier years, this limit was not honoured. In fact, in many cases, transfers from the central government, which were earmarked for other services, ended up being diverted to meet Councillors’ allowances. This, as earlier

stated, has resulted in the Ministry of Finance, Planning and Economic Development resorting to channel more of the central government transfers as conditional grants rather than untied grants, as would have been in the spirit of decentralisation.

Bushenyi District

Bushenyi District Council's accounts for 1995/96 – 1997/98 do not explicitly separate the recurrent expenditure and capital development. As such, all expenditures for the years 1995/96 – 1997/98 have been shown as recurrent expenditures.

As a share of all local governments' recurrent expenditure, Bushenyi District contributed 4.0% in 1995/96. In 1996/97, its share fell to 2.4% but regained its status at 3.9% in 1997/98. The 1998/99 budget figures show a rise to 3.3%.

Figure 4.2.2.B-(a) gives a breakdown of the recurrent expenditures by functional sectors. The wage bill takes more than half of the total recurrent expenditure. In 1995/96, the wage bill was nearly sh.3.0 billion which was 52.8% of the recurrent expenditures. In 1996/97, the wage bill rose by 30.8% to sh. 3.88 billion though its share remained almost the same at 52.5%. The reason for ratio remaining the same was that there was also a large expenditure under the category 'General Administration'. The wage bill rose by a further 33.4% to sh. 5.2 billion in 1997/98, mainly arising from recruitment of additional personnel. Its share in total recurrent expenditure rose to 57.3%.

The budget for 1998/99 shows a wage bill of nearly sh. 7.8 billion, which constituted 67.6% of the recurrent expenditure. The functional breakdown shows that General Administration took the largest share of recurrent expenditure, followed by education and health services.

Kampala District

As with other districts, the accounts presented, except for 1995/96, do not give separate statement for capital expenditure. In Table 4.2.2A-(b), it can be seen that the share of the City Council recurrent expenditure in local government total recurrent expenditure increased from 5.8% in 1995/96 to 9.1% in 1997/98. It was however expected to fall back to 6.0% in 1998/99.

The City Council recurrent expenditure shows that the wage bill contributed 35 – 45% of the total expenditure. In 1995/96, the total wage bill was sh.3.09 billion and rose to sh. 6.95 billion by 1997/98. The functional classification showed that the bulk of the expenditure went to meet 'General Public Administration' expenses. While the amounts have increased over the years, their shares have progressively fallen. In 1995/96, expenditure on administration totalled sh. 7.2 billion or 88.7%; this increased to sh. 9.6 billion in 1996/97 then to sh. 10.9 billion in 1997/98 though its share dropped down to 51.1%. In 1995/96 health sector took a share of 7.5% of recurrent expenditure while education had only 3.8%. In 1996/97, the road maintenance was given second priority, taking a share of 219.2%, with health third (5.8%) and education fourth with 2.8%. In 1997/98, primary education was given second priority, taking sh. 6.24 billion (29.3%) and road sub-sector third, with 17.5%. The priority given to education arose because of the introduction of the universal primary education policy introduced that year.

Because of the improved format for the accounts, the 1998/99 figures give more details, and the expenditures are spread over a wider coverage of sectors. The allocation to the general administration sector has been reduced to sh. 6.1 billion, with its share falling to 29.3%. Allocation to the education sector increased slightly to sh. 6.5 billion, and its share increased to 31%. Road maintenance was given third priority, with an allocation of sh.4.8 billion or 22.8%. Clearly, important activities for an urban centre were now also brought out in the accounts of the City Council for the first time. These include sanitation and waste disposal, which were allocated sh.1.8 billion, or 8.7%, of total resources. This agrees with the observation earlier made by the Mukono town Council regarding the inadequacy of previous formats

Kotido District

Table 4.2.2.A-(c) shows the expenditure figures of Kotido District. The accounts combined both recurrent and capital expenditures. As stated earlier, the 1995/96 figures are very unreliable. Recurrent expenditure totalled sh. 2.09 billion in 1997/98. The budget for 1998/99 shows recurrent expenditure will increase to sh. 2.77 billion.

Analysis by functional sectors shows that 36.1% of the expenditure in 1997/98 went into general administration, 35.1% to the education sector, 22.7% to health and 5.3% to transport & road sector. A similar distribution obtains for the 1998/99 budgeted expenditures, with administration taking slightly higher share of 40% and education dropping to 31.3%.

In the interview with the CAO, it was stated that the total wage bill in 1997/98 was sh. 1.46 billion taking a share of 69.9% of the total expenditure for the year. The corresponding figure for 1998/99 budget is sh. 1.39 billion. Its share in total expenditure has dropped to50.1%.

The annual wage bill for the District is about sh. 78.4 million. This goes to meet the salaries of the 458 Local Administration Police and 450 civil servants. Central Government unconditional grant is sh. 95.73 million. The first claim on this is the wage bill. The balance of about sh. 17 million is then available to meet all other requirements of the District, and this is clearly inadequate. It is said that because of the low local revenue, the District cannot abide by the statutory ceiling of 15% local revenue to meet the councillors' expenses and allowances. For this reason the Ministry of Local Government has given the District a tacit nod to exceed the statutory limit.

Lira District

Table 4.2.2.A-(d) compares the District's recurrent against its total expenditures for the period 1995/96 – 1998/99. As already pointed out before, there are no figures for capital expenditure for the first two years. Thus, all expenditures were reflected as of recurrent nature.

Table 4.2.2.B-(d) gives a breakdown of the recurrent expenditures according to the functional sectors. Clearly, the sector receiving the largest financial resource is Education followed by Health. General Public Administration is third. Of the total recurrent expenditure of sh. 5.5 billion in 1995/96, the Education sector received sh.

4.3 billion or 78.9%. In 1996/97, sh. 3.4 billion or 75.5% was spent on the Education sector, while in 1997/98, Education was given sh. 5.8 billion out of total expenditure of sh.10.2 billion. Because of the higher level of the recurrent expenditure in that year, the share of Education fell to 56.8%. This, however, does not properly highlight the fact that the 1997/98 expenditure in the sector was sh. 1.5 billion (or 34.1%) higher than in 1995/96. The 1998/99 budget shows expenditure on Education rising to sh. 7.2 billion, albeit its share falling further down to 48.1%. Over 70% of he expenditure in the Education sector is channelled to Primary Education, reflecting the Government policy of Universal Primary Education (UPE). Most of the funds are channelled from the central government under conditional transfers.

The Health sector received the second highest allocation in Lira District, albeit at much lower percentages compared to Education. In 1995/96, a total of sh. 593 million was spent on provision of Health Services. This took a share of 10.8% of the District's recurrent expenditure for the year. In 1996/97, expenditure on Health slightly dropped to sh. 499 million, though its share rose to 11.1%. In 1997/98, health expenditure almost trebled that of the previous year, to sh. 1.4 billion and even more that doubled that of 1995/96.

General Public Service/Administration takes third position after Education and Health. Expenditures on general administration increased more than six-fold from sh. 462 million in1995/96 to sh. 2.9 billion in 1997/98. Its share in total recurrent expenditure has likewise grown from 8.4% to 28.4%. The District has prepared its development plan, called "Lira District Development Programme"(LDDP). The programme is being marketed for donor financing, and a few areas have received support and donor funds. Although the programme is multi-sectoral, the expenditures are posted under General Administration. Other areas receiving funding include road maintenance sub-sector, agricultural extension, water protection/provision and the gender & social sectors. A breakdown by sector for the LDDP was not readily available.

Budget figures for 1998/99 shows expenditure on Health more than doubling to sh. 2.9 billion, with its share rising to 19.2%. It is expected that sh. 1.6 billion of this will be financed from local revenues. In fact, for the district as a whole, the major contribution to the increased expenditures came from increases in the local revenues of the district (sh. 712 million) rather than transfers from the central government.

The 1995/96 figures do not give a breakdown of the salary and non-salary expenditure. The 1996/97 figures show that the wage bill was sh.946 million, constituting 21.0%. This ratio is considered too low and may be the result of poor recording. In 1997/98, the salary/wage payment totalled to sh. 5.1 billion out of the total recurrent expenditure of sh. 10.2 billion. This constituted 49.6%. The 1998/99 budget shows that the salary bill is expected to increase by 27.7% to sh. 6.5 billion. Its share in total recurrent expenditure is expected to be 43.2%.

Mukono District

Table 4.2.2.A-(e) gives a comparison of Mukono District Council Recurrent expenditures with those of all local government. Recurrent expenditure constitutes 85% of total expenditure of the District. The 1998/99 budget, however, shows that the

share of recurrent expenditure in the total will fall to about 68%. This, in part, is due to the clearer separation between recurrent and capital expenditure that has been introduced with the new accounting format. As a share in all local governments, the districts' recurrent expenditure has remained at about 3% although the 1998/99 budget shows that it will fall to 2.1%.

Table 4.2.2.B-(e) shows the breakdown of the Mukono District Council Recurrent Expenditure by functional sectors. Mukono District is renown for allocating its expenditures to priority programme areas identified by the Central Government. For the period covered, the education sector got the highest resource allocation at about 70% followed by general public service administration. The only other sectors, which were allocated any meaningful funding at all, were health and feeder roads. Otherwise, all other sectors were put in abeyance.

In 1995/96, out of total recurrent expenditure of sh. 4.4 billion, 60.9% or sh. 2.7 billion was spent on the education sector. Of this, nearly sh. 2.0 billion was on primary education and sh. 656 million on the rest of education. Sh. 1.1 billion was spent on General Public Service Administration, taking a share of 25.9%. Health sector received sh. 578 million or 13.2%. The accounts show that no other sector received funding in that year. In 1996/97, similar expenditure pattern was exhibited. The education sector took 71.9%, general administration 23.9% and health 3.7%. In 1997/98, expenditure on education was increased to sh. 4.8 billion. This took a share of 70%. Primary education alone got sh. 3.7 billion or a share of 53.4% of total recurrent budget for the year. Expenditure on general administration was sh. 1.8 billion, with a share of 26.4%. Health sector got sh. 252 million, which was only 3.6% of the recurrent expenditure for the year. The budget for 1998/99 shows similar expenditure allocation being followed. Out of the total recurrent budget of sh. 7.4 billion, sh. 5.9 billion or 80% has been allocated to the education sector, sh. 1.2 billion to general administration and sh. 252 billion for the health sector.

Rakai District

Table 4.2.2.A–(f) shows a comparison of the districts' recurrent expenditure against total expenditure. Between 1995/96 and 1996/97, recurrent expenditure took more than two thirds of total expenditure. For reasons already indicated earlier, the 1997/98 accounts show the share of recurrent expenditure fell to only 44.4%.

Table 4.2.2.B–(f) shows the functional breakdown of recurrent expenditures. The expenditures are spread through the so-called priority programme areas of the government. Except for 1995/96, education sector takes more than half of the total recurrent expenditure. In 1995/96, education sector took nearly sh. 1.4 billion (40.3%); in 1996/97, it took a share of 66%; and in 1997/98, it received sh. 2.6 billion or 64.8%. The 1998/99 budget allocates 52.4% or sh. 4.05 billion of the recurrent expenditure to the education sector. Within the education sector, the emphasis is placed on primary education as per governments' policy.

Health sector takes second position in recurrent expenditure. The expenditure rose by 11.1% between 1995/96 and 1996/97 from sh. 408 million to sh. 606 million and its share rose from 11.9% to 13.7%, respectively. In 1997/98, health expenditure dropped drastically to sh. 333 million only. No clear explanation was offered for this drop. The

third area to receive high attention is the transport and road infrastructure. Expenditure on this sector has risen from sh. 345 million in 1995/96 to 394 million in 1997/98, with its share remaining at about 10% of total recurrent expenditure of the district. It should, however, be noted that the expenditures are not stable; expenditure on road was sh. 44 million in 1995/96 then jumped to sh. 418 million in 1996/97 but dropped back to sh. 52 million in 1997/98. The 1998/99 budget for road maintenance is sh. 169 million. Expenditures on other transport works totalled sh. 107 million in 1995/96, nil in 1996/97 and sh. 107 in 1997/98. The 1998/99 budget is sh. 157 million.

Agriculture extension service has been given more emphasis in recent years. Extension work will be emphasised with recruitment of graduates at every country. Expenditure has grown by 205% from sh. 195 million in 1995/96 to sh. 235 million in 1997/98. The 1998/99 budget makes a provision of sh. 377 million, which will be an increase of slightly above 60%.

There is a 92% increase in the 1998/99 recurrent budget. Virtually all sectors are expected to be given more funds. Allocation to Primary education sector has been raised by sh. 1. billion (56%) to sh 3.2 billion, general administration doubled from sh. 653 million to 1.3 billion and road maintenance tripled to sh. 169 million. Even rural water supply, which did not appear to have been given much attention in the past, has a budget provision of sh. 88 million. It is, however, thought that the reason for nil expenditure allocation to this sector in previous years is that the figures are not reflected in the consolidated accounts since this is an area where donors normally prefer to participate in.

Lira Municipal Council

Table 4.2.2.A-(g) gives the recurrent expenditures of the Council. The figures show that expenditure rose between 1995/96 and 1996/97 then dropped in 1997/98. Performance figures for 1995/96 was sh.328 million, rose to sh. 523 million in 1996/97 and declined to sh. 291 million in 1997/98. For 1998/99, expenditure is budgeted to drop to sh. 256 million. Recurrent expenditure constitutes 91 – 98% of total expenditure of the Municipal Council. Compared against all local governments, Lira Municipality takes a share of 0.2%, similar to the ratio for total expenditures.

Recurrent expenditure, broken down by functional sectors, is given in Table 4.2.2.B-(g). Expenditure on general public administration takes the lion's share of about 60-70%. In absolute terms, expenditure on public administration increased by 50% from sh. 204 million in 1995/96 to sh. 408 million in 1996/97. Its share in total recurrent expenditure rose from 62% in 1995/96 and 78% in1996/87, respectively. Expenditure on general administration for 1997/98 declined to sh. 193 million with a share of 66.4% in total recurrent expenditure.

Expenditure on the priority programme areas has been focused mainly on road rehabilitation, primary education and provision of health services. However, the amount that has been allocated to the road sector has declined over the years from sh. 87 million in 1995/96 down to sh. 58 million in 1997/98. The 1998/99 budget makes a provision of only sh. 33 million. Similarly, expenditure on primary education has declined from sh. 19 million to just about nine million. In fact the Council has

reduced expenditure deliberately in the hope that the NGOs would fund the sector. This only serves to re-affirm that service provision by the Council is declining. Expenditure on key services for urban centres such as refuse collection, street lighting, compound clearing, etc is lamentably low in Lira Municipal Council. This, however, may be due to the poor format for recording the expenditures and may be covered under general engineering and works.

It should be observed that provision of education in urban centres is shared between the public and private sectors. More importantly, however, the bulk of education is financed by central government grant, which is a conditional transfer to the district local councils. Urban local councils only receive the unconditional grant from the central government, which, in any case, is channelled through the district local council.

Figures for the wage bill for 1995/96 could not be obtained. The wage bill for 1996/97 was sh. 180 million and for 1997/98 was 196.6 million. These corresponded to shares of 34.5% and 67.5%, respectively, for those years. It is believed, however, that the ratio of 34% for 1996/97 is too low, as it does not rhyme with the national trend.

Mbale Municipal Council

Tables 4.2.2.A-(h) & 4.2.2.B-(h) show the Mbale Municipal Council's Recurrent Expenditures. The recurrent expenditures constitute about 80% of the Municipals' total expenditure. Most of the expenditure went into paying for General Public Administration costs whose share increased from 65% to 82% between 1995/96 and 1997/98. In 1995/96, Public Administration took sh. 532 million out of total recurrent expenditure of sh. 807 million. In 1996/97, its expenditure was dropped to sh.431 million out sh. 593 million. The share for the year actually increased to 72.8% compared to 65.9% for the previous year. In 1997/98, expenditure on general administration was increased dropped further to sh. 356 million. Its share, however, went up to 82.3%. The budget for 1998/99 shows that expenditure on public administration is planned to increase to sh. 479million though its share will fall slightly to 76.7%. It should be observed that the Municipal Council spends more than the statutory limit of 15% of its local revenues on Councillors' allowances. Likewise, the Municipal Council admitted its failure to fully comply with the statutory requirement to distribute back 30% of its revenues to the (lower) Divisional Councils.

The Education sector, which in other local governments received substantial allocation of the recurrent expenditure, is significantly low in urban councils. In the case of Mbale Municipal Council, the Education sector takes less than 5% of recurrent allocation. For example, in 1995/96 only sh. 11 million was spent in the education sector – to construct water borne toilets and procure scholastic materials for two primary schools. In 1996/97, expenditure doubled to sh. 30 million, taking a share of 5.1% of recurrent expenditure. In 1997/98, the sector was starved and given only seven million shillings.

Health Services sector received a somewhat higher ranking in resource allocation compared to Education. It received sh. 79 million in 1996/97 but was reduced to sh. 30 million in 1997/98. The bulk of this went to meet salary payments with a little

spent on refuse collection. The share of Health in total recurrent expenditure fell from 13.3% in 1995/97 to 7.0% in 1997/98.

Public works - which covers roads, transport & construction - benefited to the tune of sh. 170 million in 1995/96. This largely was used to meet operational and maintenance expenses for equipment. In that year, its share was 21% in total recurrent expenditure. In the following two years, 1996/97 and 1997/98, expenditure on public works was curtailed down to sh. 33 million and sh. 20 million. Its share similarly fell to 5.6% and 4.6%, respectively. Expenditure on street lighting has drastically been reduced over the years from sh. 40 million in 1995/96 down to only sh. 6 million in 1997/98. In part, this resulted from the shortage of funds, but it also reflected the lower priority that has been accorded to this otherwise important security service.

Mukono Town Council

Table 4.2.2.A–(i) shows a breakdown of Mukono Town Council recurrent expenditure. As already pointed out above, recurrent budget takes a share of 80% of total expenditure. In 1995/96, it accounted for 83.6%, in 1996/97 its share dropped to 74.6% before going back to 80.7% in 1997/98. In the 1998/99 budget estimates, it is expected to take a share of 70.6%. In absolute terms, the Recurrent Expenditure marginally increased from sh. 233 million in 1995/96 to sh. 241 million in 1996/97. The 1997/98 level of recurrent expenditure was sh. 239 million, slightly lower than the adjusted figure of sh. 241 million for 1996/97.

The functional breakdown of the recurrent expenditures is given in Table 4.2.2.B–(i). General Public Administration takes the lion's share of recurrent revenue. For the years covered, its share fluctuated between 69.3% and 74.7%. However, it appears that its share has been declining. This, in part, is in the attempt to bring down expenditures to conform to the ceiling imposed by law on expenditure on Councillors. In absolute terms, expenditure on Public Administration totalled sh. 174 million in 1995/96, then dropped to sh. 167 million in 1996/97 before rising to sh.176 million in 1997/98. The 1998/99 budget makes a provision of sh. 182 million, which is within the same range as those for the previous years. However, its share in 1998/99 has fallen down significantly because of the over-all increase in budgeted expenditures. The Transport & Works sector took second position, albeit with a much lower share of about 12%. Included in this sector is road rehabilitation & maintenance. This emphasises the central government priority for the sector. Expenditure on the works sector increased from sh. 17 million in 1995/96 to sh. 31 million in 1996/97 but was reduced somewhat to sh. 26 million in 1997/98. Virtually all (over 90%) of this was channelled to road maintenance programmes, except for 1995/96 when it was shared 50-50 with other works. The share of road expenditure as a percentage of total recurrent expenditure was around 10%.

Provision for Community Services, namely compound clearing and cleaning; rubbish collection and street lighting also feature prominently in the Council's expenditures. Between 1995/96 and 1997/98, expenditure on rubbish collection has grown from sh. 9 million to sh. 19 million, with its share correspondingly doubling from 3.8% to about 7.7%. Street lighting and compound clearing take sh. 6 million and 5 million, respectively, per annum. Expenditure on provision of health services, especially stocking of drugs in the Council's clinics, has more than doubled from three million

shillings in 1995/96 to seven million in 1997/98. Education is not a very high expenditure area for the Mukono Town Council. This is mainly because, as with most other urban centres, the private sector tends to provide this service rather than government. In any case, expenditure on primary education is mainly funded by the central government through conditional grant transfers channelled through the District Councils directly to the schools.

Mukono Town Council wage bill has grown by 130% from sh. 29 million in 1995/96 to sh. 66 million in 1997/98. The provision for 1998/99 is sh. 73 million. Its share in total recurrent expenditure appears too low at 28%. In 1998/99, the wage bill takes a share of 17.3%.

Nama Sub County

Table 4.2.2.A&B-(j) show the Recurrent Expenditures. The bulk of the expenditure is channelled to General Administration and to Gender and Community Services. In 1997/98, these two sectors received 44.1% and 53.3% of total recurrent expenditure. In 1998/99, their shares were 55.1% and 39.9% respectively. Salary/wage bill took a share of 23% of recurrent expenditure.

4.2.3 Sub National Capital Expenditures

As already stated, due to the way in which the accounts were presented, recurrent and capital expenditures cannot be easily distinguished. As such, most of the expenditures have been lumped under recurrent expenditures even though they could be of capital nature. For this reason, the figures shown below overstate the recurrent expenditures and conversely understate capital development. Table 4.2.3.A gives local government capital expenditure figures and compares them against central government capital expenditures.

It should be pointed out that the central government has so far not decentralised the capital expenditure budget. The little capital expenditure figures shown in the accounts of local government are financed, almost entirely, from the local revenues of the local governments themselves or donations from NGOs. In the 1998/99 budget, provisions were made for construction of schools under conditional grant transfers from the central government.

Local government capital expenditure dropped by nearly 40% between 1995/96 and 1996/97 from sh. 31.0 billion to sh. 19.2 billion. The drop was attributed to lower revenue realisation against the budget. In 1997/98, capital expenditure more than doubled to sh. 45.2 billion. The share of capital expenditure in local government total expenditure was 18% in 1995/96 but dropped to only 7.6% in 1996/97 before recovering to 16.2% in 1997/98. As a proportion of central government capital expenditure, local government was 41.3% in 1995/96, 16% in 1996/97 and 32.4% in 1997/98.

Table 4.2.3.B shows the breakdown of local government capital expenditure by functional sectors. Distribution by functional sector shows that local government capital expenditure closely matched those of the recurrent expenditure. Many district councils have embarked on building administrative blocks for office accommodation.

This is reflected in the high capital expenditures on general administration. Examples are Bushenyi and Mukono districts. Rakai district headquarters has been financed by donor funds.

Bushenyi District

As pointed out before, the earlier accounts did not separate capital expenditures from recurrent. The 1998/99 budget shows a capital budget of sh. 891 million. This is 7.2% of the district's total expenditure budget for the year and is 4.0% of the total capital budget of all local governments.

The capital budget is planned to cover the rehabilitation of roads - sh. 631 million or 70.8%, sh. 249 million (27.9%) for the construction of the new administration building for the district headquarters and a small sum of sh. 11 million (1.2%) for the health sector development.

Kampala District

Kampala City Council capital expenditure figure were available only for one year, 1995/96. The capital expenditure for that year totalled sh.1.14 billion, which was 12.3% of the total expenditure for the Council for that year. Because of the sporadic availability of capital expenditures for all local governments, the City Council's expenditure constitutes 3.7% of all local government capital expenditure. Table 4.2.3.A & B-(b) refers[88].

The bulk of the expenditure was put in road rehabilitation, which used sh. 818 million or 71.6% of the resources. Health services sector capital expenditure totalled sh. 103 million or 9.0% share. This was mainly used to rehabilitate Council clinics. General public administration received sh. 97 million (8.5%). This was spent on renovation of the Council's housing estates. Renovation of primary schools within the City received sh. 93 million or 8.1% of the resources. Protection of water springs was availed sh. 2.8 million.

Kotido District

Data for capital expenditure for Kotido district is not accurate, as it was not extracted from the accounts. Table 4.2.3.B-(c) shows expenditures were incurred in1996/97 and 1998/99. In 1996/97, sh. 162 million was spent on rehabilitation of feeder roads. The expenditure constituted 4.0% of the district's total expenditure for the year. In the 1998/99 budget, the amount of sh.2.6 billion has been earmarked for construction of administration offices. This, indeed, is necessary, since as pointed out earlier, there are no sub-county offices. On the other hand, it may be difficult to realise the revenue to meet this expenditure within the year.

Lira District

The District's capital expenditure is available only for 1997/98 and 1998/99. In 1997/98, capital expenditure totalled to sh. 292million or 2.8% of the total expenditure of the district. Of this sh. 260 million (or 89.1%) was spent to rehabilitate 38 km of feeder roads including 5 bridges. Sh. 32 million was spent on protection of

[88] Data for capital expenditure for the other years could not be availed by the City Council.

water sources and sinking new boreholes. The district's share in all local government capital expenditure was 0.6%.

Total capital budget for 1998/99 was sh. 1.08 billion. This represents a nearly four-fold increase over 1997/98 and amounts to a share of 6.8% of total expenditure budget for the district. It also represents a steep increase to 4.8% in the total capital budgets of all local governments for the year. As stated elsewhere, this is due partly to the new coding that has been introduced, which clearly separates recurrent and capital expenditures. The capital budget is spread to only three sectors, namely: provision of rural water supply, allocated sh. 602 million; road rehabilitation, with sh. 471 million; and construction of a primary school, with sh. 12 million. These, respectively, take shares of 55.5%, 43.5% and 1.1%. Table 4.2.3.B-(d) refers.

Mukono District

Table 4.2.3-(e) shows the districts' capital expenditures over the past three years and the budgeted figures for 1998/99. Capital expenditure in 1995/96 was sh. 1.07 billion but dropped to sh. 977 million in 1996/97. In 1997/98, it was raised to sh. 1.20 billion. The 1998/99 budget shows a tripling in capital expenditure to sh. 3.5 billion. The jump is due more to the better clarification of the expenditures rather than increase in the allocations.

Overall, the share of capital development in the district's total expenditure declined over the years from 19.5% in 1995/96 to 14.8% in 1997/98 although the 1998/99 budget shows an increase to 32.1%. Compared to all local governments' capital expenditure, the share of the district increased from 3.4% in 1995/96 to 5.1% in 1996/97. In 1997/98, its share fell to 2.7%.

The health sector has been the main beneficiary of capital expenditure over the years taking between 75 and 100% of the allocations. In 1995/96 the whole amount of sh. 1.07 billion was spent in the health sector, in 1996/97 sh. 730 million out of 977 was spent in the health sector while for 1997/98 sh. 961 million out of sh. 1.2 billion went to rehabilitate health units in the district. These were used to build new dispensaries and rehabilitate a number of existing ones. The only other sector, which also benefited was the road sector, which received sh. 247 million and sh. 324 million in 1996/97 and 1997/98, respectively. The 1998/99 budget has been allocated to health – sh. 3.02 billion (86%), road rehabilitation – sh. 342 million (9.8%) and agricultural extension – sh. 137 million (3.9%). Table 4.2.3.B-(e) refers.

Rakai District

Tables 4.2.3.A–(f) & 4.2.3.B–(f) show the capital expenditure of Rakai District Council. Expenditure totals have changed from year to year, depending on the sectors that were being emphasised. In 1995/96, capital expenditure was sh. 1.66 billion and took a share of 32.6% of total expenditure. In 1996/97 capital expenditure reduced to sh. 435 million and its share dropped to 11.6%. The 1997/98 capital expenditure figure was sh. 5.03 billion, and it took a share of 55.6%.

As can be seen in Table 4.2.3.B–(f), in 1995/96 the main project was construction of secondary schools and a technical institute. Secondary school education sub-sector received sh. 793 million out of total capital expenditure of sh. 793 billion – 47.9%.

Expenditure on new administration buildings for the District Headquarters totalled to sh. 551 million or 33.3% of the total. Feeder road rehabilitation was availed sh. 197 million or 11.9%. Other sectors that had projects, though smaller, were agriculture – sh. 70 million, water – sh. 39 million and one health clinic rehabilitation project was allocated sh. 6 million. In 1996/97, the school project and the administration blocks were scaled down to just 10% of their previous year's levels. Expenditure on feeder roads also fell from sh. 197 million to sh. 134 million. That on agriculture was doubled from sh. 70 million to sh. 140 million. In 1997/98, through DANIDA funding, a major road project was undertaken. The main trunk road to the district headquarters was upgraded to tarmac and it cost sh. 4.4.billion. Additional blocks for administration offices were built at the cost of sh. 493 million. Secondary schools and agricultural sector projects were given sh. 61 billion and sh. 15 million, respectively.

Lira Municipal Council

Table 4.2.3.A-(g) shows total capital expenditures for Lira Municipal Council. Expenditures declined from sh. 32 million in 1995/96 to sh. 11 million in 1996/97. Budgeted capital expenditures for 1997/98 and 1998/99 were sh. 23 million and sh. 5 million, respectively. In fact, for the latter year, the Council was specifically targeting NGOs to finance construction of the office block and street lighting, outside the Municipal's budget. Capital expenditure generally accounts for less than 10% of the Municipal's total expenditure. Table 4.2.3.B-(g) gives the breakdown.

Mbale Municipal Council

Tables 4.2.3.A & 4.2.3.B–(h) show the Capital Expenditure figures for Mbale Municipal Council. The share of capital in total expenditure rose from just 6.4% in 1995/96 to about 20% in 1997/98. In absolute terms, capital expenditure increased nearly six-fold between 1995/96 and 1996/97 from sh. 55 million to sh. 319 million. The 1995/96 amount of sh. 55 million was made up of sh. 36 million spent under the construction department, sh. 10 million to renovate offices and sh. 9 million to re-furbish municipal clinics. Of the sh. 319 million spent on capital projects in 1996/97, sh. 251 (or 78.7%) was used to construct roads; sh. 36.6 million (11.5%) to provide infrastructure to the municipal low-cost housing estate; sh. 12.5 million to construct school toilets and buy school desks, and sh. 12 million was used to construct a maternity centre.

In 1997/98, the only major capital activity supported was construction of roads, which was availed sh. 104 million. Sh. 682,000 was spent for rehabilitation of street lighting. As stated earlier, the capital budget for 1998/99 appears too ambitious at sh. 1.73 billion. Road repairs was allocated sh. 200 million or 11.6%; other construction works was allocated sh. 190 million (11.0%); sh. 154 million was earmarked for provision of infrastructure to the low-cost housing scheme; sh. 228 million for construction of primary schools including one vocational training centre and sh. 105 million for rehabilitation of street lighting.

An unexplained amount of sh. 666.7 million was earmarked for "investments". This figure was added to the provisions for Public Administration, and, therefore, it gives a rather large figure of sh. 789 million. Overall, the capital budget for 1998/99 is unlikely to be attained.

Mukono Town Council

Table 4.2.3.B-(i) gives the breakdown of capital expenditures by functional sectors. The Council has emphasised two main areas namely rehabilitation of roads and protection of spring wells. There is also a project of building the Town Council's main administration building, which received sh. 15 million (or 32.6%) of total capital expenditure, in 1995/96. The cash flow was partly financed by bank overdraft. Protection of spring wells took sh. 23.9 million in 1995/96, or 52.3% of total capital expenditure, reconstruction of the Taxi Park together with road rehabilitation took sh. 5.4 million or 11.7%. In addition, sh. 630,000 was spent to construct rubbish bunkers. In 1996/97, the Council paid for a tipper lorry for rubbish collection at sh. 44.4 million. The balance on the tipper was completed in the following year, and the vehicle delivered. Other road maintenance equipment was also procured. Another expenditure of sh. 17 million was spent on road rehabilitation. The 1997/98 expenditures were in the same areas.

Nama Sub-County

Table 4.2.3.A&B-(j) show the capital expenditures. Capital expenditure is more spread out to cover the areas listed in the District Development Programme (DDP). In 1997/98, sh. 1.32 million was spent to rehabilitate feeder roads, sh. 0.5 million on administration office block and sh. 30,000 for seeds procurement. In the 1998/99 budget, it is proposed to spend sh. 2.95 million in construction of primary schools classrooms, sh. 3.73 million in protection of rural water schemes, sh. 26.8 million on purchase of construction & road rehabilitation equipment and sh. 2.5 million on the administration building.

4.2.4 Sub-national Revenues

Sub-national governments derive their revenues from the following sources:

- taxes – graduated tax and property tax:
- user charges –licences, permits, market dues, etc.:
- other sources – own-generated revenues, single source/asset disposal, fines, etc.:
- central government transfers – unconditional and conditional grants: and
- donations from non-governmental organisations.

As stated earlier, both the Constitution and the Local Government Act, 1997 have mandated these sources.

Graduated tax is a head tax to be paid by every male person from 18 years and above, and every female person from 18 years and above, who is engaged in gainful employment or business. The central government fixes the maximum rate of the tax. Each local government is responsible for determining the scales, in accordance with the advice of the Local Government Finance Commission. Each local government is responsible for carrying out assessments on individuals within its jurisdiction. The total tax proceeds are retained and used by the local government and not shared with the central government.

Property tax refers to ground rate and ground rent levied on land and property, as provided for under the Land Decree of 1976. Ground rate is a tax levied on land owned by the landowner. The value of the land is based on the area of that land and its location. Ground rent on the other hand is a levy assessed on the value of the development on that land. Valuation of the property is based on the actual development made, and it takes into account the location of the property. Property tax is particularly important to urban councils, where there is widespread commercial holding of land. In rural areas, land is generally held for family tilling and building of owner-occupier homes, rather than for commercial purposes.

Each local government sets the ground rate and ground rent and is responsible for carrying assessment of both taxes. For this purpose, the local governments are expected to carry out valuation of the land and of the property thereon. The local governments invite central government valuation officers to undertake valuation exercises in their territory. Like in the case of graduated tax, the local governments retain the full revenue of rates and rents. With the devolution of power to the local governments, it is felt that authority to determine the rates for both graduated as well as property taxes should be devolved to the local governments. The issue of autonomy on tax rate/base is treated in more detail in Chapter 6, section 6.5.

Income tax is levied on both personal and corporate incomes. This tax is determined and assessed by the central government. The Uganda Revenue Authority (URA), which is the sole body mandated by law to collect central government revenues, collects the income tax. Corporate income tax is collected directly by the URA. Personal income tax, also referred to as Pay As You Earn (PAYE), is income tax on salary and wages. It is collected by the employer and passed over to the Revenue Authority. This is not routed through and is not reflected in the accounts of the local governments.

For the lower cadres of employees who are not eligible to any pension scheme, both the employee and the employer are supposed to contribute to a national social security fund. The National Social Security Fund (NSSF) has been set up by the central government to manage the fund. Again, the employee contribution to the Fund is deducted by and transmitted by the employer to the NSSF.

Withholding tax is a tax levied on payments for services such as insurance, consultancy, etc. For a time, the Uganda Revenue Authority delegated its authority to collect withholding tax to the local governments. However, this delegation was withdrawn after URA realised that the local governments were abusing it. They discovered that the local governments, without prior authorisation from the Authority, were using the money to finance their local expenditures, with the promise that the money would be reimbursed later. In the end, they would fail to do so. Taxes collected for the URA are not reflected in the accounts of the local governments.

Local governments are allowed to levy charges such as licences, fees, permits, dues, etc. for services they render. These user charges are determined, collected and appropriated exclusively by the local governments.

By law, the central government is supposed to make three types of transfers to the local governments; namely, unconditional grant, conditional grant and equalisation grant. Conditional and unconditional grants have been instituted whereas equalisation grant has not. The Ministry of Finance, taking into account the population of each district, determined the initial level of unconditional grant to each local government. The Local Government Act provides for yearly adjustments to be made to these levels taking into account the resource envelopes, the change in the general price levels in the preceding year and the net change in the budgeted cost of running added and/or subtracted services in the current year.

In theory, conditional transfers are supposed to be agreed upon between the central government and the individual local government, according to programmes within the priority areas, as determined by the Ministry of Finance. In practice, however, the Ministry of Finance largely determines the level of conditional grant according resource envelope.

The Local Government Act, 1997 permits local governments to receive donations from third parties. This is a significant source of revenue for the local governments, particularly for areas that have been or are disadvantaged. A number of Non Governmental Organisations (NGOs) and Community Based Organisations (CBOs) are active in this area. However, it should be remembered that a significant component of donor funds is received and utilised by the central government directly. Donor funds shown under the local government revenues are mainly utilised on projects supported directly by those organisations.

Both graduated and property taxes are local/own taxes and are not shared with the central government. Graduated tax is one of the major sources of local revenue to district councils.

Table 4.2.4 shows the total revenues of local governments. In 1995/96 total local government revenue was sh. 177.8 billion of which locally generated revenue contributed to approx. 30%of the revenues. Transfers from the central government amounted to sh. 117.8 billion or 66.2% of all local government revenues. While donations from NGOs, etc totalled sh. 6.8 billion or 3.8%. The local revenues were made up of tax collection yielding sh. 37.9 billion, user charges contributing sh. 11.8 billion and other miscellaneous sources yielding sh. 3.5 billion. These contributed, respectively, 21.3%, 6.7% and 2.0% of total revenues of the local governments.

Sub-national revenues registered a 75.5% increase between 1995/96 and 1997/98. Total revenue in 1997/98 was sh. 312 billion of which locally generated revenue amounted to sh. 71.9 billion or 23.1%. Transfers from central government increased to sh. 204.4 billion or 65.5% and donations to 35.6 billion (11.4%). Local revenue was made up of tax revenue at sh. 45.4 billion, user charges at sh. 15.4 billion and miscellaneous revenues contributed sh. 11.4 billion.

By other words, the share of own revenue sources has declined considerably over these two years.

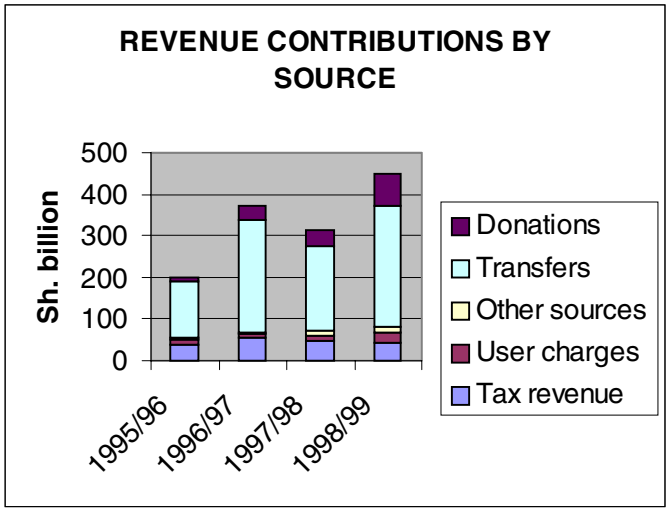
The budgeted revenue for 1998/99 shows an overall increase over the previous year of 43.8% to sh. 448.8 billion. Local revenue sources are expected to yield sh. 80.1 billion or 17.8%. Central government transfers are expected to amount to sh. 292.3 billion or 65.1% and donations expected to total sh. 76.5 billion or 17.0%.

From the above figures it can be seen that donations from NGOs has grown more than ten times over the years followed by transfers from central government which grew at 57.5% per annum. Local revenue contribution has grown at only 23% per annum. Because of this, contribution of local revenue to the total has declined from 30% to 17%, while that of central government transfers has remained almost the same at 65% - 66%. Contributions from the NGOs and donors have catapulted from a paltry 4% to 17%. The conclusion to be reached from this trend is that local governments are relying too heavily on external funding and secondly that there is increasing dependency on NGOs, etc., rather than self-reliance.

Local governments have been strongly advised to generate as much revenue as possible locally to meet their non-priority expenditure needs. Such needs centre mainly on administrative and personnel costs of the councils. Most local governments tend to put emphasis on these activities and consequently try as much as possible to maximise revenue. For this reason, the rate for non-collection of taxes appears to be falling. For example, graduated tax, which is payable by a businessman, is now levied on his manager if that businessman has another residence in a different tax jurisdiction, and he already pays tax in that other centre. It is, however, true that ground rates sometimes run into arrears. Of recent, various local governments have stepped up vigour to collect these arrears.

Under the local Government Act, sub county councils are supposed to collect revenues on behalf of the district councils in the rural areas. Sixty five percent of the revenue so collected is to be retained by the sub county councils, which it in turn shares out with the county, parish and village councils, respectively. The Divisions collect local revenues on behalf of the city or municipal councils in the urban councils. The Divisions remit 50% of the collections to the city/urban councils and retain the other 50% that it shares with the parish, ward and village councils under it. The retention is to finance activities at the lower councils, both of recurrent and capital development. The figures in Table 4.2.4 refers to the net 35% received at the district and the net 50% at the urban council levels. A summary is shown in the chart below.

Chart: Revenue Contribution by Source



Attempts have been made to estimate non-collected revenues by the local governments. Non-collected revenue is the difference between the budget and realisation (collection).

Table 4.2.4 – Supplements shows the results of the non-collected revenues. Non-collected revenue was estimated as the difference between the budgeted revenue and the total revenue realised. The non-collection is treated as a shortfall and compared against the original budget. It should however be noted that management usually prepares a revised budget in the course of the financial year at which the original budget is updated to take cognition of changes experienced during the period already expired. Due to non-availability of budget data for 1995/96, it is not possible to make estimates of non-collection for that year. Likewise, because of the adjustment made for 1996/97 year, the results these computations for aggregate local governments are distorted. Total non-collected revenue for 1997/98 amounted to sh. 58.7 billion or 15.8% of the budgeted revenue. Over forty per cent of this, i.e. sh. 23.9 billion, was in non-realised donor contributions. In fact, only 60% of the budgeted donations were realised leaving 40% non-realised. Sh. 12 billion or 20.9% of budgeted tax revenue was not collected. Non-collected user charges and miscellaneous revenues amounted to sh. 6.8 billion and sh.8.4 billion, or 20.9% and 30.5% of their budgeted figures, respectively.

Bushenyi District

Figure 4.2.4-(a) shows the district's revenue inflows by broad category of sources. Revenues generally increased over the period from sh. 5.83 billion in 1995/96 to sh. 9.67 billion in 1997/98. The main source of revenue was central government transfers whose contribution rose from sh. 3.97 billion or 68% in 1995/96 to sh. 6.97 billion (72%) in 1997/98. Donations increased nearly eight times from sh. 196 million or 3.4% to sh. 1.6 billion or 16.1% over the same period. In contrast, local revenue declined by almost 30% from sh.1.66 billion (28.5%) down to sh. 1.15 billion or 16.1% between 1995/96 and 1997/98. The revenue budget for 1998/99 is 31.6% higher than in 1997/98 at sh. 12.73 billion. Central government transfers are expected

to contribute nearly ten billion shillings or 78.4%, local revenues to yield sh. 1.65 billion or 13% while donations are expected to contribute one billion shillings (8.6%), a drop from the previous year. The district has never secured any long-term loan.

Tax revenue contributed 80% of local revenue. User charges' contribution slightly dropped from11.8% in 1995/96 to 10.3% in 1997/98, while that of other miscellaneous sources contributed 8 0 9%. The 1998/99 budget shows the contribution of tax revenue dropping to 69.6% while that of user charges remaining the same at 10%. Miscellaneous sources are expected to contribute 20% of local revenue.

In general, non- collection of revenues appears to be low. In 1995/96 out of the budgeted total revenue of sh.1.42 billion, the district collected sh. 6.01 billion the performance report shows that sh.5.83 was realised leaving only sh. 181 million or 3% of the budgeted figure uncollected. Of this 88% of tax revenue was realised. The non-collected revenues were mainly in non-tax revenues, mainly user charges. Only 24% of user charges and 53% of miscellaneous sources were collected. This was more a problem of overestimation in the budget rather than failure to collect the revenues. It is stated that central government transfers were above budgeted figures because of drought, which was reported in the region during that year. The 1997/98 performance was even more impressive. Revenue realisation almost completely matched the budgeted figures after the budgeting estimate problem had been corrected. Out of total budgeted amount of sh. 9.71 billion only 0.4% is shown as uncollected. The district compiles returns for its tax collection and assesses its performance annually.

Kampala District

Table 4.2.4-(b) shows Kampala City Council revenues by source over the years. Kampala district revenue has grown moderately by about 20% from sh. 16.1 billion in 1995/96 to sh. 19.3 billion in 1997/98. The budget estimates for 1998/99 is very ambitious at sh. 27.1 billion. If achieved, this will represent a growth of 40% in one year only.

In contrast to the general pattern in other districts, Kampala City Council relies mainly on local revenues as opposed to transfers from the central government. In 1995/96, local revenues yielded sh.12.2 billion, taking a share of 75.6% of total revenue. Transfers from the central government amounted to sh. 39.4 billion or 24.4% of total revenue. In 1997/98, the contribution of local revenue dropped both in absolute amount as well in its share. Local revenue totalled sh.11.4 billion with a share of 59% while that of central government doubled to sh. 7.9 billion with a share growing to 41%. The budget estimates for 1998/99 puts local revenue at sh.18.9 billion and transfers at sh. 8.1 billion. The relative contributions are shifted to 70% versus 30% in favour of local revenue.

The reason for local revenue being higher than central government transfer is because, as a cosmopolitan city, Kampala has many employees who pay graduated tax to the City Council. In addition, the City Council derives a lot of revenue from property tax.

It should, however, be observed that local revenue declined between 1995/96 and 1997/98. The reason for this will be discussed later. Tax revenue declined by 19%

from sh. 8.1 billion to sh 6.6 billion. The share of tax revenue accounted for fell from 50.3% in 1995/96 to 34.1% in 1997/98. The decline was steepest in user charge revenue, which dropped by about 28% from sh. 3.45 billion to sh. 2.48 billion. Its share in total revenue similarly fell from sh. 21.4% in 1995/96 to just 2.8% in 1997/98. Other miscellaneous sources has risen in prominence over the years and sharply increased from sh.635 million to sh. 2.3 billion

Budget figures for the years under review were not available and hence it was not possible to estimate non-collected revenues. In discussions with officials of the City Council it was learnt that the Council could achieve substantially higher revenues from property tax since, out of an estimated 150,000 rateable properties, only 20% are currently paying rates and rents. Even then, these are paying based on outdated valuation. In addition, it was stated that other new sources of fees are being considered. These include new areas such as advertisements, street parking, etc. Besides, the Council is considering decentralisation of rates collection and instituting an incentive scheme for it.

Kotido District

The revenue base of Kotido district is very small. Local revenue is almost entirely dependent on graduated tax. Market dues contribute minimally to the local revenue. Livestock, which is the mainstay of the area, is not taxed. There are two cattle markets; one at Bar Atenga and the other at Kaabong but tax on cattle is resented. Collection of market dues is very difficult and has not been privatised. Therefore, the District still uses its own staff to collect the revenue. These are implemented through the respective lower local councils. It was also reported that the local population does not appreciate the purpose of taxation and consequently does not want to pay taxes.

Table 4.2.4-(c) shows the revenue performance of Kotido District Council. Total revenue nearly trebled between 1995/96 and 1997/98 from sh. 1.3 billion to sh. 3.3 billion. Local revenue contribution is, however, very low. It amounted to only sh. 64 million, contributing a paltry 4.9% of total revenue in 1995/96 and increased to sh. 76 million in 1997/98 with its contribution dropping to 2.8%. The major source of revenue to the district is grants from the central government. Grants amounted to sh. 1.23 billion in 1995/96 with a contribution of 95.1%. By 1997/98, grants had almost doubled to sh. 2.1 billion. Its contribution, however, dropped to 63.8%. This was the result of the strong show made by NGO donors. Total donations amounted to sh. 1.1 billion in 1997/98, taking a share of 33.4% in total revenue. The composition of revenue in the 1998/99 budget shows central government transfer leading with a small margin at sh. 2.9 billion with donations close by with sh. 2.6 billion (46.3%). Local revenue contribution, though has increased to sh. 138 million has a contribution falling to 2.4% only.

Due to lack of data, it is not possible to show estimates of non-collected revenues.

Lira District

Table 4.2.4-(d) gives the break down of Lira District Council revenues for the period 1995/96 – 1998/99. As already pointed out before, the district has a small revenue base, and, like most other districts, is heavily dependent on central government grant transfers. Local revenue constitutes less than 6% of the districts' total revenue. Graduated tax constitutes the bulk of the local revenue. In 1995/96, local revenue totalled sh.273 million taking a share of 5.4%. By 1997/98, local revenue had grown by nearly 77% to sh. 484 million and its share slightly increased to 5.7%. Revenue efforts are expected to yield sh. 630 million in 1998/99 with its share rising further 8.3%.

Transfers from the central government increased from sh. 4.1 billion in 1995/96 to sh. 5.0 billion in 1997/98, and they were budgeted at sh. 7.0 billion shillings for 1998/99. Between 1995/96 and 1997/98, the share of central government transfers declined from 81.7% to 59.3%. This was mainly due to the rising inflow of funds from the NGOs. The District authorities complained that releases of transfers from the central government were erratic in the early years and did not adhere to the approved budget figures. They singled out April 1998 when there was no release at all.

Donations from NGOs have grown both in magnitude and in weight over the years. Whereas in 1995/96 funds from donors totalled sh. 648 million, contributing a share of 12.8%, by 1997/98 its contribution had increased 4½ times to sh.2.98 billion and its share had risen to 35%.

It has not been possible to make estimates of non-collected revenues due to lack of budget estimates figures for those years.

Mukono District

Table 4.2.4-(e) gives the broad breakdown of Mukono District Revenues. The district is heavily dependent on external resources and its dependency has deepened over the years the share of local revenue falling from 30.1% to 18.1% of total revenues between 1995/96 and 1998/99. In contrast, the share of central government transfers has grown from 61.8% to 70% by 1997/98 before falling to 67.2% in the 1998/99 budget. Similarly, the share of donations has risen from 8.2% in 1995/96 to 10.5% in 1997/98 to 14.8% in 1998/99.

Within the local revenue group, tax dominates the scene followed in distant second position by user charge and last is the other miscellaneous revenues. In 1995/96, tax revenue amounted to sh. 1.6 billion or 74.3% of local revenues, user charges contributed sh. 346 million or 16.9% and miscellaneous revenue totalled sh. 200 million (9.4%). In 1997/98, the contribution of tax revenue remained about the same at sh. 1.5 billion though its share dropped somewhat to 69.5%. User charge contribution went up to sh. 577 million and its share climbed to 26.3%. The relative share contribution in 1998/99 was similar to that of 1997/98 but with tax share slightly dropping and that of miscellaneous revenue increasing.

Total revenue in 1995/96 amounted to sh. 7.1 billion. Of this, local revenue was sh. 2.1 billion while transfers from the central government amounted to sh. 4.4 billion and donation sh. 580 million. Of the local revenue, tax revenue amounted to sh. 1.6

billion. Other local revenues were from user charges – sh. 346 million and miscellaneous sources – sh. 200 million.

In 1997/98, total revenue increased to sh. 11.4 billion. Of this, nearly sh. 8.0 billion was from central government transfers. Revenue from donations in 1997/98 nearly trebled to sh. 1.2 billion compared to 1996/97. There was a decline in local revenue collection reflecting the general poor economic performance arising from the El Nino weather phenomenon.

The 1998/99 revenue budget shows a dramatic increase of 72% from sh. 11.4 billion to sh. 19.5 million. Transfers from central government are budgeted to increase by sh. 5.2 billion to sh. 13.1 billion. Its share in total revenue, however, will drop slightly to 67.2%. Revenue from donations is expected to more than double from sh. 1.2 billion of sh. 2.9 billion in 1998/99. Revenue from local sources is expected to amount to sh. 3.5 billion, contributing 18.1% of total revenue.

Performance of the district in collection of local revenues is generally good. Contractors who collect market dues are selected through a competitive process. Any failure to meet the tender price is met with cancellation of the tender and substitution. However, budget estimates have tended to be too optimistic and are usually revised mid way in the year to more realistic levels. Collection of the graduated tax, however, appears to be problematic. Non-collection rates are as high as 25%. The district authorities have said the database for taxpayers is somewhat unreliable and an exercise to computerise it has been embarked upon. Table 4.2.4-(e) - Supplement refers.

In 1995/96 a total of sh. 2.77 billion is estimated not to have been collected. This is made up of sh.366 million on the tax budget and sh. 203 million on the user charge budget representing non-collection rates of 18.8% and 37%, respectively. Collection of miscellaneous revenue was above the budgeted level. In 1997/98, estimated total non-collected revenue was sh.3.9 billion or 25.8% of the budget. Of this, tax revenue non-collection was estimated at sh. 634 million while that for user charges is sh. 239 million. Each account registered a 29% default rate. In contrast, non-collection of miscellaneous revenues registered a very high 78.1% non-collection or sh. 329 million. This was partly because of the very ambitious budget, which had been increased by 56% to sh. 816 million.

The District is the only one, which has been known to vary the revenue sharing rates in favour of the lower councils. Between 1995/96 and 1996/97, the district allowed 65% of locally collected revenues to be retained by the lower councils although the law at that time stipulated a 50:50 ratio. In 1997/98, after a new ratio of 65:35 had been fixed by the Local Government Act, the district increased the lower council retention to 80%. However, this created new problems. The District was required under the law to pay sub accountants at the local councils. It was also realised that sub counties, which had better resource endowments, were benefiting to the neglect of poorer regions. The district, therefore, found it difficult to assist the poorer regions, which did not have because its own revenue base was now too small. The District Council has therefore decided to revert to the minimum legal ratio of 65:35 to be able

to redistribute resources from the richer to the poorer areas. This policy will be implemented from financial year 1999/2000.

Rakai District

Rakai District Council Revenue flows are shown in Table 4.2.4–(f). %).

Total revenue of the district grew by 14.5% from sh. 4.7 billion in 1995/96 to sh. 5.4 billion in 1997/98. The increase is wholly attributed to increased grants from the central government, which nearly doubled from sh.2.14 billion to sh. 4.02 billion over the period. Local revenues and donations declined by 35% and 52%, respectively over the same period. The break down follows below.

In 1995/96, out of the total revenue of sh. 4.7 billion, local revenues totalled sh.887 million. Of this, tax revenue alone was sh. 774 million, user charge totalled sh. 63 million and miscellaneous revenues amounted to sh. 49 million. Central government transfers totalled sh. 2.14 billion or 45.2% of the district's total revenue, while donations totalled sh. 1.71 million or 36.2%. The 1997/98 total revenue was sh. 5.43 billion of which central government transfers contributed sh. 4.02 billion or74.2%. Local revenues totalled sh. 577 million taking a share of 10.6% while donations amounted to sh. 825 million or 15.4% of total revenue of the district. The presentation of the data for 1996/97 and 1997/98 did not separate the items, and they have been shown as tax revenue. The 1998/99 revenue budget shows total revenue increasing by 45% to sh. 7.87 billion. Of this, local revenue contribution is expected to increase by 74% to one billion shillings 57% of which will come from tax revenues, 4% from user charges and 39% from miscellaneous income. Central government transfers is expected to increase y 50% from sh. 4.02 billion to sh. 6.04 billion. Its contribution in total revenue will be 76.8%. NGO donations are expected to remain at sh. 820 million about the same level as the previous year of sh. 825 million. Its contribution however, will decline to 10.4% because of the increase in the other items.

As is evident from the figures above, the district is dependent on central government transfers. The share of local revenues has somewhat shrunk from nearly 20% down to about 12%. In absolute terms, local revenues have actually declined. This is a worrisome development as it suggests there is no effort on the part of the district council to increase local revenue and may imply that the council has become complacent on local revenue due to the donor funds that are flowing into the district.

Table 4.2.4–(f) - Supplement gives estimates of non-collected revenues. In 1995/96, the estimate for non-collected local revenue was sh. 547 million or 36.4% of the budgeted amount. Most of the default was in the miscellaneous revenues which registered 84.5% default rate, followed by user charges, which had 65.7% default. In 1996/97, there was a 30.7% default rate in tax collection. The figure for 1997/98 was similar at 32.7%.

In discussions with the district officials, it was reported that non-collection of taxes was 15 – 20% while for user charges was about 30%. The failure to collect the full budgeted amounts was attributed to evasion by taxpayers and corruption by tax collectors. To combat these vices, it was said that the District Council had stepped up

enforcement and instituted stricter auditing of the collectors. These measures appear to have met with limited success, so far.

Lira Municipal Council

Table 4.2.4-(g) gives Lira Municipal Council's revenues by source. Figures for 1995/96 and 1996/97 show performance results. For 1997/98 performance figures covered only 6 months and only for some of the items. Adjustments were made where there is usually an even stream of revenue during the year, to arrive at the annual estimates. However, where revenue collection is not evenly spread through the year, the budget figures were used. For example, whereas sh. 172 million was budgeted against graduated tax, performance as of December 1997 showed that only sh. 1.1 million had been collected. In this case, the budgeted figure is used rather than the extrapolated figure of two million shillings, which would result from extrapolation. For 1998/99, only budget figures were used. The 1997/98 and 1998/99 budgets included provisions for transfers back to the lower Divisional Councils. These were excluded in the analysis. Being still new in office, the Town treasurer could not confirm whether performance figures for the earlier years included such provisions as well.

Total revenue of the Municipal Council increased marginally between 1995/96 and 1996/97 from sh. 410 million to sh. 574 million. Total revenue increased by 22.3% to sh. 702 million in 1997/98. It is expected to increase further to sh. 869 million in 1998/98.

In contrast to the pattern in the districts, local revenue sources are the most dominant yielding over 85% to the total revenue of the council. Central government block grants, together with donations, contribute less than 15% of total revenue of the Council. The main reason for this difference is that the central government does not give conditional grant to urban councils. When unconditional grant is given, it is channelled through the district council.

The Council gets most of its revenues from user charges, which constitutes 40-45% of total revenue. Tax revenues closely follow this, which accounts for 30-40% of total revenue. Miscellaneous revenues contribute the balance of local revenue of the Municipality of 4-5%. Except for 1997/98,ontribution of NGOs in form of donor's funds has hitherto been very small at below three million shillings per annum.

Given the uncertainty of the figures for Lira Municipal Council, it is difficult to give estimates on non-collected revenues by the Council.

Mbale Municipal Council

The revenue performance of Mbale Municipal Council is shown in Table 4.2.4-(h). Total revenue declined by one-third between 1995/96 and 1997/98 from sh. 962 million to sh. 639 million. The year 1997/98 was a particularly bad year for Mbale Municipal Council because in that year fire burnt down its main market, which was its main revenue source. Besides, the effects of the EI Nino weather and the local elections of the Municipal Councillors both had serious consequences on revenue efforts. The budget for 1998/99 projects revenue increasing slightly above the 1995/96 level to sh. 993 million.

Mbale Municipal Council derives 85 – 90% of its total revenue from local sources. Transfers from the central government, while has been on the increase, only contribute 10 – 12% to total revenue. In 1995/96, local sources yielded sh. 897 million, contributing 93.2% of total revenue. As of 1997/98, local revenue collection had dropped to sh.543 million, with its contribution falling to 85%. The 1998/99 budget for local revenues totals sh. 866 million and its share will slightly go up to 87%.

Mukono Town Council

Table 4.2.4-(i) shows the revenues of Mukono Town Council by source. Revenues have risen over the years. Total revenue in 1995/96 amounted to sh. 234 million. Of this, local revenues totalled sh. 215 million and contributed nearly 90% of the Council's total revenue. Tax revenue contributed sh 120 million or 51% of local revenue and user charge contributed sh. 85 million or 36%. Transfers from the central government amounted to sh. 23.7 million and contributed10.1% of total revenue. By 1997/98, the Council's total revenue had grown to sh. 267 million with local revenue contributing sh. 224.5 million or 84.1% while transfers contributed 15.9%. Tax revenues amounted to sh. 145 million contributing 54% of the total revenues. The contribution of user charge dropped to 27% of total revenues. The 1998/99 budget estimates provide for local revenue increasing to sh. 322 million but the contribution of own revenue sources fall to 76.4%. The contribution of tax revenue is 42.6%of total revenues and that of user charge is 22.9%of total revenue. For once, miscellaneous sources contribute 11%. A total of sh. 100 million is expected as central government grants, contributing 23.6% of total revenues. Figures for donations are not included in the accounts.

It is worth noting that over the years, central government transfers have been growing at a faster rate than local revenues. Local revenues increased by 6% between 1995/96 and 1997/98. During the same period, grants increased by 79%. In 1998/98, local revenue is budgeted to increase by 43% while grants are expected to more than double, i.e. grow by 234%.

Revenue realisation, against the budget, is quite good. Table 4.2.4-(i) – Supplement shows the estimates of the non-collected revenues. Overall, sh. 61.9 million was not realised in 1995/96 representing 20.9% of the budgeted estimate. For the nine months of 1996/97, sh. 76.1 million was the non-collected revenue, representing 21.8% default. The adjusted figures for 12 months indicate that full collection would have been achieved if the financial year had remained unchanged. Moreover, the corresponding non-collection for 1997/98 was sh. 61.2 million or 18.6%. Tax defaulters are normally followed in the subsequent years, and arrears are collected.

Nama Sub County

Table 4.2.4-(j) shows the sub county revenue analysis. As earlier stated, Nama Sub County has very limited sources of revenue. Sub counties are entitled to a minimum of 65% of the revenue they collect. District councils may increase the percentage in their absolute discretion. As stated earlier, Mukono District Council had raised the rate to 80% for 1997/98. However, it stated that the rate would be reverted to 65% in the next financial year. It should also be recalled that the District Council was collecting some of the tax revenues directly but was not paying the sub-county its 65% (or 80%) entitlement. These are shown in the accounts as arrears receivables. The Local Government Act permits a sub-county to deduct its entitlement of revenue not passed back by a district council from the district's share of revenue that the sub-county has collected and should have remitted. The sub-county has not exercised its right under this provision.

In 1997/98 graduated tax contributed sh. 47.6 million (74.4%) of the total revenue of sh. 64.1 million. Graduated tax contributed sh. 44.2 million of which sh. 3.0 million was arrears for previous year. User charges contributed the balance of revenue – sh. 16.4 million. In 1998/99 budget, sh. 90.3 million (81.7%) is expected from tax collection of which sh. 86.3 million will be from graduated tax. Out of this sh. 22 million is the arrears. User charges are expected to contribute sh. 20.2 million.

Due to lack of data, it is not possible to give estimates of non-collection of revenues.

4.2.4.1 Specific Types of Sub-national Tax Revenues

Local governments are allowed under the Local Government Act to levy, charge and collect graduated and property tax. Graduated tax is assessed at the beginning of each year on all adult males resident in the district and adult females who are engaged in gainful employment or business. The central government determines the maximum tax rate each year and each local government sets the scales and carries out the assessment.

Each district or urban council is required to appoint a Tax Assessment Committee to assess tax amount each individual is to pay. In addition, every sub-county is required to have a Tax Assessment Appeals Tribunal, which hears appeals from the public against assessment awarded by the Tax Committee. The Tax Assessment Appeals Tribunal is constituted in a manner prescribed by the Minister of Local Government.

Each district and municipality maintains a database of its taxpayers. The databases are updated annually before assessments are commenced.

Sub-county chiefs and their staffs carry out tax collection. However, the local councils play very influential roles in the assessment and collection of the taxes. It is common that tax assessment and collection become election issues whenever there are elections whether national or local. This was particularly significant during the 1996 presidential and parliamentary elections and again in 1998 during local councils' elections. Candidates were promising lower taxes if elected. In contrast, the bureaucrats, chiefs, etc., tend to over estimate revenue projections to present the image that they are good performers. However, this is counter-productive, as tax

realisations are often below those high targets, thus showing low performance on their part.

Property tax is levied as ground rate and ground rent. Ground rate is flat rate assessed on land occupied depending on its location while ground rent is assessed on value of the development (property) on that land. Property tax is not widely used as a source of revenue by the districts, as there are few rental property in the rural countryside. In contrast, urban centres do levy and collect rates and rents, though not to their full potential. The main constraints were reported to be difficulty in getting up-to-date and accurate database of property owners, and out of date valuation of the property that are in the database. Municipalities claim that it is too expensive to carry out revaluation much as the need is recognised.

Table 4.2.4.1 gives local government tax revenues. In 1995/96, revenue from taxes for all local governments totalled sh. 37.87 billion. This represented 21.3% of total local government revenues for that year. Of this figure, graduated tax revenue amounted to sh. 30.87 billion and property tax sh. 7.0 billion the bulk of which was collected by urban councils. Graduated tax contributed 81.5% while property tax contributed 18.5% of total tax revenues.

The figures for realised tax revenue for 1996/97 has been disregarded due to the length of the year.

Tax revenues increased to sh. 45.36 billion by 1997/98. The share of tax revenue to total local government revenue dropped to 14.5%. Graduated tax increased by 21.4% to sh. 37.47 billion while property tax increase more moderately to sh. 7.89 billion. The contribution of graduated tax slightly increased to 82.6% thereby lowering the share for property tax to 17.4%.

The budgeted revenue for 1998/99 is sh. 42.95 billion. This figure is 5.4% lower than that for 1997/98. It is unlikely that the budgets were targeted to be lower than the previous year's. It is, however, more likely to be caused by the extrapolation of figures for the councils whose data were not available. The tax revenue constitutes only 9.6% of total revenue of all local governments. It is significant that the share of tax revenue is declining compared to that of the previous year. Graduated tax revenue has dropped to sh. 323.44 billion. Property tax however has risen to sh. 9.51 billion, as a result of determination of urban councils increase collection from this source. The share of graduated tax is 77.9% and is five percentage points below that of 1997/98.

Bushenyi District

Table 4.2.4.1-(a) presents data for Bushenyi District tax revenues. Tax revenues amounted to sh. 1.33 billion in 1995/96 then declined to sh. 929 million by 1997/98 but is budgeted to increase to sh. 1.15 billion in 1998/99. The main reason for the decline was due to decline in performance of graduation tax. This was mainly the result of the politics of election over those years.

In 1995/96 virtually all the revenue came from graduated tax and the contribution of property tax was negligible yielding only two million shillings. Total tax revenue amounted to sh. 1.33 billion, representing 22.9% of total revenue of the district for

that year. In 1997/98 graduated tax yielded sh. 579 million or 62.3% of total tax revenue. This was a decline as the contribution of property tax dramatically increased to sh. 350 million with a share of 37.7%. Graduated tax is budgeted to raise sh. 931 million in 1998/99. Its share will be 81% while that for property tax will be 19%. This appears to be an ambitious move as it means an increase of 60.8% collection of graduated tax revenue. The district plans to carry out a census of taxpayers and revise the database. Revenue from property tax is budgeted at sh. 219 million. The district authorities say the set back is the out of date valuation of the property, which is still used for the assessment. It is planned to invite government valuers over a period of to carry out revaluation of the property when funds permit.

Kampala District

Table 4.2.4.1-(b) gives a breakdown of the tax revenues. For the years 1995/96 and 1996/97, property tax yielded more revenue than graduated tax. In the subsequent years, the position was reversed. The Council did not explain this change. Tax revenue contributed 50.3% of total revenue in 1995/96. Its share declined to 34.1% in 1997/98, and it is expected to decline further to 31.2% in 1998/99.

Kotido District

Kotido district does not have a reliable taxpayer database partly because the people are always shifting their abode and partly because the people do not want to be enumerated. It is said that enumerating people, and even livestock, is considered a great taboo in the tradition of the Karamojong.

The total number of tax papers of District is about 18,000 people. The people resent to be enumerated, and likewise for their livestock. Because of their nomadic ways, tax assessment is very difficult. Similarly, because of the proliferation of guns, enforcement of tax payment is difficult. The District Administration, therefore, depends on the kraal leaders to approach their members and collect whatever amount they able to.

Table 4.2.4.1-(c) gives the tax revenues of Kotido District. Between 1995/96 and 1996/97 Kotido district levied only graduated tax. Tax revenues contribute less than 5% of total revenue, and the ratio has been falling. In 1997/98, tax revenue contributed 4.3% of total revenue. This dropped to 2.3% in 1997/98, and it is expected to drop further to only 1.4% in 1998/99. Graduated tax collection amounted to sh. 74 million in 1997/98. This contributed 97% of total tax revenue. Property tax yielded revenue amounting to two million shillings in the accounts. Because of the low tax collection, this small sum represents a contribution of 3% in the district's total tax revenue. In the 1998/99 budget, graduated tax is expected to yield sh.73 million, the same as the previous year. Property tax is expected to yield sh. 7.0 million. It may be too early to say that there is a trend to increase property tax in the revenue base.

Lira District

Table 2.4.2.1-(d) shows that Lira District levies only graduated tax and no other taxes. Tax collection has steadily risen over the years. This is a reflection of the Council's efforts to improve its revenues. In 1996/97 graduated tax collection was sh. 245 million compared to sh. 327 million in 1995/96. The share of tax revenue to total revenue went up from 4.6% to 5.1%. In 1997/98 tax revenue totalled sh. 287 million, but its contribution to total revenue decline to 3.4%%. The 1998/99 budget shows tax

revenue rising by 22.6% to sh. 352 million. The share of tax revenue to the District's total revenue is still very low at only 4.6%.

Mukono District

Mukono District Council derives all its tax revenues from graduated tax only. The District authorities complained of political interference in carrying out tax assessments. It was stated that during 1997/98, the year when local council elections were to be held, there were numerous attempts to under assess tax liabilities for the promise of votes. Other difficulties faced were lack of transport logistics to carry out proper assessment and collection.

Table 4.2.4.1-(e) gives figure of the district's tax revenue performance. Between 1995/96 and 1997/98, tax revenues stagnated. The contribution of tax to total revenue has declined over the years from 22.3% in 1995/96 to 13.4$ in 1997/98. It is expected to decline further to 11.1% in 1998/99. The 1998/99 budgeted tax revenue is sh. 2.16 billion and is 41% higher than that for 1997/98. There are two reasons for this; (i) that more arrears will be collected and (ii) that a better database for tax assessment would have been prepared.

Employees usually have graduated tax deducted from their salaries between January and May each calendar year. However, the self employed and those without fixed employment are asked to pay theirs at the beginning of the financial year. With the beginning of the financial year changed to July, the local governments had wanted to collect the graduated tax from the latter category between July and December. The rural people have resisted this because they would be paying tax twice in one calendar year. This has also led to high tax arrears being carried forward into the succeeding financial year.

Rakai District

The District derives all its tax revenue from graduated tax alone. See Table 4.2.4.1-(f). No property tax is levied for reasons earlier advanced of the young population. Suffice to repeat that tax revenues have declined over the years. It is not possible to show separately the non-tax local revenues of Rakai District.

Lira Municipal Council

Table 4.2.4.1-(g) gives a breakdown of the tax revenues of Lira Municipal Council. However, revenue from the latter has been growing at a much faster rate. This was the result of vigilance of the municipality to collect property tax. The 1997/98 performance figures were not available and budget figures have been shown instead. The same is true of the 1998/99 figures. In his budget speech for 1998/99, the Secretary for Finance and Planning stated that the exercise of property revaluation had been started in the previous financial year, and it would continue into the current. The local councils' general elections that were held in April/May 1998 affected the overall tax collections for the same reasons as has been stated for the whole country.

Graduated tax contributes more than property tax. The contribution of graduated tax has, however, somewhat declined. Whereas graduated tax contributed 92% of total tax revenues in 1995/96, its contribution dropped to 55.1% by 1997/98 and it is expected to be 77.8% in 1998/99, according to budget figures.

Mbale Municipal Council

Table 4.2.4.1–(h) gives a break down of the Tax Revenues. For 1995/96 and 1996/97, graduated tax contributed slightly more than 50% of total tax revenues. The position was reversed in 1997/98 due to the very poor collection of graduated tax. Collection dropped to only one quarter at sh. 46 million compared to sh. 220 million in 1996/97 and was less than half of what was budgeted. This was attributed to hectic political activities, as there were campaigns and elections of the local councils. Campaigners did not want to enforce tax compliance as a means to win votes. Taxpayers used this to their advantage and tactfully avoided paying taxes. The Council reported that with the coming into force of the 1995 Constitution it lost a lot of land on which it used to derive ground rent. This seriously affected its tax revenue base. To a lesser extent, this also affected property tax collection. The base of property tax is considered low because of the old valuation on which assessment is based. For three consecutive years, the council has been budgeting to finance revaluation exercises but these have never taken off. In the meantime, collections have been declining steadily.

Mukono Town Council

Table 4.2.4.1-(i) gives a breakdown of the tax collections. Graduated tax contributes 80-90% of the total tax collections. Property tax contributes the other 10-20%. Property tax is low because of the low and outdated valuation of the properties on which the assessments are based. The Council intends to embark on revaluation of the properties. However, the cost and bureaucracy of revaluation is a big setback. Only Government Valuers are allowed to carry out the valuations and the Ministry of Lands must send them from Kampala. They are reported to be very few and cannot do the work in a short time.

Concerned by the low revenues, the Town Council has decided to introduce a number of policies and measures to increase the level and efficiency of collection. These include the following:

- better estimate of tax potential based on field enumeration of all adult population rather than the list in the register of tax payers carried from year to year;
- recruitment and training of staff engaged in enumeration, assessment, collection and recording of taxpayers;
- education of the population to appreciate the need for paying taxes; and
- reduction of political interference in tax administration.

Nama sub-county

Nama sub-county's tax revenues are estimated to increase from sh 47 mill in l997/98 to sh 90 million in l998/99 (budget figures). More than 90% of these taxes derive from graduated tax.

4.2.4.2 Other Local Revenues

Local governments levy and collect a number of licences, permits and fees. These include market dues, education contribution, trading licences, parking fees, etc. The most important sources in this category are market dues and licences/permits. Other non-tax revenues include revenue from own generation, sales proceeds from disposal of assets, fines, donations from NGOs, etc. Revenues (charges and fees) from utilities are limited as many of these tasks are provided outside the subnational governments.

Collection of market dues is done by private firms, which are selected through tender system on an annual basis. The highest bidder who meets the reserve price is selected. For this reason, it is considered that the price is real since it is market determined.

Licences and permits are collected on the basis of rates determined by the local government councils. These rates are reviewed annually but are generally stable over years. The councils have to balance the need for high revenues against willingness and ability to pay. Collection has not been privatised yet, although a few local governments are considering so.

Fines are generally statutory but the rates are generally low, below the market cost of providing the service.

In 1995/96, local government non-tax revenue (inclusive donations) totalled sh. 22.2 billion. This was 12.5% of local government total revenues for that year. Of this, user charges contributed sh. 11.8 billion or 53.3%, miscellaneous sources contributed 3.5 billion and sh. 6.8 billion (30.8%) was received as donations. Within the user charge category, market dues yielded sh. 4.1 billion (or 18.7%) while sh 6.6 billion (29.9%) was received from licences & permits. Education tax contributed just over one billion shillings.

In 1996/97, revenue from non-tax sources rose by 20.6% to sh. 45.6 billion. Its contribution to total revenue in the year remained the same at 12.5%. In fact the contribution would have been higher if it were not for the tremendous increase of other sources, especially transfers from the central government and the tax collection. User charge collection amounted to sh.13.07 billion, miscellaneous local sources collected sh. 6.61 billion while donations amounted to sh. 19.9 billion. The contribution of user payments dropped from 53.3% in 1995/96 to 28.6%, that of miscellaneous revenue rose from 15.8% to 27.8% while the contribution of donations increased from 30.8% to 43.6%. Revenue from education charge dropped to only sh. 477 million.

Non-tax revenue in 1997/98 amounted to sh.62.2 billion. This constituted 19.9% of totalled local government revenue for that year. This was a significant increase from the ratio of 12.6% in 1996/97. This was the result of the doubling of receipts from market dues and donations, in part reflecting the benefits of privatisation of revenue collection. Whereas contribution of user charge, as a group, rose by only 18% that of market dues alone doubled from sh.6.6 billion to sh. 13.4 billion. Donations almost doubled, rising from sh. 19.9 billion in 1996/97 to sh. 35.6 billion in 1997/98.

Education contribution was nil, as government introduced universal primary education. The policy phased out payment of fees for the first four children in each family.

The 1998/99 budget estimates project a strong resurgence in revenues from non-tax sources. Overall, total collection is expected to reach sh. 113.6 billion, an increase of 82.6%. Its contribution to total revenue is expected to reach 25.3%. This is a fairly ambitious target. However, it reflects a positive attempt to raise own contribution to revenues from local sources. Of the above, revenue from donations is expected to double from sh. 35.6 billion to sh.76.5 billion. Its contribution likewise rises from 57.3% to 67.3%. Revenue from market dues is expected to increase by 62.6% from sh. 13.39 billion to sh. 21.73 billion. However, its contribution will slightly decline from 21.5% to 19.1%. User charge collection is expected to increase only slightly from sh. 11.1 billion to sh. 13.16 billion.

Bushenyi District

Table 4.2.4.2-(a) gives a breakdown of the non-tax revenues. The category is dominated by licences and permits, which contribute between 60% and 76% of the total non-tax revenues.

NGO donations constitute the major source of revenue in this category. In 1995/96 non-tax revenues amounted to sh 525 million and contributed 9.0% to total revenues of the District Council. Of this, sh. 197 million came from user charges. Market dues alone contributed sh 140 million or 26.7% of non-tax revenue and permits contributed sh.57 million. Revenue from miscellaneous sources amounted to sh. 132 million while those from donations were sh. 196 million or 37.2% of the total. In 1997/98 non-tax revenues totalled to sh. 1.78 billion, which constituted 21.2% of the Council's total revenue. Of this, donor funds amounted to sh. 1.56 billion taking a share of 87.5% of the total. User charges collected sh. 119 million or 6.7% while miscellaneous sources brought in sh 104 million (5.9%).

Non-tax revenue is expected to decline according the 1998/99 budget. The decline comes mainly from anticipated 30% decline in receipts from donations, which are projected to drop to sh. 1.1 billion with its contribution falling to 68.6%. Collections from user charges and miscellaneous sources are expected to rise. Market dues contribution will drop but this will be more than compensated by expected increase on licences and permits. Miscellaneous sources are expected to treble and yield sh. 334 million and its share to be 20.9%.

Kampala District

Table 4.2.4.2-(b) shows the non-tax revenues of Kampala City Council. The revenues have grown from four billion shillings to ten billion between 1995/96 and 1998/99. Its contribution to the Council's total revenue has similarly grown from 25.3% to 38.8%. The most important contribution comes in the category of miscellaneous incomes. This is mainly in form of income from housing estates. The contribution of this category has risen from sh. 635 million to sh. 4.75 billion, or from 15.6% to 45 – 48%. Next in importance is the user charge, though its collection declined between 1995/96 and 1997/98 from sh. 3.4 billion to sh. 2.5 billion in 1997/98. It is expected to make a strong recovery in 1998/99. It is budgeted at sh. 5.7 billion with a

contribution of 54.7%. The major contributions of user charge revenue come from licences & fees (75%) and market dues (25). Another significant user charge is the motor vehicle parking fee. Collection of this fee has been contracted out to private companies. Other revenues contribute about 2.3 billion or 10-12% of total revenue.

Kampala City Council intends to undertake general revaluation of rateable assets in order confirm the numbers, update their values, and collect arrears due.

Kotido District

Kotido district Council collects very little non-tax revenues. The only revenue that is generated locally is from departmental production. Income from this source has grown from eight million to fourteen. In 1998/99, it is budgeted to treble to sh. 45 million. Only four million shillings was collected from permits.

There is no contribution from markets. What has helped, however, has been the fairly generous levels of donations from various NGOs such UNICEF, DANIDA, Red Barna, Global 2000 Guinea Worm Eradication Programme, etc. Donations has increased over the past years and reached sh. 1.11 billion in 1997/98. In 1998/99, sh. 2.6 billion is expected from NGO donations. Because of the overall low revenue of the district, the NGOs' contribution amount to 47.3%

Lira District

Lira District non-tax local revenues are shown in Table 4.2.4.2-(d). As for many district governments, these revenues from two sources market dues and licenses, permits & fees miscellaneous sources and donations. Efforts have been directed to increase collections of these revenues over the years through the results are yet to be translated into improved collections.

Non-tax revenues have increased from sh.688 million in 1995/96 to sh. 3.18 billion in 1997/98. The increase can be singularly attributed donor funding which has increased 4½ times from sh. 648 million to sh.3 billion. Figures for donations for 1998/99 were not given. Contribution of non-tax to total revenue has similarly increased from 13.6% to 37.3% over the same period. Revenue from own source has grown much faster than for permits and market dues. However, their combined contribution is still low at less than 7%.

Receipts from NGOs jumped to nearly three billion shillings in 1997/98 from its previous levels below one billion. This was attributed to funds provided to support projects under the LDDP especially in the Education and Health sectors.

Mukono District

Table 4.2.4.2-(e) gives a breakdown of the non-tax revenues for Mukono District. In 1995/96, non-tax revenue, including donations, totalled sh. 1.1 billion. Donations accounted for 51.5% of this (yielding sh. 580 million). Market dues and miscellaneous sources contributed 22.8% and 17.8%, respectively. Licences, permits & fees contributed only sh. 90 million or 8.0%. In 1996/97, non-tax revenues dropped to sh. 988 million. About one half of this (sh. 465 m) was received as from donations, while market dues contributed sh. 238 million or 24.1%. Licences and the miscellaneous category contributed sh. 111 million and sh. 109, respectively, or about

11% each. The 1997/98 non-tax revenue collection almost doubled the previous year's, to sh. 1.9 million. Sixty-four percent, or sh. 1.2 billion, of this was from donations. Revenues from market dues increased by more than sh. 100 million to sh. 287 million, although its share dropped to 15.4%, the lowest in the three years. Contributions from licences, permits & fees doubled from sh. 111 million in 1996/97 to sh. 240 in 1997/98. Other miscellaneous revenue sources contributed sh. 142 million or 4.9% in 1997/98.

Non-tax revenues contributed about 16% of total revenue to the district.

The District authorities, however, complained that the practice of routing the urban council transfers through the District Council adds to the latter's costs. They proposed that the districts be compensated the additional handling costs incurred.

Lira Municipal Council

Non-tax revenues of Lira Municipal Council are shown in Table 4.2.4.2-(g). The first striking point is that the Council still charges education fee despite the central government policy of free universal primary education (at least to four children per family). In fact, collections from this source have increased over the years from two to five million shillings. Revenue from market has been on the decline since 1995/96, both in absolute terms as well as in its share of total revenue. Collection of Market Dues has been privatised. Tenders are awarded annually through a bidding process. Its share has dropped from nearly 66% to 34% in 1997/98 and further to less than 25% as per the 1998/99 budget. In contrast, revenue from licences, fees and permits has increased dramatically from sh. 50 million in 1995/96 to sh. 162 million in 1997/98 and its share risen from 24.4 to 48.8%. Revenue from miscellaneous sources, though small, has trebled from fifteen to forty five million shillings. Its share in total revenue is about 5%. As with urban centres, revenue from donations does not feature as a major source.

Non-tax revenues contribute about 50% of total revenue to the Municipal Council.

Mbale Municipal Council

Non-tax revenues are shown in Table 4.2.4.2-(h). User payment constitutes the main source, contributing about 75% as of 1997/98. This is followed by miscellaneous revenue whose contribution has dropped from 66.8% to 23.9%. Contribution of NGOs is negligible in Mbale Municipal Council. Non-tax revenues comprise about 60% of the Municipal Council's total revenues.

In 1995/96, sh. 178 million was realised, of which sh. 143 million was from market dues and sh. 35 million from permits and licences. In 1996/97, user payments totalled sh. 435 million. Market dues dropped to sh. 127 million and constituted only 21% while licences and permits rose from sh. 35 million to 307 million, contributing 51%. In 1997/98 user fees totalled sh. 296 million of which sh. 217 million was from licences and permits. Other sources, mainly transport (Bodaboda & Taxi) businesses carried out directly by the Council, contribute about sh. 64 million per annum or 17% of the non-tax revenues.

Mukono Town Council

A breakdown of the non-tax revenues is given in Table 4.2.4.2-(i). As expected, the highest contribution came from licences, fees and permits followed by market dues. There used to be a 10% levy on Education, which used to bring in some small revenues but this was stopped with the introduction of the Universal Primary Education policy. Other sources contributed sh. 6-8 million between 1995/96 and 1997/98, except for 1996/97 when it jumped to sh. 53 million.

4.2.5 Central Transfers to Sub-national governments

4.2.5.1 Introduction

Decentralisation aims to improve service provision by giving local communities the capacity to plan for themselves as well as mobilize and manage the resources required to implement these plans. The import, therefore, of resource mobilisation in the process of decentralisation cannot be underestimated. It is in this light that the role of central grants in effective local government service delivery needs to be put in context. This will be done by, firstly, looking at sub-national government finance in general and then determining the significance of central grants in total sub-national government revenues.

The main sub-national governments (districts including Kampala city council as well as municipal and town councils) derive revenue from four major sources namely: locally collected revenue, central transfers, donor contributions and from non-budgeted sources like donations and fundraising. The central transfers do not include capital grants because the development budget is still centralised.

Central Grants

The Constitution specifies three types of central transfers that are supposed to be given to local governments namely: Conditional, Unconditional and Equalisation grants. At present only two are operational, Conditional and unconditional grants. The conditional grants are the most dominant contributing, on average, about 75% of total transfers to sub-national governments (Table 4.2.5). The equalisation grant scheme is expected to come on board this financial year.

Sharing of revenue between sub-national governments

The lower sub-national governments (sub-counties in the districts and divisions in the city and municipal councils) do not receive central grants directly from the centre although district, city, municipal and town councils are by law obliged to indicate how they are to pass on part of the conditional and equalisation grants to them (Local Governments Act, 1997 Section 84(5)). The experience from the sample local governments shows that the higher local governments do not pass on part of their central grants to lower level local governments. However, the law provides for tax sharing between the sub-national governments.

Section 86(2) of the Local Governments Act empowers sub-counties to collect revenue in rural areas and retain 65% or any other higher percentage as the district may approve, of the revenue collected by it and pass the remaining percentage over to the district. Of the money retained by the sub-county, it is supposed to retain 65% as its own revenue and then distribute the remaining 35% to county (5%), parish (5%) and village (25%) councils. In other words, sub-counties are supposed to retain only 42.25% of the revenue they collect.

Divisions are by the same law (section 86 (1)) supposed to retain 50% of the revenue collected by them and remit the 50% to the city or municipal council. A minimum of 30% of the total revenue collected and remitted by all city or municipal divisions to a city or municipal council should (by law) be distributed as grants to Division councils based on a formula provided in the law. Twenty five percent of the total of what a Division retains and receives from the city or municipal council should be distributed amongst the village councils and 10% amongst the parish or ward councils.

By these legal provisions therefore, some kind of equalisation scheme is supposed to be in place in the urban councils for redistributing locally generated revenue. The law does not provide for a similar scheme for the rural sub-national governments.

Donor Funds

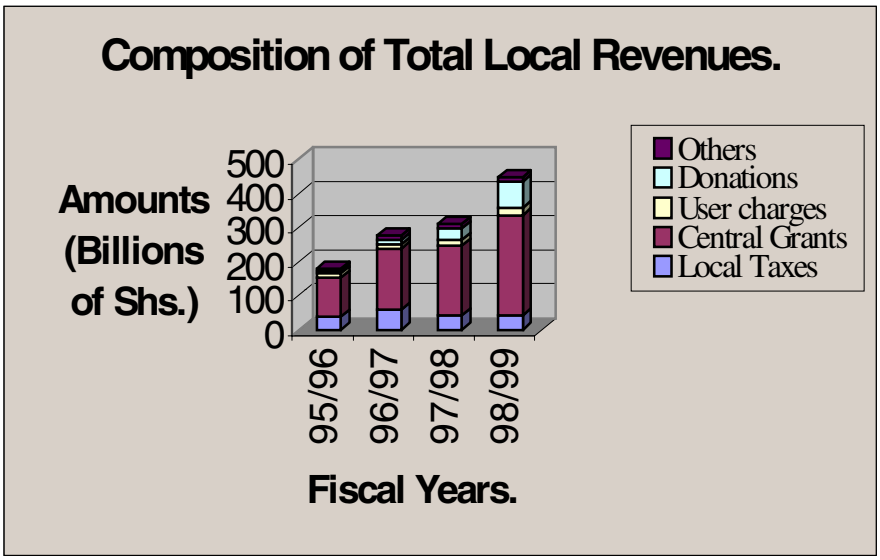
Local governments also receive a substantial amount of donor funds especially in the form of development aid. A number of bilateral and multi-lateral donor agencies have development projects running in a number of districts. Some donor resources are given in form of budget support to the local governments while other donors prefer to implement development projects themselves in partnership with the local governments or local communities. In most cases, these projects are conceived by either the respective local governments or the local communities who then submit their proposals to the funding agencies, with little or no involvement of the appropriate central authorities in the initial stages.

The significance of each of these revenue sources varies from one type of sub-national government to another. On average, central grants constitute the single most important source of revenue contributing about 65% of total local revenues (Table 4.2.4). These are followed by own tax revenue, user charges and then donations.

Many explanations have been given as to why local revenue collection is still very low among sub-national governments. These range from inefficiency of sub-national governments' revenue collection machinery; the still centralised collection of the more lucrative revenue sources to the failure of central government to help sub-national governments appraise the bases of some of the local taxes. A clear example here is that of property tax. The low contribution of (the potentially lucrative) property tax to sub-national government revenues is mainly due to the fact that most of them have not had the properties within their jurisdictions revalued in a long time. Some others, especially the new local governments, have never done so at all.

Without going into the details of determining the probable causes of this anomaly, one significant fact emerges from this brief overview. Up to now, Central transfers play a

very significant role in determining the effectiveness of sub-national government Infrastructure Service Provision (ISP). This is because they contribute on average, more than half of all the revenue available to sub-national governments in the implementation of the decentralised services as shown below.



Notes: *Data based on Table 4.2.4 in the annex.*
User Charges consist of only Market dues and vehicle parks Fees

4.2.5.2. Overview of the history of Central Transfers

Central transfers to sub-national governments began in the fiscal year (FY) 1993/94 with the so-called vote system. The 39 districts (then) were divided into three groups of 13. Block grants to the first 13 districts in the first phase were introduced in the FY 1994/95. By 1996/97 fiscal year, all the 39 districts were receiving unconditional grants for the implementation of a limited range of services devolved to them. With the inauguration of the 1995 Constitution, a new era dawned on the process of decentralisation. More services were devolved to sub-national governments (specified in schedule 2 part II of the 1995 Constitution) and the system of central transfers streamlined.

In the constitution, it is the districts and all the urban sub-national governments that are to receive central grants in addition to locally collectable revenue. These are of three types namely: Unconditional Grants, Conditional Grants and Equalisation Grants. These local governments are however obliged to indicate how they are to pass on part of the grants to lower level local governments. These grants were initially designed to cover only the recurrent part of the budget, which, was decentralised by then. However, with the impending decentralisation of the development budget (in the FY 1999/2000, these grants will also be used as channels for the transfer of development funds to the sub-national governments.

Every year (between October and May), there are annual consultations, via budget conferences and workshops, between stakeholders in local government finance on the distribution of the national resource envelope. Indicative figures on the amount of money to be allocated to local governments as grants are tentatively set in these meetings, though these are not legally binding. For most of the grants (except unconditional), the criteria are capacity based and are sometimes not decided upon in a fair and transparent manner. The Ministry of Finance has tried to ensure that the grants are released on a timely basis but are sometimes constrained by the cash budgeting system in place. We turn next to the discussion of each of the grants in detail.

4.2.5.3. Unconditional Grants

This grant is given to districts (including Kampala City Council), Municipalities and Town Councils. It was the successor of the block grant. One year after the introduction of a block grant to a sub-national government, it was turned into an unconditional grant. This grant, therefore, became operational in the fiscal year 1994/95 for the first 13 districts in phase one. It is defined both in the Constitution (article 193) and the Local Government Act, 1997 Section 84 (2) as "the minimum grant that shall be paid to sub-national governments to run decentralised services and shall be calculated in the manner specified in the seventh schedule of the Constitution".

The seventh schedule defines the amount paid in a given fiscal year to a sub-national government, as the amount paid to it (sub-national government) in the preceding fiscal year for the same items adjusted for general price changes plus or minus the budgeted cost of running added or subtracted services. Using this definition therefore, the grant is not supposed to grow in real terms and does not therefore benefit from the growth in the economy generally or more particularly growth in the central government revenues. This is regarded, by the sub-national governments, as unfair taking into account the fact that the centre has launched efforts to increase the Government revenue/ GDP ratio from the current 12.4% to about 16% (the average for East African region). The government target is to increase this ratio by 0.5% per annum.

Initially, the grant was distributed taking into account four factors:

Factor	Weight (%)
Child Mortality	40
School age population	40
General population	10
Area	10
Total	100

This formula has been subsequently changed, and two factors were dropped. The grant is now calculated based on population (85%) and land area (15%). It is the responsibility of the Ministry of Local Government and the Local Government Finance Commission to work out and recommend to the Ministry of Finance,

Planning and economic Development (MoFPED) the grant allocations for each sub-national government.

As the name suggests, it is given to sub-national governments with no conditions attached and thus goes a long way in buttressing their autonomy. However, despite its advantages to sub-national governments, this grant has not grown significantly in real terms, even when the services decentralised to sub-national government have increased.

The grant has increased, in nominal terms, from 40 billion in FY 1995/96 to 64 billion in FY 1998/99 (Table 4.2.5 (a)). Its share in total central transfers has fallen from 34% in 1995/96 to only 22% in 1998/99. In the coming FY (1999/00), it is set to fall further to only 20% of the central transfers to sub-national governments. Of particular concern is the fact that the coming FY, unconditional grants are not expected to grow by at least the mandatory rate equivalent to the inflation rate (5%) to reflect price changes let alone the expected 7% growth in the economy. Arbitrary cutbacks have also been reported in the monthly allocation of the urban councils' unconditional grant this year. Lastly, the growth in the grant is most times decided upon in a manner that is not as transparent as would have been desired.

The sample local governments have also stated that some services were decentralised without the necessary funds to perform these functions at the district level and yet they were being budgeted for while still under central government. This is in contravention of Article 193 clause 2 of the 1995 constitution. This is the case for services performed by: District Service Commissions, Forestry Departments and Library Services. There are fears that District Service Commissions may not be adequately equipped to handle the teachers' payroll which is likely to be decentralised in the course of this financial year (1999/2000).

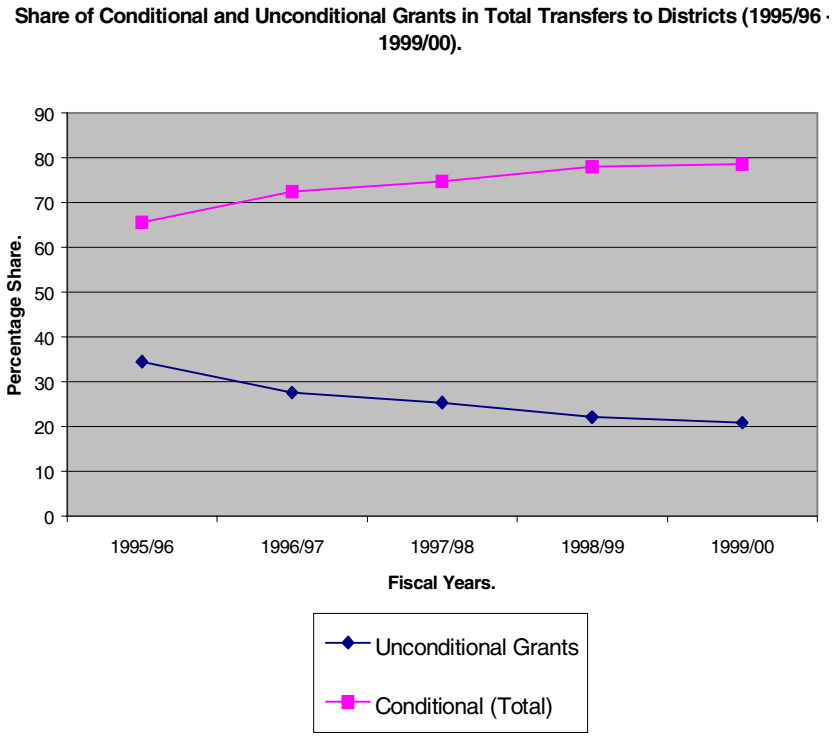
The inadequacy of funding for these otherwise vital areas of expenditure has severely eroded the effectiveness of unconditional grants in enabling sub-national governments tackle poverty reduction programmes. Forestry services, for example, contribute to teaching citizens sustainable use of resources that can be depleted.

4.2.5.4 Conditional Grants

The conditional grant scheme was started in the FY 1995/96, with only a handful of grants. However, contrary to the expectations of the stakeholders, this grant has grown rapidly. In 1995/96, it stood at just 77 billion, spanning a range of 4 conditional grants and constituting 65% of the total central transfers to sub-national governments as shown in the figure below.

Within a matter of just three years, this grant has grown threefold to 227 billion in the FY 1998/99. This is expected to grow further to over 250 billion this FY 1999/00 according to the national budget estimates. It will span a range of 17 different conditional grants constituting about 80% of the total central transfers to sub-national governments.

These conditional grants, categorised by sector, constitute of:



- Health: For District Hospitals, Referral Hospitals, NGO hospitals, Health training schools, Hospital lunch allowance, Health Units lunch allowance and Primary Health care. The first of these grants started in FY 1997/98. The non-wage components of these grants are allocated based on three factors namely: Total Population, Donor and NGO spending as well as Human Development Index.

- Education: Universal Primary Education, Secondary Education and School Construction Grant (which is set to be re-centralised FY 1999/2000).

- Wage*:* Primary Teachers Salaries, Secondary Teachers Salaries and Tertiary Institutions Salaries.

- Non-wage education conditional grants are given on per capita basis (no. of pupils in school).

- Roads: Feeder (district) road maintenance. Started in 1996/97, this grant is allocated based on the kilometres of maintainable roads as well as the terrain (level, rolling and mountainous). This grant is known for having very laborious conditionalities that are attached to it.

- Agriculture: District Agriculture Extension. Introduced this FY 1999/2000, the grant consists of mostly salaries for sub-county-based agricultural extension

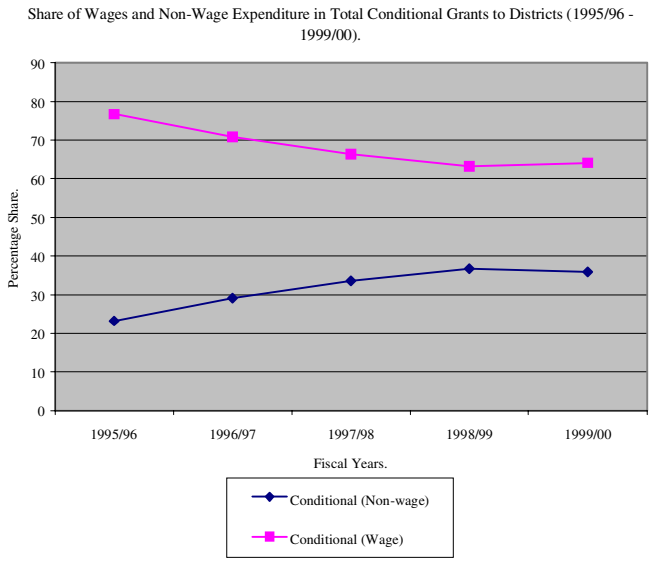
officers. However, it also consists of a small non-wage conditional grant to operationalise their departments.

- Water: Rural and Small Towns water and Sanitation. It has been introduced this FY 1999/2000, and it will be used for expanding water coverage in rural areas and small towns.
- General: Delegated Civil Servants Salaries. Employees in services that have been delegated to local governments (e.g. professional staff in health care and education sectors - doctors, nurses medical assistants and also secondary and primary teachers salaries) have their salaries wholly paid by the centre through this conditional grant to local governments. The health care and secondary education sectors are not fully decentralised, although the laws require this. For primary education, the management of teachers is also not yet fully decentralised. It is only now that the efforts are being made to decentralise the payroll, although this is not yet implemented.

Up to now, conditional grants are given only to districts. No reason has been given by the relevant authorities why urban councils are not receiving conditional grants. However, conditional grants are by Constitutional definition meant to finance programmes agreed upon by government and local governments. The focus of government is poverty eradication, and poverty is most rampant in rural areas. It seems, therefore, that government is concentrating on programmes in rural local governments in order to make an impact on poverty eradication. The grants are given based on availability of funds rather than on any calculated cost of actual delivery of services. There is no data available on actual cost of service delivery and thus it is difficult to estimate what percentage of the total cost is covered by grants.

It should be noted that the objectives of these conditional grants are all very clear and are meant to guarantee a minimum level of expenditure in each of the five sectors that have been designated as government priority programme areas (PPAs). These include primary education, primary health care, district (feeder) roads, rural water, sanitation and agricultural extension.

However, whatever the justifications for the growth in the conditional grants, the nature of conditionalities inherent in them makes it expensive for the sub-national governments to use. Often the sub-national governments spend long man-hours on paper work and in meetings with the different teams from the line ministries trying to conform to conditionalities attached to their use. Different bank accounts as well as books of accounts have to be opened for each grant. The conditionalities for each conditional grant often cover several pages bound into a booklet. To make matters worse, conditional grants consist mainly of salaries and wages (above 60%) leaving only a small percentage (below 40%) as operational funds geared towards ISP as shown below.



However Universal Primary Education (UPE), Primary Health Care (PHC) and Road infrastructure are generally regarded as key instruments in poverty eradication, it is a welcome move that the anticipated allocations to UPE and PHC will grow considerably. The budget allocations in the national budget for the FY 1999/2000 indicate that there will be significant growth in the level of financial resources for UPE, 15%, and PHC, 27%. A conditional grant for water will also be introduced with an allocation of Shs. 4.4 billion.

However, concerning roads maintenance, there seems to be severe problems in the conditionalities given by central authorities, hindering efficient use of the allocated funds. For example, the funds cannot be used for production of culverts. Also, the effects of El Nino could not be addressed using the funds availed under the feeder road conditional grant etc.

With the exception of UPE, increase in the proportion of conditional grants in total central transfers to local authorities means an increase in bureaucracy and red tape as well as an increase in the costs of administering the conditional grants by the central bureaucrats. These costs are unproductive and could be avoided by increasing the share of unconditional grants in total central transfers and strengthening financial accountability within sub-national governments. This would also be in line with the overall objective of decentralisation - to give local authorities power to make decisions concerning service delivery within the local area.

There are also inconsistencies in the growth of some conditional grants. For instance, both lunch allowances to health workers and financial allocation to NGO Hospitals is expected to grow by 10%, while allocation to district hospitals will grow by only 3.6%. Finally, the wages for tertiary institutions have been decentralised without decentralizing the operational funds for those institutions.

4.2.5.5 Introduction of the Equalisation Grant

Like Unconditional and Conditional grants, Equalisation grants were expected to be operational in the fiscal year 1996/97. However, this was not the case because there was no formula for the distribution of such a grant.

Clause 4 of Article 193 of the 1995 Constitution (elaborated on in Section 84 of the Local government Act of 1997) defines the Equalisation Grant as "..*money to be paid to local governments for giving subsidies or making special provisions for the least developed districts; and shall be based on the degree to which a local government is lagging behind the national average standard for a particular service*".

In fulfilment of its Constitutional function specified in Article 194 Clause 4 (b), the Local Government Finance Commission (LGFC) commissioned a study in August of last year (1998) which was meant to design a formula for the distribution of the Equalisation grant. The study covered all the 45 districts. A similar study for urban councils will be done after the introduction of the grant for districts.

After the study, the Commission found out that in Uganda, wide disparities exist in revenue potentials and expenditure needs of sub-national governments and thus in abilities of local governments in ISP. The table below specifies the criteria recommended by the Commission to be used in the equalisation formula.

Expenditure Needs Equalisation

Criteria for Expenditure Equalisation	Weight
Total Population	0.3885
Population (5-14 yrs)	0.3978
Population (15-19 yrs)	0.1305
Population (0-4 yrs)	0.0385
Km of District Roads/Per Unit Population	0.0219
District Area	0.0122
Crop Acreage	0.0025
Livestock Population	0.0025
No. of Landing Sites	0.0020

Source: Local Government Finance Commission.

For tax base equalisation, only graduated tax was used as the basis for equalisation. This was because graduated tax contributes about 80% of all locally collected revenue and calculating the potential revenue collectable from the other sources was problematic.

About half of the districts qualified for the equalisation grant. The amount of the grant payable to each beneficiary would range between 12 million and 850 million. A total of 10.5 billion would be needed to fund the equalisation scheme.

Despite the Commission recommendation that 10 billion be set aside for this grant, this was not the case. In the discussions that the LGFC has had with Ministry of Finance, Planning and Economic Development, the ministry has agreed to set aside only 2 billion for the equalisation of local authorities. This is considered grossly inadequate and cannot be expected to have any significant impact on the capacity for infrastructure and service provision in the less favoured districts.

In order to keep within the budget ceilings and to reflect the low rate of inflation, the Commission proposed the reduction in the growth of some central government allocations as well as some district conditional grants. The purpose of this proposal was to avail more money for equalisation of the needy local governments up to about 70% of their combined needs; that is, both revenue and expenditure needs equalisation. This recommendation did not win support from the MoFPED.

In conclusion, local governments are still very dependent on central transfers, and this seems to be growing (Table 4.2.4). In view of the need to reduce the dependence of sub-national governments on central transfers, one of the most pressing tasks to address is the inability of most sub-national governments to collect adequate local revenues. Work is already underway to address this subject and methods for improvement of sub-national governments' ability to raise local revenues will be identified. By addressing the insufficiency of funds at the local level, it is hoped that sub-national governments will be in a better position to prepare and approve balanced budgets as required by Section 78(1) of the Sub-national governments Act, 1997.

It has also been observed in a number of fora that the formula for sharing revenue between central and sub-national governments and even among different levels of sub-national governments introduces vertical inequalities between them. It is thus necessary to investigate this anomaly and put mechanisms in place to address it. For instance, despite the fact that central transfers constitute over half of the revenue to districts, sub-counties and divisions (which are the next lower level of sub-national government) do not receive any revenue from this source.

4.2.5.6 Decentralised Development Budget

4.2.5.6.1 The Development Budget Portfolio

The current development budget is a portfolio of development projects under various line ministries. Most of the development projects are co-financed by donors who provide up-to 90% of the financial resources required. Given the data available, it is difficult to calculate the total amount of donor financial resources going into a particular sub-national government. It is however common knowledge that wide disparities exist in the distribution of development projects among sub-national governments. For instance, for the FY 1997/98, the Districts of Masindi and Moroto budgeted for 4.2 billion and 3.8 billion as contributions from donor funds constituting 73% and 59% of expected revenue respectively.

On the other hand, other districts like Mbale and Nebbi expected only 600 million and 580 million contributing 4% and 8% of budgeted revenue respectively. This therefore

goes to prove that there are indeed disparities in the availability of funds from donor sources to sub-national governments.

There are also significant differences in the way donors relate to sub-national governments within their operational zones. Some donors provide funds to sub-national governments in form of budget support (the case of the Danish in Rakai District). Others give indicative figures to them of how much money they are willing to spend in a particular sector in a specified period of time but remain directly responsible for the implementation of the project activities. Still others prefer to deal directly with the target beneficiaries with little or no information to sub-national governments about their work. This situation makes it extremely very difficult to relate sub-national government budgetary figures in respect of infrastructure and service provision to the actual situation on the ground.

Thus, whereas it is true that when the development budget is decentralised, significantly more financial resources will be transferred to sub-national governments, there is need to critically design the mechanisms for the transfer to ensure that the additional resources do in fact promote equity among sub-national governments. If the mechanisms put in place for the transfer of these resources do promote equalisation, the decentralised development budget would provide another avenue for addressing the inequalities existent among local authorities.

4.2.5.6.2 The Development Budget Decentralisation Process

Various initiatives have been undertaken in the decentralisation of the development budget since the FY 1993/94. These include the multi-sectoral district based development programmes in Rakai, Hoima, Kibaale, Kisoro, Soroti and Arua. DANIDA, IRISH AID, the Dutch and Austria have financed this programme. The initiatives also include the UNDP funded District Development Programme operational in Kabale, Mukono, Arua, Jinja and Kotido. The UNCDF programme has contributed considerably to the first experiences with decentralisation of the development budget. The IDA funded Local Government Development Programme (LGDP) has borrowed quite substantially from the lessons learnt from the large UNCDF funded District Development Programme (DDP). Lastly, they include single sectoral development initiatives by different donors like the school classroom construction project funded by the Dutch and the British.

However, the decentralisation of the development budget will begin in earnest this financial year (1999/2000) under the umbrella of the Local Government Development Programme (LGDP). The LGDP will be a credit supported by the IDA of the World Bank, estimated at US $65.3 million, and it is expected to run for a period of three years. Under this programme, a Local Government Development Fund will provide resources to sub-national governments for development projects as well as building capacities for infrastructure and service provision in a participatory, demand driven and accountable manner. The projects will be co-financed 90% from this fund and 10% from sub-national governments.

However, this project is expected to face great challenges, since demand (need) for a particular service does not always coincide with the ability to contribute the 10%.

This has already been experienced with the Dutch-funded school classroom construction project in Arua. Poorer communities, which often prove to be in greater need, tend to be excluded.

Hoping it is not yet too late, it is necessary to involve all stakeholders in working out the modalities for the transfer of the development funds to the local governments. The current efforts by the Government to persuade donors to convert project funds into budget support are also particularly welcome, as this will enable government to equitably allocate these resources to the different sub-national governments (along with other central government transfers).

The issue of the debate in the decentralisation of the development budget should also be looked at within the context that about 85%of the development budget of the country is donor supported. The development programmes are usually captured in the Public Investment Plan (PIP), which is prepared by the line ministries and consolidated by the MoFPED. The debate concerns therefore also the question of what should happen to the existing development fort folios, which are in PIP. The second question is what should be the structure and future of the next generation of the PIP. The current PIP has a substantial budget (average USD 600-800 million a year), but there is not clear arrangement as to how it will be decentralised.

4.2.5.7 Special Fund for Districts under Insurgency

There are local governments whose revenues and expenditures have been distorted by insurgency. Though this is a temporary phenomenon, there is concern that something should be done to ameliorate the financial difficulties of these local governments in the meantime.

Insurgency leads to displacement of taxpayers as well as shrinkage in the level of economic activities in those regions. This leads to loss of local revenue.

On the other hand however, some forms of grants (especially conditional grants) cannot be used during the period of insurgency e.g. the monies allocated for the rehabilitation and maintenance of roads. In those cases, some “savings” may be realised. For others, like control of communicable diseases e.g. Cholera, expenditures will be over-bloated.

The Government has been requested (by the concerned local governments) to set aside a special grant to compensate them based on loss of local revenue, uncollectable because of insurgency. The difference between the local government’s budgeted local revenue collection and the actual collected has been proposed as the guide for estimating the revenue lost.

In conclusion, central grants have gone a long way in ameliorating the financial incapacitation of sub-national governments. The centre has demonstrated its commitment to the spirit of decentralisation.

However, compared to the comprehensive tasks devolved to them the local government revenue share seems to be comparably small. The share of central

transfers (to sub-national governments) in national recurrent expenditure has been only 34% this financial year, and it is set to drop to 30% this financial year or only about 4% of GDP. Questions can be raised as to whether the 30% share of transfers to sub-national governments in total national recurrent expenditure reflects the right proportion in the division of responsibilities between the centre and the sub-national governments.

Secondly, the share of transfers to sub-national governments in total expenditure allocated for implementing decentralised services is only about 80%. The role of central ministries as regards decentralised services is that of policy formulation as well monitoring and evaluation. It is doubtful whether these ministries need 20% of all the resources voted for these services to perform this role. Therefore, the Local Government Finance Commission has commissioned a study to look into the issue of revenue sharing between the centre and local governments and between local governments themselves.

4.2.5.8 Transfers to Sampled Sub-National Governments

The disbursement performance of central transfers to local governments has been fairly good. At the macro level, only 3.6% of the budgeted central transfers were not disbursed at the end of FY 1998/99 (table 4.2.4 supplement). The disbursement performance has also not been different for individual local governments. The grants have also largely been released on time. The only exceptions being times when national revenue collection falls below the revenue forecast. Since Uganda runs a cash budget, failure to realise the forecasted revenue means failure to meet disbursement commitments. Local governments have however complained about the little interest that the centre attaches to their views in deciding the amount of the total grant envelope to give and the formula to be used in distributing the grant. The observation thus made by the sample local governments on grant distribution has been that it is not transparent. Below are specific comments on grants to the sample local governments.

Bushenyi District

In Table 4.2.5(a), it can be seen that Bushenyi District follows the general pattern. Total transfers have increased over the years, and, by 1997/98, it had almost doubled the level of 1995/96. The bulk 80% of the transfers comes as conditional grant.

Kampala City

In table 4.2.5(b), the share of transfers in total City revenue has fluctuated from year to year. It increased from 24.4% in 1995/96 to 41% in 1997/98 before dropping to 30% in 1998/99. Again, the largest percentage of the transfers consisted of conditional grants averaging about 80%. However, the share of central transfers in total revenue is lower in Kampala City council as compared to the corresponding figures in the rural districts.

Kotido District

As shown in table 4.2.5(c), the share of central transfers in total revenue has reduced from 95% in 1995/96 to 51.3% in 1998/99. Still, conditional grants constitute the biggest percentage of total central transfers.

Lira District

Grant Transfers from the central government are shown in Table 4.2.5-(d). Total transfers have grown from sh.4.1 billion to sh. 5.0 billion between 1995/96 and 1997/98. It is expected to reach sh.6.97 billion in 1998/99 according to the budget figures. Conditional grant remains dominant at 70 – 80%. Likewise, transfers from central government constitute 60 – 80% of the district's total revenue. While the amounts have increased over the years, its share has been declining.

Mukono District

Table 4.2.5-(e) gives a breakdown transfers from central government to Mukono District Council. The figures do not include transfers to the Mukono Town Council. Central Government transfers have grown over the years from sh. 4.4 billion in 1995/96 to sh. 8.0 billion in 1997/98. It is expected to rise to sh. 13.1 billion in 1998/99. Of total central government transfer of sh. 4.4 billion in 1995/96 unconditional grant was sh. 940 million (21.5%) against conditional of sh.3.4 billion (76.5%). In 1996/97, unconditional grant was increased in absolute terms by 67.6% to sh. 1.6 billion. Conditional grant was increased by 55.8% to sh. 5.3 billion. This relative share, however, slightly changed in favour of unconditional grant - from 21.5% to 22.8%. In 1997/98, unconditional grant was increased to nearly sh. 1.9 billion and its share rose to 23.8%. Conditional grant rose to sh. 6.1 billion but is share in total transfers further dropped to 76.2%.

Rakai District

Table 4.2.5-(f) gives a break down of the central government grants to Rakai District. In line with the national trend, the share of conditional grant has increased while that of unconditional grant has correspondingly dropped. Rakai appears to receive a higher grant level than districts in similar states because of its disadvantaged past.

Lira Municipal Council

Transfers and Loans are shown in Table 4.2.5-(g). It can be seen that transfers have almost doubled over the three years from sh. 48 million to sh. 91 million. It is budgeted at sh. 116 million in 1998/99. The Council, however, complained that release from the central government has not been steady and fluctuates considerably. They cited the April 1998 when no release was made due to the visit of a foreign head of state.

Mbale Municipal Council

For urban centres, the central government only provides unconditional block grant. This is channelled through the District Chief Administrative Officer for accountability purposes. Mbale Municipal Council has been receiving grant, which has been growing at about 20% per annum. The absolute amount however remains small; it was sh. 65 million in 1995/96, sh. 78 million in 1996/97 and sh. 92 million in 1997/98. For 1998/99 sh. 122 million has been budgeted. The share of block grant remains small at about 10% of total revenue of the Municipality. The Municipal Council has expressed the need to have the block grant increased to enable them provide more services.

Mukono Town Council
Block grant from the central government is shown in Table 4.2.5-(i). As pointed out earlier, the level has increased steadily over the years. What is noteworthy is that in the 1998/99 budgeted a provision of sh. 99.8 million has been made. This is more than double that for 1997/98.

Nama Sub County
Sub-counties do not receive central government transfers in their own names. However, they do benefit if the expenditures from such transfers are made within their respective sub-counties.

Below is a table, which shows the relative importance of **Total Central Transfers** in total local revenue in the sample local governments for the **years 1995/96 and 1998/99.**

Sample Local Government	1995/96		1998/99	
	Amount (mil. shs)	%age	Amount (mil. shs)	%age
Bushenyi district	3,973	68.1	9,980	78.4
Kampala City	3,946	24.4	8,122	30
Kotido district	1,232	95.1	2,884	51.3
Lira district	4,128	81.7	6,967	91.7
Mukono district	4,369	61.8	13,115	67.2
Rakai district	2,137	45.1	6,040	76.8
Lira municipality	57.8	14.1	116.4	13.4
Mbale municipality	65	6.8	122	12.3
Mukono town	23.7	10.1	99.6	23.6

Notes: *Compiled from Tables 4.2.4(a) – (j) in annex*

4.2.6 External Finance of the Sub-National Government Sector

Sub-national governments are permitted by law to borrow (Article 195 of the 1995 Constitution and Section 85 of the Local Governments Act, 1997). However, even with these provisions in place, Sub-national governments have not gone into borrowing. With the exception of a few urban councils that had "loans" as an item in their budgetary estimates there is no evidence of the use of loans by sub-national governments.

Among the three sample urban sub-national governments, it is only Mbale municipal council and Mukono Town council, which budgeted for loans in the financial year 1998/99. Mbale municipality and Mukono town council each posted 30 million and 40 million as expected financing via loans respectively for the financial year 1998/99. However, by year's end, these urban councils had not contracted the said loans (Table 4.2.4 and tables on sample local governments). Lira municipality has never even budgeted for a loan. The same is true for all the sample district governments.

The reasons for the failure of sub-national governments to explore the area of loan financing for ISP are varied but can perhaps be traced back to the details of the legal provisions as enshrined in the law. The fifth schedule of the Local Governments Act, 1997; Part VI expounds on the borrowing powers of Sub-national governments thus:

20(1) A Sub-national government Council may from time to time, raise loans by way of debenture, issue of bonds, or any other method, in amounts not exceeding twenty five percent of the locally generated revenue provided that a Sub-national government Council demonstrates ability to meet its statutory requirements.

(2) Borrowing shall be exercised by a Sub-national government Council with the approval of the Minister if the amount to be borrowed exceeds ten percent of the total amount the Sub-national government Council is eligible to borrow;
after the Auditor General has certified the books of Accounts of the preceding financial year;
if the Auditor General's report is not qualified;
if funds are intended for investments in priority activities as identified by the whole council;
after the executive committee has given guarantee to the effect that repayment of the loan shall not adversely affect the operations of the Sub-national government Council; and in particular meeting the statutory obligations, including salaries

(3) All loans approved by the Minister shall be published in the Official Gazette.

District sub-national governments (with the exception of 4 or 5 districts) raise locally generated revenue in the range of 400 million to 1 billion while most urban sub-national governments raise locally generated revenue below 500 million. This means that districts, by law, are not permitted to borrow more than 250 million, while urban sub-national governments have their ceiling set at about 100 million. For Urban Councils, they would have to seek approval from the Minister responsible for Local Government for amounts exceeding 10 million (equivalent of U.S$ 10,000). For Districts, the limit for borrowing without seeking the approval of the Minister is only about 25 million.

Locally generated revenue contributes only a small percentage of total sub-national government revenue (Table 4.2.4). Therefore, limiting the amount of money that they are entitled to borrow to 25% (of locally generated revenue) and further requiring them to seek approval of the Minister if the amount exceeds 10% of the amount they are eligible to borrow makes it extremely un-attractive for them. Thus, loans are not yet a potentially viable source of funding for ISP.

Secondly, it is common knowledge that sub-national governments in Uganda rarely have their books of accounts up-to-date. For most sub-national governments, the latest Audited final accounts they have are those of the financial years 1994/95 to 1995/96. Very few have audited final accounts for the financial year 1996/97 let alone 1997/98. By the provisions of the law, these are automatically disqualified from contracting loans.

Thirdly, the financial markets in the country are just in their infancy. The Kampala Stock Exchange has barely been in existence for two years. Though the idea of a Municipal Credit Institution has been mooted for sometime now, it is yet to materialise. The current credit channels (using commercial banks) are not well suited to handle the credit needs of sub-national governments. Thus, even if sub-national governments were willing and able to contract loans by way of issuing bonds or debenture, they would not find access to credit easy.

Finally, there is the issue of creditworthiness of the sub-national governments. Because sub-national governments have not yet started exploring ways of accessing credit, the issue of creditworthiness has not yet been raised seriously. For purposes of this report however, it is worth looking at briefly. Most sub-national governments are not backed up by a sizeable asset base. Other than a few old trucks, administration buildings and one or two posh cars for the political leadership, they have nothing else to show. The ownership of residential estates and/or valuable land is a preserve of only a few sub-national governments with a sizeable urban population. Most sub-national governments run balanced budgets because they are required to do so by law.

4.2.7 Financing for selected types of infrastructure

It has already been noted in section 4.2.5 that the development budget will be decentralised starting this financial year (1999/2000). The sources of financing for the infrastructure provision (capital development) within the sub-national governments should therefore be interpreted this way. Secondly, as the trend indicates, locally generated revenue sources contribute less that half of all revenue available to sub-national governments. The rest is mainly from central grants of which the greatest percentage consists of conditional grants. The Conditional grant is government's channel for directing resources to the priority programme areas (PPAs) chosen by it.

Cost Recovery

The issue of cost recovery has been in existence for as long as one cares to remember for some services, while it has just started mostly on an experimental basis in others that are considered essential. Cost recovery has been the norm for services like piped water supply and sewerage disposal (where user charges are slowly but surely moving towards full cost recovery) and electricity distribution. These services, which are only consumed in the big urban councils, are delivered by government parastatals. Therefore, the user charges levied on their consumption are not reflected in the local government accounts but rather in the accounts of the parastatals themselves.

For education, the payment of fees has been abolished in the primary section on the advent of Universal Primary Education (UPE) in 1997. It is only in Secondary and Tertiary Education where the fees paid are managed by either the Parent Teachers Associations (PTAs) in the public schools or the proprietors in the case of private schools. In either case, the fees payable are still not reflected in the accounts of the local governments. Services like health, solid waste management and roads have not always been run along cost recovery lines.

As expected, there have been numerous arguments against the cost-sharing scheme, which is intended to be introduced in the "*vital social services*" and its discriminative tendencies against the poor. Arguments have also been advanced against it for fear of the scheme being abused by the rich and powerful people. Cost sharing schemes have now been introduced in some Hospitals and health units. However, this is still done on a very small scale. Attempts have been made on cost recovery for roads via road tolls. These have however been abolished for both the centre and sub-national governments. Kampala City Council is considering the introduction of fees for Solid Waste Management. In essence, therefore, much as cost recovery is desirable in service delivery, in the majority of local governments, user charges constitute an insignificant source of funding for Infrastructure and Service Provision.

The major sources of funding for ISP at the local level are therefore via grants and local revenue as can be illustrated by the spending pattern for Mukono district summarised in the table below. The rest of the districts follow a similar pattern as the sources of funding and contribution of the different sources to total local revenue has been shown to be similar in the first sections of this chapter.

Recurrent financing pattern of major Devolved Services for Mukono district (1997/98 - 1998/99).

Service	Expenditure Share in Total budget.	Financed by		
		Central Govt.	Local Govt.	Donors
Education	74.7%	98	2%	-
Health	8.9%	90%	10%	-
Agriculture Extension	0.03%	84%	16%	-
Water	1.4%	-	100%[89]	-
Roads	5.2%	63%	38%	-
Administration	9.65%	73%	27%	-

Capital financing pattern of major devolved services (1997/98 - 1998/99)

Service	Expenditure Share in Total budget.	Financed by		
		Central Govt.	Local Govt.	Donors
Education	1%	100%	-	-
Health	24%	-	-	100%
Agriculture Extension	2.2%	-	10%	90%
Water	16%	-	-	100%
Roads	56.8%	74%	26%	-
Administration	0.03%	-	100%	-

Source: Local Government Finance Commission Analyses.

Until recently, there have been conditional grants for only Roads, Education and Health. This financial year, conditional grants have been introduced in the water and

[89] In the form of provision of land and local materials

agriculture sectors. Services in the water sector consist of water supply, sewerage and sanitation. Electricity distribution is still a centralised service and is the exclusive responsibility of the Uganda Electricity Board (UEB). However, there are plans underway to privatise the provision of this service but it is not yet clear how service providers will relate to sub-national governments, if they do so at all.

Water Sector Services

The district and other lower sub-national government units, together with the communities are responsible for implementing, operating and maintaining water supply and sanitation facilities in their areas of jurisdiction. The centre however remains with the overall responsibility of initiating the national policies, setting standards and priorities for water resources management and development as well as monitoring standards.
Services in this sector can be broken down into services that are provided in the urban authorities and those for the rural authorities. Water services in the urban authorities comprise of piped water supply, sanitation and sewerage. In the rural areas, these services consist of water supply from boreholes. While a user charge is levied on the consumption of urban water services (recovering up to 60% or more of the cost), consumption of rural water sector services is free.

Before the devolution of power to sub-national governments, the National Water and Sewerage Corporation (an autonomous parastatal) was responsible for the delivery of water supply and sewerage services in the large urban centres. These include: Kampala, Jinja, Entebbe, Tororo, Mbale, Masaka, Mbarara, Lira, Gulu, Kasese, Fort-portal and Kabale. This corporation has retained the responsibility of delivering water supply and sewerage services in these urban centres and their environs. The corporation is also responsible for the collection of charges for these services. Sub-national governments in these areas therefore do not have the responsibility of delivering water services.

The current sector coverage (in percentage of population having access to safe water and hygienic sanitation are still low despite the efforts and rapid growth rates in the economy. The table below gives the comparison between the set targets for the year 2000 and current coverage (%).

Service	1998 (estimate)	Target (2000)
Water Supply		
Large towns/city (NWSC)	63	100
Small towns/rural growth centres	55	100
Rural areas	41	75
Hygienic Sanitation		
Large towns/city (NWSC)	60	100
Small towns/rural growth centres.	60	100
Rural areas	45	75

Source: Directorate of Water Development.

The above figures show the very large gap between the current coverage and the year 2000 targets. If the targets are to be achieved, there is need to revisit the strategies and accelerate the rate of construction of the water and sanitation facilities.

The current budgetary provision is inadequate to achieve the set targets for coverage, service level and water resources management. The current financial arrangements provide for cost sharing between donors, Central Government, Sub-national government and the communities. While funds from donors, central government and, to some extent, the communities are forthcoming there is very little funding from the sub-national government. The Directorate of Water Development estimates that districts spend on average 1%-2.5% of their total revenue on water. The water services in the sub-national governments are currently receiving less funding than before decentralisation.

With the current secured funding, it is impossible to meet the year 2000 targets as is shown in the table below:

Estimated funding requirements to achieve the year 2000 targets (Billions of Shs.)[90]

	Rural Water	Urban Water	Total
Funds Required	266.7	330	596.7
Donor funds secured	99	154	244
GOU funds secured	35	20	55
Shortfall	132.7	165	297.7

Source: Directorate of Water Development.

Because of the insufficiency of funds, operation and management (O & M) of many protected water sources, especially boreholes in the rural areas, have been abandoned. It is estimated that about 30-40% of boreholes are not operational. Arrangements for O & M of water supply systems in towns, outside NWSC centres are inadequate and will lead to quick deterioration of facilities and services, if not given special attention and financial support rapidly.

The donors who have been active in this sector include the UNICEF/Sida-supported WES programme which is thinly spread over a wide geographical area (34 districts), the ADB and IDA-World Bank funded small towns water and sanitation projects and DANIDA funded Policy and Management Support programme (PMS).

In recognition of the fact that sub-national governments have been unable to adequately fund the water sector services, the centre is introducing a Water Conditional Grant of about Shs. 4 billion. The aim of this grant will be to finance operation and maintenance of water and sewerage systems. This grant, as is evident from the definition above, will be mostly of a recurrent nature. Capital development funds will continue to be provided by donors and NGOs, with counterpart funding from government (usually 10% or below), which may be delegated to sub-national governments.

[90] This cost excludes the requirements for water resources management and institutional development.

In the rural areas, the proposed method of distributing the grant will be based on the total number of boreholes in the district and the cost of maintaining each. In the urban areas outside the operational zones of NWSC, the distribution of the grant will be based on the cost of O&M of the water and sewerage systems. These vary from urban centre to urban centre depending on the source, quality of water and technology. The grant will act as a subsidy for the users since water sector services in Uganda are regarded as being of a highly social nature. Therefore, the charges payable do not measure up to the cost of providing these services. It was not possible to determine the percentage contribution of water charges to the total cost of delivering the service.

Private Sector Participation

The private sector has been encouraged to participate in the management, investment and service provision (revenue collection, drilling, construction etc.) in the water sector including the NWSC areas of operation. However, the capacity of the private sector in Uganda especially for drilling and management of water supplies is still low. Efforts continue to be made to attract more firms into the sector activities. For the beginning, District tender boards will tender to the private sector a project for the construction of sanitation facilities this financial year.

The Directorate of Water Development is promoting a demand driven approach and effective user participation. The aim is to involve communities in the planning, implementation and monitoring of water development activities. Communities now contribute 2% towards the capital cost and full O&M costs in an attempt to consolidate the ownership concept of the facilities and management roles required of them.

In conclusion, the water sector is 90-95% dependent on donor funding for mainly investment (opening new water points). Donor preferences, lengthy process of obtaining donor funds and inadequate co-ordination of donor and NGO activities and sometimes lack of specific criteria of distributing these donors have created inequalities among districts and urban areas because the level and period of funding differs for different donors.

The formula being proposed for distribution of the water conditional grant has no element of equalisation because it is capacity based irrespective of the coverage of the water sector services. An equalisation grant will therefore be needed to extend the water supply coverage to the un-served and to promote equity.

Solid Waste Management

This is largely a service for the urban populace. It consists of garbage collection and disposal. Since districts are generally rural sub-national governments, they do not incur any expenditure on this item. The same is true of small urban councils, which still exhibit so many rural characteristics. It is however a big expenditure item in the very large urban sub-national governments. It was a campaign issue for mayoral elections of Kampala City Council.

Up until now, solid waste management is a free service to the residents of the concerned urban sub-national governments. There are no fees or charges by the urban councils. These urban councils spend between 5%- 25% of their local revenue on the combined items of water, sanitation and solid waste management depending on whether the National Water and Sewerage Corporation is operational within the locality or not. This service is provided almost exclusively from the financial re-sources of the sub-national governments.

However, this problem is growing especially for the rapidly expanding City of Kampala. Within the last ten years, the rate of garbage accumulation has trebled and together with it the costs for its collection and disposal. There is need for acquisition of more garbage trucks and garbage dumps. There is also need to expand the land refills where the garbage is dumped. Because of this growing problem, Kampala City Council is considering the introduction of a charge for garbage collection and disposal the coming financial year (2000/2001).

Roads

There four types of roads in Uganda: National Highways which usually connect the main towns, Urban roads which are the roads and streets within the urban centres, rural feeder roads connecting the main trading centres within the districts and community roads. The highways are the responsibility of the central government. The urban roads are the responsibility of urban sub-national governments. The rural feeder roads are the responsibility of the district governments and community roads are the responsibility of communities including lower level sub-national governments and administrative councils. Responsibility in this context should be interpreted to mean rehabilitation and maintenance of roads.

For the purposes of this research, focus will be put on the urban and rural feeder roads. Funding for roads rehabilitation and maintenance comes from three major sources namely the central government, Donors and the sub-national governments. Communities sometimes are also called upon to contribute, at least in kind, in form of labour.

Rural Feeder Roads (District Roads)

The most prominent source of funding for this sector is the Conditional Grant. This grant was introduced in the 1996/97 financial year at the level of Shs. 4.9 Billion. It has since grown twofold to a budgeted figure of Shs. 11.9 billion this financial year. In the FY 1999/2000, Mukono and Bushenyi will receive in form of Feeder roads conditional grant 362 million and 306 million respectively. This should be compared with 288 million and 21 million that were budgeted for roads in Mukono and Bushenyi districts respectively just before the introduction of the conditional grant. This goes to prove that conditional grants are by far the most dominant source of revenue for feeder roads.

The Conditional grants also have an “expenditure switching effect” on local budgets. Districts are known to have switched expenditure away from the areas where conditional grants have been directed. Roads have not been an exception. For

instance, Mukono which is one of the most well off districts, scaled back its expenditure (from local revenue sources) on feeder roads maintenance from 288 million in 1996/97 (before the grant) to 205 million in 1997/98. The same is true of other districts and services.

Donors have also been active in feeder roads maintenance injecting large amounts of money in upgrading roads. The main donors active in this sector are: the ADB with their rural feeder maintenance programme now covering 27 districts (initially began with 24 districts) and the IDA funding the rehabilitation and maintenance of feeder roads in 4 Eastern districts. In Mukono district, ADB provided 200 million to the district government for the making of 50 Km of roads in the FY 1997/98.

Urban Roads

It has already been stated that urban sub-national governments do not receive conditional grants. Therefore, the funds that are availed to district governments through the feeder roads conditional grant are not available to urban authorities. To make it worse, donors have not expressed particular interest in urban roads as well. This may have been due to government emphasis on feeder roads as the means of ensuring sustained economic recovery and poverty eradication.

Therefore, most of the funding required for maintenance of urban roads has had to come from the urban sub-national governments' locally generated revenues. This seems to explain why the roads sector takes quite a large share of the urban government's resources. In Lira, Mbale and Mukono the sector took 24.5%, 78.4% and 15% of the local financial resources. The differences in the percentages can be explained by differences in the type, length and level of coverage (network) of the roads. While Mbale has the best network of roads among the three, most of which are tarmacked and therefore more expensive to maintain, Mukono has only two tarmacked portions both of which are part of national highways. Due to the insufficiency of funds available to this sector within the urban sub-national governments, most of the urban roads are in a state of disrepair. This state of affairs therefore needs urgent attention.

Education

It is only Nursery and Primary Education that has been decentralised. So far, Nursery education is largely provided by the private sector with no support from government (central or local). Secondary (post primary) education is still a delegated service, although it is referred to in the law as a devolved service. Therefore, this section almost exclusively refers to the provision of primary education.

This service has received overwhelming support within the last few years from government and donors, especially with the declaration of Universal Primary Education (UPE) in 1996. Primary school enrolment grew by leaps and bounds and so did the level of resources committed to this service. A total of 628 new classrooms have been constructed in districts on a pilot basis funded by the British Department for International Development (DFID) and the Dutch to the tune of Shs. 6.22 billion in the FY 1998/99. The donor supported primary school construction grant has

however been re-centralised this FY (1999/2000) and the financial resources will be channelled through the unified national plan for primary school construction currently being developed.

In addition, a lot of money, which has been saved by government from the highly indebted poor countries' (HIPC) initiative, has been channelled into the five PPAs of which education has been the main beneficiary. Because of these extra resources, the UPE conditional grant has grown from 14 billion when it was introduced in 1996/97 to 30 billion in 1998/99. UPE Capitation (conditional grant) has grown further to 38 billion this financial year. The Capitation grant can be used for instructional/scholastic materials (50%), co-curricular activities (30%), transport and administration (5%) as well as management (15%).

On the contrary, however, most urban councils do not provide this service. The expenditures on education in the urban areas are limited, cf. the tables for Mbale municipality and Mukono town councils. Most primary schools in the urban centres are private. Private primary and even secondary schools are blossoming in the urban centres following the feeling among the citizenry that standards are falling rapidly within the government-sponsored schools. The enrolment has grown so fast in the government schools that is has been hard to keep up with the pressure so created especially in lower classes.

Thus, a parallel system of education service provision is emerging. On one side is the private sector that has concentrated its services in the urban areas, where the people can afford and the government aided schools on the other which are mostly concentrated in the rural areas. Other than monitoring ad supervision, the private schools do not receive any help from the government.

Thus, it is clear from the analysis that provision of education facilities is not a major expenditure item for sub-national governments considering only their local revenues. In the rural areas, education facilities are financed mainly by donor funds and central transfers. In the urban areas, it is mainly offered on commercial terms by the private sector. This is true of both capital development and recurrent expenditure. This expenditure trend for the financing of ISP within the education sector is likely to remain for a while, if not become entrenched in the system. More donors are becoming interested in channelling resources into the sector both multi-lateral (e.g. World Bank) and bilateral organisations (e.g. Irish Aid).

Health

For sometime now, government policy has been aimed at improving the current standards of hospital services through improving the way government hospitals operate and to strengthen NGO hospitals by providing targeted financial support. Therefore, Government has restrained itself from constructing more hospitals. The emphasis has been on improving access to hospital services by rehabilitating, re-equipping and increasing staffing levels of the existing hospitals. It has also been done via improving on the quality of roads in order to reduce on the amount of time needed to reach the hospitals.

Consequently, a number of Conditional Grants to districts were introduced starting from the FY 1996/97 to supplement local revenues and unconditional grants. The include the Primary health care (PHC) conditional grant, support to NGO hospitals, support to lower level NGO units, Conditional grants for district hospitals, health training schools, and referral hospitals, lunch allowances for hospital and PHC health workers.

These grants have helped to halt the decline in non-salary spending in the sector that had fallen significantly by the FY 1995/96. The lunch allowances were introduced with the intention of providing an additional incentive for the health sector workers in the government health institutions.

Like in the education sector, donors and central government are the main actors in the field of ISP in the health sector. Of the 6.358 billion that central government availed for the PHC conditional grant in FY 1998/99, 1.73 billion was allocated for use in upgrading of health centres. The rest was used as recurrent expenditure. Mukono got an allocation of 266.4 million as PHC conditional grant compared to a total expenditure of 81.263 million on primary health care from the district own resources. The corresponding figure for Bushenyi was 151.5 million for PHC out of a total expenditure of 279 million on primary health care services in the district.

The trend for funding of district hospitals does not differ much. According to Ministry of Health estimates, central transfers to district hospitals constitute about 97% of their total revenue. The rest (3%) comes from user fees. For NGO hospitals, government support constitutes about 5%-10% of their total revenue. 55% of their total revenue comes from user charges and the rest from external donations. Conditional grants, on average, contribute about 45% of the total expenditure on ISP in the health sector within the districts. The rest (55%) comes from locally generated revenues, unconditional grants as well as NGOs.

4.2.8 The relationship between expenditure and tax assignments between the different levels of Government

Division of tasks and responsibilities

The division of tasks and responsibilities is clearly spelt out in schedule two of the Local government act, 1997 (listed in annex 1 of this report). The division of responsibilities and tasks shown in the annex illustrates one important fact. While the power to formulate public policy, do national planning as well as maintain national security, law and order has remained in the realms of the central government, and rightly so, implementation of policy and design of development projects has shifted to the sub-national governments. This division of tasks and responsibilities is supposed to determine the sharing of resources between the different levels of government, since these responsibilities determine the amount of expenditure that should be incurred by each government.

Sub-national governments collected about 80 billion from their own revenue sources compared to the central government's tax revenue of 990 billion in the FY 1998/99 (Tables 4.1 & 4.2.4). The central government, however, transferred 292 billion of its

own collected revenue to sub-national governments for subsequent allocation and management.

Revenue Sharing between the Centre and Sub-national governments

As already noted in Section 4.2.5 of this report, sub-national governments receive revenue from four types of sources. Districts receive revenue from Central transfers (unconditional, conditional and soon equalisation grants), locally generated revenue, donor funds and non-budgeted sources like fundraising. Locally generated revenue for districts includes graduated tax, property tax, market dues, fees, licenses and permits, own businesses and others.

In the FY 1998/99, Central transfers constituted about 65% of the revenue available to district governments while locally generated revenue constituted between 10% to 20% of total revenue and about 17.8% on average (table 4.2.4). For instance, in Bushenyi, local revenue was only 12.9% of its total revenue in the FY 1998/99. Figures from the Local Government Finance Commission indicate that about 80% of these transfers consist of conditional grants (see also table 4.2.5).

However, much as central transfers make up a big percentage of total revenue available to districts, it should also be stated here that central transfers to districts average only about 30% of total national recurrent expenditure (table 4.2.1). In addition, they comprise about 80% of the money voted in the national budget for the delivery of services stated above as devolved to sub-national governments. The 20% left is reserved for policy formulation, monitoring and evaluation within the devolved services.

The plight for urban councils is even more severe. Since municipal and town councils receive only the unconditional grant from the centre (which makes up of only about 20% of total central transfers), central transfers constitute on average less than 20% of their total revenue. Locally generated revenue for municipal and town councils consists of property tax, graduated tax, market dues, fees from taxi/bus parks, licenses and permits and miscellaneous sources. Property tax is supposed to be the most buoyant tax for urban governments. However, sub-national government administration of this tax is confronted with a number of problems. These will be dealt with in the next section.

In an international perspective, and compared to other countries in the region, level of own financing is low in Uganda. That is, the assignment of tasks is much more comprehensive than the related assignment of revenue sources. No major shared taxes exist by which the sub-national governments can rely on stable major revenue sources, and the sub-national governments are very vulnerable to adjustment in central government transfers (conditional and unconditional grants).

Sharing of revenue between sub-national governments

The lower sub-national governments (sub-counties in the districts and divisions in the city and municipal councils) do not receive any money from the centre although district, city, municipal and town councils are by law obliged to indicate how they are to pass on the conditional and equalisation grants to them (Local Governments Act, 1997 Section 84(5)). It appears from this section that: "Local Government Councils shall indicate how conditional and Equalisation Grants obtained from the Government are to be passed on to the Local Governments Councils within a smaller jurisdiction or lower Councils".

The lower sub-national governments are also supposed to benefit from the retention of locally collected revenue as well as local equalisation schemes. Though provided by law, some of these schemes are not yet functional.

Section 86(2) of the Local Government Act empowers sub-counties to collect revenue in rural areas and retain 65% or any other higher percentage as the district may approve, of the revenue collected by it and pass the remaining percentage over to the district. Of the money retained by the sub-county, it is supposed to retain 65% as its own revenue and then distribute the remaining 35% to county (5%), parish (5%) and village (25%) councils. In other words, sub-counties are supposed to retain only 42.25% of the revenue they collect. Because sub-counties do not collect a lot of money (usually between 5 million and 20 million), some often do not transfer money to village, parish and county councils. This is because these councils are in a weaker position legally than sub-counties.

According to section 86 (4): "A District Council may, with the concurrence of a Sub-county, collect revenue on behalf of the Sub-county Council but shall remit sixty-five percent of the revenue so collected to the relevant Sub-county".

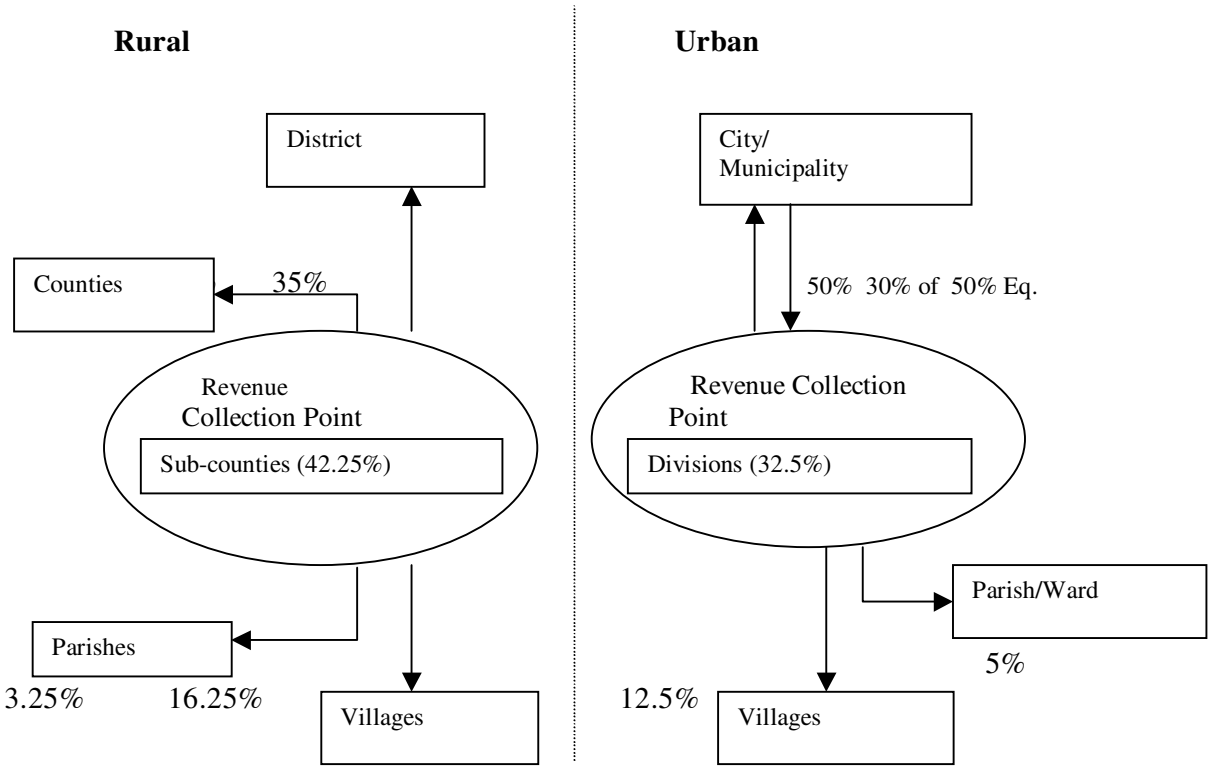
Often, the money retained by the sub-counties is insufficient to pay the salaries of the sub-county executive and the councillors' allowances. In some districts, sub-county staff are paid from the 35% of the money collected by the sub-county chief that is transferred to the district. In such cases, the money is not sufficient to pay for the salaries of staff working in the sub-counties. Huge salary arrears have thus accumulated and often been reported at the sub-county levels.

To avoid a similar situation, Mukono district had initially decided on an 80% to 20% revenue sharing arrangement with the sub-counties (Nama sub-county inclusive) retaining 80% of the revenue collected by them. The aim was to boost the revenue bases of the sub-counties and enable them pay salaries as well as carry out other development activities. However, even with this sharing arrangement, sub-counties found it hard to pay the salaries of staff working for them. The revenue sharing arrangement in Mukono has now reverted to the mandatory 65% but this time with the district paying the salaries of their employees. The sub-county politicians of Nama sub-county still say that the 65% retainer still cannot be used to carry out any significant development activity after councillors' allowances are paid.

The situation is a bit better for the divisions. Divisions are by the same law (section 86 (1)) supposed to retain 50% of the revenue collected by them and remit the 50% to the city or municipal council. A minimum of 30% of the total locally collected revenue and remitted by all city or municipal divisions to a city or municipal council should (by law) be distributed as grants to Division councils based on a formula provided in the law. Twenty five percent of the total of what a Division retains and receives from the city or municipal council should be distributed amongst the village councils and 10% amongst the parish or ward councils.

By these legal provisions therefore, some kind of equalisation scheme is supposed to be in place in the urban councils for redistributing locally generated revenue. The law does not provide for a similar scheme for the rural sub-national governments. The revenue sharing arrangement as provided for under the law is as shown below.

Chart 4.2.7: Conception of the Revenue Sharing arrangement between Local Governments.



Notes:
This arrangement was arrived at through negotiation and consensus rather than using scientific methods.

Some of the objectives and advantages of this tax sharing arrangements have been to:

- protect lower tiers of SNGs from manipulation by larger taxpayers;
- improve tax administration by involving lower tier of SNGs, as they know the taxpayers better;

- enhance the participation of lower tiers of SNGs and thus improve transparency; and
- enhance the incentive by all levels of SNGs to strengthen the tax collection as they all get a share of the revenue.

In view of these financing arrangements, questions can be asked about four main issues:

- *How sufficient are the revenues available to the different levels of sub-national governments for their expenditure responsibilities?*
- *How much autonomy do these sub-national governments exercise over the revenue accruing to them?*
- *What accountability measures have been put in place to ensure that this revenue is not misused?*
- *What measures are being taken to recover some of the costs incurred in ISP from the beneficiaries?*

From the description above, the intergovernmental revenue sharing arrangements currently in place put the sub-counties and urban councils in a disadvantaged position compared to the districts/city council. Additionally, some division and sub-county councils do not receive their mandatory 50% or 65% respectively where the revenue is collected by district/city councils. This is the case with the divisions in Kampala City Council.

Since sub-national governments are meant to prepare and approve balanced budgets (Local Governments Act, 1997 Section 78(1)), this amounts to a case of shifting deficits to lower levels of governments. Contrary to the full range of services devolved to them by law, sub-national governments (especially urban councils) have resorted to leaving out some of these services unbudgeted for and therefore undelivered.

This is true of services like recreation & leisure, social welfare and property valuation related expenses, which are critically vital for the urbanites. It is only big municipalities and the city council that have tried to allocate some money for these services and even then, these allocations have only been of a token nature in some instances. Town councils have rarely allocated money for these services.

As already noted in section 4.2.5 some services were devolved without the necessary funds and locally generated revenue is grossly inadequate for most sub-national governments. The result is that local governments are forced to flout the legal provisions. For instance, despite the legal requirement for sub-national governments to spend a maximum of 15% of locally generated revenue on personal emoluments and allowances for councillors, only 3 out of the 34 districts whose budgets were analysed by the Ministry of Local Government fulfilled this legal requirement.

All the sample districts failed to fulfil this legal requirement. In FY 1998/99, Lira and Mukono budgeted for 82% and 83% of their local revenue collections last year as councillors' emoluments and allowance. Bushenyi, which was the lowest, budgeted for 18%. Much as this 15% expenditure limit on councillors' salaries and emoluments

may have been made with good intentions, it curtails the expenditure autonomy of local governments.

The share of central transfers (to sub-national governments) in national recurrent expenditure has been only 34% this financial year. It is set to drop to 30% according to the budgetary estimates for this financial year or only about 4% of GDP. Questions can be raised as to whether the 30% share of sub-national government transfers in total national recurrent expenditure reflects the right proportion in the division of responsibilities between the centre and the sub-national governments.

The growth in central transfers does not measure up to the growth in the economy and therefore, economic growth is not being translated into the improvement of service provision fast enough especially for the poor. This is more so true, as more services get decentralised on the one hand while the centre seeks to increase its revenue by improving the Government Revenue/GDP ratio by at least 0.5% p.a.

Because of these difficulties, sub-national governments have not been able to accord National Priority Programme Areas ((PPAs) that is; Education, Health, Water, Agriculture & Roads) preferential budget outlays as required by Section 78(2) of the Sub-national governments Act. Others have been forced to approve deficit budgets contrary to the law. The centre has reacted by reducing the proportion of untied (unconditional) grants to sub-national governments in total transfers while at the same time introducing more conditional grants. The aim has been to “guarantee a minimum level of expenditure in the PPAs”.

The increasing proportion of conditional grant transfers to local governments together with the low local revenues have combined to restrict local government autonomy over both revenues and expenditures. For this reason, the Local Government Finance Commission has initiated a study on "revenue sharing" to remedy this situation.

By definition, local revenue consists of locally generated revenue whose amount local governments can change to suit the desired service level. This is the revenue over which the sub-national governments exercise significant discretion. They are able to exercise discretionary authority over its levy, prioritisation and expenditure without taking recourse to any other authority. They have the authority to vary the amount of revenue generated locally by varying the tax rates on the sources assigned to them. For instance, sub-national governments exercise complete discretion over the rates charged for fees, licenses, permits, market dues and property tax. The sub-national governments are however not very free to exercise discretion over the graduated tax rates. The Ministry of Local Government has been issuing tax schedules that are followed when levying graduated tax. The schedule gives a tax minimum rate of Shs. 2000 payable by individuals whose income falls below Shs 24,000 p.a. and a maximum of Shs. 80,000 for people whose annual income is estimated to exceed Shs. 820,000.

Therefore, sub-national governments exercise significant discretion (within these limits) in setting tax rates for the taxes assigned to them. They also have the possibility of varying quantities and qualities of service according to local wishes only with regard to the expenditure that can be incurred out of the funds available to them

as locally generated revenue and unconditional grants. However, as already noted in 4.2.5, this averages about 25% among districts and 85% among urban sub-national governments. Much as the law requires the centre and sub-national governments *to agree on the programmes to be financed by Conditional grants and conditions to be attached to their use* (Section 84(3) of the Local government act); no effort has been made by the central government in this direction.

Thus, although urban sub-national governments sustain more expenditure deficits than districts, they exercise more autonomy over their budgets. Since sub-counties and divisions do not receive any central transfers, they exercise total discretion over their expenditures but not their revenues. The tax rates for local taxes are set by the districts/urban councils although they are collected by the lower level local governments.

Accountability

Regarding accountability at the sub-national government level, like at the centre, many problems remain. Though there are sufficient provisions in the law to ensure transparent and accountable use of financial resources at the local level, many of these provisions have not been effected, mainly because of two reasons:-

- lack of capacity within the central government institutions responsible for Auditing and follow up of the Audit recommendations to deal with all the sub-national governments (over one hundred districts and urban councils) in a timely and comprehensive manner; and
- lack of capacity within the sub-national governments to prepare the necessary books of accounts and enforce strict financial discipline.

The Local Government Act mandates sub-national governments to:

- draw up a comprehensive list of all its internal revenue sources and to maintain data on total potential collectable revenues;
- formulate, approve and execute budgets reflecting all revenues to be collected or received by the sub-national government and to be appropriated for each year; and
- balance its accounts for that year and produce statements of final accounts within four months from the end of each financial year.

It also mandates The Auditor General or an auditor appointed by him or her to:

Carry out surprise audit, investigations or any other audit considered necessary. Give the report of the sub-national government audited accounts to the Parliament, ministers responsible for Finance and Local Government, the Local Government Finance Commission, the respective Local Government Administration and Local Government Public Accounts Committee of the Sub-national government in Question, the Inspector General of Government and the Resident District Commissioner. The roles of all these institutions in the Audit and accounting process are well laid out. A forum (the Audit Forum) has also been formed to improve on co-ordination of this process.

However, as already pointed and as will be evidenced in Chapter 7, lack of capacity remains the single most important problem (both at the centre and local level). Most of the posts either remain vacant or are occupied by people without the requisite qualifications and experience. However, the good news is that donor organisations as well as the central government have started massive efforts aimed at capacity building within these vital organs, both at the centre and at the sub-national government level.

4.2.9 Estimation of the Sub-national government revenue potential

Structure of Sub-national government Revenues in Uganda

A description of the revenue sharing system has already been presented in the previous sections. However, briefly, other than donor funds and central grants, the sources of revenue can be categorised into those that belong to districts; city, municipal and town councils; and city and municipal divisions and sub-counties.

Districts

The sources of revenues consist of graduated tax, market dues, property tax, licenses and permits, revenue from own businesses and revenues from miscellaneous sources including one-time sources like sale of buildings.

City, Municipal and Town Councils

The sources of revenues consist of graduated tax, market dues, property tax, licenses and permits, parking fees from taxi/bus parks, revenue from own businesses and revenues from miscellaneous sources including one time sources like sale of buildings.

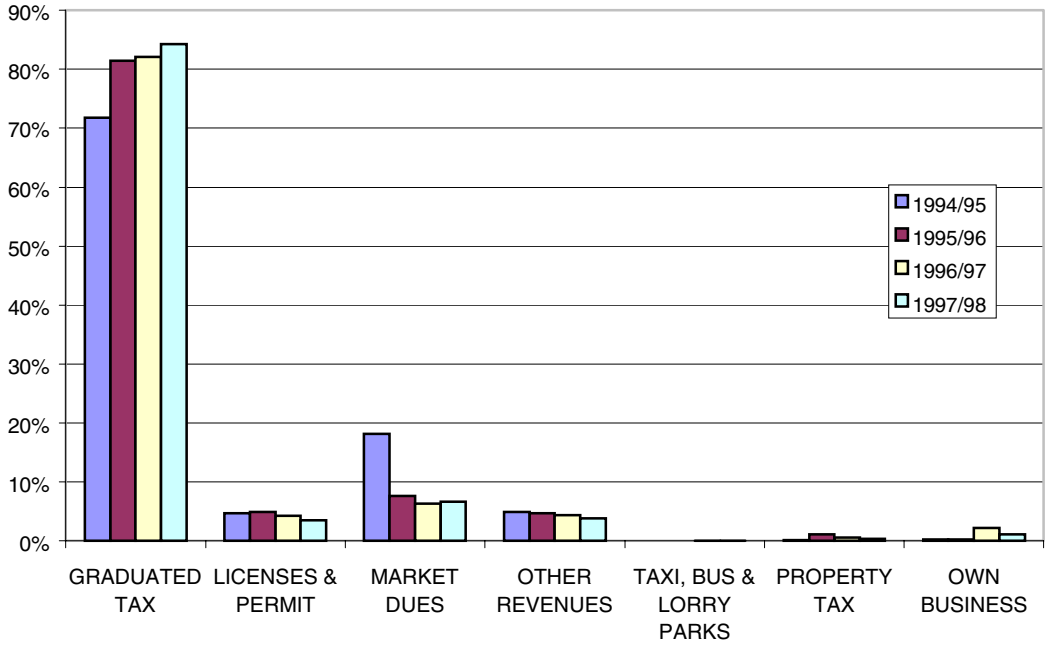
Sub-counties

Sources of revenues consist of 65% retention of the revenues realised from Graduated tax, Market Dues and Licenses & permits.

City and Municipal Divisions

Revenue sources entail 50% retention of Graduated tax, Property tax, Market dues and licenses & permits is retained. Below is an illustration of the contribution of different sources to total locally collected revenue. Each of these revenue sources will now be examined in detail by looking at the growth in the revenue collected from the source, ways of measuring potential revenue that can be collected from this source and whether the maximum potential revenue has been collected.

THE CONTRIBUTION OF THE DIFFERENT LOCAL REVENUES BY TYPE TO OWN SOURCE REVENUES OF LOCAL GOVERNMENTS -- NATIONAL AVERAGE



Graduated Tax (GT)

Graduated tax is the single most important source of local revenue. This is a personal income tax levied annually on i) every male resident of eighteen years and above and ii) every female resident of eighteen years and above engaged in any gainful employment or business except peasant farming.

Between 1995/96 and 1997/98, the GT has been contributing close to above 80%of own revenues of most districts. As can be observed from the figure on the previous page, the trend of the average contribution of the GT to local revenue has been growing. In 1994/95 financial year, it contributed about 72%, and this rose to about 84%in 1997/98 financial year.

Potential Graduated Tax

The principle factors that determine the potential collectable graduated tax by sub-national governments are the number of taxpayers and their presumed wealth (local determinants of incomes). Local communities are principally engaged in subsistence agriculture and their wealth is assessed to derive a proxy of their incomes for taxation purposes. The potential graduated tax revenue can be calculated as a product of the estimated number of taxpayers and an imputed average graduated tax from district expenditure surveys[91].

In nominal terms and to some extent in real terms, this tax has been growing. There are two factors that are responsible for the growth in the revenue accruing from this

[91] The Statistics Department estimated each District's average personal income using the household expenditure data of 1997.

source, one minor and one major. The major factor is that following years of civil strife that engulfed the country all tax registers either became obsolete or got lost altogether. As such, few people were paying this tax. With the return of political sanity and the devolution of this tax to sub-national governments, considerable effort has been made to enforce tax collection from this source as well as ensure that previously defaulting persons are brought into the tax net. So the improvement of revenue collection from this source could in the main be attributed to increased vigilance and widening of the tax net.

The minor reason is that the tax schedule for graduated tax has been revised at least twice by the Ministry of Local Government since the onset of fiscal decentralisation. However, even as collections are increasing from this source, sub-national governments are still far from collecting all the potential revenue that could potentially be collected for two reasons. Firstly, the assessment teams that are sent to assess the tax usually connive with the taxpayers, the net result being under-assessment. Secondly, the numbers of taxpayers that actually pay the tax are still far below the number that is legally supposed to do so. For instance, compare the figures below:

	Lira District			Rakai District		
Year	No. of potential tax payers	No. of people as-sessed	No. who actually paid tax	No. of potential tax payers	No. of people as-sessed	No. who actually paid tax
1994/95	94,578	55837	42419	63,270	49869	45336
1995/96	97,888	58125	39956	65,485	49869	37606
1996/97	101,314	55676	44129	67,777	49869	40480
1997/98	104,860	59538	29545	70,149	49966	35204

Please, note that the number of people assessed to pay the tax is still a conservative estimate since sub-national governments have up to now not managed to compile databases of all taxpayers as required in the law (Local government Act, 1997 Section 81(2)). The only exception is Mukono district, which has attempted to computerise the list of GT taxpayers and making regular updates. Thus, the potential number of taxpayers has been taken to be the number of males in the age-range 20-54 years. Women have been ignored because in the rural areas, women who are not working in the civil service do not pay taxes. However, even with the current problems in collection, graduated tax contributes more than 50% of locally collected revenue.

Market Dues

Market dues are the second most important source of local revenue. For the period 1995/96 to 1997/98, market dues have been accounting for less than 10%of total local revenues of most districts. On a national average, the market dues' contribution to total local revenue was 2.3%in 1995/96 but declined to about 0.5% in 1998/99 (table 4.2.4.2 in annex). In Lira district, the contribution of market dues to total local revenue for 1998/99 is 0.55% (table 4.2.4.2 (d) while that for Rakai is 0.34% (table 4.2.4.2 (f)) ; for Kampala city council it was 3.5% in 1998/99 (table 4.2.4.2 (b).

The contribution of market dues to local revenue has not only been varying widely from year to year within the same district, but also from district to district within the same year. For instance, in Bushenyi district, revenues from markets varied from 140 million in 1995/96 to 46 million in 1996/97 to 77 million in 1997/98 and 61 million in 1998/99 (table 4.2.4.2 (a)).

This is because of the fact that market sizes (sizes of local economies) vary a lot resulting in collectable dues to fluctuate accordingly. In addition, the rural economies are agricultural in nature, and because of the seasonal nature of the agriculture goods traded, volumes of tradable commodities also fluctuate by the seasons resulting in variations in collectable dues. Other factors such as the type of management of a market (private or public) may also affect revenue collections.

Like in the case of graduated tax and other user-charges, there is still room for improvement especially for those markets still under the management of the sub-national government councils. As is evidenced in table 4.2.4 (supplement), the non-collection rate for user charges is still high (20% in 1998/99). However, it is only right to acknowledge here that the situation has greatly improved in those local authorities where the management of markets has been tendered out to the private sector. In these cases, there has been little deviation between estimated revenues collectable and the actual collected.

Property Tax

Though the law specifies property tax as a tax for both rural and urban local governments, in practise, it is mainly a tax source for urban councils. This is because most of the taxable properties are in urban areas. Thus, Property Tax essentially is an urban tax in Uganda. Of the rural districts, only Rakai has considered introducing the tax in developed urban areas outside the jurisdiction of urban councils. However, to avoid the costs and lengthy procedures associated with property valuation, they are proposing to charge flat rates between 10,000/= and 30,000/=. The districts of Bushenyi, Kotido, Mukono and Lira do not collect property taxes.

The major problems reported by the urban local governments concerning collection of Property Tax are four namely:

- It is difficult to collect the tax from residential areas, especially in the peri-urban areas. For instance, in Kampala suburbs of Kawempe and Mengo, the collection efficiency has been as low as 17% and 14%, respectively.

- The valuation costs and the lengthy procedures involved in the process of valuing properties represent hardships. Mbale is revaluing its properties and is going to pay 20 million shillings to the Chief Government Valuer's Regional Office in Mbale for the exercise for the anticipated collection of about 200 million from the tax.

- Some property owners are not traceable within the country. This case has been reported in Mbale where some property owners are reported resident in Europe and the U.S, and the tax cannot be readily collected.

- Lack of adequate staff and the manual system of handling the administration of this tax cause problems.

The law (ratings decree, 1979) specifies a period of five years after which the properties must be revalued again. Most urban councils have not been able to fulfil this requirement thereby losing out not only the appreciating value of the properties but also on the new properties that have sprung up in this period of construction boom. This has been reported in the urban councils of Mbale, Kampala, Lira and Mukono.

Therefore, the amount of revenue that is being derived from this source is in most cases below half of the potential. If urban authorities are helped to value the properties within their jurisdictions on a regular basis and enforcement strengthened, revenue accruing to them from this source could double or even treble according to the Senior Finance Officer of Mbale Municipal Council. Below is a summary of the performance of urban councils in the administration of this tax.

Urban Council	Rate Charged	Year of Valuation	Contribution to Total own revenue (FY 1997/98)
Kampala C.C	5% - 10%	1995/96	19.8%
Mbale M.C	12%	1990	14.2%
Lira M.C	12%	1989	2.5%
Mukono T.C	5% - 15%	1994	3.8%

Notes:
Valuation in Kampala is done on a zone-by-zone basis. The latest completed valuation was done in the year stated above.
The Property rating decree, 1979 empowers local governments to levy a property tax rate between 0% - 20% depending on the use to which the property is put. This law also requires them to revalue properties after a period of five years. For most of these urban councils (Kampala, Mbale and Mukono), the revaluation exercise is already underway.

Other Taxes

Licenses and permits are the third single most important source of own revenue after the graduated tax and market dues. On average, they have been contributing about 4 percent of the local revenue of most sub-national governments. Fees and fines on licenses and permits are levied in respect of any service rendered or regulatory power exercised by the local council. In the absence of proper business registers, it is difficult to say whether the local councils are realizing a good percentage of the potential revenue collectable from this source. However, taking into account the fact that the economy is flourishing and a lot of small businesses are being started, there should have been tremendous growth in this source contrary to what is being observed at present.

In conclusion, therefore, it can be said that local authorities are not realizing the full potential of the revenue sources that have been devolved to them. Ministry of Local Government estimates that local authorities may be realizing about 60% of their potential revenues. This study seems to confirm that the potential is at least this amount.

The reasons for this are varied but include among others: - poor documentation of the revenue sources, working with outdated data, politics of the local politicians and collusion of the tax collectors with the taxpayers. Whatever the reasons are, the non-collection of revenue from local sources generated revenues has contributed to the dependence of local authorities on central grants and donor funds. The ultimate result has been that the autonomy of sub-national governments as regards the level of tax revenue has remained low and has reduced their possibility of providing crucial services to their constituents. The service level remains very low, and most of the infrastructure remains in a state of neglect and disrepair. A lot of pressure is now being born on the local authorities to increase their efforts in local revenue collection to better ISP.

4.2.10 Evaluation of Tax Assignment and Administration of Taxes

The assignment of taxes between local and central government is clear. There are no shared taxes between the centre and the sub-national governments. A tax belongs to either the centre or the sub-national governments. The law specifies the following as central government taxes: income tax, excise duty, VAT, Export taxes and Customs duty on petroleum and other imports. The following are the main sub-national government taxes: Graduated tax and Property tax. The law however provides for tax revenue sharing between the sub-national governments.

The efficiency with which sub-national governments have been collecting their tax revenues has already been stated in the previous section as being less than satisfactory. However, it is just about four years since sub-national governments were given financial autonomy. It is therefore a bit too early to conclude that these taxes cannot be collected efficiently by the sub-national governments. But before making any conclusions, it is prudent to examine the tax administration before.

Graduated Tax (GT)

This is a personal income tax levied annually on (i) every male resident of eighteen years and above (ii) every female resident of eighteen years and above engaged in any gainful employment or business except peasant farming. Residents are defined as those who have been residing continuously within the jurisdiction of a district or urban council for at least six months. It is due and payable on the first day of the beginning of the financial year in each year.

It is payable based on the wealth and therefore the presumed income of a taxpayer. The sub-national governments based on the advice of the Local Government Finance Commission determine the rates according to the Local Government Act, 1997. Since the Commission is still relatively new, the Ministry of Local Government has played this role. The Ministry has been setting the minimum and maximum rates payable by graduated taxpayers in the sub-national governments and these currently stand at 2,000/- and 80,000/-.

To arrive at the rate payable by each person, the District or Urban council appoints an “assessment committee” within each sub-county/division. This committee assembles a list of the major properties/assets a person has. It then conducts village meetings where taxpayers are informed of the assets/properties listed against them, and it

solicits for their consent. If it is in the affirmative, then they are informed of the tax to be paid by them. Deadlines for payment of the tax are also communicated at this meeting.

For salaried persons however, the tax is subtracted by the employer and deposited to the sub-national government using predetermined rates based on their annual income. Thus, it is the sub-county or division that is responsible for the administration of this tax. For every person that pays up, a ticket is issued as proof of payment. When the deadline expires, a surcharge is introduced on the defaulters and measures are taken to recover the tax due. These include roadblocks as well as door-to-door checks.

A number of problems are encountered in the administration and enforcement of this tax. These include: Political interference by local politicians, concealment of wealth by the taxpayers (most of which is not registered and therefore easily disputable), change of residence especially in the urban areas, adverse poverty caused by prolonged droughts & civil strife and logistical problems especially transport of the tax collectors. In the absence of proper tax registers for most sub-national governments, tax collectors usually connive with the tax payers and "pocket' some of the proceeds from this tax.

The sub-national governments have tried to address some of these problems with help from donors. Some districts have acquired motorcycles for sub-county tax enforcement teams to ease their mobility problems (e.g. Masindi & Bugiri). Others have embarked on tax registers for all taxpayers and their properties (e.g. Mukono). Most have tried sensitisation of the taxpayers on the benefits of paying. Some local administrators have even suggested that in order to deal effectively with the meddling of the local politicians in the administration of this tax, it should be collected by a centralised agency with a commission.

However, all these initiatives are still new with most starting in the financial year 1998/99. It will therefore take a while before effectiveness of these efforts can be determined.

Property Tax

A district or Urban Local Council is legally empowered to impose rates on persons owning, occupying or in possession of land or buildings within its area of jurisdiction (Local government Act, 1997 schedule five Part III 11 (1) & (2). This tax source is mostly an urban tax.

At the request of a sub-national government (that is a city, municipal or town council), the Chief Government Valuer's Office constitutes a team where technocrats from the concerned local government are represented. They visit the properties and determine their gross value. From this gross value, certain expenses are deducted like cost of maintaining the access road to the property, electricity expenses, water etc. The rateable value is arrived at after these deductions. The tax rate (set by the city, municipal or town council) is then applied on this value to determine the tax payable. The taxes payable are then displayed for public consumption. If a taxpayer is not satisfied with his tax burden, he appeals to the valuation court, which then makes the final decision on the value of the property and the tax to be paid.

This tax, at present, is not very significant as a source of revenue to sub-national governments as already noted in section 4.2.9. This is because, as stated before, most local authorities have not had the properties within their jurisdictions valued regularly. Secondly, there are no central government incentives for local governments to improve on local tax revenue collection. This is one area where the centre should support sub-national governments in revaluing all properties within the jurisdiction of local governments.

Market Dues

This is a kind of user-charge for market vendors. It is charged on traders who bring goods to the market. A ticket is issued on receipt of payment. Revenue obtainable from this source is dependent on the number of traders who go to a market and the volume of goods brought. It is difficult to assess the efficiency of revenue collection in this source. It can be said that revenue collection is more efficient in the markets whose management has been tendered out to the private sector. Markets have been tendered out in most of the sampled local governments and the trend is growing.

The district/urban councils set the rates while lower local councils do the administration. The reasons for this distribution of tasks are to:

- protect lower level local governments against manipulation by the big taxpayers;
- improve tax administration, as the taxpayers are known better by the lower level local governments; and
- ensure participation of all local governments in local revenue administration and collection.

For instance, in Mukono, all the markets have been tendered out. The sub-counties are consulted on setting the reserve prices for the markets in their jurisdictions. The private sector is then invited to tender for the markets at the reserve prices arrived at in consultation with the sub-counties. The district tender board then meets to consider and award the tenders. The tenders are usually awarded to the highest bidder unless there are reasons for not doing so. The tenderers then pay their monthly/quarterly instalments to the sub-counties, which then deposit it on the joint collection account. Below is an overview of local tax autonomy.

Overview of Local Tax Autonomy

Tax	Who sets tax base	Who sets tax rates	Tax Administration.
Graduated Tax	Centre	Centre/Local	Lower Local Govts.
Property Tax	Centre/Local	Centre/Local	Lower Local Govts.

NB: Graduated tax (GT) has limits set by the centre at 2,000/= minimum and maximum at 80,000/=. For property tax, the rates set by the city, municipal or town councils must lie within the range 0% - 20%.

The sample local governments expressed reservations on the graduated tax limits (especially the upper limit) set by the centre. They observed that 80,000/- as the maximum chargeable for GT is too little. They argued that many taxpayers are able to pay considerably more than that. For property tax however, there is no local government charging beyond 15% let alone the maximum limit of 20%. Therefore, no similar complaints have been raised for the property tax limits.

Other Revenue Sources

Fees and fines on licenses and permits are levied in respect of any service rendered or regulatory power exercised by the local council. Sub-national governments are free to set the rates for the fees for each permit or license. Like in the case of market dues, the new rates for each financial are debated, approved and announced by the respective local councils at the head of their budgetary processes culminating into the reading of the council budgets.

In the absence of proper business registers, it is difficult to say whether the local councils are realizing a good percentage of the potential revenue collectable from this source. However, taking into account the fact that the economy is flourishing and a lot of small businesses are being started, there should have been tremendous growth in this source contrary to what is being observed at present.

Sub-national governments have asked the centre to allocate to them motor vehicle licensing and income tax. Their expectation is that if these taxes are not assigned to them wholly, they should at least be shared taxes. Secondly, it is difficult to comment authoritatively on whether the taxes that have been decentralised can only be collected efficiently by the sub-national governments and whether the centre efficiently collects those that are still centralised. The analysis has however shown that there is a great potential at the sub-national government level.

It can be said, however, that sub-national governments have some power to set tax rates for property tax save for graduated tax where these are influenced by the centre. Finally, data on how much money is collected by the sub-national governments from their own assigned taxes puts the figure at 42.945 billion in the FY 1998/99 up from 37.870 billion in 1995/96. The share of sub-national tax revenue in total central tax revenue in the FY 1998/99 was only 4.3%. The trend does not show any significant changes over the years 1995/96 to 1998/99 (Table 4.2.1 and table 4.2.4).

4.2.11 Analysis of Sub-national government creditworthiness

Sub-national governments are permitted by law to borrow (Article 195 of the 1995 Constitution and Section 85 of the Sub-national governments Act, 1997). However, even with these provisions in place, Sub-national governments have not seriously gone into this area of borrowing. The reasons for the failure of sub-national governments to explore the area of loan financing for ISP are varied but can perhaps be traced back to the details of the legal provisions as enshrined in the law (refer section 4.2.6).

Locally generated revenue contributes only a small percentage of total sub-national government revenue (refer to section 4.6 of chapter 4). Therefore, limiting the amount of money they are entitled to borrow to 25% (of locally generated revenue) and further requiring them to seek approval of the Minister if the amount exceeds 10% of the amount they are eligible to borrow makes it extremely un-attractive for them and not a potentially viable source of funding for ISP.

Secondly, it is common knowledge that sub-national governments in Uganda rarely have their books of accounts up-to-date. Very few have audited final accounts for the year financial year 1996/97 let alone 1997/98. By the provisions of the law, these are automatically disqualified from contracting loans.

Thirdly, the financial markets in the country are just in their infancy. The Kampala Stock Exchange has barely been in existence for two years. Though the idea of a Municipal Credit Institution has been mooted for sometime now, it is yet to materialise. The current credit channels (using commercial banks) are not well suited to handle the credit needs of sub-national governments. Thus, even if sub-national governments were willing and able to contract loans by way of issuing bonds or de-benture, they would not find access to credit easy.

Finally, there is the issue of creditworthiness of the sub-national governments. Sub-national governments have very little assets in form of buildings and other property. As such, they have no collateral security, which they could offer in exchange for loans obtainable from commercial banks. However, the coming World Bank and DANIDA initiatives on directing capital investments to the local governments directly could be an appropriate start on the development on assets. This approach ultimately may lead to a higher creditworthiness for the sub-national governments.

Thus, if borrowing is to become a viable form of ISP in Uganda, three things need to happen:

1) Suitable institutions for extending credit to sub-national governments need to be put in place. In particular, the idea of establishing a municipal credit institution needs to be taken more seriously. Also, there is the need to strengthen the stock market where sub-national governments could issue bonds.
2) The Asset base of sub-national governments as well as the levels of their locally raised revenue needs improvement in order to enhance their image as creditworthy institutions.

3) Lastly, the law needs to be simplified to remove the obstacles identified above. For the reason that indeed these provisions were meant to guard against uncreditworthy sub-national governments contracting loans and passing on the debt to the centre when they failed to pay up.

In conclusion, the Constitution establishes the principle that the devolution of functions, powers and responsibilities must be matched by devolution of fiscal powers and resources. To date, the government has not been able to realise this objective fully, thereby creating fiscal imbalances. Sub-national governments are unable to raise adequate local revenue due to the narrow tax base and the poor fiscal yields of existing taxes due in part to poor tax administration. Sub-national governments must identify ways to make improvements in these areas so as to raise locally generated revenue.

The bulk of fiscal transfers to sub-national governments are not discretionary, and the total transfers seem to be inadequate compared to the comprehensive responsibilities devolved to them. Most (about 60%) of the Unconditional Grant is earmarked for salaries and wages while most transfers for mandated local government Service responsibilities and national priorities occur through conditional grants. These constraints on locally generated revenue and on intergovernmental fiscal transfers mean that sub-national governments are greatly hampered in the exercise of their discretionary power and therefore in their ability to meet their mandated service responsibilities. This limits their autonomy on both the revenue and expenditure side.

CHAPTER FIVE
INFRASTRUCTURE AND SERVICE PROVISION (ISP) BY THE PUBLIC SECTOR

5.1 Division of Responsibilities for ISP among different Levels of Government

The importance of a well-developed infrastructure in promoting social and economic development of a country cannot be over emphasised. In this report, infrastructure and service provision (ISP) refers to the infrastructure processes, systems and services that are put in place to meet the needs of the target sector. In Uganda, services like community amenities (water supply, sanitation, solid waste management) education, health facilities, transport (road development) and energy are woefully inadequate to meet the demands of a rapidly growing urban and rural populace and to stimulate appreciable productive investment and economic growth.

Uganda's population was 16.5 million in 1991, with a male to female ratio of 96:100 and an average population density of 8 people per square kilometre (census report). The current population is estimated at 22 million, growing at an annual rate of 2.5%. The vast majority of people (88.7%) live in rural areas with poor or under-developed infrastructure, health facilities and sanitation. The life expectancy of only 48 years compares very poorly with 59 years in other least developed countries.

While the focus of this study is on sub-national government (Councils/Municipalities), a broad perspective of the situation at the National level is given. The role of the private sector and other stakeholders, more importantly the users/beneficiaries, is also highlighted.

The government, since 1986, has been pursuing a decentralisation strategy whereby administrative and financial responsibility is being devolved to the Local Governments (sub-national governments), while the government is responsible for policy formulation, planning inspection and management of National programmes. The provision of most of the infrastructure services is the mandate of sub national governments, as is shown in Table 5.1. The government is pursuing a privatisation strategy whereby the role of government in running state enterprises is diminishing, concentrating on creation of an enabling environment for the private sector to play its role.

Matrix 5.1: DIVISION OF RESPONSIBILITIES AMONG DIFFERENT LEVELS OF GOVERNMENTS

RESPONSIBILITIES	CENTRAL GOVERNMENT	STATE ENTERPRISES (PARASTATALS)	SUB-NATIONAL GOVERNMENTS (COUNCILS)
Water Supply	Xxxxxxxxxxxxx	Xxxxxxxxxxxxx	Xxxxxxxxxxxxxxx
Sewerage		Xxxxxxxxxxxxx	Xxxxxxxxxxxxxxx
Solid waste management			Xxxxxxxxxxxxxxx
Education facilities	Xxxxxxxxxxxxx		Xxxxxxxxxxxxxxx
Health facilities	Xxxxxxxxxxxxx		Xxxxxxxxxxxxxxx
Electricity		Xxxxxxxxxxxxx	
Roads (Trunk)	Xxxxxxxxxxxxx		
Roads (Urban/District)			Xxxxxxxxxxxxxxx
Roads (Community)			Xxxxxxxxxxxxxxx
Drainage	Xxxxxxxxxxxxx	Xxxxxxxxxxxxx	Xxxxxxxxxxxxxxx
Street lighting			Xxxxxxxxxxxxxxx
Fire cover			Xxxxxxxxxxxxxx
Housing facilities	Xxxxxxxxxxxxx	Xxxxxxxxxxxxxxx	Xxxxxxxxxxxxxxx
Land development	Xxxxxxxxxxxxx		Xxxxxxxxxxxxxxx
Environment	Xxxxxxxxxxxxx		Xxxxxxxxxxxxxxx
Markets			Xxxxxxxxxxxxxxx

While the demarcation of responsibility is clearly defined within the government system, considerable overlap still persist at the level of control/management and actual delivery between the various stakeholders. This research has shown the need to harmonise and co-ordinate the activities of various stakeholders in the provision of ISP; however, little integration exists, and there is duplication and fragmentation of efforts, including those of Donors and other NGOs. This has significantly compromised efficient delivery of services to consumers. NGOs' and Donors' budgets, in some instances, are not yet integrated into the district recurrent and development budgets.

Conditional Grants account for a large part of Government transfers to SNGs for specific programmes. Whereas Article 193(3) of 1995 Constitution and the Local Government of 1997 calls for Conditionalities to be negotiated between Government and SNGs, this is yet to be done. SNGs under U.L.A.A, during their meeting of August 9, 1999, rejected the current set of Conditionalities and called for negotiations over this issue, as provided by Law. They also noted with concern that the current trend of increasing unilaterally the size of Conditional Grants, at the expense of unconditional Grants, undermines their autonomy and defeats the very essence of Decentralisation.

5.2 Organisational patterns of infrastructure and service provision

5.2.1. National Overview - Historical and current context

Uganda had one of the best infrastructures in sub-Saharan Africa in the 1960's due to the positive economic growth at that time. The road network was an extensive and well-defined system, with standards and practices that were well documented. The road hierarchy was well defined and responsibility for the road network was effectively shared between the Central Government, Local Governments, Communities and Private organisations. New roads were constructed because they were seen as important factors to stimulate further economic and social development.

The education sector was equally well organised and consistent with the priorities of that period. Emphasis was placed on the creation of high level manpower required to meet the needs of a newly independent nation, although there was gender disparity that has persisted in the system to date.

Owing to civil strife and economic decline of the 1970s, the infrastructure deteriorated. Vital resources required to develop and maintain infrastructure became scarce or disappeared altogether.

The early 1980s were not any better. Little attention was paid to road maintenance, and roads continued to break down at an alarming rate. By 1986, possibly only 10% of the trunk road network could be categorised as good, and the percentage for the Feeder Roads (District) and community roads was much less.

Presently, only a small fraction of Ugandans enjoys an adequate level of infrastructure services. For the majority in rural areas, these services are either inaccessible or in a sorry state. In pursuance of a decentralisation strategy, the Government, by legislation, has transferred the responsibility of infrastructure and services provision to Sub-national Governments.

MATRIX 5.2 DISTRIBUTION OF SERVICES

	EDUCATION			HEALTH		COMMUNITY SERVICES					ECONOMIC ACTIVITIES			
	Pre-primary School	Primary	Secon-dary	Referra l	Hosp.& Health centres	Water Supply	Sewerage	Sa-nita-tion	Solid Waste	Transport	Roads			Electricity
1.MUKONO											T	D&U	C	
C														
S														
SN														
P														
J														
O														
2.Mukono Town Council														
C														
S														
SN														
P														
J														
O														
3.BUSHENYI														
C														
S														
SN														
P														
J														
O														
4.RAKAI														
C														
S														
SN														
P														
J														
O														

5.KAMPALA														
C														
S														
SN														
P														
J														
O														
6.LIRA														
C														
S														
SN														
P														
J														
O														
7.Lira Municipal														
C														
S														
SN														
P														
J														
O														
8.KOTIDO														
C														
S														
SN														
P														
J														
O														
9.MBALE MU														
C														
S														
SN														
P														
J														
O														

10.NAMA														
C														
S														
SN														
P														
J														
O														

C: Central - SNG: Sub National - S: Shared - P: Parastatals - J: Joint Subnational -m O: Others
D&U: District & Urban Roads - C: Community roads - T: Trunk/Main roads

5.2.2 Overview of distribution of responsibilities for main infrastructure services

5.2.2.1 Education

In Uganda, the school system is being provided by a number of players – the Central Government, Local authorities, Missionaries, NGOs and the private sector. The private sector is the major provider of pre-schools. Owing to civil strife and economic decline, the educational infrastructure deteriorated; consequently, many primary school classes are conducted in temporary structures and under trees, and a large number of teaching personnel are under-trained.

Pre Primary Education

Pre-primary education is the mandate of SNGs and is meant for children between 3 and 6 years of age. Pre-primary education mainly focuses on preparing children for admission to primary education. The majority of the nursery schools in the sample SNG are concentrated in Towns and trading centres or around higher education institutions. They are privately owned, although government provides the curriculum.

Primary education

Primary education is the responsibility of SNGs. By legislation, it is being provided by SNGs and the Private sector. Primary education has a seven-year duration, at the end of which candidates sit for the Primary Leaving Examinations (PLE). Most successful candidates continue with secondary education, but some courses for technical skills are available for a three-year period. The latter provides practical skills for making a living. This level is meant to provide elementary education to all the school going age children. The term Primary education literally means every individual with the minimum package of learning that every individual must receive to live as a good and useful person in society. Government's aim is to fully establish Universal Primary Education by the year 2003.

Presently, the education policy places a lot of emphasis on Primary Education. In that light, Universal Primary Education (UPE) was introduced in 1997 and has resulted in a phenomenal increase in Primary School enrolment throughout the Country from 2.9 million in 1996 to 5.3 million in 1997. This increase was precipitated by government's commitment to fully meet the tuition fees for four children per family and all orphaned individuals in Primary schools.

Under the programme, both parents and the Community are required to contribute to School construction in kind, while government provides construction materials such as cement, timber, iron sheets and nails. Government funding for the Primary Schools comes in the form of capitalisation grant, remitted monthly.

A number of predictable problems have arisen from the sudden increase in enrolments under UPE. These problems urgently need to be addressed if the desired outcome of empowering the society, especially the poor, through enhanced education is to be achieved in the medium-term. Problems include extremely high pupil-teacher ratios, inadequate physical infrastructure and insufficient scholastic materials. A related

problem is the inadequate capacity of the existing secondary school system to absorb increased numbers of students. All these factors will combine to undermine the quality of education unless drastic improvement in infrastructure, planning for scholastic materials and teacher training to meet the demands of a rapidly growing education sector is undertaken.

Secondary education

Secondary education consists of an initial 4-year course at which end students sit for Ordinary Level Examinations (Senior four) and two years of the advanced level courses (S5-S6). Many vocation/technical opportunities are open to candidates at this level. Many of the students in secondary schools are in the age group 13-19 years.

Secondary education is still a delegated function to SNGs, whereas it is a devolved function by legislation.

Post- Secondary/Tertiary education

This level is meant to impart technical or professional skills and other requirements of the world of work. Education at this level is accessed either through completion of the advanced level or satisfaction of the requirement for entry into tertiary institutions. It is offered by Teacher Colleges, Commercial Schools, Medical Institutions, Technical Schools or Institutions and Universities. This level is being provided by Government and the Private sector.

The problems that face the education sector and limit its capacity to contribute effectively to National Development include, among other things, poor management, poor communication and deficiency in planning. Overall, the curricula are no longer consistent with the nationals needs, there are insufficient or non-existent scholastic materials, school facilities are inadequate and teaching personnel are under-trained. These factors, combined, result in: dilapidated educational infrastructure; unattractive conditions for teachers; an exodus of teachers from the educational system; a decline in the quality of education; a lack of effective management; inadequate equipment, teaching materials and maintenance. In many instances, classes are held in temporary structures, under trees or in overcrowded classrooms.

The Education Strategic Investment Plan (ESIP) 1997-2003 will draw together existing sector policies into a single investment plan. The Government promises to tackle some of the above problems by establishing community polytechnics at each Sub-County to provide skills training opportunities for primary school leavers who might be unable to pursue secondary education. Nevertheless, several other projects - like support to Uganda primary education review, teachers development and management services (TDMS) - are being implemented to address specific concerns in the education sector.

5.2.2.2 Health

The Health Care System

Government (through the Ministry of Health (MOH)), SNGs and the private sector (which includes NGOs, private medical clinics, drug shops, pharmacies, traditional birth attendants (TBAs) and healers) provide health care in Uganda. SNGs are responsible for public hospitals, clinics and health centres within their area of jurisdiction. Thirty percent of Ugandans are reported to use modern health services. Of those that use modern services, 40% use public health facilities and 60% use the private sector (Florence Mirembe et al 1998).

Generally, there are four levels in the public sector health care system in Uganda:

- The first level of care is the community level. Services are run by the community and provided by personnel of minimum training like traditional birth attendants (TBAs) and Community Health Workers.

- A Health Centre is the second level of care. It is at the sub-county level, serves a population of about 20,000, accommodates from 24-80 beds, emphasises preventive care and constitutes the pivot point of the system. It also provides curative, promotive, laboratory services and outreach services in collaboration with the TBAs and community health workers, maternity, in and outpatient facilities.

- The third level of care is the district/rural hospitals. These hospitals act as health centres to the community in the vicinity and as District referral centres.

- The fourth level is referral hospitals and their 2 categories: regional referral hospitals, which offer highly specialised services in about 4 fields (medicine, surgery, paediatrics, obstetrics and gynaecology), and national referral hospitals.

District and regional centres are the responsibility of SNGs, while hospitals that provide referral and medical training are the responsibility of government.

In 1996, there were among government public hospitals, 37 district/rural hospitals, 10 Regional referral hospitals (Masaka, Mbarara, Kabale, Fortportal, Gulu, Arua, Soroti, Mbale, Jinja and Hoima) and 2 national referral hospitals. Mulago is a general hospital, while Butabika is specialised for psychiatry (MOH 1996).

The white paper of 1993 on the Health Policy tried to address the nomenclature problems by categorising the small facilities as Health Centres Stage I, Health Centres Stage II and Health Centres Stage III. However, this study revealed that none of the SNGs had adopted this nomenclature. The small health facilities, health centres, dispensaries, dispensary–maternity units, sub-dispensaries and aid posts have maintained the titles they had at the time of their inception, despite the expansions they have undergone. For instance, many units are called dispensaries when they have maternity and inpatient care.

An aid post is "a medical unit where trained staff from a parent unit provides only outpatient elementary care usually once a week".

Challenges for improvement of the health situation

The major challenges in the health sector are related to health care organisation; management; lack of skilled manpower, infrastructure and financing; poverty; and social/cultural barriers. The traditional centralised management and authority now being addressed by the government through decentralisation characterises these problems. Inefficient funding is aggravated by inefficient allocation of available resources, with more than 63% of the current budget and 54% of trained staff concentrated in hospitals (Health Manpower Requirements and Training Priorities in Uganda Study, 1993). Irregular distribution of human resources, low staff morale arising out of poor remuneration and an over-dependence on untrained personnel in the primary health care facilities pose major structural problems to effective implementation. The doctor- and midwife-to-population ratios are 1:30,000 and 1:3,000, respectively (Florence Mirembe et al, 1998) of health programmes. Furthermore, insufficient collaboration between the private and public sectors, together with inadequate co-ordination of development partners, has resulted in less health outcome than expected.

The private sector (NGOs, private practitioners and traditional medicine practitioners) plays a very significant role in health care in the county and, if fully harnessed, presents a great opportunity for increasing health care coverage.

Primary health care (PHC) remains the basic philosophy and strategy for national health development. To this end, a Minimum Health Care Package study will form the primary focus of health care. The minimum package will comprise of interventions / programmes that address the major causes of national burden of disease and shall be the criteria for allocating public funds and other essential inputs.

Funding for Health Services

Government expenditure on Health, though still low has increased over the last ten years from 2.5% in 1987/ 1988 to 9.0 in 1997/1998 of the national budget (MOH 1998 costing the Minimum health care package in Uganda). Total per capital Health expenditure is in the range of US $ 7 to US $ 12, with only US $ 3.95 attributed to government and donor spending, the balance coming from individual out of pocket payments (Background to the Budget 1998/99).

Government, the private and donor contribution to recurrent health expenditures is about 17%, 75% and 10% respectively (Budget Estimates 1997-1998). Much of government spending covers operational costs like salaries, drugs and materials, and is still very low as illustrated by low salaries and inadequate drugs reported in the sample SNGs.

In Uganda, Health programmes are largely dependent on funding from donors. The health sector has attracted about 13% of the total aid allocation to Uganda. This share

rose to 22% in 1996/97, from US$60 million to US$110 million. The donor requirement for counter funding has led to increased allocation of funds to the health sector by Government. The major programmes being funded by donors include family planning, safe motherhood, STI/HIV, adolescent health, infrastructure development, IEC and training of providers. Most donor funding is disbursed to SNGs, where programmes are being implemented. The study has revealed that decentralisation appears to have increased recurrent resources available for health services.

SNGs receive grants from government and donors' funds, and they collect local revenue. The government provides salaries and materials. The government disburses Conditional Grants for Primary health care (PHC) to SNGs. The PHC grant is about $ 60,000 per year per district. In FY 1998/99, the PHC grant increased about three-fold. This funding mechanism has already created tension between government and SNGs over the extent of central government control of SNG allocations and priorities.

There is no national policy on user payment in hospitals; efforts by the Central Government to introduce a policy in the early 1990s did not succeed. The decision on user charges is left to various councils implementing them, but this is not on a cost recovery basis. Very little funds are raised from this scheme due to the small amounts being charged. Whereas, user fees have a greater effect in improving running costs and providing incentive in rural health centres, the impact is little on recurrent hospital costs and provider attitudes. Active involvement of the district health committees because of decentralisation has created promising avenues for stopping the illicit diversion of public resources.

5.2.2.3 Water and sanitation

5.2.2.3.1 Water Supply

National Water and Sewerage Corporation

The National Water and Sewerage Corporation is a government parastatal established in 1972 by Decree No. 34 to improve water and sanitation in urban centres of Uganda. Since 1974, all components of the water supply and distribution system, excluding private connections and public standpipes, have been the responsibility of National Water and Sewerage Corporation (NW&SC). For sewerage services, the corporation is responsible for clearing blockages and repairs on public sewers. NWSC operates under the direction of the Ministry of Water, Energy, Minerals and Environment Protection.

The Corporation is in charge of water services in urban centres of Kampala, Jinja, Entebbe, Masaka, Mbarara, Tororo, Mbale, Lira and Gulu. Operations in Kasese and Fort Portal started in February 1997. The Corporation intends to take over Kabale in the near future. Presently, little co-ordination exists between NW&SC and SNGs.

The Rural Water and Sanitation Reform

The Government has spelt out the objective of the rural water and sanitation reform, as follows: to ensure that services are provided and managed with increased

performance and cost effectiveness and to decrease Government's burden while maintaining its commitment to equitable and sustainable domestic water provision and sanitation services in the rural areas.

Field investigations and document review revealed the following implementation issues.

- Planning and budgeting for water and sanitation are being done in isolation of the other i.e. the District Health Inspector and District Water Officer are developing independent plans and budgets.

- There is a very limited technical and functional capacity at Sub-County level: Government reform and restructuring reduced sub-county staff; remaining staff has not fully assumed the functions of the vacant posts including water and sanitation.

Full private sector participation is yet to be realised. Borehole drilling capacity as well as spare parts distribution through the private sector was reported as problematic.

Local Government planning guidelines

The water statute is completely silent on the role to be played by Local authorities (SNGs). The National Water Policy mentions, in very general terms, the roles to be played by the districts and Sub-counties. However, detailed planning guidelines tend to be more project- specific than national.

On the other hand, The Local Government Act (1997) clearly establishes SNGs as the responsible institutions for provision of water services, in liaison with the Ministry responsible for Water and Natural resources, where applicable (areas outside the jurisdiction of the National Water and Sewerage Corporation)

The water policy establishes that "all protected water sources including gravity flow schemes in rural areas belong to the users" (Draft Water Policy, p. 19). For rural water supplies, this principle is not clearly supported by any legislation.

The two major rural water supply programmes in the county, RUWASA and WES, have sought to formalise ownership issues. For instance, RUWASA uses a handing-over certificate to create "a sense of ownership". On the other hand, WES demands that ownership to land where GFS intakes are located should be vested with the relevant water user group or association.

The above notwithstanding, water user groups and associations are not body corporate and so cannot legally own land or water facilities.

DWD reported that a consultancy is underway to study how the legal status of WUGs and WUAs can be effectively addressed.

An alternative to community ownership of water facilities through WUGs and WUAs would be to vest ownership with lower level local governments, such as the sub-county councils, which are defined in the Act as corporate bodies.

Financing arrangements

The constitution and the local government Act stipulate that local governments shall receive financial transfers of public funds from the centre in the form of the unconditional, conditional or equalisation grants. However, funds for development of the sector are now predominantly from donors and entirely in the form of projects.

Donor and government funds invested in the sector amount to about USD 24 million annually. In addition to the sector specific investments, several donors such as Irish Aid in Kibale and DANIDA in Rakai are supporting District Development Programmes.

Investment through these programmes is largely targeted to the five priority programme areas, which include the rural water and sanitation sector. Thus, the total investment in the rural water and sanitation sector is currently about $30 million annually plus approximately $3million allocated annually from the DWD/GOU budget for rehabilitation of point sources.

The two major water and sanitation programmes in Uganda are The Water and Environmental Sanitation (WES) programme and Rural water and Sanitation (RUWASA, supported by DANIDA)) programme. The G.O.U and UNICEF support WES, now active in 34 districts and covering the whole country except the 10 RUWASA-supported districts in Eastern Uganda (Mukono, Mbale, Jinja, Bugiri, Kamuli, Iganga, Pallisa, Tororo, Busia and Kapchwora). Table 5.3.2 shows water and sanitation coverage by the WES programme.

The linkages between the major Water/Sanitation Projects and SNGs

Both the WES and RUWASA programmes are reasonably well integrated into the district structures. There is a district management team whose brief is to co-ordinate activities at the district level. At lower levels, there are various committees like the Sub-county water and sanitation committee, parish development committee and the water users committee. Institutionally, the focus of the programmes is moving from the district to the sub-county, while the real focus is at the community level, where the ultimate difference is made.

Other water and sanitation projects in Uganda include: the EU-supported project on GFS (in eight districts); Water Aid Project through local NGOs; and projects from the Lutheran World Federation (LWF), International fund for Agricultural Development (IFAD), the Netherlands Development Organisation SNV, and Irish Aid. The CBHC programme has a substantial sanitation and hygiene component, with activities at village level. A significant low-income urban project is the Small Towns Water and Sanitation Project (supported by the World Bank, Danida and the Austrian and the French governments).

At the national level, an initiative was started in March 1997 to create an experience exchange platform for all NGOs active in the water sector (NGO forum). The DWD plans to establish a post for an NGO.

The involvement of the communities in the sample SNGs and the development of a maintenance management system

The demand for water is high in all districts visited. In general, communities contribute to the construction of new or improved water sources in the form of funds, food, labour and local materials such as stones, sand and clay. This has the advantage that local resources are used, which is important in view of the limited funds available from the central level. However, the communities feel that their contributions are too high, especially in cases where local materials are not available or transport is not being provided. In these cases, the community contribution for the protection of a spring can amount to more than 80% of the capital cost.

Under RUWASA, Community contributions towards capital costs are as follows:

- 45,00/= for protected springs
- 180,000/= for borehole
- 90,000/= for shallow wells

One of the aims of the two major water programmes is to develop a community-based management system (CBMS). The principle of CBMS places management of the facilities at the community level, aiming at enhancing the sustainability of water systems through proper management, cost recovery and operation and maintenance. It is now government policy. Although a community based management system is not fully developed, structures to that end are in place. The community manages all the water sources, which is a step in the right direction.

Focus group discussions indicated that water user committees (WUC) or water source committees (WSC) were in place. However, many of these committees are dormant due to lack of clearly defined role vis-à-vis the LCI councils. Although several committees had lists of users, records and receipts of payments are poorly kept, and there is lack of evidence of audit. In most cases, the user charge concept was known but not put into practice. O&M support is usually not planned and budgeted for at village, parish and sub-county levels. There is little or no regular maintenance done, and hand pump mechanics will only deliver services against payment. The number of HPM at this moment was felt to be insufficient. Furthermore, it is unclear who is responsible for paying the H.P.M. Communities prefer ad hoc contributions whenever the need arises, leading to long down times of the facilities.

Furthermore, there are no indicative figures for yearly O&M and replacement costs of different water supply technologies. This information should be given to communities before they make the final choice on the technology to be applied. Through an improved monitoring system at WUC and other levels, realistic data on O&M costs should be collected. These will be useful for both WUC in setting the user charges and for the sub-counties and districts to include in the information to communities planning new systems.

The implementers, using their own criteria for selection, mostly impose the water supply technologies. This has to change in the context of the demand-driven approach, and communities should be given an informed choice of technologies. This will greatly contribute to increased sustainability.

Private sector participation

Currently the government has divested itself of the borehole drilling function and has put its equipment at the disposal of contractors.

The national water policy recognises the potential for application of investment arrangements involving build and operates (BO) and similar approaches. Though these approaches are more suited to urban settings, they may have equal application in rural growth centres.

In Kampala Water Services area, the responsibility of billing, revenue collection, metering and debt collection was contracted out to Messrs. H.P. Gauff Engineers, under the Kampala Revenue Improvement Project launched in Dec. 1997.

5.2.2.3.2 Sanitation

The low priority area of sanitation

In Uganda, environmental sanitation has traditionally been accorded low priority. The sector has suffered because of poor application of sanitation practices and insufficient community mobilisation and sensitisation. This situation has been exacerbated by inadequate legislative and policy guidelines, low staffing and inadequate resource allocation. Worse still, there has been insufficient research on appropriate technology options and inadequate integration of all stakeholders. The predictable effect has been high mortality and morbidity.

Further, the on-going major government projects like RUWASA and WES have put emphasis on the provision of water and latrine construction and provided marginal support for the broader sanitation promotion activities.

Considering the poor sanitation situation in Uganda, the first national sanitation forum came up with the Kampala Declaration on Sanitation in 1997. The National Accelerated Sanitation Improvement Programme (NASIP) has been designed as a response to the declarations.

This strategy calls upon the district and urban authorities, in collaboration with cultural leaders in the country, to provide exemplary leadership in the struggle for better sanitation at the household, community and institutional levels.

Sanitation experiences of the sample SNGs – the case of RUWASA
The RUWASA sanitation component is divided into two parts: community and institutional sanitation. Both components have been implemented during phase II of the project. The major problems encountered were:

- Household sanitation registered low demand for san plats, despite the project subsidy. Institutional sanitation lagged behind due to inadequate supervision by district/county staff. Slabs and cement were also delivered late, leading to some latrines collapsing. As of December 1998, only 7% of the planned latrines were completed. The programme has proposed changes geared at streamlining the supervision, delivery and approach.

- On household sanitation, focus will be on improvement of existing traditional latrines, instead of san plat promotion. Subsidy to institutional sanitation increased from 39% to 91%. Schools contribute 9% for the digging of the pit or equivalent in monetary term.

- Each school in the project districts shall be provided with a standard 10-stance latrine, 6 separate stances for girls, 4 stances for boys, one urinal for boys and two 140L tanks.

5.2.2.4 Sewerage System and Drainage

Sewerage service coverage in all the studied urban councils is quite low relative to the demand of the served populations. The pit latrine is extensively used for the disposal of human waste. In areas where the water table is high, the contamination threat to water resources (mainly open wells) is usually high.

The drainage facilities in most urban councils are in a state of disrepair and are inadequate to handle storm water run off, resulting in extensive flooding during rains. The ongoing road rehabilitation programme in Kampala has included the restoration of drainage systems and the construction of new ones.

5.2.2.5 Housing

The construction industry is one of the fastest growing sectors of Uganda's economy. Since 1991, construction work (civil and building) has increased by 38%, while GDP in general has increased by 25%. Donor support accounts for more than 20% of Ugandan's gross domestic product per capita. A considerable amount (up to 50%) of this funding goes to the construction industry.

The government has drafted a condominium property bill, which will facilitate sectional ownership of flats or apartments. This bill has been submitted to cabinet for consideration. National Housing Corporation (NHC), a parastatal company, was set up by the 1964 National Housing Act No.7. As the demand for houses increased, the corporation's function was expanded to include construction in 1974; thus, the name National Housing and Construction Corporation (NH&CC). It has put up a number of housing projects for low- and middle-income groups. The corporation targets constructing over 10,000 housing units in and around Kampala and Jinja.
Over the past few years, there has been a shift in the housing policy from the public to the private sector, and this shift has been promoted by NH&CC. There has been an increase in the number of available housing units over the last 3 years. The stock and levels of housing needs assessed by the department show there is a significant backlog

of about 300,000 units. The report further indicates that the housing occupancy rate for Kampala is estimated at about 1.3, reflecting a backlog of about 30%.

Under such circumstances, people are forced to live in crowded environments, and this creates unhealthy environmental conditions. The average housing price-to-income ratio is estimated to be 33%, while the rent-to-income ratio is 11%, according to NH&CC.

There are a number of credit loan facilities available to people intending to build new houses. The Housing Finance Company of Uganda, which is owned by NH&CC and the Development Finance Corporation, is one such institution that offers credit facilities through a mortgage scheme with NH&CC.

Available services are still beyond the reach of the vast majority of Ugandans, mainly due to the high interest rates charged on long-term mortgage loans repayable monthly over a 15 year period at an interest rate of 15% per annum (advert in New Vision of 4th October 1999).

The private sector is the main player in the provision of shelter. The public sector (NH&CC and SNGs) only accounts for 7% of the stock in Kampala, 10% in other urban areas and 0.3% in rural areas. Housing standards are still very poor in terms of both quality and quantity. It is estimated that only 8% and 31%, respectively, of the population live in permanent and semi permanent dwelling units (Uganda Vision 2025).

This situation is also a result of the poverty levels of the average household and the low availability of skills, tools and equipment, particularly in rural areas. In the urban areas, the situation is better, as evidenced by the increasing numbers of new permanent housing units in recent years. There is already massive investment in the housing industry by the private sector, and information available from Uganda Investment Authority (UIA) indicates that 178 companies have already been licensed to invest in real estate and construction. The value of this planned investment is more than Ug.shs.425 billion. Although it is possible to suggest that there is a housing market in the rural areas of Uganda, where approximately 88.7% of the population live, these areas predominantly consist of people who have built their own houses. A market in the real sense (the availability of rental dwellings and the buying and selling of houses) exists only within and around urban areas. It is estimated that the housing gap is growing by 5% annually.

5.2.2.6 Solid Waste Management

Solid waste management is the responsibility of SNGs. Currently, only urban SNGs provide the service to the residents and it is free of charge. This service is being funded almost exclusively from local revenue (5% - 25%).

The study has revealed that in the sample District Councils there is no proper or standardised waste management; households in rural areas dump refuse around the house or in open dumping sites. Contrary to popular belief that rural household-generated waste poses no problems, rural areas are subject to solid waste problems

similar to those of small or medium-sized towns including water source contamination where the population is dense and the water table is near the ground surface. Rural areas also consume plastics, dry cell batteries, synthetic fibres and fabrics, all of which are non-biodegradable. The traditional composting disposal method is no longer effective.

Informal dumping of refuse within the urban areas is common; it has created a serious health hazard, and, in some cases, it impedes access. Secondly, collection points are not conveniently located to the households, and removal from secondary collection points is not frequent enough because the municipal councils lack both physical and financial resources. Disposal sites are poorly designed and managed. Although quantities of hazardous wastes are relatively small, suitable disposal methods are not practised in some instances.

5.2.2.7 Roads and Transport

5.2.2.7.1 Road transport

Road transport is the dominant mode of transport and carries over 90% of the country passenger and freight transport. It plays a pivotal role in supporting economic and development activities. Road transport consists of vehicles of various types (motorcycles, cars, pick-ups, minibuses, large buses, tractors and trucks). The road network consists of the classified network (trunk roads), interconnected by feeder (District) roads, urban roads, community and institutional roads and numerous tracks and paths along which rural travel and transport take place. The road network can be divided into the following categories by jurisdiction:

• Classified (trunk roads) 9,600Km	Central Government
• Feeder Roads (District Roads) 22,300Km	District Council
• Urban Roads 1,000Km	Urban Councils
• Community Roads 30,000Km	Sub counties
• Private Roads	

Private roads include plantation and estate roads owned by the private sector.

It is against the background of eradicating poverty among rural population and modernising agriculture that the government is giving the development of road infrastructure the priority it deserves. Under the economic recovery initiative, the government and donors are funding several road projects under the major programmes.

Government has significantly increased its recurrent expenditure budget allocation for roads from shs. 4.353 billion in 1992/93 to 31.516 billion (Statistical Abstract, 1998) SNGs receive Conditional Grants (I) for routine maintenance and Conditional Grants II for periodic maintenance.

The major source of funds for road activities for the period (1995/96-1998/99) at the SNG level has been donor and government transfers, accounting for 30% and 60% of the total funds respectively (cf. Sec. 4.2.7). These grants are still inadequate.

Conditional Grants I can only cover 60% of the routine maintenance needs of SNGs, and they are still determined at the centre. Nevertheless, decentralisation by involving stakeholders (particularly the local people) in making road investment decisions and maintenance has resulted in increased utilisation of local resources, better supervision of construction work and improved maintenance.

Government has divested itself of direct involvement in provision of transport services. Liberalisation of transport services has proved effective, allowing greater freight to be carried at competitive rates.

5.2.2.7.2 Water transport

The water transport sub-sector in Uganda has suffered great deterioration over the past 35 years because of flooding in the early 1960s, civil strife (1979-86) and neglect of infrastructure. Apart from the interstate transit wagon ferry infrastructure and service, the rest of the inland water transport services are inadequate. The MoWTC road ferries are too old and difficult to maintain and too small to handle the increasing vehicle traffic crossing the waterways. Most landing sites have minimal or no port infrastructure and they can only be used by small canoes or motorboats.

Furthermore, there are few navigational charts for Uganda, and even those available for Lakes Victoria and Albert are outdated. Navigable aids like lighthouses, light beacons and relevant equipment were either stolen or vandalised.

Water hyacinths have infested Ugandan waters since 1989, causing a major navigational impediment for small and large vessels.

Presently, no sub-national government is involved in water transport. Mukono district is the only one that has petitioned to central government to take over the ferry. The private sector is a major player.

5.2.2.8 Electricity & Energy

Presently, sub-national governments are not involved in electricity generation and distribution, as may be seen on table 5.2. Uganda Electricity Board, a parastatal company, has been a monopoly in electricity generation and supply of 180Mw since 1954, of which 35mw is exported. By 1997, there was a heavy electric power defeat of about 65mw at peak hours, causing load shedding, which continues to affect the manufacturing sector. In the medium-term, it is hoped that with the liberalisation of the power sector, an additional 500mw will be generated, more than half of which is expected from new power producers.

Wood is the main source of energy for both rural and urban areas; it is also used in some industries. Statistics regarding power supply in 1997 reveal that the consumed energy mix was biomass 94%, petroleum 5% and electricity 1%.

5.2.2.9 Communication

Telecommunication facilities are still poor and impact negatively on trade, industry and service in the country. There were only 52,000 telephone lines, giving a telephone density of 0.25 lines per 100 persons. However, with liberalisation of the sector, the situation has drastically improved. MTN and Celtel Uganda, which offer mobile cellular services, have about 80,000 subscribers. A second national operator has also been licensed, and it intends to install 89,000 new lines over a five-year period. In addition, a number of operators offering added-value services (internet, paging, radio call, and others) have been licensed.

5.3 Indicators on the comprehensiveness of ISP with respect to consumers need – performance indicators concerning ISP

5.3.1 Conditions at the national level

Over the last decade, Uganda has continued to register commended gains in macro-economic stability and sustained economic growth. This has also enabled better provision of ISP. Human progress, as measured by the human development index (HDI), exceeded 0.4 in 1996, virtually doubling over the level in 1980. The proportion of the population that is in abject poverty has declined. These indicators, when compared with other countries, are still poor. There is a glaring inequality between urban and rural areas: 43% of the rural population are human poor compared to just 20% of urban residents. A 55% share of the population lives on less than US$ 1per day, and 38% of children under the age of four are stunted (UHDR 1998).

Despite Government's commitment to the rehabilitation and maintenance of infrastructure, a number of factors have impended the pace; therefore, rendering it poor. These include inadequate financial resources provided for the development of infrastructure; centralised funds for development apart from the on-going pilot study in 5 Sub-national governments; lack of comprehensive development and maintenance strategy; lack of placement programme for tools, equipment and machinery; and a rise in the rate of vandalism of public property.

Uganda has gone through four major and easily recognisable periods of development since independence:

- the post-independence era (1962-1970), a period of rapid socio-economic development;
- the Amin era (1971-1979), a period of civil strife and national decay;
- the post Amin era (1980-1992), a period of rehabilitation and recovery; and
- from 1993 to date, a period of renewed development.

It is expected that government will make a significant increase in financial resources allocation to social service and delivery related activities.

5.3.2 Overview of comprehensiveness of ISP in the sample Sub-National Governments

The comprehensiveness of ISP with respect to consumers' need remains a daunting challenge to all the sub-national governments in Uganda. Financial and institutional

constraints have adversely affected the ability of the sub-national governments to adequately deliver services of sufficient quality and quantity. The study of the sample Councils indicates some improvements in service delivery performance for all types of services, but performance is still low.

The following table shows the needs within the sample local authorities for additional ISP. The following method has been used for the evaluations:

- The percentage of the population having access to safe water, safe latrine/sanitation facilities and health facilities was used (cf. tables under the respective ISP component),
- For solid waste management, the % of generated collected waste was used (cf. table 5.3.3a).
- For road maintenance, the % of the road network that requires periodic maintenance/rehabilitation was used (cf. table 5.3.6a in the Annexes).

It must be remarked that the estimations and evaluations have been elaborated based on a substantial amount of data, as shown in the annex to this chapter. Naturally, the estimations are based on a number of assumptions, and accordingly they are encountered with some degree of uncertainty. In order to compare among the sample SNGs, however, they are sufficiently precise. A scale of 1 to 5 has been used, the best quality service being a 5 and the worst service provision being 1. Thus, a rating of 5 = excellent (81 percent – 100 percent); 4 = very good (61 percent – 80 percent); 3 = good (51 percent – 60 percent); 2 = fair (41 percent – 50 percent); and 1 = poor (less than 40 percent).

TABLE 5.3b ESTIMATED PERFORMANCE INDICATORS CONCERNING ISP

Component	Indicator of needs satisfaction1999		Component	Indicator of needs satisfaction 1999	
Kampala District, population	774,241 (1991)	890,800 (1999)	**Mbale Municipal pop.**	53,987	83,675
Water supply			Water supply		4
Latrine/sanitation		3	Latrine/sanitation		3
Solid-waste management		2	Solid-waste management		1
Health facilities		3	Health facilities		2
Fire cover		1	Fire cover		1
Road maintenance		3	Road maintenance		2
Social services		3	Social services		2
Mukono District, population	824,604 (1991)	1,095,900	**Lira District, population**	501,000	635,000
Water supply		3	Water supply		2
Latrine/sanitation		2	Latrine/sanitation		1
Solid-waste management		1	Solid-waste management		1
Health facilities		2	Health facilities		2
Fire cover		1	Fire cover		1
Road maintenance		2	Road maintenance		2
Social services		2	Social services		2
Rakai District, population	383,501	456,600	**Kotido District, pop.**	196,006	245,900
Water supply		1	Water supply		3
Latrine/sanitation		2	Latrine/sanitation		1
Solid-waste management		1	Solid-waste management		1
Health facilities		2	Health facilities		1
Fire cover		1	Fire cover		1
Road maintenance		2	Road maintenance		1
Social services		2	Social services		1
Bushenyi District, population	579,137	761,800	**Mukono Town Council**	7,406	50,000
Water supply		3	Water supply		3
Latrine/sanitation		2	Sewerage/sanitation		3
Solid-waste management		1	Solid-waste management		2
Health facilities		2	Health facilities		2
Fire cover		1	Fire cover		1
Road maintenance		3	Road maintenance		2
Social services		2	Social services		2
Nama Sub County	41,555	50,232	**Lira Municipal**	27568	43,228
Water supply		3	Water supply		4
Latrine/sanitation		2	Latrine/sanitation		3
Solid-waste management		1	Solid-waste management		1
Health facilities		2	Health facilities		2
Fire cover		1	Fire cover		1
Road maintenance		2	Road maintenance		2
Social services		2	Social services/Education		2

5.3.3 Provision of Education

Pre-primary (Nursery)

Enrolment at this level is still very low; figures for 1998 (cf. table 5.3.4a) indicate that, with the exception of Kampala at 30.2% and Mukono at 10.7%, the rest of the sample SNGs registered figures below 5%. As can be expected from this low enrolment, physical infrastructure is presently adequate, but the situation will rapid deteriorate if there is a sudden increase in enrolment as was the case with U.P.E. There are very few trained teachers for this level. This level is entirely in the hands of the private sector and is clustered in and around urban centres.

Primary Education

Since the introduction of UPE in 1997, Primary school enrolment has more than doubled in all sample SNGs and the country at large (cf. table 5.3.4b). In 1999, Mbale registered the highest enrolment ratio of 155.3% followed by Lira (139%), Bushenyi (129.3), Rakai (116.1%) and Mukono (102.4). Kotido and Kampala registered the lowest enrolment ratios of 46.8 and 87.5 respectively. The age for enrolment under UPE is open up to 17 years, and this explains occurrence of percentage figures greater than 100.

Because of this sudden increase in enrolment under UPE a number of problems have arisen:

- Inadequate physical infrastructure - Pupils are attending classes in incomplete, temporary structures. Only 68.0% of the classrooms in Kampala are permanent and complete, Mukono (40.4%), Lira (33.6%), Bushenyi (32.5%), Rakai (30%), Kotido (29.4%), Mbale (26.3%) (cf. table5.5.4c). Even then, the pupil-to-'gross'-classroom ratio is still high compared to the official ratio of 40:1 (cf. Table 5.3.4c).
- The pupil/teacher ratio is high (cf. Table5.3.4d).
- Over the period 1988 to 1997, the completion rate for primary level has been fluctuating between 28% and 44%, with an average of 35% (Education Census 1997). The transition rate to secondary school has also been at 35%.

Table 5.3.3d: Needs satisfaction for Primary school teachers

District	1997				1998			
	Needed No. of Teachers	Actual No. Of Teachers	Additional Required	Need Satis-faction (%)	Needed No. of Teachers	Actual No. of Teachers	Additional Required	Need Satisfaction (%)
Bushenyi	5,068	3,739	1329	73.8	5,397	3,402	1,995	63.0
Kampala	920	904	16	98.3	2,546	3,264	3,264	128.2
Kotido	567	522	45	92.0	646	565	81	87.5
Lira	4,023	3120	903	77.6	3,144	2,350	794	
Mbale	6,195	4391	1804	70.9	5,882	4,136	1,746	70.3
Mukono	6,001	3632	2369	60.5	6,849			
Rakai	2,939	2080	859	70.7	3,176	2,137	1,039	

Secondary Schools

Secondary education enrolment is still very low. Kampala's enrolment is 26.1%, while the other sample SNGs have figures below 15% (cf. Table5.3.5a). Over the period from 1997-1999, enrolment has grown from 11.6% to 26.1% for Kampala, 6.8%-11.8% for Mukono and 8.9%-12.4% for Bushenyi. The figures for other SNGs have been steady. There is a high dropout rate at this level. Additional classrooms are required to meet current and future enrolment (cf. Table 5.3.5b). These numbers are adequate for the current enrolment figures (cf.Table5.3.5c).

5.3.4 Provision of Health services

According to the Burden of Disease Study in Uganda (Ministry of Health, 1995), over 75% of the life years lost due to premature death were due to ten preventive diseases (table): peri-natal and maternal conditions (20.4%), malaria (15.4); (8.4) together account for over 60% of the total national death burden. Others at the top of the list include tuberculosis, upper respiratory tract infection, malnutrition (with 38% of under-stunted, 25% under-weight for age and 5% wasted), trauma/accidents and measles. Despite considerable effort and investment in the health sector in the last decade, the situation remains unacceptable, with some of these conditions actually showing a worsening trend.

Geographical access to health care has been limited to about 50% of the population i.e. living within five kilometres of a health service unit (Health Facilities Inventory, 1996). Rural communities are particularly affected, mainly because health facilities are mostly located in towns, along main roads. The study has also revealed that there are marked variations in access to health care, both within and between districts, ranging from 8.9% to 99.3%. Even among these health facilities, many do not provide the full range of essential primary health care services. More than 60% of mothers are not attended to by trained health personnel during childbirth; access to safe water was only 48% (UDHS 1995), coverage with regard to sanitary excreta disposal is limited to 47.6% (Concept Paper Sanitation, MOH 1997) for the country as a whole. The collapse of the national nutrition surveillance system as well as the nutrition rehabilitation infrastructure has reduced effective prevention and management of acute malnutrition in Uganda. In addition, even the well-supported and expanded immunisation programme shows only 47% coverage of children as fully immunised before their first birthday (UDHS 1995). Furthermore, the health sector lacks an effective surveillance system and is without an up-to-date health database, both being imperative for evidence-based estimates.

In recent years, there has been significant improvement in the health sector, as shown in the table below:

Table 5.2.1a Trends in Health indicators between 1991 and 1995

Health Indicator	1991	1995
Infant Mortality rate	122	97
Maternal Mortality	-	506
Under 5 Mortality Rate	203	147
Total Fertility rate	7.3	6.9
Contraceptive Prevalence Rate	5%	15%

Some of the factors that have contributed to the improvement in health status include:

- There have been increased government allocations to the health sector. Government expenditure on health, though still low, has increased over the last ten years from 2.5% in 1987/1988 to 9.0 in 1997/1998 of the national budget (MOH 1998 costing the minimum health care package in Uganda). There has been a significant growth in the primary health care condition grant from Ug.shs.1.7bn in 1997/98 to NGO hospitals, have increased from Ug.shs 1.0bn for 24 hospitals in 1997/98 to Ug.shs.1.9bn in the 1998/1999 financial year for 42 NGO hospitals, with an additional Ug.shs.1.0bn for lower level NGO health units.

- Increased effort in key programme areas, intended to address childhood killer diseases through immunisation integrated management of childhood illness such as malaria, diarrhoea disease and acute respiratory infections, TB, STD, etc.

- The multi-sectional national aids control programme has registered remarkable achievements of stabilising the epidemic and, in some instances, a sustained decline in the rate of reported cases.

- There has been a 3-year district rolling plan process, and Districts are now formulating annual health work plans within their three-year health plans.

- The Safe Motherhood initiative has been introduced to address the causes of high maternal mortality and morbidity, especially in the child-bearing age.

- Efforts have been made to reactive vector control in order to combat vector-borne communicable diseases. Guinea Worm disease, which was rampant in North and Northern Uganda, is now nearing eradication, and the incidence of human sleeping sickness has declined significantly.

5.3.5 Water Supply Coverage

5.3.5.1 Access to safe water

According to the 1991 census, only 38% of the population had access to safe water sources. This varied between urban and rural areas. Fifty percent of the urban and only 16% of the rural population were within 15 minutes walking distance from the nearest water source. In-house, piped water was accessible by a very small fraction of

the population, covering only 8% of households in Kampala, 10% in other urban areas and 0.2% in rural areas.

The study has revealed that safe water supply coverage has more than doubled in the entire sample SNGs, with the exception of Kampala from 1991 up to now. Rakai has the lowest coverage of 34.0%, and Kampala has the highest of about 62.5% (cf. Table5.3.2a). This has been possible because of the WES Programme in Bushenyi, Rakai, Lira and Kotido; and the RUWASA programme in Mukono and Mbale.

5.3.5.2 Urban Water Coverage under NW&SC

Although the design capacities in sample SNGs under NW&SC can meet the present and future demand, this is not yet possible. There is need to extend the distribution network to outlying areas and minimise, through repairs and replacement, losses due to leakages in distribution mains (cf. Table 5.3.2b & 5.3.2c).

5.3.5.3 Water supply experiences of the sample SNG's

Water supply in Kampala City Council

It is estimated that 50% of the population in the city has access to piped water, while only 8% of those served have running water in their houses and 36% use protected springs. It is also indicated that 11% of the population is served by unprotected spring water. KCC estimates that about 65% of the spring water is contaminated.

The water distribution network, consisting of the high and low level systems, covers an area of approximately 160 square kilometres (roughly 80%) of the total municipal area. The majority of the distribution mains were installed in the late 1940's. No substantial repairs, rehabilitation or extension works have been carried out since then. By 1994, 60% of the distribution mains required replacement.

Raw water is treated to international standards in Gaba I and Gaba II water works. Due to leakage in the distribution system, contamination of treated water is very likely from sewers and the storm network. It is estimated that the present water loss in transmission lines is about 10%, while about 40% of produced water gets lost in the distribution system. NWSC commenced a leak detection and repair contract in 1993.

Water supply in Lira Municipal Council

About 27% of residents of Lira depend on the pipe borne water supply scheme managed by National Water and Sewerage Corporation as their source of water. Those who use protected and unprotected springs are 61%, while 12% use boreholes.

The piped water supply scheme was rehabilitated in 1992, and the system has the following components:

- the raw water intake on lake Kwania, which is located approximately 40 km south of the town;
- water treatment plant, with a capacity of 8600 cubic metres per day;

- 16kms of 450mm rising main to a booster station;
- 13kms of 450mm rising main from the booster station to a 600 cubic metre elevated tank;
- distribution from the elevated tank to the 4000 cubic metre ground level reservoir and the rest of the primary distribution network.

The current water demand for Lira Municipality is estimated to be 4,600 cubic metres per day, which is likely to rise to 8,700 cubic metres per day by the year 2015.

Estimations show that up to 80% of the demand will eventually be required from the piped borne system, and therefore the existing works have sufficient capacity beyond the design year of 2015.

This calls for expansion of the primary distribution network to serve the outlying areas of the municipality. Secondary distribution expansion is also required within the peri-urban areas.

A significant part of an estimated population (about 20%) is likely to rely on springs and wells even after the piped water distribution system is expanded. The Municipality has 18 springs, 16 wells and 29 boreholes, all of which need maintenance in order to meet future needs.

Water supply in Mbale municipal council

The survey revealed that 60% of the residents of Mbale Municipality rely on the pipe borne water supply scheme operated by the National Water and Sewerage Corporation as their primary source of water. 40% use both protected and unprotected springs and boreholes. Of the households using the pipe borne water supply, 35% collect from public stand posts. 59% have yard taps, and 6% have house connections.

The piped water supply scheme consists of the following components:

- Water is drawn from 2 mountain streams, with treatment works at Bunkoko with design capacity of 5,500 m^3 per day.
- Water is also drawn from River Manafwa, 17 km south of the town with design capacity of 9,100 m^3 per day. Both treatment works feed Bunkoko reservoir from which primary distribution mains direct water throughout town.
- The current water demand from the piped water supply scheme is estimated to be 8,700 m^3, and it is expected to increase to about 14,500 m^3 by the year 2015 as compared to the design capacity of the existing works of 14,600 m^3.

5.3.6 Roads and associated drainage

5.3.6.1 Roads

Densely populated urban communities have very limited access and existing roads; the need for road rehabilitation is widespread. The municipal councils are endeavouring to extend roads to provide better access to urban areas, but progress is slow because of the limited availability of funds

Since 1988, comprehensive resurfacing of the Tororo-Jinja-Kampala, Kampala-Masaka-Mbarara-Kabale, Kampala-Mubende, Kampala-Kafu-Gulu, and other economically important roads has been undertaken, and the Country has 2,276 km of tarmac roads (Statistical Abstract, 1998). Government has also provided road maintenance and rehabilitation units to all Districts.

By 1998, 50% of the rural feeders had been rehabilitated by various District, Government and NGO road programmes. However, the El Nino rains of 1997/98 damaged a significant proportion of the network (UHDR 1998). Presently roads under SNGs are still characterised by poor or non-existent drainage and broken culverts. In low-lying and swampy areas, roads are usually flooded and rendered impassable during rainy seasons. This situation is aggravated by the fact that these roads are predominantly earthen, with poor soils that become slippery and muddy when it rains. Whereas District roads are under routine maintenance, about 50%-60% require rehabilitation or periodic maintenance to ensure reasonable service to road users (Table 5.3.6a of the Annex to Chapter 5). The Community roads are in a worse state; the 'spirit of self help', whereby communities offer free labour to maintain their roads, is dead. The situation of urban roads is not much different. Town Councils like sub counties do not receive conditional grants for road maintenance.

5.3.6.2 Experiences concerning roads of the sample SNGs

The roads of Kampala City Council

Class 1	Major Roads
Class 2	Distribution roads
Class 3	Feeder roads

The table below lists the classes of roads by materials of construction.

Table 5.13 Classes of roads

Class	Tarmac	Gravel/Earth	Total
I	76.02	0	76.02
II	49.02	0	49.02
III	174.33	600	744.33

The maintenance of the tarmac roads is a function of the Ministry headquarters, while that of gravel roads is a function of the Division.

Road cutting by utility organisations like N.W&S.C has been identified as a major problem.

The roads of Lira Municipal Council

Lira Municipal Council maintains about 71km of roads, of which 30km are tarmac, 37km gravel and 4km earth. 9.5km are classified as primary, 41km as secondary and 21km as tertiary. The Municipality is also crossed by many tracks and paths. The

primary roads are in fair to poor condition, while the secondary and tertiary roads are in poor to very poor condition and require rehabilitation.

There are about 11km of storm water drains and 4.5km of anti-malarial drains. Both the storm water and the anti-malarial drains are in poor condition and require rehabilitation.

The roads of Mbale City Council

Mbale Municipal Council maintains about 70km of road, of which 54km are tarmac, 15km gravel and 1km earth. 11km are classified as primary, 44km as secondary and 15km as tertiary. The Municipality is also crossed by an extensive network of tracks and paths.

The primary road network is in fair to poor condition, while the secondary and tertiary roads are in poor to very poor condition, requiring rehabilitation.

The drainage systems of Kampala City Council

Kampala has a very poor drainage system, both for the storm water (rainwater) and wastewater disposal. Most peri-urban settlements in Kampala constitute flood plains surrounding hills. The problem of poor drainage is aggravated by poor methods of waste disposal. A significant proportion of the populace disposes of household garbage in the open spaces.

Drainage is accorded little attention, yet existing drains are poorly maintained; many are under-capacity, resulting in flooding, which causes property damage, and pooling of water, which creates mosquito-breeding areas and reduces accessibility. Erosion is a problem along many segments of major waterways and causes drainage problems.

5.3.7 Sanitation

5.3.7.1 Sanitation Coverage situation

In the context of this report, sanitation refers to safe disposal of human wastes and household wastewater. Sanitation was a second priority in many communities, in particular where the water table is high making latrine construction difficult. Furthermore, 32% of rural households did not have access to toilet facilities, and 55% did not have access to bath facilities. The bathroom facilities in rural areas were poorly constructed, and, in some cases, doubled as urinals. In contrast, only 5% of urban households did not have access to toilet facilities, and 18% had no bath facilities (1991 census). The poor sanitary conditions across the country are evident from the ever-increasing outbreaks of cholera and other diarrhoeal diseases during rainy seasons.

The study has revealed that a large number of households still lack sanitation facilities. Existing information sources display a great variance among coverage figures quoted by different stakeholders. National latrine ownership is estimated at 65%, with wide variation in quality; of these, 22% are unsanitary open pits (MoH

I998). Traditional pit latrines are widely used in the sample SNGs, but most of the existing traditional pit latrines are makeshift (cf. Table below). The coverage in the sample SNGs of sanitary platforms/VIPs is still very low. This is attributed to the high costs involved in the construction of these types of latrines. The few that exist are near institutions such as markets. The sanitation situation is worse in schools: the pupil stance ratio is as high as 169:1 far from the recommended 40:1.

Table 5.3.2f Safe latrine/sanitation coverage

AREA	Gross Latrine % COVERAGE	Safe Latrine/Sanitation (% Coverage) 1998
Bushenyi	84	45.5
Rakai		44
Lira	54.9	33.6
Mukono	72	46
Lira Municipal	92.1	56
Mukono Town Council	85	59
Mbale Municipal		58
Kotido		9.1
Nama S/C	72	45
Kampala	84	60

SOURCE: WES Base line survey 1998(New vision 5/08/1998) / DWD and District Development plans 1999-2002 (Lira, Mukono, Rakai, Bushenyi, and Kampala.C.C), MoLG

5.3.7.2 Experiences concerning sanitation of the sample SNGs

The sanitation in Kampala City Council

On sanitation, 9% of the city population is served by water borne system, 5% served by septic tanks, while 12% use private pit latrines. The majority of the population (72%) use shared pit latrines.

Lira Municipal Council

The estimated percentage of households that use latrines is approximately 92%. Few residents have access to the piped sewerage system, and these reside in the central business district where such services are available. 72% of the households that use latrines share them.

Most of the latrines are not properly constructed. The outcomes of the socio-economic survey show that 27% of the latrines had ventilation, 76% had mud floors, 57% had mud and wattle walls and 47% had hatch roofing. Only 21% did not have doors, and 2% have washing facilities as part of the latrines. Various problems hinder construction in low-lying areas; these include the high water table.

Mbale Municipal Council

Approximately 85% of the households use latrines for human waste disposal, while about 4% use flush toilets. However, about 58% of the households that use latrines share the facility with another household.

5.3.8 Solid Waste Management

5.3.8.1 Municipal Waste

The poor disposal of refuse is evident from a number of studies done. According to Nuwagaba A. 1999, less than 5% of the households in Uganda have proper rubbish pits, and approximately 91% of the households just dump their refuse around the house ("around the house" can be as near as 3 metres from the house).

Solid waste disposal is a serious problem in urban areas, with less than 50% of generated waste being collected (cf. table 5.3.3a). The only available means is open dumping for those areas with trucks and those without. Dumping waste in swamps aggravates the situation and has potential for polluting ground water. The majority of households engage in backyard composting or use open dumps in unused plots.

Municipal waste is a potential source of water, land and air pollution, especially since there is no sorting out of hazardous from non-hazardous wastes, nor is there any kind of treatment.

Discussions with the various urban councils revealed the following refuse generation rates:

- Kampala 0.8 Kg/c/d
- Lira Municipal 1.2 Kg/c/d
- Mukono T.C 0.8 Kg/c/d
- Mbale Municipal 0.9 Kg/c/d

Domestic waste is mostly organic, mainly food wastes (in particular banana and potato peelings), with an average density of 450 Kg/m3 – 500 Kg/m^3.

5.3.8.2 Experiences concerning solid waste management in the sample SNGs

The solid waste management in Kampala City Council

With a working day population of about 1,250,000 people, Kampala generates about 1000 tonnes daily. Based on a fleet of 20 hoist trucks and 450 communal open skips, Kampala collects about 850m3, which is about 42.5% of the refuse generated (KCC 3Yrs Dev. Plan 99-2002).

It was reported that, at any one time, only 12 of the 20 trucks are operational. Currently 3 trucks are being held by a supplier for non-payment. The rest of the residents who do not benefit from the service burn, bury or dump the waste in open places, roadsides and empty plots.

Kampala City Council currently runs a landfill at Mpererwe. The management of the landfill has been privatised to a private firm, Ms Dott Service Ltd. The payment is currently by the Uganda First Urban Project. It planned to procure another landfill and to improve and expand the present one. K.C.C is considering alternative ways of dealing with garbage, including introduction of user charges for garbage collection

Lira Municipal Council

With a projected population of 43,228, Lira generates about 51.8 tonnes of refuse. The Municipal operates a collection system based on two metal skips placed at the open market area and one tipper truck, which transfers the waste to a disposal ground located along Kitgum-Gulu road. Although residents are expected to carry their waste to skips, a large part of the household waste is deposited in convenient spaces. The disposal sites are poorly managed.

Mukono Town Council

Standing on 33km2, with a population of 50,000, Mukono Town Council contracted out solid waste management to a private firm. This firm is paid a monthly fee of Ug. Shs. 900,000 and is facilitated with 10-15 litres of fuel daily and a tractor with a trailer.

Ferrying approximately 2 tonnes per trip, this private firm does about 7-10 trips daily and collects about 41.3% of refuse generated. Dumping is done in 10 rubbish concrete banks that are regularly emptied, and the refuse dumped in vacant plots. With a per capita generation rate of 0.8 Kg/m3, Mukono generates 40 tonnes a day.

Mbale Municipal Council

The Municipal generates about 75.3 tonnes. It operates a collection system based on metal skips placed at convenient locations and tow lorries to transfer the waste to a disposal ground along Pallisa road. A large portion of the household waste is deposited in convenient open spaces within the community

5.4 The issue of Affordability of ISP

5.4.1 Methodological issues concerning assessment of affordability of ISP

The issue of affordability for infrastructure and public services is analysed within the framework of overall cost of living trends and household spending priorities. Inflation does not affect all types of goods with identical strength. The combination of the development in nominal income and the different price components influences the consumption pattern of households through the relative prices of the various goods in combination with consumers' basic preferences, which are again influenced by norms, habits and opinions of what is reasonable to pay for the various goods and services. An analysis of the results of this rather complex process can be based on the statistics on household expenditures and the development in households' allocation of their incomes to various goods and services.

Households are constrained by the size of their income (both actual and potential). A sharp increase in relative prices for basic goods (such as food, water and clothing) may push consumption in a direction opposite from the norm to be expected, i.e. if prices of a good increase compared with other goods, its relative share of consumption is reduced.

The different sub-components of household expenditure are of special interest to the issue of affordability of local government infrastructure and service provision. The development of these sub-components is shown in Table 5.5 below. The share of the total household consumption directed to education showed a slight increase from 5% in 1994/95 to 6% in 1995/96. The share of income devoted to health declined in the corresponding years from 4% to 3%,and the expenditure for rent, fuel and power showed a slight decrease from 15% to 14%, as well.

In the context of this report, affordability for infrastructure and public services is examined basing on broad national economic indicators and the trends in household consumption of these ISP services compared to other services and goods like food and clothing. HDI, IPI, the head count index will be used in order to have deeper analysis of household welfare and purchasing power in recent years. Human progress, as measured by the human development index (HDI), exceeded 0.4 in 1996, virtually doubling over the level in 1980 (UHR 1998). The proportion of the populace that is in abject poverty has declined. These indicators, when compared with other countries, are still weak. There is a glaring inequality between urban and rural areas: 43% of the rural population is human poor compared to just 20% of urban residents, 55% of the population lives on less than US$ 1per day and 38% of children under the age of four are stunted.

Table 5.5 Percentage distribution of monthly household expenditure by item group, 1994/95 and 1995/96

Expenditure group	Rural		Urban		Total	
	94/95	95/96	94/95	95/96	94/95	95/96
Food, drink, tobacco	65	59	53	43	62	55
Clothing and footwear	4	5	4	5	4	5
Rent, fuel and power	13	12	19	19	15	14
Household and personal equipment	6	7	6	6	6	7
Transport	2	3	5	6	3	4
Health and medical care	4	4	4	3	4	3
Education	4	5	7	8	5	6
Other consumption expenses	1	2	2	3	2	2
Non consumption expenses	3	4	6	6	4	5
Total	100	100	100	100	100	100

Source: Household Integrated Survey 1995/96

Many factors have caused rural areas to lag behind urban areas in terms of human development; the most important of these is the difference in the level of income. Income poverty is most severe in rural areas, as indicated by an income index of 0.17 compared to 0.42 for urban areas. The poverty in rural areas is by lack of access to services coupled by the pandemic situation of HIV/AIDS.

Poverty is particularly pervasive and on the increase among rural women. More than 75% of Uganda's rural households depends on subsistence farming as their main source of livelihood, and only about 1.4% are engaged in commercial farming (MF

PEP, 1995) (UH.D.R 1998). The findings of a recent study showed that between 1992 and 1996 absolute poverty declined from 56% to 46%. However, poverty reduction was more evident in urban areas than in rural areas, and the poorest 20% became poorer (MF PED, 1998).

Dependency is an issue. The poor in Uganda do not have access to credit lines and do not have property rights.

In the 1991 census, the average household size in Uganda was 4.8 persons; this figure has remained the same throughout the period, with exception of 1995/96, when it slightly increased to 5.0.

In this report, data for Kampala were separated from the rest of the central region because of wide disparities via indicators.

The main source of livelihood in Kampala is employment income, while in the rest of central region it is farming (HIS 192/93). See Appendix II Table 5:11.

5.4.2 Household expenditure

Expenditure is usually used as a proxy for income because experience has shown that household expenditure is reported better than the income. Table 5.4 (Appendix II) shows that the average household expenditure increased from shs.46, 300 to 71,700 and from Shs 104,500 to 167,900 (an increase of 55% and 61%) between 1992/93 and 1995/96 in rural and urban areas, respectively. The mean per capita expenditure increased by 47 and 44 respectively. The pattern depicted from the average per capita is more or less the same to that over the period. Table 5.5 presents the % distribution of household expenditure on items and by locality (rural-urban) distribution. The food, drink and tobacco group comprises 59% of the total household expenditure in the rural areas and only 43% in urban areas. There was a reduction in the percent share of this group from the previous period as income rises; the % household expenditure allocated to food reduces. Urban and rural households spend 19 and just above 10% on rent, fuel and power group, respectively.

There was a distinct change between the two surveys in the % expenditure on education and health, with urban households, spending relatively more on education than health.

Table 5.5 gives the % distribution of households by average monthly expenditure. The same pattern observed at the national level is also depicted at the regional level. All the regions indicated higher expenditure on food, drink and tobacco than any other group. Kampala households spent about (22%) on rent, fuel and power group. It is interesting to note that all the regions spend about the same % of money on health and medical care (3-4%).

5.4.3 Household income

Household income is the sum of money income and income in kind and consists of receipts that accrue to the household or its members. Income data may be less reliable

than expenditure data because respondents tend to report their expenditure more openly than income.

Table 5.6 below shows the household and per capita income for 1994/95 and 1995/96. There was an increase in the average household and per capita income between the two periods for all regions.

Table 5.6 Monthly household and per capita income by region, 1994/95 and 1995/96

Area	1994/95		1995/96	
	Per household	Per capita	Per household	Per capita
Central	91,200	20,100	109,600	23,200
Kampala	183,200	47,000	262,100	61,000
Eastern	54,300	10,700	89,100	17,000
Northern	49,100	10,000	59,300	11,400
Western	61,200	12,100	84,100	16,300
Uganda	73,600	15,200	98,900	19,700

Source: Household Integrated Survey 1995/96

Table 5.11 in the annex to chapter 5 presents the distribution of monthly household income by region during 1994/95 and 1995/96. Income of the gross entrepreneurial category, which includes profits accruing from household enterprises, was over 50 percent in 1994/95. The lowest % was registered in Kampala, which is predominantly deriving their source of livelihood from employment income (46%).

Results of the 1995/96 survey revealed a reduction in the households reported in the lowest income group to 50%, as shown in table 5.12 Appendix I. The reduction is more pronounced in urban compared to rural households: 5:21

Inflation over the past five years has been controlled to less than 10; the effect of this has been a slight reduction in real purchasing power. Inflation does not affect all types of goods with identical strength. Rent (fuel, power), health and education show different development patterns, as illustrated in table 5.5 Appendix II. The combination of the development in nominal income and the different price components influences the consumption pattern of households. This is through the relative prices of the various goods in combination with consumers' basic preferences, which are again influenced by norms, habits and opinions of what is reasonable to pay for the various goods and services.

Households are constrained by the size of their incomes (both actual and potential). The source economic situation dictates that households spend more on food and exhaust the possibility to make purchases of other goods. The share allocated to education over the period has increased.

5.4.4 Willingness to Pay

5.4.4.1 Indicators of the citizens' willingness to pay – the case of water supply

People's willingness to pay was assessed in three ways: by reviewing the report of the Uganda National household surveys 1993-94, by determining how much they are paying now and by holding focus group discussions with opinion leaders (but not actual consumers due to limited time and resources).

The amount people are currently paying for water depends on the source. If they own their own well, the current costs are low. If they use untreated surface water from a stream or pond, the cost will be nil. If they buy from a vendor, costs may depend on the season (water is generally cheaper in the rainy season than if it in the dry season), amount used and whether they fetch it or have it deliver to the house. If they use a public system, it will depend on whether they have a house connection or use public standpipes.

People often do not realise how much they are paying for water if they purchase it in small quantities several times per day. They buy what they require as they use it. Some studies have shown that the amount people are willing to spend for water from private vendors is not transferable to what they are willing to pay for water from government supplied systems. According to the Uganda National Household survey (1993-94), the average expenditure on water in the urban areas was 0.83% of expenditures.

Access to certain services is both an indicator of comprehensiveness of services and ability to pay. In the demographic and health survey 1995, conducted by the Department of Statistics in the Ministry of Finance and Economic Planning, 45% of all urban households have access to piped water and 50% of these households can draw water within 15 minutes travelling time. Of those that have toilets, 77% use pit-latrines.

Focus group discussions with opinion leaders and political leaders indicated that people in urban and peri-urban areas are willing and are already paying for water and sanitation facilities. The people in rural areas, in contrast, regard water as free, and they will only contribute to maintenance of water points when there is a breakdown. Solid waste, roads and drainage are seen as a function of the municipality and Council. Solid waste management was also mentioned as a problem in the urban areas, as the facilities are inadequate.

The Water and Sewerage Corporation reported that disconnected accounts to date stand at 30% of their database. Cases of illegal connections are very few. The major defaulters have been Institutions and Government bodies, but the situation has improved recently. This demonstrates that many households are either not willing to pay or are not able to pay at the set rates.

It is evident that households not within the immediate vicinity of existing U.E.B. poles have to pay exorbitantly to access the service. Only high-income households

can afford the service. This explains the low electricity connection rates; only 5% of the population has electric power in the country. There are however, many reported cases of illegal connections, against which the corporation has launched a massive media campaign. Currently, there is a lot of dissatisfaction with the billing system of UEB because the company, at times, relies on estimated consumption, which is always higher than the real consumed power. Nevertheless, UEB plans to introduce Pre-paid Billing cards to curb this problem. Even households that are connected to electricity use charcoal or fire wood for cooking because power is expensive and is not always available at peak hours. UEB estimates that there is a daily power deficit of about 70MW at peak hours, prompting the rationing of available power or load shedding. It is not surprising that people are not willing to pay for a service that is not regular, as demonstrated by the cases of illegal connections.

5.5 Infrastructure inventory concerning central and sub-national governments

5.5.1 General situation

The situation is aggravated by the fact that there are a number of providers – donors, NGOs, Central Government programmes or projects managed through ministries such as Ministry of Works Housing and Communication, Ministry of Education, Ministry of Natural Resources. Although located within the councils' jurisdiction, little co-ordination exists.

The government highlighted the importance of integrating all programmes in the districts. A number of NGOs and donors run their programmes independent of government. The development budget is not yet decentralised. As was already pointed out, most of the capital developments in the sample councils are donor-funded and controlled by the central government, including implementation within the sub-national authorities' jurisdiction. Nevertheless, sub-national governments have used their resources for development programmes to open up and upgrade roads, but, in general, there is a deplorable inventory record of infrastructure stock. Nevertheless, attempt has been made to develop an indicative inventory of the physical volume of the key infrastructure components.

5.5.2 Educational facilities

The inventory for classrooms and other facilities shows that the physical infrastructure is inadequate, especially at pre-primary level. Only 68% of the classrooms in Kampala are permanent, Mukono 40.4%, Lira 33.6%, Bushenyi 32.5%, Rakai 30%, Kotido 29.4%, Mbale 26.3% (cf. Tables 5.5.4c, 5.3.4d, 5.5.5c, 5.3.4c and 5.3.4e). Tables 5.3.4a and 5.3.5b show the status of classrooms for pre-primary and secondary levels, respectively.

5.5.3 Health facilities

Table 5.3.1b shows the availability of health facilities and of maternal and child health services in the sample SNGs.

The study has revealed that there are marked variations in access to health facilities, both within and between districts. Even among these, facilities do not offer the full range of essential primary health services.

5.5.4 Water technologies

Rural water supply coverage in 1999 is estimated at 47%, with 9.49 million people currently served. If the current level of investment of approximately $33 million continues over the next 15 years, an additional 12 million people could be served. This, in 2015, would translate to about 70% coverage. Additional investment over current levels is required for government to achieve 100% coverage.

Table 5.5.1a shows the current and projected water supply technologies in the sample SNGs. Table 5.5.1b shows rural safe water supply service levels as of 30th June 1999 in areas under WES.

5.5.5 Road Network

5.5.5.1 Inventory concerning roads

Table 5.5.6a shows the road network in the sample SNGs by category of ownership. As already pointed out, by 1998, 50% of the rural feeders had been rehabilitated. However, the El Nino rains of 1997-1998 damaged a significant proportion of the network. Presently about 50%-60% of district and urban roads require rehabilitation or periodic maintenance (**Table 5.3.6a**). The Community roads are even in a worse state. It is a welcome relief that SNGs are now receiving conditional Grant I for routine maintenance and Grant II for periodic maintenance. This Grant is not yet adequate to address the current periodic maintenance backlog. There is still a big need to tie allocations on actual maintenance requirements supported by periodic road condition assessment surveys.

5.5.5.2 Street Lighting – the case of Kampala City Council

Of the total road length of Kampala, lights are installed on 76.548 km of roads. There are 2,800 installed streetlights, of which only 1,600 are functioning. These are mainly in the Central Division. The lights are of 125-watt and 400-watt rating.

The total numbers of junctions that require traffic signals are 54. However, the only junctions where they are operating are 6. Note that although the Divisions install the traffic lights signals, the payment of electric bills is by the headquarters.

5.6 The Role of New infrastructure Investment in Relation to Existing Stock

5.6.1 Overview of ISP investment requirements

Uganda's infrastructure requirements are enormous. AES Nile Power Ltd has estimated that Uganda needs US$8.2 billion to invest in infrastructure over the next 12 years (The monitor, August 28th, 1998) (also see table 1 below). Madhvani Group of companies, the sister parent company which has teamed up with AES corporation

to build a US$ 460 million hydro-electric plant at Bujagali, argues that the government cannot meet this need without involving the private sector (The New vision, August 13, 1998).

Table 5.3.a Uganda Infrastructure requirements (1998-2010)

Sector	Amount (US$)' million	Amount (US$)'Million
Power: - Generation	1,500	
- Transmission	50	
- Distribution	500	2,500
Roads:	2,000	2,000
Railways: - (Including truck, permanent way, wagons, locomotives, communications, signalling)	1,500	1,500
Airports: - Entebbe	100	150
- Strategic airports	50	
Communications: - Posts	50	
- Telecommunications	1000	1,050
Water: - NWSC	500	1,000
- Rural water supply	500	
Total financing requirements		8,200

The total financing requirements of US$ 8,200,000,000 is equivalent to 150% of annual GDP of Uganda (Source of AES Nile power Ltd)

Sub-national governments depend on their meagre resources, and the widespread poverty levels in rural areas can hardly allow new capital development projects. During the last ten years, donor and government efforts have managed to have part of the infrastructure rehabilitated. However, the challenge has been lack of timely maintenance to preserve the investment.

Sub-national governments depend on the central government transfers in the form of conditional grants and unconditional grants to undertake maintenance of their infrastructure and projects managed through the relevant ministries for new infrastructure.

5.6.2 Road Projects and Donor Efforts

Many projects have been undertaken through the generous assistance of donors. Many lessons can be learnt from them, bearing in mind their original objectives, resulting scope of activities, experiences and any constraints that have been faced. These are detailed out in Appendix I part (b)

The 10 Year Road Sector Development Programme (RSDP) for the main roads

Government has put in place a 10-year RSDP over the programme period from July 1996 to June 2006 for the main roads to cost $ 1.5 billion. When this is achieved, Uganda's road network will experience a well maintained and managed classified road network, with over 2000km of gravel roads upgraded to paved standards and

about 2000km of feeder roads engineered to classified road network; Kampala city's in/outflow roads will be decongested and appropriate systems of feeder roads and community roads established.

The objectives of the RSDP are to:

- Provide a road network capable of meeting the present and future traffic demand.
- Promote road safety
- Secure environmental protection
- Establish an efficient and effective road administration
- Enhance and develop the local construction capacity

The main components of the RSDP are:

- Road network preservation (maintenance)
- Road network improvement, including the upgrading of critical links and the construction of missing links
- Road network management, including road administration capacity building

The RSDP will be implemented in two phases.

Phase 1:	1996 – 2001
Phase 2:	2001 – 2006

5.6.3 The need for information concerning ISP investments

The study has clearly shown that financial resources available to SNGs are not adequate: 80-90% of available resources cater for recurrent expenditure, to the detriment of capital investments (basic infrastructure and community amenities).

SNGs have limited economic and political power. They largely depend on government transfers, usually with stringent conditionalities. The allocations are made without actual assessment of SNGs' need and priorities.

There is lack of a dynamic mechanism to periodically review and up date the inventory of infrastructure. This database would serve as the basis for planning and allocation of public funds for ISP.

5.7 Issues of ISP tariff policy

5.7.1 Central government policy

5.7.1.1 Establishment of the regulatory environment and experiences in promoting private sector participation in ISP

The government is committed to promoting economic growth through facilitation of a hospitable environment for private sector investment and ensuring a basic standard of living for all by providing essential services that are not available to everybody

through the market. At the national level, the government objective is to decentralise and commercialise ISP.

5.7.1.2 Experiences of private sector involvement in utilities

Reform of the utility sector is already underway, with divestiture of the telecoms and electricity sectors on the privatisation agenda. The government estimates that during the 1990's, infrastructure-related public enterprises received, on average, 55% of government's net subsidies to public enterprises. In 1995, net subsidies to public enterprises were Ug. Shs 79 billion, falling, to Ug Shs 57 billion in 1996 and Ug Shs in 1997. One of the government's objectives in utility reform and divestiture is to reduce the subsidy burden on the government. The Communications Bill, which was to divide the postal and telecommunications branches of UP&TC, and the privatisation of UTL, the legislation for the liberalisation of the telecoms, brought about the competition in this sector. The licensing of CELTEL in 1993 and MTN in 1998 brought competition to higher levels; in fact, the government is negotiating the sale of 51% of the shares in UTL.

5.7.1.3 Experiences of private sector involvement in the finance sector

As part of the financial sector reforms, 49% of the shares of UCB were sold to a Malaysian investor, Westmont Holdings in April 1998. Although there have been some weaknesses in the supervisory capacity of the Central Bank, government initiated financial sector reforms in an effort to strengthen it (the financial sector). This allowed the revision of the financial sector legislation and improvement of the regulatory framework.

The Bank of Uganda Act and the Financial Institutions Act are meant to strengthen the regulatory powers of the Central Bank. However, under-capitalisation has rendered it incapable of adequately performing its supervisory roles. By end of 1999, Central Bank had intervened in the operations of 4 banks, namely Trust Bank, International Credit Bank, Greenland and Co-operative Bank due to a lack of liquidity and insolvency of the banks. This is partly due to non-performing loans. There are wide margins between lending and saving interest rates. Saving rates have averaged 4.14% over the year, while lending rates averaged 21%, which is a spread of 16.8%. High lending rates constrain investment, and there is a need for credit at affordable rates.

Public confidence in the banks has been eroded due to the recent failures. This may have a detrimental effect on the level of financial savings and may undermine government efforts.

A sound financial sector is necessary to provide a strong foundation for macro-economic management and the liberalisation of the capital account, further necessitating the assurance of credibility of the financial system.

5.7.1.4 Experiences of private sector involvement in the energy sector

The Electricity Reform Bill was passed into Law by parliament, breaking U.E.B's monopoly and, hence, opening the sector to private investors. Two independent power generation projects have been granted investment licences by the U.I.A. One of these is the Bujagali Project under AES Nile Power, and it is already underway.

The poverty eradication action plan (June 1997) establishes the policy framework to reduce poverty in Uganda to less than 10% by 2107. The key PEAP strategies include, among others:

- Making economic growth sufficiently broad-based to encompass the poor by focussing public expenditure on increasing economic opportunities particularly in agriculture.

- Providing basic social services to the masses.

Modernisation of agriculture is one of the strategies the government is using to eradicate poverty among Ugandans. Provision of feeder roads is also one of ways government is pursuing in the fight against poverty. Roads are typically public goods best provided by the government, but their construction and maintenance can be contracted out to the private sector.

In all the above policies, government is subsidising ISP.

5.7.2 User charges

5.7.2.1 The pending challenge of user charges seen in relation to the cost recovery issue

User charges in both health and education are currently under discussion. In health, the government's white paper advocated the introduction of user charges, but the current policy is to leave the decision to the districts. The local government act 1997 fifth schedule part IV states that local revenue shall consist of, among others, user charges where applicable and any other revenue that may be prescribed by the local government and approved by the minister. There is a strong economic case for subsidising health care and education in Uganda.

However, public resources are extremely constrained. Hence, for health, the decentralisation of the decision about user charges to the local level is appropriate. Much should not be expected; user fees are still limited and cannot replace public support. In education, government is already sponsoring 4 children under UPE per family.

5.7.2.2 An example of user charges in the education sector - cost sharing in tertiary institutions

Cost sharing has been introduced and rationalised in all tertiary institutions effective 1999/2000 academic year.

In the August 18 curricular, the Permanent Secretary Ministry of Education and Sports advised the heads of National teachers colleges, Colleges of commerce, Technical and Farm institutions and Principals of Primary teachers colleges to levy fees on government-sponsored students. Tuition fees for privately-sponsored students have not been included in the schedule. This has been left to the government body to determine.

According to the circular, students admitted to the institutions are to pay Ug.shs.8, 000 for capitation top-up, shs.7000 for sanitation, shs.30, 000 for registration, shs.20, 000 caution money, shs.15, 000 medical, and shs.30, 000 for scholastic materials totalling shs.100, 000.

Students studying practical courses are required to pay shs.30, 000 for school practice/industrial training except for primary teachers colleges and technical colleges.

All the charges are levied once per course of study. Hitherto, the charges vary from institution to institution. As a result, the affected students, through their leaders, have petitioned government to revise the charges downwards to make them more affordable.

5.7.3 Experiences of actual Tariffs concerning selected components of ISP

5.7.3.1 The case of tariffs for water and sewerage services

The study has revealed that low-income communities in urban areas spend between Shs. 50 to 200/= per 20 lt of water. This is more than what high and medium cost residential areas, serviced by NW&SC, spend per 20lt of water.

Cost of water with effect from 1st April 1994

Equivalent cost per 20 lt. Jerry can	
Public standpipe	Ug.shs.8.00
Domestic	Ug.shs.12.00
Institutional and government	Ug.shs.15.00
Industrial and commercial	
First 500 cubic meter per month	Ug.shs.21.12
501-1500 cubic meters per month	Ug.shs.25.28
Over 1500 cubic meters per month	Ug.shs.28.48

Sewerage charges for properties connected to sewers are:

- Domestic 75% of water bill;
- Other categories i.e. commercial, industrial and government 100% of water bill.

Even if the consumer is disconnected for non-payment of water bills, he continues to pay sewerage charges if the property is connected to the sewers.

Current charges for water (and sewerage) are shown below (and in further detail in appendix I part (a)):

Unmetered charges: Current rates

Category	Water only	Sewerage only
Public stand	Ug.shs.30,000	Not applicable pipe
Residential 1 tap	Ug.shs.3,696	Ug.shs.2,772
2-4 taps	Ug.shs.11,088	Ug.shs.8,316
5-8 taps	Ug.shs.18,480	Ug.shs.13,860
More than 8 taps	Ug.shs.27,720	Ug.shs.20,790 taps

Taps include draw off points such as toilets, showers, etc.

Institution/government

Number of users

1-5	Ug.shs.15,000	Ug.shs.15,000
6-15	Ug.shs.45,000	Ug.shs.45,000
15-25	Ug.shs.76,000	Ug.shs.76,000
51-100	Ug.shs.91,200	Ug.shs.91,200
101-250	Ug.shs.114,000	Ug.shs.114,000
More than 251	Ug.shs.418,000	

Number of users

1-5	Ug.shs.21,120	Ug.shs.21,120
6-15	Ug.shs.63,360	Ug.shs.63,360
16-25	Ug.shs.105,600	Ug.shs.105,600
26-50	Ug.shs.126,720	Ug.shs.126,720
51-100	Ug.shs.158,400	Ug.shs.158,400
105-250	Ug.shs.316,800	Ug.shs.316,800
More than 251	Ug.shs.580,000	Ug.shs.580,000

Metered charges

Category	Water only per m3	Sewerage only per m3
Public stand pipe	Ug.shs.400	Not applicable
Cost per jerrycan	Ug.shs.8	
Residential	Ug.shs.616	Ug.shs.462
Cost per jerrycan	Ug.shs.12	
Institution/government	Ug.shs.760	Ug.shs.760
Cost per jerrycan (20ltrs)	Ug.shs.15	
Industrial/commercial		
First 500m3 per month	Ug.shs.1,056	Ug.shs.1,056
501-1500m3	Ug.shs.1,264	Ug.shs.1,264
Over 1501m3 per month	Ug.shs.1,424	Ug.shs.1,424
Cost per jerrycan (20ltrs)	Ug.shs.21	

Minimum charges

Whether a consumer is metered or unmetered, the following are minimum charges on the various categories of consumption:

Public stand pipe Shs.30, 000/= per month

Residential buildings
½" supply 3,696/= per month
¾" supply 18,480/= per month
1" supply 27,720/= per month

Institutions and government

½" supply 4,560/= per month
¾" supply 22,800/= per month
1" supply 34,200/= per month
2" supply 76,000/= per month
3" supply 114,200/= per month
4" supply 152,200/= per month
6" supply 228,000/= per month

Industrial and commercial

½" supply 6,336/= per month
¾" supply 31,680/= per month
1" supply 34,200/= per month
2" supply 105,600/= per month
3" supply 158,400/= per month
4" supply 211,000/= per month
6" supply 316,000/= per month

5.7.3.2 The case of tariffs for electricity

The prevailing tariffs comprise the following tariff items:

<u>Single phase:</u>

No pole service - for areas usually not more than 35M from existing U.E.B pole.

Capital Contribution towards erection and laying	82,000=
VAT 17%	14,000=
Deposit	50,000=
	146,900=

For residential
Cost per KVA

For first 30 KVA	20=
For the next 170 KVA	70=
Greater than 171 KVA	100=

VAT of 17% is charged on the monthly bill and a service standing fee of sh. 1000, and there is a reconnection fee of shs 3000, in case of defaulting on payment.

Where one pole is required:	
One Pole capital contribution costs	276,200=
VAT 17%	47,000=
Deposit	50,000=
	373,200=

For more poles, the financial requirements are even more drastic:

Three phase	
No pole 'capital contribution'	400,000=
Deposit	400,000=
	800,000=

Commercial rate

Each KVA	115=
VAT	17%
Monthly service standing fee (S.S.F)	4,000=

5.7.3.3 Solid Waste Management

Solid waste management is still a free service offered by concerned urban councils almost exclusively from their local revenue. Kampala City Council is considering introducing a charge for garbage collection.

5.7.3.4 Roads

The introduction of user charges and a 'dedicated Road fund', where all funds for road development and maintenance can be pooled, is still a subject of discussion. In the past, attempts were made at cost recovery via road tolls but have since been abolished for both government and SNGs.

CHAPTER SIX
THE LEGISLATIVE FRAMEWORK

6.1 Legislative Framework

The legislative framework for local governments in Uganda is defined in both the Constitution, 1995 and the Local Government Act, 1997. The two documents provide a solid legal framework for the proper functioning of all levels of local governments and their relationships with central government. In addition, there are efforts by some sector ministries to draw other legislation to regulate the provision of services. For, instance the Ministry of Education and Sports is currently working on an Education Act, which should regulate provision of education in a decentralised setting to bring it in line with the Constitution. Local governments, therefore, derive their authority and autonomy from these legal instruments.

The process of establishing the legal framework for local governments in Uganda has been dynamic and was evolved over many years with stakeholders at various levels. The decentralisation policy in Uganda was conceived by Government and recognised to be a necessary condition for democratisation. It has two main ingredients namely: parliamentary democracy and popular democracy. The policy was aimed at improving local democracy, accountability, efficiency, equity, effectiveness and sustainability in the provision of social services countrywide. It became imperative for Government to proceed resolutely but cautiously with the development of the policy in such a manner as not only to transfer power and accompanying resources to the local level, but also to strengthen local governments' management and technical capacity, focusing on the district level in the initial stages.

The decentralisation policy and evolution of the legislative framework, therefore, evolved through a number of consultation stages, which provided unique opportunity for provision of both technical and political inputs into the formulation of the policy and its legislation. The various stages are described below:

In August 1986, a Commission of Inquiry into the Local Government System was set up. It issued its report in July 1987. The Commission covered a large number of districts, consulting a cross-section of residents of each district.

In September 1987, the Local Authorities Resources Committee was appointed. It issued its report in January 1988, recommending measures to be taken to increase local government revenue.

In June 1988, the Permanent Secretaries considered the proposed White Paper on the recommendations of the Commission of Inquiry into the Local Government System. They overwhelmingly supported the proposals for decentralisation.

A Standing Committee on Decentralisation was appointed under the Chairmanship of the Head of Civil Service. Members included the Solicitor General, Secretary to the Treasury, Auditor General, Permanent Secretary of Ministry of Public Service, the

Secretary for Mass Mobilisation at NRM Secretariat, and the Permanent Secretary of Ministry of Local Government.

On the 8th May 1990, a Committee of Experts on Democratic Decentralisation was inaugurated. It produced a paper entitled, "Summary Recommendation for Strengthening Democratic Decentralisation".

On the 8th August1991, Cabinet considered and approved with amendments "Measure to strengthen Democratic Decentralisation".

In September 1991, the Ministry of Justice was requested to consolidate laws governing Local Authorities and amend them to provide for the measures to strengthen Democratic Decentralisation.

Donors like the World Bank took interest in the decentralisation programme. The World Bank studied the policy papers in February 1992 and issued a report in June 1992. In September 1992, a committee of Uganda experts and 72 field officers, District Administrators, Resistance Council Chairmen, District Executive Secretaries, Town Clerks and Treasurers reviewed the World Bank report. Danida Consultants on decentralisation also reviewed the Report and submitted their views in September 1992.

In August 1992, the NRC Sectoral Committee on Local Government subjected the decentralisation policy to scrutiny. Based on the support of NRC Sectoral Committee, 25 million for recurrent costs towards implementation was set aside during the financial year 1992/93.

Finally, H.E. The President launched the process of decentralisation on 2nd October 1992.

6.1.1 Constitution

The Constitution of Uganda, enacted in 1995, explicitly dealt with the legal framework for local governments. The Constitution is the legal basis upon which the formation of local governments is based. Chapter 11 of the Constitution describes in detail four broad areas:

(a) The Principles and Structures of Local Governments

This part of the Constitution describes the structure of local government. 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. At present, there are 45 districts and other lower layers of local government established. Boundaries of districts can be changed and new districts can be created by Parliament. The Constitution also allows two or more districts to co-operate in the areas of culture and development but basing such cooperation on democratic principles. In the recent past, new districts have been created. These include Bugiri, Adjumani, Katakwi, Busia, Sembabule and Nakasongola.

With regard to principles of local government, the Constitution provides the following:

- The system of local government shall be such as to ensure that functions, powers and responsibilities are decentralised and transferred from the Government to local government units in a co-ordinated manner;

- Decentralisation shall be a principle applying to all levels of local government and, in particular, from higher to lower local government units to ensure peoples' participation and democratic control in decision making;

- The system shall be such as to ensure the full realisation of democratic governance at all local government levels;

- There shall be established for each local government unit a sound financial base with reliable sources of revenue;

- Appropriate measures shall be taken to enable local government units to plan, initiate and execute policies in respect of all matters affecting the people within their jurisdiction;

- Persons in the service of local government shall be employed by the local governments; and

- The local governments shall oversee the performance of persons employed by the Government to provide services in their areas and to monitor the provision of Government services or the implementation of projects in their areas.

Another important principle provided in the Constitution is modalities of changing political leadership in all levels of local governments. Several elections have in fact been held in compliance with these provisions. The system of local government shall be based on democratically elected councils and on universal adult suffrage. The councils shall exercise political authority within their areas of jurisdiction and have legislative and executive powers to be exercised in accordance with the Constitution. A major constraint with respect to elections is the high costs involved to ensure that they are regularly held in accordance with the law.

The constitution also provides the administrative framework for the districts and the functions to be performed by the local governments (Annex 1).

In the sample local governments visited during the study, it was evident that local governments at various levels have been established in conformity with the constitution. The election of political leaders is also in compliance with the requirement of the law. However, the election exercise is viewed by local government as well as central government officials as expensive, but it gives the electorate to change leadership of local governments.

(b) Finances of Local Governments

District councils shall prepare comprehensive and integrated development plans incorporating the plans of lower levels of local governments for submission to the National Planning Authority; and have power to levy, charge, collect and appropriate fees and taxes in accordance with any law enacted by Parliament. The bottom up planning, as required by law, has not been achieved by local governments. Owing to logistical and budgetary limitations, local governments have not been able to consult widely as prerequisite for formulating their district plans. Consultations undertaken by all local governments visited were limited to either staff at the district headquarters or a few councils at level three (LC3). Most districts, and even municipalities such as Mbale and Kampala, cannot afford the cost of consultation required to support bottom up planning and budgeting. In case of Kampala, the city has been divided into divisions, with each division handling a number of activities such as collection of taxes. Consultation is thus best done at the division level.

With regard to use of funds collected by local governments, no appropriation of funds shall be made unless approved in a budget by its council. This is in conformity with central government. The Constitution empowers local governments to collect taxes for Government and retain, for the purposes of its functions and services, a specified proportion of the revenues collected for or on behalf of the Government from the district. This part of the legal framework has not been complied with by central government despite the effort by local government to collect taxes such as VAT and PAYE. However, councils prepare and approve budgets using the budgetary guidelines. There was a strong evidence of this in the sample local governments visited. Budgets are prepared and approved by lower councils such as sub-counties. There is also a wide autonomy in the field of taxation (Graduated Tax and Property Tax).

The Constitution provides that unconditional, conditional and equalisation grants shall be disbursed to districts out of the Consolidated fund.

Unconditional grant is the minimum grant that shall be paid to local governments to run decentralised services and shall be calculated in the manner specified in the Constitution. Conditional grant shall consist of moneys given to local governments to finance programmes agreed upon between the government and the local governments and shall be expanded only for the purpose for which it was made and in accordance with the conditions agreed upon. Equalisation grant is the money to be paid to local governments for giving subsidies or making special provisions for the least developed districts and shall be based on the degree to which a local government unit is lagging behind the national average standard for a particular service.

Field evidence shows that the districts are receiving conditional grants for feeder road maintenance, medical services, water, agriculture and primary education. In some instances, districts have not participated in formulation of conditions for operation of these grants, as required by law. In addition, there is a strong feeling among local governments that the increased use of conditional grants as a mechanism of financial transfers to local governments undermines the very spirit of decentralisation. Local

government also receive unconditional grant over which they exercise autonomy in its use. Arrangements have also been completed to operationalise Equalisation grants.

To handle financial matters pertaining to local governments at policy level, an institutional arrangement is prescribed in the form of the Local Government Finance Commission. It consists of seven members appointed by the President, and it was inaugurated in February 1995. It has the following mandate:

- advise the President on all matters concerning the distribution of revenue between the Government and local governments and the allocation to each local government of moneys out of the Consolidated Fund;

- in consultation with the National Planning Authority, consider and recommend to the President the amount to be allocated as the equalisation and conditional grants and their allocation to each local government;

- consider and recommend to the President potential sources of revenue for local governments;

- advise the local governments on appropriate tax levels to be levied by local governments;

- perform such other functions as Parliament shall prescribe.

The expenses of the Commission, including salaries, allowances and pensions payable to persons serving with the Commission, shall be charged on the consolidated Fund. The Commission is not on full scale. Presently, the commission is spearheading studies and discussions related to improving revenues as well as the financial performance of local governments. Despite the many limitations, the commission has in performing its duties (logistical facilities, technical capacity), to work together with local government to deal with issues related to local government finances. The Commission is to benefit from the World Bank Project on development financing of local government. It is already receiving funding from Danida in support of its functions. The greatest challenge of the Commission is to enhance the revenues of local governments from their own sources.

(c) District Service Commission

To oversee the recruitment, deployment and discipline of the employees in local government, the Constitution provides for District Service Commission with the mandate to:

- Appoint persons to hold or act in any office in the service of a district, including the power to confirm appointments, to exercise disciplinary control over persons holding or acting in any such office and to remove those persons from office is vested in the District Service Commission.

- Set the terms and conditions of service of local government staff that conform with those prescribed by the Public Service Commission for the public service generally.

- Establish committees in respect of specialised disciplines.

Based on evidence from the fieldwork, districts have constituted District Service Commissions, and they exercise their constitutional powers. The serious problem about these commissions is lack of financial resources to carry out their mandates. In recent past, the commissions in almost all districts experienced difficulties in recruiting primary teachers, as required by central government. The exercise involved interviewing large numbers, and yet the districts did not have the resources to carry out such exercise. Central government had to provide each local government the needed resources. The other constraint noted was the difficulty currently experienced by local governments to afford the deployment of staff beyond the ceiling levels of manpower paid by central government.

The Local Government Act gives details of its functions as well as provisions for protecting the rights of employees of local government. They can appeal to Public Service Commission operating at central government in the event of unfair treatment. There have been recent instances where District Chief Administrative Officers have been exonerated by such tribunal. In the sample local governments, no specific incidents of that nature were reported.

(d) General

In addition to specific areas described above, the Constitution also provides the legal framework for general matters pertaining to local governments. For instance, assumption of authority of district in the event of some crisis, the President, with the approval of two-thirds of all the members of Parliament, may assume the executive and legislative powers of any district in any of the following circumstances:

- where the district council so requests and it is in the public interest to do so;

- where a state of emergency has been declared in that district or in Uganda generally; or where it has become extremely difficult or impossible for district government to function

- In addition to the administrative structures at local government, the Constitution provides for appointment of Resident District Commissioner who shall be a senior civil servant appointed by the President with the following functions:

    - to co-ordinate the administration of Government services in the district and
    - to advise the District Chairperson on matters of a national nature that may affect the district or its plans and programmes and particularly the relations between the district and the Government; and
    - to carry out such other functions as may be assigned by the President or prescribed by Parliament.

The Constitution also provides guidelines to be followed by the district councils, in determining terms and conditions of service for-

- members of the local government councils; and
- members of the district Service Commissions and their committees

There were common constraints noted in sample local governments. All local governments visited enjoy autonomy in deciding on the numbers of employees, depending on the resources they have. At lower levels of local governments (LC3), there was the problem of payment of salaries, with a number employees going for months without salaries, because of insufficient local revenue to cater for the wage bill of employees. This is a common problem of local government.

Before enactment of the Constitution and the Local Government Act, local governments tended to employ more than they required. Numbers of employees were adjusted. However, a number of local governments now require additional employees to provide decentralised services. It appears that these local governments got low establishment numbers at the start of implementation of the policy. There is also the problem of setting limits of allowances payable to councillors from district budgets, which has been set to 15% of own collected revenue.

6.1.2 Local Government Act

The provisions of the Constitution are further elaborated through the Local Government Act 1997, which is a revised version of the Local Government Act of 1995 to bring in line with the Constitution promulgated in 1995. While there may be other weaknesses still in the Act, overall it provides a sound basis for the decentralisation process and operation of Local Governments. The practice of revising the Act demonstrates the evolutionary and dynamic nature of the legal framework for local governments in Uganda. There are even several modifications proposed for the current Act submitted by the Uganda Local Authorities Association.

From discussions held with local governments on the how they perceive the regulatory framework, the concern of local governments is that the implementation of various aspects of the regulatory framework by local governments is yet to be achieved by both the central governments and local governments. For instance, the decentralisation of secondary education is yet to be achieved. This appears to be the greatest challenge of both the local and central governments towards the decentralisation drive in Uganda.

One important aspect the legal framework for local government in Uganda as perceived by central government is that it continues to be a dynamic process whereby it is reviewed to accommodate the situations in the field as well as address areas of conflicts. Such approach provides a sound legal framework that permits decentralisation policy to proceed in a smooth manner without being bogged down with legal constraints. The same was the case with Financial Regulation for local governments. These were also revised to accommodate a number of concerns with regard to financial management of local governments. There are arrangements to

simplify and revise the financial regulations further for easy implementation by local authorities.

The Act distinguishes between legislative and administrative councils
Local Government with legislative power include:

- District (LC5)
- Sub-county (LC3)

In the case of local government operating in the city i.e. Kampala, these include:

- City Council (Corresponding to LC5)
- City Division Council (Corresponding to LC3)

In the case of local governments operating in the municipalities, the arrangements include:

- Municipal Council (Corresponding to LC4)
- Municipal Division Council (Corresponding to LC3)

With these arrangements, other councils perform only administrative functions but do not enjoy legislative powers. The implication of such arrangements has a bearing on the autonomy within which the various levels of local government operate.

The institutional arrangement of councils as prescribed by the law exists and is now operational in all districts with various constraints as discussed in the subsequent sections. The major limitation for local government is implementing in full all the institutional requirements as prescribed by law.

6.1.3 The Local Government Financial and Accounting Regulation 1998

These regulations, apply to all financial transactions and business of all local governments and administrative units. As mentioned above, there are arrangements to review and simplify these regulations.

In conclusion, the Constitution, the Local Government Act, the Local Governments Financial and Accounting Regulation, and other policy initiatives by respective central ministries constitute the legal framework for local governments in Uganda.

Legislative requirements of local governments infrastructure and service provision

This part of the report describes the legislative framework of local governments with regard to the provision of key components of infrastructure and service provision (ISP). The Second schedule of the Local Government Act (annex 1) clearly defines functions and services of both central and local government. Part 1 of the schedule defines the functions and services for which central government is responsible. Part 2 to 5 defines functions and services for local government at respective levels[92] of local

[92] Different levels of local governments comprise of District Councils, urban/City/Municipal Councils

government, which include District Council (Local Council 5), Urban Councils, Lower local government councils and city and municipal councils.

This clear definition of functions to be carried by local governments assumes that institutional arrangement, manpower and sufficient financial resources will be available at all levels of local governments to carry out the decentralised functions. Both the manpower and financial resources available at local governments are inadequate to ensure provision of decentralised services. This is the experience reported by local governments visited during the study. Owing to financial limitations, local governments cannot recruit adequate staff to provide decentralised services. This is a matter to be reviewed to allow districts have adequate staff to provide needed services.

With regard to ISP, local governments are responsible for education (pre-primary, primary and secondary), medical and health services (except medical training and referral medical care), water services (in liaison with central ministry responsible) and road services (excluding those for which central government is responsible). In the case of urban councils, the functions include water supplies outside the jurisdiction of parastatal organisation (National Water and Sewerage Corporation), sanitation services, education services and health services).

The bulk of resources for ISP are obtained from central government and through projects controlled by central government. The subsequent section describes the situation obtaining and observed in the local governments with regard to provision of ISP and, more specifically, primary education.

6.1.4 Provision of Services

Provision of primary and pre-primary education is the responsibility of local governments. Provision of physical school facilities is a responsibility of local governments and communities. However, the bulk of funding for this activity is obtained from donors and channelled to districts through Ministry of Education and Sports (MOES) and/or Ministry of Finance, depending on the budgetary arrangements made. This implies that there is limitation to which districts have autonomy in provision of school physical infrastructure. Pilot districts for classroom construction are directly receiving money for provision of school facilities. This is a pilot phase that has been rated as successful, and it will be extended to all districts.

Until 1996, provision of physical school facilities was centrally planned and funded. Since then, there have been policy changes by MOES to decentralise the provision of school physical facilities to districts and beneficiary communities. However, the bulk of funding continues to be obtained from donors and central government, as local governments have weak financial resource bases to finance the activity. Maintenance of school facilities is not addressed, and there is no clarity with regard to maintenance costs.

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and lower local government councils (LC3 and LC1).

Other services provided by local governments include water, sanitation and primary health services to rural areas.

Roads

With regard to the regulatory framework for the provision of roads, there is clear demarcation of responsibilities established by the central government level on the roads for which the central and local governments are responsible. At the local government level, responsibilities are not clearly demarcated, resulting in a number of roads in the rural areas being neglected in terms of maintenance.

Agriculture

The regulatory framework in this area is not clear. The demarcation between the policy and monitoring role of central government and the implementation role of local government is not clear.

Solid Waste Management

There was little evidence from sample local governments of a clear regulatory framework for the management of solid waste, except in Kampala. In areas such as Lira, Kotido, Bushenyi and Rakai, which are not under the control of the National Water and Sewerage Corporation, the responsibility is borne by the private sector.

Utilities

The main utilities are electricity, water and telephones. Public reform in the provision of electricity and telephones towards liberalisation has been completed. A number of private initiatives are now underway in the provision of these utilities. All local governments rely on the new regulations in the provision of these services.

Building Codes

Local authorities have building codes overseen and approved by municipal/urban authorities. In all sample areas visited, there are buildings, which have not conformed to the codes, resulting in unplanned structures. Outside municipal/urban jurisdictions, building works are done with very little regard of these codes.

The main constraint and concern reported by all local governments visited during the study regarding the provision of various services is the earmarking of funds as conditional grants by central government. Conditional grants do not allow local governments to make their own choices on a priority basis in providing these services. Local governments do not enjoy the autonomy they should in providing these services.

6.2 Issues of decision-making (includes approvals) relevant for infrastructure service provision

The decision-making process for ISP is not solely a local government process. A number of decentralised activities continue to be provided by central government. For example, central government, based on budgetary allocation, determines the number of classrooms to be built and leaves local governments to locate the allotted number of classrooms in their respective schools based on their own judgements and other considerations such as the needy schools with poor classroom infrastructure.

Decision-making with regard to inspection of secondary schools and recruitment and posting of secondary teachers remain currently as central ministry functions.

Actual determination of the number of teachers for both primary and secondary schools is by central government, based on resources for the wage bill and not on the needs of the schools. Resources for educational development activities for both primary and secondary schools are largely still controlled and managed by central government. However, policy initiatives are underway to implement decentralisation of various functions in infrastructure service provision, as summarised below:

- decentralisation of the development budget to facilitate implementation of decentralised functions and activities and

- introduction of conditional grants to allow the local governments to implement specific functions and activities that are decentralised.

Education infrastructure

In the education sector, these include resources for classroom construction and, through teacher training institutions, resources for teacher development. Provision of classrooms was decentralised recently with the provision of conditional grants to all local governments.

Health Infrastructure

In the health sector, districts receive resources for primary health activities (immunisation). Provision of health infrastructure such as health centres is an effort by both local government and central government, depending on the source of funding. Some districts construct health infrastructure from their own resources, while others benefit from central government funding (projects that cater for construction of health centres). NGOs also assist in the provision of health infrastructure.

Road Maintenance

Infrastructure provision such as road maintenance and construction is catered for through conditional grants. There is increasingly the method used by central government to disburse resources to local governments to implement decentralised functions, including infrastructure provision, but this will entail decentralising the development budget to release additional resources required. At the level of local

governments, the initiative for road maintenance is limited to occasional grading, fixing bridge breakdowns and using local labour to cut grass at the road sides. The revenues of local governments are inadequate to maintain the road network in their mandates, leading to many roads in rural areas being impassable.

Most local governments reported provision of equipment and recurrent resources for maintenance of roads in the domain of local governments, and classrooms have recently been constructed with funds received as conditional grants from the centre.

General Issues regarding the provision of ISP

Local governments have limited autonomy to decide on the use of conditional grants for ISP, and it was observed during the study that few local government ISP investment activities have been undertaken using unconditional grants. The unconditional grants have been used mainly to cater for recurrent expenditures. Provision of ISP is largely financed out of conditional grants provided by central government and, to a very limited extent, out of the revenues of local government.

Local governments report that they enjoy some limited autonomy in the provision of other services such as water in rural areas, primary health services and extending and repair of local road networks. However, this autonomy is dependent on resources locally available in the provision of services. The general concern of districts is the low revenue base of most local governments to provide adequate resources to finance these essential services.

The main constrain is the limited autonomy by local governments to decide on the overall use of conditional grants in the provision of various services. The sample local governments feel that the rules for these conditional grants are too rigid for effectiveness.

In the light of the above, it can be concluded that the local governments do not enjoy full autonomy in the decision-making process in the provision of ISP. Central government continues to play an important role.

6.3 Policies supporting decentralisation of specific functions and/or activities

The main policies include those aimed at supporting the decentralisation policy. The process of decentralisation was undertaken in phases. The first phase involved political decentralisation, which entailed creation of councils from district to villages, and granting these councils wide-ranging powers. The second stage involved implementing administrative reform in a phased manner by involving a certain number of districts (13, 14, and 12). The third and last element was financial decentralisation, which was also phased, as was the administrative reform.

The phasing of the process allowed lessons to be learnt and fed into the subsequent stages. The initiatives to devolve political and administrative structures as well as financial resources have reinforced each other. Devolution of political structures has built up political leadership that makes policy decisions within local governments and introduced democratic culture of governance at all levels of local government.

Administrative structures have also been devolved to provide the local governments with manpower to carry out decentralised functions. This process is regarded by local authorities as incomplete because most districts have positions which have not been filled leading to low staff levels that are inadequate to carry out all the decentralised functions.

Local governments also receive financial transfers to meet recurrent expenditures on regular basis. These resources including conditional grants support provision of infrastructure. However, the local governments visited during the survey rated government transfers as inadequate to cover their infrastructure service obligations.

6.3.1 Other policies to develop capacity of local governments

There were several legal initiatives and regulations reported by local governments that are supporting provision of ISP. The Land Act 1998 was passed and is yet to be implemented by setting up various institutional arrangements such as Land Boards, and appointing members to these boards. Recently, the Energy Bill was passed by Parliament and it is intended to liberalise provision of various energy sources. The implementation of these legal provisions will enhance the capacity of the local governments in provision of various services as it will facilitate the private sector in providing some of these services on cost basis.

The major constraint reported by local governments visited was that the sector ministries at central government are not eager to assist the local governments to develop capacity to perform their responsibilities. Inadequate resources are allocated for these capacity building efforts, that lack of their capacity is cited as an excuse for not transferring certain resources to local government. The other constraint is that the sector ministries also need capacity building efforts in areas of policy and monitoring.

6.4 Sub-national Management of Budgets and Indicators of the Actual Operative Autonomy

Introduction

As already stated, Sub-national Governments (SNGs) are regarded (both in the law and in practice) as separate levels of governments over which the centre exercises some but not total control. They have the power to plan, finance and execute development projects within their jurisdictions. It is in this light that the importance of SNGs managing their budgets should be seen.

SNGs are mandated to manage their own budgets, within the framework of national development, during the course of the financial year that runs from July to June, just like the centre. The budgetary powers of SNGs in Uganda are provided for in Article 196 of the Constitution and elaborated on in section 78 of the Local Governments Act, 1997.

Section 78 of the Local Governments Act, 1997 states:

"SNGs shall have the right and obligation to formula, approve and execute their budgets and plans provided the budgets shall be balanced.
SNGs shall always accord National Priority Programme Areas preferential budget outlays.
If the Local Government Finance Commission becomes aware that a Sub-national government Council Budget significantly detracts from priority programme areas, the Commission shall inform the Council; and the President through the Minister for appropriate action.
The Sub-national government Budget shall reflect all revenues to be collected or received by the Sub-national government and to be appropriated for each year.
A Sub-national government Budget for the ensuing financial year shall always take into account the approved three-year development plan of that Sub-national government."

There are two constraints inherent in the law namely:

- The maximum expenditure limit of 15% on councillors' emoluments and allowances as pointed out Chapter 4 - The SNGs have held a number of meetings, under the auspices of their associations, to find ways of changing this law. A memorandum has been forwarded to the Minister responsible for Local Government to this effect.
- The requirement that local governments must follow central priorities in their budgeting - The local governments, however, do not view this as a problem because the central government priorities now coincide with the devolved services.

This, in brief, captures the law outlining the requirements that a sub-national government budget must fulfil. As can be deduced from the law, SNGs are generally free to formulate, approve and execute their budgets. This is an important landmark in ensuring the fiscal autonomy of SNGs. In formulating these budgets, they appropriate revenue (from locally raised revenue, fiscal transfers as well donor funds) to both recurrent and capital expenditures.

Autonomy in Relation to Taxes

SNGs have two types of Taxes, Graduated tax (GT) and Property Tax. For GT, the tax base is set by the centre, which also sets limits (minimum and maximum) within which the tax payable per person must lie. Currently the minimum and maximum limits for GT payers are 2,000/= and 80,000/= as already noted in section 4.10 of chapter 4. The limits for GT are seen as constraints by the SNGs because they believe there are many taxpayers in their jurisdictions that are able to pay more than what is prescribed in the law. They have therefore sought to have these limits revised upwards.

For Property Tax, the law defining the tax base is a bit more liberal, defining it as any land or buildings within the jurisdiction of the sub-national government concerned. The law on property tax does set ceilings too that are payable by taxpayers. It sets maximum and minimum rates (0% & 20%). Thus, SNGs exercise more discretionary powers in the administration of property tax compared to GT. The SNGs do not feel

that these limits are constraints to them. Contrary to the limits set for GT (which are set in absolute terms), the limits set for property tax are percentages of the assessed value of the properties. Thus, SNGs have a bigger possibility for realising more revenue from this source. However, contrary to these expectations, GT contributes more to their locally generated revenue than Property taxes. Therefore, the autonomy of SNGs in relation to taxes (especially GT) is limited.

There are also regulations set by the centre that should be followed by the SNGs when administering these taxes. These, for instance, include the requirement for SNGs to use the Chief Government Valuer or his appointed representative during the valuation process. The SNGs, on a number of occasions, forwarded memoranda to the Minister of Local Government requesting these regulations to be changed. In January this year (2000), a team was constituted by the Minister to review these regulations and this team is due to report its recommendations to the Minister after two months. The team includes representatives of the SNGs as well as central government and business people.

Autonomy in relation in Relation to Tariffs

Again, there are three types of charges that are levied by SNGs thus: Market Dues, Fees from Motor vehicle parks and Licences & Permits. For all the charges, the SNGs have the power to determine the base and the rates. They (SNGs) therefore exercise complete autonomy as regards the administration of these charges.

The autonomy of SNGs in relation to the sources of revenue assigned to them can thus be summarised as follows:

Table 6.1: Assessment of Expenditure Autonomy exercised by SNGs as determined by Local Sources of Revenue

Revenue Source	Who sets tax base	Who sets rate[#]	Share (%) in total locally collected revenue (average)
GT	Centre	Centre/Local[93]	78
Property Tax	Centre	Centre/Local[94]	5
Market Dues	Local Govt.	Local Govt.	10
Licences & Permits	Local Govt.	Local Govt.	5
Fees from Motor Vehicle Parks	Local Govt.	Local Govt.	2

In Kampala City, autonomy to setting tax levels and imposing new ones is retained by Kampala City; its divisions do not enjoy that autonomy, as legally required for councils at the sub-county/division levels.

At the local government level, there is transparent formula for sharing revenue collected among the various levels of local government, but in all the local

[#] Where both centre and local government appear, the former is involved in setting lower and upper limits, while the latter specifies the rate payable per taxpayer.
[93] Within a ceiling
[94] Centre sets range of rates and values properties. Local governments set the rate chargeable.

governments visited during the study, there are some examples of lack of implementation of these rules.

Autonomy in relation to Grants

In section 4.2.5, it was stated that there are presently two types of grants (unconditional and conditional grants), with a possibility of introducing a third (equalisation grant), whose negotiations are in advanced stages. For unconditional grants, there are no conditions. However, the biggest share of this grant (60%) mainly goes to pay wages of the local government employees. It is not earmarked, but this is generally the practice among SNGs. This is due to historical reasons. Initially, the grant was an amalgamation of the funds being used by the centre to run the departmental field offices that were delivering decentralised services. It so happened that the wage component made up the biggest percentage of those funds.

The unconditional grant forms part of the locally generated revenue of the sub-national government to which it is given. The funds can thus be used by the SNGs as they wish as long as they are spent within the national priority areas that presently coincide with the devolved services.

On the other hand, the uses to which the conditional grant funds can be put are spelt out in great detail by the responsible line ministries. Any divergence from the set uses without authorisation from the centre is often met with punitive measures. The SNGs, therefore, have no possibility of integrating their priorities in the use of conditional grant funds.

Participation in the National Budgetary Process

Regarding consultation with SNGs on the size of the grant envelope, they are involved in the national budget process. However, there are no legal safeguards to ensure that their views are taken into consideration which finalising the financial allocations. Thus, current national budget process is more of an informative than a participatory process. Once the total grant envelope is decided upon by Cabinet, it is distributed among the sub-national governments using already set criteria. Therefore, the SNGs do not have much possibility for influencing the size of the envelope, either at the national level or at their individual levels.

In the FY 1998/99, SNGs were for the first time involved in the national budgetary process at the very early stages in order to tackle the problem of expenditure planning. Workshops and seminars were organised in October and November. At these workshops, the resource envelope for the next financial year was communicated to them with the intention of giving them enough lead in planning and budgeting especially for the intergovernmental fiscal transfers. Though the actual fiscal transfer figures for each sub-national government were not indicated, there were indications of the likely level of growth in these grants to help them not to over-estimate the expected transfers from the centre. This has always been a major problem in sub-national government budgeting.

Of perhaps even greater significance to sub-national budgeting has been the Local Government Budget Framework Paper workshops that have been conducted by the Ministry of Finance and that of Local Government starting the FY 1998/99. The financial years have been synchronised for both the centre and SNGs. The plan is to incorporate the Local Government budget framework paper (LGBFP) into the national budget framework paper (BFP) in the coming financial years. In the FY 1999/2000, the budgeting process began with the holding of the central LGBFP workshop at the end of November. The steps to be followed are specified in the table below:

Step	**Outputs**	**Timing**
Central LGBFP workshop[95]	Present district budget ceilings and outline planning process	November
LGBFP regional workshops[96] (first phase)	Review of progress in sectors and presentation of sector specific guidelines. Identification of sector strategies and priorities	January
Preparation of preliminary LGBFPs	First drafts of the work plan	February
LGBFP regional workshops (2nd phase)	Review of first drafts of the work plan	March
Preparation of final work plan	Work plans ready to be implemented and presented to line ministries	End of April

Already, steps 1) and 2) have been completed.

The main objective of the LGBFP process is to help local governments come up with more precise estimates of revenue and expenditure as well as ensure the involvement of all stakeholders in the planning and budgetary process. The aims of the LGBFP workshops have been to:

- enhance the capacity of SNGs in planning and budgeting;
- increase their awareness of the importance of involving all stakeholders in the budgetary exercise; and
- guide the SNGs in framing realistic expenditure and revenue budget estimates (this has been a problem for some SNGs especially concerning local revenue).

As regards central transfers, the situation was better when the sub-national government financial year used to start in October. SNGs were in a position (then) to know the exact amount of central transfers they expected. The situation is now different. The financial years (of the centre and SNGs) have now been synchronised. The SNGs are supposed to present their budgets at the same time as the centre. It is therefore not possible for them to know in advance precisely how much to budget for as central transfers. Knowing that central transfers constitute a big percentage of local revenues (refer section 4.2.5), the process of effective sub-national government budgeting is thrown off-balance.

Autonomy in relation to External Finance

[95] First contact between the Centre and SNGs in the new budget year; workshop is organised at the national level.

[96] Further contact between representatives of line ministries, ministry of finance, LGFC, SNGs, technocrats and politicians; dialogue is on preparation of mutually acceptable work plans to be funded by conditional grants.

SNGs do not presently contract any loans, as noted in section 4.2.6. The only other source of external finance is donor funding, which is given in form of grants. The autonomy of SNGs in relation to donor funds varies from donor to donor. Some donors, like the UNDP-UNCDF funded DDP project and the DANIDA funded LGDP give funds in form of budget support, thus allowing for considerable degree autonomy for the SNGs in choosing the priorities. Others are much more rigid allowing only a minimal input from the beneficiaries like in choosing the site for the location of a certain infrastructure.

Autonomy as regards Expenditure

Expenditure autonomy is determined by two factors namely the nature of the local budgetary process and secondly, the source of the revenue to be expended. The revenue sources and the conditionalities attached have already been stated above. It should be noted that the development budget is still centralised. So, the biggest percentage of the expenditure made by SNGs (in some cases up to 100% as evidenced in tables for the sample local governments attached in annex) is recurrent. Where expenditure of a capital nature is made, it usually derives from either the sub-national government's own financial resources (in which case it exercises complete autonomy) or from donor resources. The conditionalities attached to donor funds and therefore the autonomy that can be exercised by the sub-national government varies from donor to donor.

Budgeting at the Sub-national Government Level

The budgeting process at the sub-national government level follows seven stages, namely:

- Stage 1: Budget Conference (Jan.- Feb.): This conference is attended by Councillors (local politicians), including the Chief Executive, Heads of Department and if possible a representative of the central government. During this conference a list of political priorities for the council are discussed and agreed as well as guidelines for sectoral allocations.

- Stage 2: Identification of Sectoral Priorities March-April): At this stage, the Chief Executive as well as members of the standing committees of council (including heads of department) set sectoral policy guidelines and agree on costed sectoral priorities.

- Stage 3: Review of costed Sectoral priorities (April- May): Here, members of the standing committee for Finance, together with the heads of departments, review the proposals made by the various standing committees and try to establish sectoral linkages. The output of this stage is a draft budget proposal for the council.

- Stage 4: Preparation of Final Draft Budget (May): The standing committee responsible for Finance, the technical planning committee and the chairmen of the standing committees meet to consider the draft prepared at stage 3. Reviews

are made of the financial allocations as well as the prioritisation. The draft is then taken to the Local Council Executive.

- Stage 5: Finalisation of the Draft Budget Proposal (June): The Executive meets to consider the draft budget as well as the comments from stage 4. The Executive makes the final changes and approves the final draft.

- Stage 6: Council Hearing (by June 15): The chief Executive through his secretary for Finance tables the budget and seeks council approval as the sub-national government's tool for the appropriation of the expected revenue to accrue to the council.

- Stage 7: Implementation and Monitoring (rest of the financial year): After the budget is debated and passed by the council, it is now the responsibility of the Chief Executive, his cabinet, the standing committees and the heads of department to develop detailed implementation plans, prepare performance reports and generally ensure that the resources so mobilised are used for the good of everybody within the jurisdiction of the council.

As is clear from the process described above, the local governments do not have to seek approval of their budget proposals by the centre. The budgets are drawn, debated and approved by the local governments themselves.

Thus, the autonomy of SNGs as determined by the contribution of the different sources to total local revenue is summarised as follows:

Table 6.2: Assessment of Expenditure Autonomy exercised by SNGs as determined by different Sources of Revenue

Revenue Source	Who determines priorities	Share (%) in total local revenue (average)
Local Taxes[97]	Local Govt.	9.6%
Local Tariffs	Local Govt.	5.3%
Unconditional Grants	Local Govt.	15.0%
Conditional Grants	Centre	50.1%
Donor Funds	Donor/Local (Varies)	17.0%
Others	Local Govt.	3.0%

Source: Table 4.2.4 in annex (FY 1998/99)

In conclusion, it can be said that SNGs in Uganda do exercise a considerable amount of autonomy over their budgets. This autonomy is provided for in the law. However, the practice of sub-national government autonomy has been limited by the fact that the centre remains the biggest source of funds for the local governments. Thus:

Some central authorities have been reluctant to cede all their power to SNGs. They have continued to exercise control over sub-national government budgets by 1)

[97] There are limits set by the centre on rates and amounts of tax chargeable by SNGs, as already specified above.

increasingly transferring funds to them via conditional grants and 2) by transferring unconditional grants to them at levels just sufficient to cover only salaries and wages of the decentralised staff.

The revenue generated from own sources has not increased sufficiently to enlarge the SNGs' discretionary authority. Consequently, the low contribution of locally generated revenue to total sub-national revenue has limited their exercise of discretionary authority.

The development budget has remained centralised through the present, and SNGs are barely in a position to lay aside some of their resources for development projects. SNGs do not levy any tariffs or do they incur any loans for purposes of ISP. So, much as the legal framework now in place is adequate to guarantee the autonomy of SNGs as regards budgeting, a lot more needs to be done to operationalise these legal provisions. The plans of the World Bank and DANIDA to transfer more and more capital resources to the sub-national government level is a welcome move in as far as they extend the frontiers within which the SNGs can exercise their autonomy.

6.5 Private sector involvement in ISP

There are no specific regulations clearly defining involvement of the private sector observed in the districts. Liberalisation of the economy started only a few years ago, and the bulk of ISP was provided by the public sector. In sampled districts, the private sector was engaged in the provision of cleaning services. In Kampala, a private firm has been contracted to provide car-parking services. The involvement of the private sector in the provision of ISP has potential for growth. The Table below shows the current ISP provision in most of local governments visited:

Type of ISP	Private sector Involvement
Roads (Feeder)	Nil except when contracted to do the job
Schools	Yes, Private schools especially urban areas
Health centres	Yes, there are private hospitals, clinics.
Transport	Private involvement is strong
Water Supply	Very insignificant by way of delivery of water tanks to affluent home owners
Sanitation	Partly provided in urban areas, and also provided by owners of houses
Solid water management/disposal	Individuals provide where there is no public sewer system

Regulations governing District Tender Boards are in Appendix 2. All sample districts have operational Tender Boards. The constraint of the Tender Boards reported in the sample local governments is lack of resources to advertise the tenders, the competence of their members to evaluate the tenders and the secret involvement of councillors and district staff in the tendering process, which undermines the integrity of the Board.

6.6 Constraints on the operative autonomy of local governments in mobilising resources and long term planning

The main regulatory constraint in mobilising resources for long term planning lies in the fact that central government, through the Ministry of Finance, controls the borrowing of resources, and it has to maintain macroeconomic budget ceilings at acceptable levels to assure macroeconomic stability. Long term funding can be accessed by local government with full knowledge and approval by central government. Moreover, lack of a buoyant capital market limits the capacity of local governments to borrow local resources even if the regulations permit. Local governments have limited assets to effectively participate in such market

6.6.1 Constraints in relation to Land Management, use and registration

The new Land law 1998 has provided a framework for the decentralisation of the management of land to District Land Boards. While Land Boards at the district level have been appointed, and workshops have been held for trainers and some NGOs, there is yet more work to address land issue. DFID is supporting the Ministry on matters of the Land Act. More time is required to see the effects of the new Land Act, especially after sensitisation at LC3 and LC1, which is being planned in the near future.

These activities have been decentralised, but the districts councils retain power over these activities. Lower levels of local government are yet to exercise powers prescribed in the land law. Resources were provided in the current budget for the full implementation of the land law. Sensitisation of the public is currently underway countrywide.

6.6.2 Constraints to physical planning and construction

The authority for physical planning and construction is vested in local governments, but some local governments (including Kampala City Council) lack implementation and enforcement machinery, giving rise to unplanned and illegal structures in many areas.

6.6.3 Constraints in relation to national investment requirements

Local governments do not have designated areas for industrial development, and this reduces their capacities to attract foreign investors. This situation leaves the responsibility to central government, which faces problem of acquiring land for industrial growth. Few districts in Uganda (Kumi district) have set aside some land for industrial development.

6.6.4 Constraints to issuing concession rights concerning ISP

This area has not been thought about in general. It requires conceptualising the idea and determining how best it can be introduced.

6.6.5 Constraints in relation to external finance for additional ISP

Securing external finance (with the exception of Kampala City Council) is an activity done by central government as part of resource mobilisation. The major constraint is that the negotiating and loan servicing ability of local government is limited. The practice is for central government to mobilise external financing and disburse it to local governments.

6.6.6 Constraints concerning external finance of sub-national governments

Local government autonomy in external finance mobilisation and decision-making is extremely limited in Uganda. However, where donors are approved by central government to provide resources directly to a specific local government i.e. (DANIDA in Rakai and the Dutch Government in Soroti, Lira and Arua), local government enjoy autonomy on expenditure decision-making. The major constraint in this area is that the role of mobilising external financing and servicing external loans is legally vested in central government for the sake of maintaining macroeconomic balance. A good example is that the recent World Bank loan to Kampala City Council had to be guaranteed by the government. The other limitation is the capacity of local government to service such loans from their own sources without creating macroeconomic imbalance.

CHAPTER SEVEN
INSTITUTIONAL ENVIRONMENT

7.1 Potentials and constraints in Sub-national Government Initiative and Management

Uganda's Choice of decentralisation by devolution means that it recognises sub-national governments as separate levels of government with political, planning, administrative and financial powers. These powers are enshrined in the supreme law, the Constitution. These powers are stated in Article 176 of the Constitution, which states:

(1) 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 shall by law provide.

(2) The following principles shall apply to the local government system--
The system shall be such as to ensure that functions, powers and responsibilities are devolved and transferred from the government and in particular from the higher to lower government units to ensure people's participation and democratic control in decision making...
(e) Appropriate measures shall be taken to enable local government units to plan, initiate and execute policies in respect of all matters affecting the people within their jurisdiction;
(f) persons in the service of local government shall be employed by the local governments; and
(g) the local governments shall oversee the performance of persons employed by the Government to provide services or the implementation of projects in their areas.

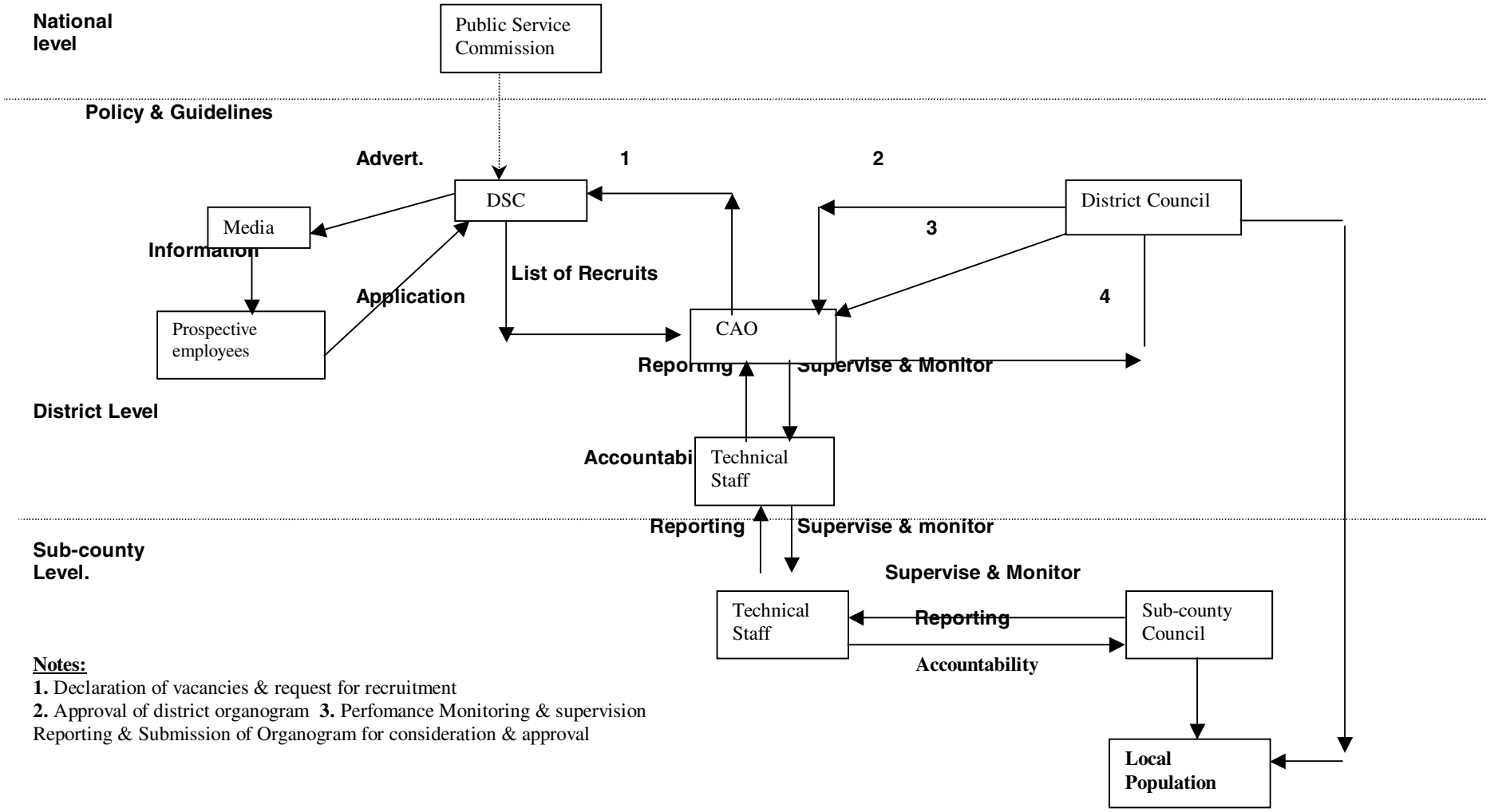
The above Constitutional provisions do not only show a strong commitment to build a strong local government system, but also by implication show the need to build and maintain a strong separate human resource system for the Local Governments.

From the Constitutional provisions, it is clear that the local governments are not only responsible for managing the human resources that are deployed to deliver the devolved services but are also charged with the supervisory powers over central government staff deployed within their jurisdictions to deliver central government services. This means then that they (the local governments) have the power to manage their own human resources including the power to "hire and fire" (Art. 176 (2) f) as well as supervise the efficiency of central government staff deployed in their jurisdictions (Art, 176 (2) g).

Like at the national level, the power to recruit and 'fire' local government staff is entrusted with the Local Government Councils through the District Service Commissions (DSCs), while the supervisory role is managed by the District Chief Administrative Officers (CAOs) or the Town Clerks. The DSC is one of the boards

and Commissions constituted by the District Councils to perform specialised functions. The others include the District Tender Board (DTB) and Local Government Public Accounts Committee (LGPAC). Constituting of either 5 or 7 members, the district councils delegate to them the responsibility of appointing suitable candidates to the various vacant positions in the organogram approved by them. The process of local government staff recruitment and management is as specified in Chart 7.1 below.

Chart 7.1: The Process of Local Government Staff Recruitment and Management



Notes:
1. Declaration of vacancies & request for recruitment
2. Approval of district organogram **3.** Perfomance Monitoring & supervision
Reporting & Submission of Organogram for consideration & approval

Legal Status and Functions of District Service Commissions

Establishment of District Service Commissions

DSCs are established under Article 198 of the Constitution and Section 55 of the Local Governments Act No. 1 of 1997. Each District has one District Service Commission, which is meant to serve all the local governments within that district. A District Service Commission consists of a Chairperson and such other Members as determined by the District Council, at least one of whom represents Urban Authorities. The number of DSC members in the sample local governments was either 5 or 7. For instance, in Mukono district. it was 7 and in Lira district, it was 5.

The Chairperson and Members of a District Service Commission are appointed by the **District Council** on the **recommendation** of the District Executive Committee with the approval of the Public Service Commission. The district council has the final word in the appointment of members of the DSC.

According to Article 198 (3) of the Constitution, Members of a District Service Commission are persons of high moral character and proven integrity. Section 57 of the Local Governments Act, 1997 does not only restate the above Constitutional provisions but also adds on two more qualifications for one to qualify for appointment as Member of a District Service Commission. These are:

The person must have a working experience of not less than ten years in a responsible position.

The person is ordinarily resident in that District.

Role or Functions of the District Service Commissions

The role or functions of the DSCs are clearly spelt out under Article 200 (1) of the Constitution and Section 56 (1) of the Local Governments Act, 1997. According to those legal provisions, the power to appoint persons to hold or act in any office in the service of a District, including the power to confirm appointments, to exercise disciplinary control over persons holding or acting in any such office and to remove those persons from office is vested in the DSCs.

It is important to emphasise that with the coming into force of the 1995 Constitution, DSCs have full powers to handle all employees of the local government councils from the lowest person to the most senior who is the Chief Administrative Officer. The DSCs do **not** operate under **delegated powers** from the Public Service Commission but rather from the local government councils. The role of the centre is to ensure that persons are appointed to the DSCs purely on the basis of merit and also that the DSCs conduct business in a fair and impartial manner. The centre can intervene with corrective action if the DSCs act in a manner contrary to what is written in the law.

From the foregoing, it is clear that DSCs play a pivotal role in the human resources management of the Districts. This is because once the appropriate District Staff Structures are approved by the District Councils and the posts spelt out, it is

incumbent on the DSCs to identify and appoint persons of the right qualifications to fill the posts. In other words, DSCs have to ensure that the **districts acquire, develop and maintain a workforce with the right calibre** to man the various posts. As it may be appreciated, the powers given to the DSCs and the functions arising therefrom are so important that, if not exercised properly, they can be detrimental to the Districts in terms of development and resource utilisation.

Operations of the District Service Commissions

Independence of the District Service Commissions

Independence of the DSCs in the performance of their duties is guaranteed by virtue of the provisions of Section 59 (1) of the Local Governments Act, 1997. However, that independence is subject to the provisions of Article 166 (1) (d) and 198 (5) of the Constitution as well as Section 56 (8) of the Local Governments Act, 1997. Under Article 166 (1) (d), it is the duty of the Public Service Commission to guide and co-ordinate the DSCs to ensure uniformity of standards within local governments. Article 198(5) and Section 56 (8) of the Local governments Act, 1997 require the DSCs to conform to the standards established by the Public Service Commission for public service generally. The requirement to comply with national standards is a good safeguard to ensure that the persons recruited by the DSCs have qualifications that are nationally accepted and that local governments have access to the same technical skills.

The independence that is guaranteed to the DSCs (in terms of the decisions made) is to shield them from possible undue pressures from the District Councils, which appoint them. With those legal guarantees, the DSCs should be fair, firm and impartial. Experience on the ground is however different. According to the DSCs of the sample local governments, the District Councils still indirectly try to control them by making their level of funding negotiable. The affected district councils however dismissed this as untrue since local councils are themselves inadequately funded and together with the DSCs all have their allowances and emoluments limited to 15% of the revenue collected by the local councils the previous year.

The advantages of having DSCs serving all SNGs within the territory of the district is that it reduce the overhead costs and the risks of manipulation by local politicians compared to a situation where each SNG appointed its own service commission. The disadvantage is obviously, that the DSC costs are only born by the district councils.

Compliance with National Policies for the Public Service

Policies for the Public Service are made from time to time and communicated in form of Circular Standing Instructions, Establishment Notices Legal Notices, etc. DSCs have to take into account Government Policy when doing their work. One example of known policy is that Ugandans are free to compete for jobs they qualify for throughout the country. It is also a known policy that all appointments including promotions should be based on merit before any other considerations. With such known policy, looking for "*daughters and sons of the soil*" in matters of engagement and promotion runs counter to well founded policies and should be resisted.

It is a common fear that decentralisation will lead to sectarian tendencies in the local governments as local political leaders are swamped with job applications from their supporters. The requirement therefore for the recruitment and management of local government staff to conform to national policies for the public service is meant to safeguard the interests of local public employees against the possibility of local manipulation. However, much as the local government employees interviewed denied the possibility, there was evidence that they are sometimes compromised by their political colleagues often with the threat of loss of jobs.

Relationship with the Chief Administrative Officer

By the provisions of section 56 (4) of the Local Governments Act of 1997, DSCs meet to consider cases for recruitment, promotion and disciplinary action only upon the request and submission from the relevant Council. That is, they receive and act on requests by CAOs as representatives of their respective District Executive Committees (see chart 7.1)

Based on the opinion of the sample local governments, imposition of national policies on local government staff management has rendered local government service delivery ineffective. For instance, Section 62 of the Local Government Act requires local governments to compensate employees whose services are terminated by the local council contrary to the terms and conditions of the public service or against the ruling of the Public Service Commission (PSC), with the following benefits:

- one year's gross pay in lieu of notice;
- pension;
- Basic Salary in lieu of officially earned leave
- severance package equivalent to 6 months' basic pay for every completed year of service; and
- transport expenses to the district of origin, etc.

The local governments argue that there are very few districts, if any, which can afford to "fire" an employee under these circumstances even if the affected employees are proven inefficient in the performance of their duties. This has led to accumulation of inefficient staff among their ranks and made trimming of local government staff generally difficult.

In the course of their work, Members of DSCs come across cases like non-confirmation in appointment, complaints about lack of promotion, etc. In such cases, DSCs draw such cases to the attention of the Chief Administrative Officer for his or her necessary action.

Decisions of the DSCs are communicated in form of Minutes to the Chief Administrative Officers to implement. A Chief Administrative Officer has no power or right to alter a decision of a District Service Commission. If there is a mistake or something crops up necessitating alteration of a decision taken by a District Service Commission, the **only** course of action open to the Chief Administrative Officer is to

make an appropriate submission to the District Service Commission requesting it to change its earlier decision.

A District Service Commission is **not** answerable to the Chief Administrative Officer or any other person or authority (section 59 (1)). However, according to Section 59 (2) of the Local Governments Act, 1997, the District Service Commission submits reports of its performance to the District Council, the Public Service Commission, the Education Service Commission and the Health Service Commission.

Communication

As already stated, DSCs act on submissions made to them by the respective Chief Administrative Officers. Decisions on those submissions are received back in form of minutes.

At the District level, the Chairperson of a District service Commission does NOT normally write directly to the Chief Administrative Officer. If there are issues the District Service Commission would like to raise with the Chief Administrative Officer, it directs its Secretary to convey the same. On the other hand, there should be a healthy working relationship between the Chairperson of the District and the Chairperson of the District Service Commission. The two Chairpersons are free to communicate with each other on all matters of mutual interest. In practice however, experience from the sample local authorities shows that indeed the communication takes place but only that the Chairpersons of the DSCs appear to be in a subordinate position. This is because the district councils provide funding for the DSCs.

DSCs have **no direct relationship** with individual employees in the Districts. Matters relating to individual officers are directed to the Chief Administrative Officers.

Appeals by Persons Employed in Local Governments

By virtue of the provisions of Article 166 (1) (e) of the Constitution and Section 60 (2) of the local Governments Act, 1997 an employee of a local government aggrieved by a decision of the District Service Commission has a right to appeal to the Public Service Commission. That avenue for appeal puts the DSCs on guard to take carefully considered decisions, which are not easily overturned on appeal.

Staff Strengths in Local Governments

As has been shown already in chapter 3, the number of districts has increased from 33 in 1984 to forty five at present. The demarcation of new districts has been mainly due to political pressures. Often, there is no consideration for the size of the service populations or the financial viability of these new districts. Thus, there are wide variations between not only districts but also other local governments regarding the jurisdictions sizes, service populations and revenue bases. On the other hand, however, these local governments have about the same level of staffing requirements (though there are slight variations due to differences in the staff structures approved by the different district councils), which implies that these districts have about the same level of cost overheads. This translates into higher costs per unit for the smaller

jurisdictions, because of higher cost overheads per unit as far ISP is concerned. Below is an illustration of these differences within the sample local authorities.

Table 7.1(a): The Jurisdictional sizes, Service populations, Infrastructure maintenance responsibilities and staffing levels

District/ Urban Council	Jurisdictional Area (Km^2)	Service Popn.	Length of Roads	Total no. of approved staff.	No. of staff in post.	Staff per unit Popn.
Kampala	184	878,600	450	806	806	1,090
Bushenyi	4,384	739,815	704	706	531	1,393
Rakai	4,973	448,483	1,355	647	514	873
Mukono	14,242	1,063,227	606	1131	959	1,109
Lira	7,251	619,560	645	528	407	1,522
Kotido	13,208	240,059	425	539	217	1,106
Urban						
Mukono	31	32,074	13	35	37	867
Mbale	25	118,887	36	113	89	1,336
Lira	36	60,577	47	102	92	658

Shortages of skilled staff in local governments are amplified even further by looking at the staff gaps categorised into three groups. The Scale U1-U3 salaried staff who comprise the top management of the local government bureaucracies. These are in most cases experienced graduate staff. The next group (U4 - U5b) comprise the middle management group who often supervise the day-to-day work undertaken by the local governments. These are either graduates with limited experience or experienced diploma graduates. The last group comprises of support staff, who are diploma or certificate graduates.

Table 7.1(b) : Staff Strengths of the Major Technical Management Categories

District/Urban Council	Political	Managerial/Technical staff (in post)		
	No. of Councillors	Senior Management (U1-U3)	Middle Management (U4-U5b)	Lower level Staff (U5c-U8)
Kampala	31	77	96	633
Bushenyi	48	23	80	428
Rakai	45	21	78	415
Mukono	63	16	140	803
Lira	49	18	51	338
Kotido	40	19	26	172
Urban				
Mukono	16	2	5	30
Mbale	14	10	10	69
Lira	18	7	24	61

As will be discussed in section 7.3, there are still significant staff gaps at the top and middle management levels.

Major constraints faced by Local Governments in Recruitment and Management of Staff

The main constraints that local governments face in the recruitment and management of staff are mainly financial. Local governments need money to pay sitting allowances to members of the DSC. Since the decentralisation of staff management and recruitment to local governments, the workload and therefore frequency of meetings of the PSC has reduced.

Naturally, this would have been followed with devolution of some of the funds 'saved' at the national level to the local governments to facilitate DSC work. However, no such funds have been devolved to local governments. In addition, the law further requires that the allowances and emoluments of the DSC, the DTB, the LGPAC and the District Councils and their sectoral Committees be paid within a limit of 15% of locally collected revenue. There are no similar limits for the salary and allowances of the technical and administrative staff.

This has constrained the local governments by limiting the frequency of meetings of the DSCs. For instance, Lira Municipal Council has left some positions unfilled until such a time that the Municipality is able to raise enough money to pay for the sitting allowances of the DSC. Mukono district has tried to reduce the frequency of DSC meetings by ensuring that adequate preparations are made before convening the DSC, which then sits strictly once a month. Each of the seven members of the DSC is paid 80,000/= in sitting allowances per day of sitting. As a way of comparing, CAOs get about 30,000/= per working day in salary minus allowances.

Since meetings are held only once a month, this amounts to a minimum expenditure of at least 7 million per annum on the allowances of the DSC members. Most other local governments cannot afford monthly meetings of the DSCs. Considering the number of recruitments, promotions and disciplinary cases to be handled by DSCs on local government employees numbering over 500, there is no telling as to the inefficiency with which the DSCs do their work.

The second major constraint entails the inability of local governments to offer reasonable pay packages to attract and retain staff within their ranks. The share of the local government wage bill in the unconditional grant, which is the main source of funds for payment of salaries and wages, ranges from 60% to over130%. Lira municipality has a monthly wage bill of 17 million compared to 8.1 million received monthly in unconditional grants. At the same, the municipality collects 48 million in locally generated revenue monthly. This means that for the municipality to pay basic salaries and wages (minus allowances), it needs 100% of the unconditional grant plus 18% of the locally collected revenue.

There is a 1) continuous advertising (for lack of suitable applicants) in the media resulting in waste of resources or 2) high staff turnover thus increasing the frequency and costs of advertising and sitting of the DSCs. These two issues will be developed further in the next sections.

With decentralisation, however, employees are not transferable between Districts or Urban Authorities. One of the issues being raised by the employees is that since there is *no opportunity* to work in different areas, the chance to widen one's experience is virtually lost. Although this is a genuine concern, solutions to it may not be easy. Nevertheless, the Central and the Local Governments may have to consider a scheme whereby there are exchanges of different cadres of staff at regular intervals between Districts.

7.2. The Sub-national government decision making process and adaptability to local need and conditions

There are local councils at all levels of local government. These local councils consist of elected councillors. In case of the sub-counties, parishes form the electoral areas. In case of districts, sub-counties form the electoral areas. In each case, the Chairman is directly elected by universal adult suffrage. The Chairman nominates members of his executive committee who are vetted and approved by the local councillors.

The local council is the supreme decision-making body within its jurisdiction as regards the functions devolved to it. Therefore, the decisions of the local council are only subject to the views of the inhabitants and must be in conformity with national policies and standards. To ensure that the decisions reached at by the local councils at their sitting conform to the views of the population and national policy, they do the following:

- The councillors consult with their inhabitants regularly when the council is not sitting.
- The local council executive committees hold public hearings to seek views of the inhabitants on particular subjects or programmes/projects.
- Through their technical heads of departments, consult with their national counterparts to ensure that local decisions are in conformity with national policy.

In essence, therefore, the local council acts as the legislature at the local level, while the local executive committee acts as the executive at the local level. Like at the national level, the local executive committee has a technical wing, which helps to translate local decisions, policies and campaign manifestos into technically viable activities on the ground.

At the district level, the technical wing is headed by a CAO who is supported by such other technical officers decided upon by the local council. At the sub-county level, the technical wing is headed by the sub-county Chief supported by other technocrats decided upon by the district councils. Though the sub-county chief reports to and is supervised the sub-county local council, he/she is recruited, paid and can only be 'fired' by the district council through the DSC.

This contradiction in a number of cases has proved to be a point of conflict between the districts and the sub-counties where the two do not agree. The district may, in such cases, attempt to use the sub-county technical staff to achieve its own objectives. For instance, the assistant town clerks in charge of the divisions in Kampala City Council are recruited and posted by the City Council. They are however supposed to

report to the division council. The division councils have failed to enforce the requirement that the city council and the division councils share local revenue with each taking 50%. This is because the town clerks and all staff working in divisions had dual allegiance and the City Council had a strong hold over them. Nama sub-county has also expressed fear of such a situation arising. Before the enactment of the Local Government Act of 1997, the sub-county was retaining 80% of the revenues collected by it and paying its staff. Now, the sub-county retains 65% of its revenues and payment of sub-county staff has been taken over by the district.

Relationship between Staff and Local Politicians

The relationship between staff and local politicians varies widely among local governments. While in some local governments, this relationship is that of co-operation and support, in others, there are conflicts especially between the CAO and the local politicians. In most of the cases, the conflicts arise from suspicions on the handling of finances by the CAOs. In these cases, the local councillors allege that the CAOs team up with some members of the local executive committees to embezzle local funds. For instance, among the sample local governments, such a case of misappropriation of funds was reported in Rakai.

While such allegations turn out to be true in some cases, they prove to be false in others. Unfortunately, however, by the time the truth (or falsehood) in these allegations is established, the suspects (CAO or CFO) would have been terminated and maybe even replaced by the local politicians. This situation has served to spread fear among staff in some local governments.

There is limited interaction between the CAO and the Resident District Commissioner (RDC), who acts as the central government representative at the district level, regarding the day to day running of district affairs. The RDCs relate more to the Chairmen of the local councils than the bureaucrats. The cordiality of the relationship between the Chairmen of the local councils and the RDCs also varies widely among local governments. While in some local governments the relationship is warm and cordial, in others, it is problematic. As a result, some local councils have even caused the transfer and replacement of some RDCs.

Relationship between staff and the Centre

Central governments no longer relate directly with the staff of local governments. Instead, the relationship is with the district councils as government entities. Communication of the decentralised staff with the central bureaucrats or politicians is co-ordinated by the CAO or the District Chairperson, respectively. While the relationship of the district councils with the Ministry of Local Government has always been cordial, the relationship of the district councils with the Ministry of Finance was strained in the early stages of decentralisation due to financial misunderstandings. However, with the formation of the Local Government Finance Commission and the Uganda Local Authorities Association, the relationship has greatly improved, as the two organisations have tried to bring the local authorities and the Ministry of Finance together.

7.3. Managerial Potential and Constraints for sub-national Governments

As has already been stated in the earlier sections of this chapter, the sample sub-national governments did not express major constraints regarding the legal framework on staff recruitment and management except for the provisions on financial compensation of retrenched employees. The law authorising the sub-national governments to recruit, re-structure or "fire" non-performing staff is already in place. The DSCs, which are responsible for the recruitment, discipline and retrenchment of staff, are operational in all districts. The only problem with the DSCs is that they are inadequately funded.

Sections 63-70 of the Local Governments Act, 1997 provides for the self-governance of the administrative staff within the local governments. The local government councils are responsible for the formulation of local policies and taking decisions with advice from the local government technical staff. These must be within the framework of the national law and national guidelines. The technical staffs, headed by the Chief Administrative Officers and Town Clerks, are responsible for the management and implementation of the policies and decisions taken by council.

However, by sub-national governments being empowered to recruit, discipline and retrench staff is only one part of the equation. The ability to attract the right kind of staff and more importantly retain them is even more pertinent.

7.3.1. Potentials and Capabilities of sub-national governments to attract comprehensive manpower resources

In a study of the experiences of a number of developing countries, Nellis and Rondinelli suggest that in the early stages, decentralisation may create greater shortages of skilled manpower because it encourages more groups, communities and levels of administration to undertake development activities[98]. Uganda has experienced a somehow similar situation. As the table below illustrates, some skill gaps still exist among local governments despite their being legally empowered to fill these positions.

The analysis has been split into three major skill categories summarising the major skill requirements of the sub-national governments. The first category comprises the employees in the salary range U1-U3. These are chiefly managers for ISP. They consist of the top management of the districts and urban authorities like the chief administrative Officers and their Deputies, the Town Clerks and their Deputies as well the Heads of the various local government Departments. These are University Graduates, with a minimum of at least three years working experience.

The second category comprises of those employees in the salary range U4-U5b. This category consists of the people who actually "get their hands dirty" in the ISP. These

[98] Dennis A. Rondinelli and John R. Nellis, "Assessing Decentralization Policies in Developing countries: The case for Cautious Optimism," Development Policy Review, Vol. 4 no.1 (March 1986), p.19.

employees supervise the actual construction of Infrastructure or its rehabilitation or rectification in case of a problem. They are usually university graduates or diploma holders with a reasonable number of years in working experience (usually above three years).

The last category, U5c-U8 salary range, is generally technical support staff. They have qualifications ranging from ordinary level certificate, professional certificates to diplomas.

Table 7.3: Staff Gaps (Deficiencies) existing within the Sampled Local Governments

Local Authority	**Technical /Managerial Posts Unfilled.**			
Districts	**Top Cadre Staff (U1-U3)**	**Middle Cadre (U4-U5b)**	**Lower Cadre (U5c-U8)**	**Total**
Kampala	0	0	0	0 (wholly filled)
Bushenyi	10 (30%)	78 (49%)	278 (39%	366 (41%)
Rakai	12 (22.2%)	41 (34.5%)	80 (16.2%)	133 (20.6%)
Mukono	20 (55.6%)	50 (26.4%)	102 (11.3%)	172 (15%)
Lira	8 (31%)	17 (25%)	96 (22.1%)	121 (23%)
Kotido	3 (14%)	28 (52%)	291 (63%)	322 (60%)
Urban.				
Mukono T.C	-	1 (17%)	-3 (have excess)	-2 (Excess)
Mbale M.C	(17%)	10 (50%)	12 (15%)	24 (21%)
Lira M.C	2 (22%)	1 (4%)	7 (10.3%)	10 (9.8%)

Notes:
The gaps are determined based on approved district organograms.
The figures above include sub-county technical staff since they are recruited, paid and treated as part of district staff working posted at that level.
Lira municipality has substantially reduced gaps because they have just completed a major recruitment exercise.

As is evident from the table above, there are differences in the skill shortages among the various sample local authorities. From Kampala City Council, where all the staff positions are filled up to Kotido district where up to 60% of all the posts are still unfilled. There are also differences in skill deficiencies in the various salary scales among sample local authorities. For instance, in Mukono and Lira districts, the greatest skill shortages occur in the top management (Salary Scale U1-U3). In Bushenyi district, Mukono town council and Mbale municipal council, the greatest skill shortages occur in the middle level staff (salary scale U4-U5b). In Kotido, there are great skill shortages in the middle and lower level staff.

There is no concrete list of proven causes of these skill shortages among sub-national governments. However, investigations done by a number of studies conducted by central institutions point to three factors, namely:

- the ability of a particular local government to provide adequate remuneration for its employees (revenue base);
- poor level of infrastructure coverage in the local government (schools, communication, transport, health facilities etc.) (level of development).
- level of donor activity within the region. Donors are associated with improved remuneration, better career opportunities and more professional exposure.

These factors largely seem to explain the differences in skill shortages among the local governments. Skill gaps in the lower staff category can be explained by financial constraints in the local governments. Most local governments have been reluctant to recruit and fill all the positions in this staff category because of the financial implications. With financial constraints, local governments would prefer to restrict recruitment in the lower skill categories rather than in the middle or upper skill categories. Hence, skill shortages for the middle and top cadre staff cannot be explained by reluctance on the part of local governments. The local governments with skill gaps in these two categories have apparently been unable to offer pay packages to the right candidates that compare favourably with the 'opportunity cost' of working at the 'local levels' and in these places.

Because the first two factors above are very much related to the level of development of the district/local government, the 'poor' and at times 'new' local governments are disadvantaged in terms of ability to attract and retain qualified staff. This is clearly visible from the table above, which shows a range staffing conditions from Kampala, with all its posts filled, to Kotido, with more than half of its posts unfilled.

The only option then left for the 'poor' local governments is for donor intervention. The presence of donors in some local governments has generally improved their staffing levels especially in the top and middle sections of their employee pyramid. This is because donors pay higher salaries and/or provide other incentives for the local government employees working on their projects. Considering the fact that these employees working on donor projects constitute a small group of highly paid persons in the lot of local government employees, concerns have been raised about the moral correctness of such a 'move' let alone its sustainability.

Technical staff members (in almost all local governments) also generally complain of the inadequacy of the logistical support accorded to their offices thus rendering their work difficult. They observe that this results into frustration and consequently high staff turnover. High staff turnover is detrimental to local governments in that a lot of the relevant experience gained is lost. The officials, who quit, do so suddenly often with no chance of on-the job training for those who are to succeed them. To help alleviate the plight of local governments, the Ministry of Local Government has requested the Finance Ministry to increase the proportion of unconditional grants in total central transfers.

In a bid to fill up critical staff positions, different local governments have reacted differently. For instance, in Lira municipality, the salary scales of some jobs that were not attracting suitable applicants were upgraded. Heads of department vacancies that were initially in the salary category U5b - U4 were upgraded to U2. Other local

governments, constrained by limits on the wage bill and lack of finances, have left the positions vacant.

Outsourcing

Outsourcing could be an alternative where local governments do not have the necessary expertise for the performance of certain tasks. But as has already stated in Chapter 4, capital projects undertaken by local governments from their own revenues is still very small. The biggest chunk of capital development resources is from conditional grants and donor resources. This therefore means that local governments contract out certain tasks following guidelines issued by either the centre or donors. Local governments, with the help of the centre, have started contracting out feeder road works and other civil works. They have also (with the help of donors) successfully contracted out construction of bridges, classroom blocks and protected springs. In these instances, the centre and donors have conducted short-term training for local governments on contract preparation and administration. They (the centre and donors) have also issued guidelines on the steps to be followed during the contracting out process.
One area however where sub-national governments have successfully, of their own accord, contracted out tasks is in revenue collection. Many local governments have opted to privatise the collection of revenues from some sources, mostly market dues. In all cases, the contractual process is handled by the DTB. Sitting at least once in two months, the DTBs consider and award contracts to the private sector. Once a task is contracted out to a private firm, the role of the district council (inclusive of the technocrats) remains that of monitoring and certification once the work is complete.

7.3.2 Rules Concerning Local Government Staff established by the Civil Service Provisions

The 1995 Constitution together with the Local Governments Act, 1997 was enacted only recently and is therefore assumed to override the legal provisions contained in the rules governing the civil service generally where the two seem to contradict each other. The Local Government Act provides for local government civil service structures (Sections 63-70). These are headed by the Chief Administrative Officer at the district with a team of supporting technical staff. In the urban authorities, the civil service is headed by the town clerk who is in turn also supported by the relevant technical officers. In all instances, the relevant local councils approve the organogram and the posts that are filled by local government employees. The local councils through the CAOs then submit requests to the District Service Commission for the recruitment of the prospective candidates for filling these posts (see fig. 7.1).

The Chief Administrative Officers and Town Clerks are answerable to the District and Urban Councils respectively through the respective executive committees and are responsible for the "implementation of all lawful decisions taken by the Councils" (Section 65 & 66). The Chief Administrative Officers are in addition responsible for supervising, monitoring and co-ordinating the activities of the District and Lower Councils' employees and departments and ensure accountability and transparency in the management and delivery of Council's services. Among the Lower Councils'

employees are the Parish and Sub-county Chiefs as well as Accounts staffs at the sub-counties.

7.3.3 Management Reforms, Civil Service Reforms and Training

Human Resource Management

Many changes have taken place since the decentralisation process started in the late 1980s. These reforms have covered four major areas namely: administrative reforms, political reforms, fiscal reforms and planning reforms. These reforms are meant to ensure that the delivery of decentralised services is firmly in the control of local governments. Naturally, this requires that the allegiance of staff working within the local governments be to the local government councils. With this in mind, the 'Public Service Reform' was initiated to foster the efficiency and effectiveness of service delivery at the various levels of government but mainly concentrated at the national level. The reforms in the public service have been ongoing since 1989 to date. The pillars of this reform have been:

- streamlining of organisational structures, introduction of results oriented management and divestiture of functions;
- introduction of management information systems to improve management of personnel, payrolls, budgets and finances, records, assets, audit and inspection;
- training of the human resources to ensure availability of a more professional workforce; and
- improving the working conditions (especially through better pay but also through training and promotions) to ensure a well-motivated and committed workforce.

These reforms have made a number of achievements, some of which are:

Local government staff have shifted allegiance from the centre to the local governments and are now answerable to the councils which have the power to 'hire and fire' through the DSCs.

The staffing structures and levels within the central ministries were rationalised with the local civil service structures. Consequently, some posts were abolished and others reduced to ensure non-duplication and wastage of scarce human and financial resources. 'Ghosts' were also weeded out of the Payrolls. The result was that more money was released for bettering the remuneration of the remaining employees at the national level as well as for better service delivery.

Some new units were formed at the local government levels to help them to deliver better on their mandated functions. For example, a planning unit was created at the district and urban councils to take charge of the planning function within these local governments.

More resources have been channelled into the training of the political and civil staff of local governments especially in the area 'Result Oriented Management (ROM)' with a particular emphasis on 'value for money'. The result has been relatively more

precise (though still not good enough) development plans and work plans as well as better monitoring and evaluation. Records management has also improved and strengthened.

There are still a number of drawbacks though. These are:

- There is a legal requirement that local government boards and Commissions should be part-time regardless of the workload. Some local governments find it cheaper, more convenient and cost-effective to pay salaries to the DSC members if they worked full-time than pay sitting allowances under the current arrangement especially during peak-period like during the interview of primary school teachers. The centre released funds for this exercise.

- Organisational structures at the local government level were inherited from the structures that were there before decentralisation. These are in most cases large and not suited for the service delivery needs of local governments. For instance, there are no planning units and water engineers in the municipalities.

- The payroll for some of the staff working in the local governments (like teachers and medical personnel) is still centralised.

- A concrete policy on the training of local government employees is lacking.

- The central government has failed to help local governments pay off the retirement benefits of local government employees who are no longer needed.

- The decentralisation of the pension responsibilities, without adequate resources, has made local governments extremely unattractive in this area. As pointed out already, retirement benefits are very expensive and could have serious impact on the finances of local governments if they are paid in full and promptly. Many local governments have failed to honour their obligations in this area.

Do local authorities have experience with and access to specialist expertise that may assist them in identifying innovative management approaches? The experience of local governments in this area varies from one to the next. While some local governments may have considerable experience of local counterparts working with specialists in the field of ISP, others have no experience at all. For instance, Rakai, through DANIDA support, has been able to gather considerable experience in this area. The same is true of Lira through the SDDP Dutch funded project. Others, on their own accord, have had a go at it. These include Kampala, Bushenyi and Mukono. The experience of yet others like Kotido is still very limited. But it can safely be put that the ones that have made some progress in this area have done so mostly as a result of donor support.

However, training for local government employees remains a major sticking point. All employees talked to in the sample local governments felt that working in a local government was a condemnation to a life of no career development. They observed that all the central ministries do is to organise short-term courses, which have little relevancy for their career or professional development.

The ULAA and the Ministry of Local Government have conducted a number of training courses for local governments in response to the need for training. These have mostly concentrated in the areas of accounts, computing and relationships between the various local government stakeholders. They have been conducted in the form of short-term classroom training. However, the view of the sample local governments is that this is not enough. In addition, local governments require staff exchanges, attachments as well as long-term training if the implementation capacity of local governments is to be significantly improved. Opportunities for staff exchanges and attachments are presently not available while opportunities for long-term training are very limited.

Financial Resource Management

The process of financial resource allocation within the local governments has also gone through some changes. Most local governments in the sample have compiled development plans. These include Lira district under the Dutch funded LDDP, Rakai district with the help of DANIDA, Bushenyi district, Kampala that has only recently unveiled its three-year development and Mukono District. Mbale municipality has also recently finalised work on its three-year development Plan/Strategy.

The objective of these plans is to facilitate an optimal allocation of resources within the jurisdictions of the relevant councils to create the biggest impact possible. The plans are also meant to assist the local governments in sourcing for funds to develop their regions. There three major sections in these plans. The first section encompasses situation analysis. The second focuses on setting of development goals and objectives. The third consists of activities and costing.

To improve transparency and efficiency in financial resource allocation and enhance their performance against the targets and goals set in the development plans, local governments are making a very good transition. They are moving from the narrow, more restricted finance committee meetings in making financial allocation decisions to the bigger, all heads of departments' meetings. These meetings are held usually once a month but may be called more often when need arises. In these bigger meetings, monthly priorities are set and consequently resources allocated. This move has helped increase transparency in resource allocation, improve the 'sense of ownership' of the priorities set by the employees and more importantly boost workers' morale. This is the case in a number of local governments including Mukono and Lira districts.

7.4. Potentials and Actual Introduction of new methods and information technology in the administration and decision making of sub-national governments

It should be recalled that decentralisation started in earnest in the financial year 1993/94 when the local governments started receiving block grants which granted them more autonomy regarding the performance of their mandated responsibilities. The local authorities got control of at least the recurrent budget for the delivery of the decentralised services.

But much as local governments have not yet reached an optimal working arrangement, the period of five years since the onset of effective fiscal decentralisation is still too short regarding rationalisation of organisational structures for ISP. To assess whether they have been able to analyse the internal procedures of work functions with the aim to re-adjust the administrative processes to facilitate optimal use of scarce resources is therefore a bit too early. Most local governments are just still struggling to fill all the essential vacant positions.

It should also be noted that the structures with which the local governments are operating were inherited from the district and urban liaison departments of the central ministries. The local governments do not yet have the necessary resources and expertise to overhaul these structures to bring them in line with the requirements of the local government functions. While public service restructuring has been done for the centre, only a 'cosmetic' exercise has been done for the local governments.

It is in this regard that the Ministry of Local Government together with the Ministry of Public Service has proposed a review of the local government structures. The aim is to come up with an ideal staffing structure for the local governments. This review, however, is going to be demand driven. That is, the exercise will only be carried out in those local governments that express the need and request for the review in writing to the Ministry of local government. It is expected that this review will come up with an ideal, affordable and optimal staffing structure for local governments that can be used to effectively deliver ISP. This is especially needed since most local governments have problems giving adequate remuneration to their staff. For instance, Lira district has failed to pay the pending arrears of its employees. In the municipality, employees by September had not received their salaries for July and August.

Great strides are also being made in developing the capacity for use of information technology to improve the expediency and quality of administrative processes, reduce routine work and increase sharing of data by networking of information. These efforts started with the UNDP capacity building for district planning units. In this project, each district-planning unit was given computers and a double cabin pick-up to facilitate the collection, processing and storage/retrieval of data. This exercise was followed by centrally organised training courses for officers in the planning units in basic computer software.

This project has been followed by other bilateral and multi-lateral donor efforts as well as central government efforts in promoting the use of information technology by local governments. These efforts have been concentrated mainly in availing computers and the relevant software as well training for the relevant staff. Today, a number of achievements have been made. These include:

- Minimum Technical specifications for information technology equipment and programmes for use by local governments have been developed and distributed.
- Tests were completed on simple to use spreadsheet customised for local government accounting purposes. In addition 100 technicians and 58 Chief Finance Officers from all the 45 districts and 13 municipalities were trained in

general computer skills and use of the customised spreadsheet. The spreadsheet has been installed in all the districts and municipalities.

- A consultant has been contracted, under DANIDA funding, to develop a more robust accounting application capable of meeting the full accounting requirements of the local governments. The customised software will be developed along the lines of the software used by Rakai district. Pilot work is proceeding well in three pilot districts and in the municipalities of Mbale, Lira and Mbarara.
- The Ministry of Local Government, in collaboration with the Ministry of Public Service, has obtained funding from the World Bank to acquire a cheap and easy to use Integrated Personnel and Payroll System in order to facilitate the decentralisation of the local government payroll.
- An additional 182 computers and accessories are going to be procured with assistance from the World Bank to operationalise the Computer Programme for Local Government' Accounts, Payroll and Records Management.
- Funding has been obtained to train at least two planners from each of the 45 districts and 13 municipalities on the statistical package for social scientists (SPSS) in the Uganda Management Institute. One Officer per district/municipality has also been trained in procurement of information systems under World Bank guidelines.
- A workshop was held to sensitise the top managers of the local governments on information systems in general and their importance in management and procurement.
- One district Databank has been set up under DANIDA funding in Rakai District. If funding is obtained, similar databanks will be set up in the rest of the other districts.

This financial year (1999/00), a number of programmes have been planned for local governments in the area of information technology. These include:

- Procurement and distribution of the 182 computers to various local governments will be completed. Complete solar systems will be procured and distributed to 15 local governments (including Kotido) without reliable power supply.

- Training Needs Assessment and Training Local Government staff in information systems will continue. At least 2 staff in each local government will be trained in:

    - Payroll Management
    - Records Management
    - Full Computerised Accounting
    - Data Capture and Analysis using SPSS.

- At least 15 districts are expected to set up data banks this financial year.
- A repository for all service delivery data from the various local governments will be set up with DANIDA Assistance. Local governments and other stakeholders will be able to access this repository.

In addition to these donor and central government efforts, some local governments (Mukono and Kampala in our sample) have initiated their own training and use of

improved information technology. These two districts have computerised their payrolls and are attempting the computerisation of their accounts. Mukono has also computerised the list of its graduated taxpayers. As a result, these two districts have experienced considerable savings on the wage bill and also improvements in the amount of revenue collected from graduated tax. However, according to the Chief Finance Officer of Mukono, data collection is expensive and keeping an updated information base will require that a lot of money be availed every year for this purpose. This may eventually require assistance from the centre.

As regards the sharing of data on land, land-use, real property and natural resources, the legal framework for such sharing of data exists. The Ministry of Water, Lands and Environment and that of Works, Housing and Communications are responsible for the regulation of activities in these areas. It is their responsibility together with the local governments to carry out zoning and earmarking of land-use purposes. They are also supposed to help urban councils carry out surveys and do plans for their jurisdictions.

However, due to the internal strife that besieged the country for almost twenty years, these processes have broken down. There is no meaningful data on land, land-use, real property and natural resources existent today. With the recent enactment of the Land Act; 1998, this situation is set to improve. Under this new law, land tribunals, land boards and land committees will be set up at all levels of local government to control land use.

7.5. Technical management capabilities in relation to ISP

It has been alluded to in the previous sections of this chapter that local governments are legally empowered to employ staff of their choice as long as they are able to pay them. But, it has also been shown in table 7.3 that despite this legal provision, there are still many gaps especially in the upper technical staff categories. It is these staff categories that have the necessary expertise and experience for planning and carrying out investment projects in the key infrastructure components or even for the preparation of contract documents or the supervision of contractors.

The table below shows the gravity of these skill gaps even better by focussing specifically on fewer staff categories most critical for ISP.

Table 7.5: Staff Strengths in the most critical Technical Management Capabilities (Graduate Positions)

District[99]	Environmental Officer	Physical Planner	Economist	Engineers	
				Civil	Water
Kampala	0	1	1	2	0
Mukono	1	2	1	2	1
Lira	0	0	0	1	1
Bushenyi	0	0	1	1	1
Rakai	0	0	1	1	1

[99] Lira Municipality is left out because these categories of officers are supposed to serve all local governments in the district.

Kotido	0	1	1	1	1
Mbale M.C.	0	1	0	1	0[100]

From the above, it is clear that the staffing of the planning and infrastructure management departments is very inadequate. Considering the size of the service populations as well as the size of the jurisdictions of the various local governments, the staffing levels of the graduate positions in these otherwise vital services is appalling.

It has been concluded that this situation is basically due to the inability of the local governments to offer competitive pay packages from their own local revenue. Secondly, increases in the wage bill components (in unconditional and conditional grants) for delegated or decentralised staff do not cater for:

- annual increments of the local government employees;
- increase in salaries due to promotions; and
- new recruitments of local government employees.

The staffing situation is worse for the non-sample districts. This is because in all the sample districts and municipalities, there are a number of donors who have helped offer better employment conditions and thus increase their possibility to recruit and retain the few staff available. The Dutch are active in Lira district. The UNDP through the District Development Programme is active in Mukono district and Mbale Municipality. The DANIDA is active in Rakai. There are many donor efforts in Kotido, as this district is perceived by many donors to be very backward and therefore in need of urgent help. These include UN agencies like UNICEF as well as bilateral donors.

Because of its centrality and sound financial base, Kampala is better placed to attract relatively good staff and retain them. However, there are also projects, especially of the World Bank that have helped offer better employment conditions. Bushenyi seems to be the only exception. Without any visibly significant donor, the district seems to be on almost the same footing as the other districts with significant donor support.

There have been a lot of discussions about the appropriate action to take in order to significantly improve the technical management capacities in the local governments. However, there are only three suggestions among those that have come up that seem to be viable namely:

- Share highly technical staff between neighbouring local governments and pool the remuneration together. The improved remuneration could attract better-qualified people and at the same time bring better expertise to the local governments since these experts do not need to be there on a daily basis.

[100] There is no water engineer in the municipality; the National Water and Sewerage Corporation provides water and sanitation services.

- Upgrade the lower qualified staff presently acting in these positions through training and attachments to other local governments that have the necessary qualified staff for short periods of time.
- Keep on recruiting until such a time that the job market will be saturated enough for them to stay.

As has already been said, these are only proposals and no concrete policy is yet in place to build the capacities of local governments. But current efforts by donors and government have so far been focussed on training of the staff presently in post. These have mostly been DANIDA funded through the Local Authorities Association and the Decentralisation Secretariat. The World Bank, through the Decentralisation Secretariat and the Ministry of Finance, has also been an active participant. The training has been delivered mostly through workshops, seminars and short management courses.

7.6. Financial Management Capability in relation to tariff policies and ISP

Local governments have very limited experience in dealing with the regional banks or loan institutions. Their experience with identification of financial options, channels and packages is also limited because the development budget is still centralised. The central government still has the responsibility of negotiating with any outside loan agency that intends to finance any major infrastructure project even in the local governments. The only exception where a local government has approached loan agencies to support ISP has been Kampala City Council. But even with the City Council, it has had to involve central authorities in the negotiation of the loans since it is central government to guarantee the repayment of these loans.

Secondly, in the five major sectors that have been decentralised to local governments namely: primary health care, primary education, agricultural extension, feeder roads, sanitation and rural water, there has been no significant application of user charges to recoup the costs of providing these services. These have largely been treated as social (not commercial) services meant to benefit the majority poor. The perception has been that the application of user fees would reduce the accessibility of these services to the people who need them most. Local governments have not therefore been given the opportunity to design a cost-recovery and service fee scheme for the services they are supposed to deliver.

Primary education in government schools is free of user charges. Parents buy exercise books and Uniforms for the pupils. Primary health care is free in government hospitals. Curative medical services are also free. Where there are no drugs, patients are given prescriptions and told to buy the drugs from private drug shops. There are no road tolls. Rural water facilities are free save for ordinary and regular servicing, which is done at the expense of the community. Fees for water and sanitation facilities are charged only in the urban councils where National Water and Sewerage Corporation (NWSC) is not yet operational. However, even in these urban councils, the charges are partially subsidised by urban taxes plus central transfers.

In agriculture, extension services are free to the farmers. The only user-charge in place for the local governments are market dues. Charges are based on the quantity

and value of the commodity brought to the market. Market rates to be charged are proposed by the Finance Directorates of the local governments. These rates are then debated and passed by the relevant local government councils.

The role of local governments in ISP in these sectors has therefore been limited to the levy of a few taxes and together with the large (in relation to locally generated revenue) central grants expend on these services in a way that benefits the most people.

Note should also be taken of the fact that there are conditional grants (contributing 80% of total central transfers) in all of these major sectors. The detailed guidelines given to local governments for the expenditure of the conditional grants leave little room for innovation on their part. Unconditional grants typically cover salaries and wages of local government employees while the conditional grant cover both the recurrent operational and capital development costs in these sectors. In the view of one local government, the fact that local governments have little control over their total expenditure budgets is a similar to a case of the centre sub-contracting local governments to implement central priorities and programmes.

It was also established in Chapter 4 that the use of loans is still very limited for three reasons:

- The still centralised development budget. Local governments cannot borrow to incur expenditure on infrastructure development for which they are not yet legally empowered to deliver and borrowing for recurrent expenditure is not permissible. The only option for them to incur development expenditure is either from their own meagre resources or via grants from donors. Otherwise, development expenditure would have to be made by the centre.
- The unattractiveness of the legal provisions currently in place (Chapter 4 section 4.6).
- Limited creditworthiness of the local governments due to limited physical and material assets as well as limited fiscal capacities. Local governments would thus be in no position to guarantee repayment of such loans if they incurred any.

Therefore, under the current fiscal arrangements, loan financing and user-charges are still not yet considered options for ISP in local governments and hence their limited experience with regional banks, tariff policies and other loan institutions.

The major problems regarding financial management in the local governments have to do with difficulty in making precise financial forecasts as well as inadequate staff (in terms of numbers and qualifications) in the finance and audit departments.

These problems are generally caused by:

- Lack of reliable fiscal databases in most of the local governments; these, in turn, are caused by inadequate staffing and facilitation of the district planning units.
- Financial commitments are unpredictable, especially those from donors and the centre.

- Local governments have additional financial tasks that result from the demand for specialised accounting, especially for funds provided under conditional grants and donor aid.

For instance, in Mbale municipality, the top positions for both the finance and audit departments were unfilled by the close of he financial year 1998/99. In Mukono, in the same period, only two out of the eleven approved positions in the scale U1-U5b were filled; one in U1-U3 and one in U4-U5b. The top job slot for the audit department was equally vacant

Regarding issues of tax collection, local governments are faced with two constraints namely; inadequate capacity as shown earlier by the existence of staff gaps especially in the critical sectors and secondly outdated laws and regulations, which no longer reflect reality.

7.7. Issues of Management and Decision Making in relation to land, water and other key related resources

Issues of land control and management are enshrined in the Constitution of 1995, Articles 237 - 243. These articles provide the basis for all forms of legislation on land and the environment. These articles were written with the autonomy of subnational governments very much in mind. For instance, Article 237 (2)a states:

"The Government or a local government may . . . acquire land in public interest; and the conditions governing such acquisition shall be prescribed by Parliament.

Article 237 (7) states that: *"Parliament shall make laws to enable urban authorities to enforce and to implement planning and development"*.

In fulfilment of the requirements of Article 237 (9) and using the Articles 237 – 243 of the Constitution, Parliament enacted a new land law (the Land Act) in early 1998. The Land Act of 1998 seeks to put in place a new regime of land ownership, control and management as well as take care of the requirements of the new system of government, the decentralisation system. The previous laws on land ownership, control and management did not take care of the role and concerns of local governments since these were not yet in place.

The Land Act, 1998 recognises four types of land tenure systems namely: customary, freehold, mailo and leasehold. Under this Act, there is no such thing as public land ownership as a separate form of land tenure. All the four forms of land ownership specified above essentially provide for the ownership of land either by individuals or by a group of persons in a community with the same culture or line of descent (tribes or clans).

This therefore means that the government (including the local governments) does not own significant chunks of land. For this reason, the law provides for the acquisition (voluntarily or compulsory) of land by the government (including local governments) in such a way that irresponsible use of land by an individual does not harm other land-users. Therefore, if a local government is not in agreement with a particular land use,

it has to purchase that land before it converts it into another form of land-use. The sample local governments viewed the requirement for full compensation, to the private owner of the land being acquired, as a problem. Considering the fact that local governments are financially constrained, this requirement poses a major problem to them as far as physical planning is concerned.

Section 45 of the Land Act of 1998 states that:

1. *The Government or a local government shall hold in trust for the people and protect natural lakes, rivers, ground water, natural ponds, natural streams, wetlands, forest reserves, national parks and any other land reserved for ecological and tourist purposes for the common good of the citizens of Uganda.*
2. *A local government may, upon request to the Government, be allowed to hold in trust for the people and the common good of the citizens of Uganda any of the resources referred to in subsection (1) above.*

In addition, the law requires landowners in section 46 to use the land in conformity with the law relating to the Town and Country Planning Act and any other law.

Therefore, the control of the use of land is the responsibility of government (including local governments). However, where a particular land use threatens the livelihood of the community around, the environment or for purposes of improving the accessibility to the areas beyond, the government can acquire the ownership of such land. The government (including the local governments), in such instances, can acquire interests in any form of land tenure either like any other ordinary buyer or by compulsory acquisition where such a move would lead to the benefit of a larger group of people. In both cases however, the owner of the land must be adequately compensated (Section 73). Where there is no agreement on the amount of compensation, the issue is taken to the relevant land tribunal.

According to the local governments, this is where the problem is. Local governments, at present, have serious financial constraints. They cannot therefore afford to pay compensation for instance to all people whose land falls in a road reserve. Secondly, because of lack of adequate staff in the district land office to do enforcement of physical plans, private developers are encroaching on road reserves. Thirdly, some local governments have failed to raise enough money to survey all their land. The number of qualified surveyors in Uganda is still very small and this has pushed up the fees chargeable by them. A programme for surveyors has recently been started in the University of Makerere to alleviate this shortage.

For the purposes of land control and management, the law provides for the setting up of a number of bodies namely the Ministry of Lands, Water and Natural Resources which is the supreme policy making organ, the Uganda Land Commission, the District Land Boards and Land Committees for the lower level local Governments. The law also provides for Land Tribunals at all these levels, which basically act as Land Courts. The organisation of the Institutions is shown on the following page.

The Ministry of Water, Lands and Natural Resources is in charge of setting the overall policy and regulating the use of land, water bodies and other natural resources.

The Uganda Land Commission is responsible for the management of all land that belongs to the central government. This Commission does not control or direct the affairs of the District Land Boards. Section 61 of the Land law specifically states:

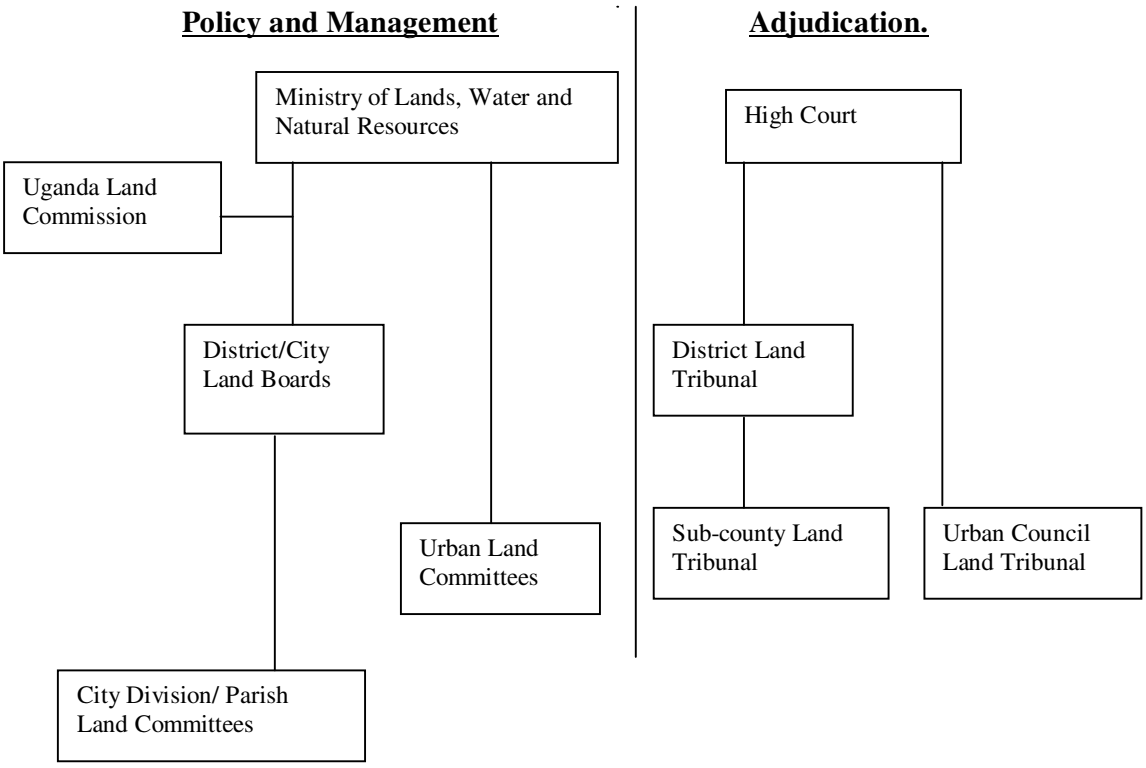
1. *In the performance of its functions, a District Land Board shall be independent of the Uganda Land Commission and shall not be subject to the direction or control of any person or authority but shall take into account national and district council policy on land, and the particular circumstances of different systems of customary land tenure within the district.*
2. *The Board shall have the power to-*

a) *acquire by purchase or otherwise rights or interests in land and easements;*
b) *erect, alter, enlarge, improve, or demolish any building or other erection on any land held by it.*

The Land Committees perform similar functions for the lower level local governments. The district land boards have a membership of five, all of whom are appointed and can be 'sacked' by the District Council on the recommendation of the District Executive Committee. They are appointed for a period of five years renewable only once. The District council also appoints members of the parish land committees. The urban council land committees are appointed by their respective urban councils. The secretariat of the district land board is the district land office.

The district land office provides technical services to the Board to facilitate it in the performance of its functions (Section 60 (7)). The district land office consists of the district physical planner, the district land officer, the district valuer, the district surveyor and the district registrar of titles (section 60 (6)). The district service commission appoints the Secretary to the District land board as well as the other officers manning the district land office.

Figure 7.7: Organisation of the Land Control and Management Institutions



Financing of the Land Administration machinery

The Uganda Land Commission and all the land tribunals are to be financed by the centre and will draw their funding from the consolidated fund. The President appoints members of the Land Commission. The Judicial Service Commission appoints members of the land tribunals.

On the other hand, members of the District Land Boards (DLBs) and Land Committees are appointed and paid by the districts out of their own resources. The districts also pay for the secretariats of the Boards and Committees. These boards and committees provide services to all local governments within the district. Surprisingly however, the other lower local governments (especially the town and municipal councils which are financially autonomous) do not contribute to their financing. They are to be solely financed by the district local governments. This was a major constraint identified by the Mukono District Local Government. Therefore, much as the sample districts have constituted the DLBs, all of them are not yet operational due to financial constraints. It should be noted also that financial constraints at the centre have bogged down the implementation of the Land Act in general.

From the foregoing therefore, the real constraints of the legal provisions lie within their strength of being elaborate and basically refer to the financial implications thereof. For instance, the legal provisions require the district local governments to:

- Set up and start the operations of the Land Boards and Committees.
- Finance the operations of the Land Boards and Committees as well as their secretariats in the form of personal emoluments and logistical support.
- Recruit and maintain the technical officers attached to these bodies.
- Compensate anybody who is displaced because of the actions taken by the local governments.

The financial implications of these responsibilities are hugely immense. Arising from the analysis done in Chapter 4 and the earlier sections of this chapter regarding the finances and the capacity thereof to recruit and retain staff, very few local governments are in position to shoulder these financial burdens. These financial difficulties have led to the stalling of the implementation of the Land Act, one year after it was enacted.

There have been arguments in some local governments that since the responsibility of land control and management was initially a responsibility of the central government, the centre should come up with the necessary resources to implement the Act. They argue that requiring local governments to "foot the bill" would amount to a case of devolving responsibility without the accompanying resources (a case of shifting deficits to lower levels of government). In its current form, the local governments are not able to implement the Act much, as the law requires that it become operational within one year of the enactment of the Act.

For instance, none of the sample local governments has fully implemented all the land management structures especially as regards the recruitment of all officers in the district land office. The reasons for the failure as advanced by the Chief Finance Officer, Mukono and the CAO of Bushenyi are two-fold:

- scarcity of officers trained in the relevant fields and
- because of the scarcity, the high salaries demanded by those with the right qualifications.

In the wake of the financial implications of implementing the Land Act, together with the complaints raised by the local governments on the extra financial burden laid upon them by the enactment of the Land Act, 1998, the centre is yet to take a stand as regards cost sharing in the implementation of the Land Act, especially at the local government level.

Given the financial difficulties of local governments, they cannot afford to pay packages similar to those obtaining in private practice where the majority is based. Until these initial obstacles are removed and the Act becomes operational, it is impossible to assess the other constraints inherent within the law.

CHAPTER EIGHT
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 Introductory Remarks

8.1.1 Main conclusion

The overall conclusion from the research is that the sub-national governments (SNGs) in Uganda are assigned a large range of infrastructure and service provision responsibilities, and they constitute a comparably important share of the public economy. Within a very short time, Uganda has achieved one of the most decentralised and stable systems of SNG in the entire sub-Saharan region. A strong political commitment towards decentralisation and the use of a consultative process among stakeholders - comprising politicians at the central and SNG levels, government officials, private sector representatives, donors, non-governmental organisations and the civil society - in the design of the basic legal framework and its implementation have facilitated these results.

The decentralised system has functioned for a short time, and the improvement of infrastructure and service provision (ISP) to citizens is still modest. The macro-economic stability and sustained economic growth has formed a good basis for further improvement.

The overall conclusion from the research is that the coverage of ISP at the SNG level poses a considerable challenge, as the prevailing coverage is far behind the needs of the population (approx. 50-60% of the needs are covered in the main areas of health, water supply, sewerage, sanitation, solid waste management, roads, etc.). Substantial progress has been made in education and the priority to water supply has generated good results, but in all functional areas considerable efforts are required in order to ensure the sustainability of the improvements. Sanitation and solid waste management represent fields of ISP that require more attention in view of the heavy impact of less favourable performance on the health and living conditions of the population.

The history of decentralisation in Uganda is short, 5-10 years. Many of the ISP functions stipulated in the Law are not fully devolved to the SNGs in terms of financing of tasks, and implementation of some of these tasks is lacking. Some of the tasks stipulated as SNG functions in the constitution and in the Local Government Act, therefore, are still carried out by central government and NGOs or financed 100% by central government or lack a full scale realisation in most sectors.

There are many reasons for these shortcomings, but some of the key factors have been that the gradual process of decentralisation has started with development of the political system, decentralisation of the tasks and responsibilities and establishment of a detailed and clear regulatory framework. A parallel establishment of a viable system of SNG finance is lacking, including a clear system of compensation when tasks are transferred between levels of government, i.e. corresponding transfer of sufficient

revenue sources. In addition, there has been a lack of a clear revenue sharing mechanism between levels of government and discrepancies between responsibilities for tasks and their financing. An indication of the latter is that approx. 80% of the SNG expenditures are financed by sources other than SNGs' own revenues. Other constraints within the SNGs have added to these problems, both at political and administrative levels. At the SNG political level, the willingness to adjust revenues to expenditure needs has not always been available, and at the administrative level the capacity (to register taxpayers, collect taxes, introduce systems to deals with defaulters, etc.), though improving, is generally still weak in most sector areas.

Another fundamental issue in relation to the mobilisation of the financial resources and sustainability for maintaining and further improving ISP at the SNG level concerns the introduction of appropriate user fees and charges. A continued focus on the principle of cost-recovery in the financial processes and mobilisation of resources, formulation of a strategy and associated implementation plan for a further development of tariffs and user fees regarding a number of components of ISP is necessary for future ISP sustainability. The awareness of the population for the necessity of payment for services calls for much attention, as this issue is a prerequisite for private sector involvement in ISP. The development of methods for calculating, registering and enhancing the transparency of these user payments need to be addressed in parallel with this.

Both the central government and SNGs are aware of these problems, and policies and strategies have been designed in order to address some of the key problems in the near future. Key authorities and institutions such as the Local Government Finance Commission (LGFC), the Decentralisation Secretariat and the associations of local authorities in Uganda have facilitated dialogue between central and SNGs in the process of addressing the future challenges. Some of the most urgent problems, such as the question of revenue enhancement at the SNG level, fair revenue sharing between the levels of government, development of databases on SNG finance and decentralisation of the development budget, will be addressed through initiatives by the LGFC. A number of appropriate initiatives have been taken within the field of financial management and the relations between central and SNGs in the field of budgeting, e.g. initiatives from the Ministry of Finance on the Budget Framework Process and strengthening of the dialogue with the SNGs on the future financial conditions, especially the grants.

It is recommended that these initiatives be given continuous support if the second phase of the decentralisation is to be successful. Other supplementary initiatives are important, such as the establishment of a more formal and permanent forum for budget-negotiations between levels of governments.

8.2 The political and economic context of SNGs in Uganda

The problems analysed and identified in this report should be seen in the larger economic, social and financial context of the country.

The Government of Uganda has achieved relative political stability, and prudent macro-economic management has resulted in economic progress in recent years. Average

annual GDP growth was 6.4% between 1988 and 1997; inflation was brought down from three digits in the mid-1980s to a single digit in 1993. The annual inflation rate has averaged 7.4% between 1993 and 1997.

The foreign exchange market and the marketing of produce and exports have been liberalised. Exports have grown tremendously with the revival of coffee, tea, tobacco and cotton exports, while non-traditional exports like cut-flowers, simsim, maize, beans, hides and skins have become important sources of foreign exchange. The Government's foreign exchange reserves have improved. Legal and institutional reform of the central government tax collection has led to a tremendous increase in revenue collections. The ratio of tax collection to gross domestic product (GDP), estimated at about 6% in 1986, has risen to over 12%.

Even if Uganda's population growth is still high, the economic and the political stability should provide a sound foundation for a further development of system of SNG finance.

8.3 The Context of Public Administration (Chapter 3)

8.3.1 Central government objectives

The decentralisation policy in the country has obtained political support and commitment from the highest to the lowest level of Government.

Uganda's decentralisation policy aims at giving power to the people and at promoting accountability, efficiency, equity, effectiveness and sustainability in the provision of social services countrywide. The policy also seeks to strengthen popular involvement in governance, i.e. people should be involved in decision-making; identify their own problems, set priorities, plan their implementation and monitoring; ensure better utilisation of both financial and human resources; and ensure value for money through participation, transparency, accountability and public awareness.

The policy is designed to achieve the following *objectives:*

- transfer real power (devolution) to local governments, thus reducing the workload on central government officials;
- establish decentralisation as the guiding principle applied to all levels of government so as to ensure citizens' participation and democratic control in decision-making;
- achieve good governance, which is a prerequisite for better performance of public servants;
- bring political and administrative control over services to the point where they are actually delivered, thereby improving accountability and effectiveness, promoting people's feelings of ownership of programmes and projects executed in their areas;
- free local managers from central constraints and, as a long term goal, allow them to develop organisational structures tailored to local circumstances; improve financial accountability by establishing a clear link between the payment of taxes/user charges and fees and the provision of services they finance;
- improve capacities of councils to plan, finance and manage the delivery of services to their constituents.

- apply participatory decision-making and demand and a performance driven process;
- strengthen institutional capacity to ensure co-ordination and harmonisation of systems and procedures between central and local government; and
- enhance the extent to which central government institutions play a regulatory, facilitation, mentoring and monitoring role in support of the decentralisation process.

The policy has been to gradually transfer the tasks parallel with the increase in the SNG administrative capacity to assume these new responsibilities.

8.3.2. Main findings and conclusions

The start of the decentralisation process
The 1986 creation of the local councils marked a new era in the decentralisation process in Uganda; the people were empowered to elect own leaders with minimal political powers. The legal framework was provided in 1993 when the Parliament (National Resistance Council) passed the Local Government Statute.

The Constitution
The decentralisation policy was included in the 1995 Constitution and further elaborated in the Local Government Act of 1997. These documents provided the legal foundation for the operation of the local governments and how they relate to the central government and other stakeholders. The constitution provides one of the strongest guarantees for SNGs in the world via its detailed treatment in several clauses of the rights and obligations of the SNGs.

The Local Government Act recognises decentralisation by devolution of powers to SNGs with political, planning, administrative and financial powers and defines SNG functions and responsibilities.

The system of SNGs
Uganda's system of SNGs is based on urban and rural SNGs, whereby the districts (the rural part) are units under which there are SNGs and administrative units. The SNGs are not sub-ordinate to the district councils. They have the power to undertake a number of functions without recourse to any higher authority. Indeed, a district council has power under the law to undertake its responsibilities without seeking permission from any quarters. In addition, districts are empowered to co-operate in areas of culture and development. In the urban areas, there are also various levels of SNGs not subordinated to each other, each with separate functions and financial systems.

The mandatory functions
The 1995 Constitution and the Local Government Act of 1997 spell out the functions and services of central and local governments. These governments can devolve to the local council some functions for which an agreement must be reached by both parties. The resources pertaining to the devolved functions should be assigned to the lower council. In the same spirit, the district or any other lower local government can request the central government or any other higher local government to assume responsibility over certain functions and services; in this case, the higher local government has to retain

grants pertaining to the returned tasks. For accountability purposes, the constituents have to be informed of the transfer of responsibilities.

The tasks of central government comprise defence, security, law and order, national policy formulation for taxation, agriculture, health, education, national planning, setting national standards, monitoring, inspection, co-ordination, provision of technical assistance and advice, support, supervision and training. The SNGs are generally responsible for pre-primary, primary and secondary education, medical and health services (except medical training and referral medical care) water services, sanitation, road services (excluding highways) and agriculture extension. In cases of water supply to urban councils, this is provided by the councils in areas outside the few served by the National Water and Sewerage Corporation.

Although the law spells out the functions of each level of government without ambiguity and overlap, implementation has introduced some elements of sharing of some functions and services. Review of the sample SNGs indicates that many of the functions, e.g. within secondary education and health care, are still not fully decentralised. The review has found a great difference between the assignment of the functions according to the law and the actual situation – where central government continues to assume a number of key tasks. No clear strategy for when these functions should be transferred has been developed. On the other hand, security, law and order, for example, are central government functions; nevertheless, because the centre has not been able to adequately provide the service, the local governments have had to support Local Defence Forces/Units that enforce law and order and ensure security of persons and property among the communities.

The limited financial and human resources reduce the power of SNGs to implement their own priorities. The decentralisation policy is quite new in the country; hence, the capacities required for effective implementation are either wholly lacking or vary considerably across the SNGs.

Generally, the SNGs are quite satisfied with the decentralised functions and services, and they felt that the level of service delivery has improved relative to the period before decentralisation. The major problem remains the lack of sufficient financial and administrative capacity to carry out the significant functions, cf. chapters 4 and 7.

The councils and the resident district commissioners
The councils are the highest political organs in the district, having both legislative and executive powers. The districts comprise elected councillors, who represent specific electoral areas and interest groups, and they are headed by the chairman of the district – a political head of the area. The central government arm at the SNG level is the resident district commissioner (RDC), who is a senior civil servant. The RDCs are responsible for the co-ordination of the central government functions at SNG level, and they co-ordinate with the SNG councils. No major problems have been identified within this relationship, and they seem to work according to the intentions.

Relationship between central government and the SNGs
The major concern in the relationship between the central government and the SNGs lies within the field of finance and the conflicts between the levels concerning

whether the present system reflects a fair revenue and cost sharing arrangement, cf. Chapter 4. The lack of any permanent forum for budget negotiation between the different levels of government has proven to be a key obstacle for the future ISP. Appropriate initiatives have recently been taken within the auspices of the Budget Framework Process to improve the information flow to/from the SNGs and the dialogue between the levels of government on the future economic conditions.

Civil servant reforms
A number of civil servant reforms have been implemented in line with the above-mentioned principle (cf. also Chapter 7). The most important principle has been the transfer of the competence for hiring and firing from the central government to the District Service Commissions at the district level, appointed by the districts within each area. These commissions are valuable components of the decentralisation process but have been constrained by lack of resources.

In order to increase the chances of success, the policy has been implemented with other complementary policies. These include the policy of restructuring the central and local governments departments (public service reform) and retraining manpower. The Ministry of Local Government, through the Decentralisation Secretariat, has been training local government staff in areas of financial accounting and management, record management, personnel management, computerisation, planning and budgeting. The capacity building includes provision of office equipment as well as vehicles. The NGOs have participated actively in the capacity building, especially in the health care and education areas. Since l997, several ministries have been restructured, under the Public Service Reform Programme (PSR2002), to harmonise their functions and structures with requirements under the decentralisation policy. As Chapter 7 shows, there still remain many shortcomings and great future challenges within these areas.

8.3.3 Recommendations on policy and structure Chapter 3 [101]

Major Recommendations:

3.1. Short-term /medium-term (ST-MT): Gradual devolution of more tasks and responsibilities to the SNGs along with increased finance and human capacity empowering initiatives.

3.2. MT/LT: The system of local government in Uganda is characterised by a relatively large number of local authorities. The coming years should focus on administrative and financial strengthening (consolidation) of these units rather than the establishment of additional units.

3.3. ST-MT: Continuous enhancement of correspondence between legal framework and the real division of task, competencies and responsibilities. The key ministries should

[101] All activities should be addressed more or less immediately, but "short-term" means that the development is expected to be carried out within the first year, medium-term: The activities may be started immediately but will last 1-3 years before major results appear. Long-term activities: The activity may be started immediately, but will last more than three years. This terminology will be used throughout the chapter unless otherwise stated.

ensure that the objectives behind the Constitution and the Local Government Act are achieved.

3.4. ST: Strengthening dialogue between the central and SNGs regarding the SNG finance, e.g. by establishment of a budget–co-operation forum, with representation from the key stakeholders from central and SNG levels. This should be done by a further development of the present Budget Framework Process exercise.

3.5. ST: At the central government level, the signals regarding the extent of SNG autonomy should be co-ordinated, duplication avoided, functions of various bodies clarified and a clear strategy for supervision and support of SNGs developed. All positive support to implementation of the Public Service Reform Programme (PSR20002) should be given to bring the line ministries in line with the decentralisation principles in the reforms.

8.4 The Finances of the Public Sector (Chapter 4)

8.4.1 Main Findings and Conclusions

Objectives of the Central Government

The central government objectives in the field of SNG finance have been:

- Establishment of strong and viable SNGs;
- Decentralisation of the SNG budget in two phases: 1) recurrent budget, and 2) development budgets. The decentralisation of the development budget should be made in several phases, where the coming Local Government Development Programme (LGDP) constitutes an important pilot phase and milestone for the future development, using transparent eligibility rules and procedures for access to funding of ISP at the SNG level;
- Enhancement of SNGs own revenue sources;
- Parallel transfer of tasks and funds, and implementation of effective and efficient instruments for fiscal transfers from central to local governments by use of transparent procedures involving the SNGs;
- Well-developed system of central government grants (general grants, specific grants and equalisation grants) to support and stabilise the SNGs' economies and to ensure a balanced development across the country;
- Establishment of strong links between payment of taxes and provision of services;
- Establishment of strong SNG budget autonomy concerning both revenues and expenditures;
- Decisions related to investments in ISP, that are the responsibility of the SNGs should be made by the SNG councils and benefiting communities, and disbursements of funds should be handled by the SNGs;
- Establishment of strong financial regulations and accounting manuals, including budgetary procedures[102]

[102] The objective is to support this by initiatives under the coming Institutional Capacity Building Project (ICBP) and the Second Economic and Financial Management (EFMP II)

Findings from the Study:

Financial Decentralisation
The present SNGs have considerable autonomy in the collection and appropriation of revenue according to their own priorities concerning those revenue sources assigned to them.

Financial decentralisation was implemented in phases starting with 13 districts in 1993/94, followed by another 13 in 1994/95 and 13 in 1995/96. Finally, in 1996/97 six new districts were created; these districts became financially autonomous in 1997/98. The policy of financial decentralisation has entailed that government has abolished the Vote system and introduced a Block grant system, which means that the central government transfers funds to the SNGs in lump-sum amounts. The SNGs then decide on how to spend it in accordance with their own priorities. The law requires SNGs to budget according to priority within the national priority areas, and it stipulates that the budget has to balance and that expenditures on councils/politicians may constitute a maximum of 15% of the own collected revenues the previous year. The two aforementioned requirements have not been viewed by the sample as problematic, whereas the third rule has been resisted by nearly all sample SNGs visited (cf. below).

Importance of the SNG finance
The SNGs constitute a considerable weight in the total public expenditure and revenue accounts (more than 20%). While the SNG share increased much in the first phases of the decentralisation process, it remained rather stable in recent years. In general, the analysis has shown a severe lack of resources for meeting the most urgent ISP tasks. There are many reasons for the shortage of resources, cf. below.

The SNG expenditure, which constitute approx. 25% of the central government expenditure, has been rising at an annual rate of over 10% over the last years, although with a tendency to fall behind the pace of central government expenditure, especially in recent years. In comparison with other Sub-Saharan countries, Uganda has the most significant SNG sector measured by this indicator.[103] It rose from sh. 172 billion in 1995/96 to sh. 279.3 billion in 1997/98. The central government's total expenditure increased from sh. 697.9 billion to sh. 1,077.2 billion over the same period. The provincial figures for l998/99 show an even greater increase. The SNG revenue as a proportion of the central government revenue rose from 27.5% in 1995/96 to 38.5% in 1997/98.

The significance of the SNGs economy is shown by the fact that total expenditure/revenue for each of the sampled districts was about 1% of central government expenditure/revenue, e.g. Bushenyi and Lira Districts.

[103] It should be noticed that the figures underestimate the SNG sector in Uganda, as only the budgets and accounts for the Districts and the Urban Authorities are available; the sub-countries and lower levels of SNGs are not available.

Recurrent expenditure
The SNG recurrent expenditure has increased from sh. 140 billion in 1995/96 to 234 billion in 1997/98. The share of SNG recurrent expenditure of the total SNG expenditure is more than 80%, and it has remained so over the entire period; hence, a very limited capital investment budget is available at the SNG level. The education, health and feeder road sectors are the main expenditure areas, accounting for approx. 60%, 13% and 4%, respectively, of total recurrent expenditure in l997/98. The other sectors, which received substantial amounts, are water treatment, agriculture support SNG services such as police and prisons, and general public services, cf. below. Utilities constitute a comparably smaller amount of the SNG expenditures.

The wage bill
The wage bill of most SNGs constitutes over 50% of the recurrent expenditure. The expenditure on the councils and boards (politicians) is by law not supposed to exceed 15% of the district's locally generated revenue, but some of the sample SNGs did not adhere to this requirement and state that the rule acts as a strong constraint on the local priorities.

Expenditure on general public services
General public services constitute 21% of total recurrent expenditures in l997/98. Generally, the share varies greatly from SNG to SNG, due partly to differences in accounting procedures. Education is the most costly sector in most of the sample SNGs. In Kampala, education and general administration receive about 31% and 29%, respectively, while the road sector constituted 23%. Lira district spends approx. 75% on education and 11% on health of its recurrent expenditure in 1995/96. The pattern differs in the urban council and in the sub-county councils, in part because not all the funds to councils are reflected in the budget, especially the NGOs' contribution and the conditional grants. In Mbale municipal council, public administration represented about 70% of recurrent expenditure in 1996/97. Education received 5%, excluding funds for UPE and secondary and tertiary education captivation grants. In Nama sub-county, the largest share of the very limited resources went to general administration, 44% and 59% 1997/98 and l998/99, respectively (exclusive the conditional grants).

Capital expenditure
Generally, the capital development budget has not yet been decentralised to the SNG level, but initial attempts have been made and some districts have already significant capital expenditures. This FY part of the development budget is expected to be decentralised, although the control from the central government will be significant in the first phase.

Based on the SNGs budgets, capital expenditure varies greatly, and it has dropped considerably from 1995/96 to 1996/97. The drop was attributed to lower revenue realisation against the budgeted amount, and local governments make limited budgets for development activities due to lack of funds. Their share of capital expenditure varies greatly from SNG to SNG and from year to year, partly due to different accounting practises.

Decentralisation of the development budget is being piloted in a number of districts in 1999/2000. A number of donor-funded projects have been and will be carried out in the coming years in this area, with support from, among others, the World Bank, UNCDF and Danida. Various approaches will be followed, all of which will attempt to involve the SNGs more closely in the area of investment in urgent ISP. Compared to other countries in the Sub-Saharan Region, the capital investment still constitutes a rather limited share of the total SNG expenditures.

Local Government Development Programme (LGDP)
It is expected that the coming Local Government Development Programme will boost the development of capital investments and the SNG level. The Programme will run over the next 4 years and will cover up to 30 districts (+ Kampala City Council) and 13 municipalities. The programme will assist the decentralisation of the development budget in a fiscally prudent manner, with transparent eligibility rules and procedures for assessment by SNGs[104]. The programme will add considerably to the present investments at the SNG level and test the capacity within the SNGs and the most appropriate procedures for capital investments at the local level. The funds will be disbursed as direct budgetary transfers from central government. The investment choices that these SNGs will make cannot, therefore be pre-determined, though they have to be included in the SNG's Three-Year Development Plan.

Development and composition of revenues
There has been considerable increase in SNG revenue from sh. 198 billion in 1995/96 to sh. 448.8 billion in 1998/99. The increase came mainly from increased central government transfers (which more than doubled during the period), especially conditional grants and donor grants, cf. below.

Transfers from central government
Transfers from the central government constitute the main revenue source for local governments. The share of central government transfers comprising SNG total revenue is about 60-70%. Together with donor funding, the transfers constitute more than 80% of all SNG revenue sources in l998/99 (i.e. large vertical imbalances in the system of finance). This should also be seen in light of the low and decreasing level of SNG own revenue collection. In Lira, Rakai, Mukono and Bushenyi districts, conditional grants constitute between 60– 80% of the district's total revenue. In addition, donations account for between 10 and 15% of total revenues in many districts with a tendency to increase.

Total central government transfers to SNGs increased by more than 40% from l995/96 to 1996/97 and further after this year. The increase was done in parallel with the transfer of more services/responsibilities to SNGs. On the other hand, the SNGs feel the functions transferred to them are not adequately matched by the funds transferred. They estimate that government has transferred 80% of key services to SNGs, but that some of these services have been transferred as unfunded mandates. This is a key area of dispute between central and SNGs, and a study of the expenditures and revenues/cost and

[104] The World Bank and the Central Government support the programme. USD 80.9 mill is set aside for the total programme, of which 48.8 mill. USD will be reserved as grants to SNGs to finance basic service delivery investments. One of the LGDP minimum requirements is that the SNGs bear the full costs and responsibility for operations and maintenance of investments financed through the grants.

revenue sharing has recently been launched by the Local Government Finance Commission to address this issue.

The central government transfers consist of 1) conditional and 2) unconditional grants and 3) from l999/2000, equalisation grants, especially for the districts (rural areas). The SNGs are entitled to these grants by law.

There has been a strong tendency to increase the *conditional grants* (earmarked for specific purposes such as water, roads, health care, education and roads), whereas the unconditional grants have been growing moderately. This has reduced the share of unconditional grants of the total transfers and in this way limited the autonomy of the SNGs in setting local priorities across the sector areas.

The conditionalities attached to conditional grants have to be mutually agreed between the central and local governments, but currently the central government departments often unilaterally decide it. The SNGs feel that they should have a stronger voice regarding the size and the principles for distribution of these grants.

Most (about 60%) of the *unconditional grants* are earmarked for salaries and wages, while most transfers for mandated SNG service responsibilities and national priorities occur through conditional grants. The unconditional grants are intended to fund the decentralised functions, as shown by the Act, while the conditional grants are supposed to fund national priority programme areas

The urban councils receive unconditional grants through the District Chief Administrative Officer, who is the accounting officer. The share of unconditional (block) grant is just about 10% of total revenue among the Mbale Municipalities, partly because urban councils do not fully reflect conditional grants in their budgets.
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Equalisation grants are supposed to be given to local governments lagging behind the national standard of service delivery. These imply that the grant benefits only local governments facing excessive expenditure pressure and, according to the Law, have relatively limited revenue generation capacity, since these may be the main causes of poor service delivery. Although the law provided for allocation of an equalisation grant, it was only in the 1999/2000 budget that this grant was provided, though in an amount insufficient to cover the needed equalisation. The other grants have been operational since the fiscal year 1993/94 budget. It is expected that the equalisation grants will be increased in 2000/2001.

The balance between conditional and unconditional grants has tipped towards the conditional grants, and the consequences have been stronger control from central government on SNG spending and a separate accounting control and supervision system. This means that the SNGs have been constrained to implement their local priorities, with limited control on the recurrent budget. Several separate accounts have to be made for the more than 15 various conditional grants. The conditional grants constituted 66% and 78% of the total transfers to SNG in l995/96 and l998/99, respectively. The study has also shown a tendency for the conditional grants to create an expenditure switching effect: i.e. the SNG makes strategic priorities according to the possibilities to obtain conditional grants.

These constraints on the intergovernmental fiscal transfers mean that SNGs are hampered in the exercise of discretionary power and therefore in their ability to meet their mandated service responsibilities. The increasing proportion of conditional grant transfers to SNGs, together with the low local revenues, have restricted the SNG autonomy over both revenues and expenditures. A still increasing gap exists between the responsibility for the tasks and the financing of these tasks.

Generally, only the recurrent budget has been decentralised, whereas the development budget is in its pilot phase. *Capital grants* have been transferred to selected SNGs on pilot basis through a number of projects and are expected to be increased considerably in the future, e.g. through LGDP and other donor supported programmes[105]. Development transfers will increase the level of resources that the SNGs will have discretion to plan for in the field of ISP without prior determination from the central government and with no sectoral restrictions.

Sub-national Government Tax Revenues

The local revenue, which derives from tax (graduated tax and property tax), user charges (licenses, permits, market dues, etc.), others asset disposals, fines, fees, etc., has contributed to less than 30% of the SNG revenues. Nevertheless, the elected councils now exercise control over a selected range of revenues realised in their own territory jurisdiction.

The SNGs are empowered by law to levy graduated personal and property taxes. The graduated tax schedule is set by the central government, which provides the basis for assessing tax. Administration is carried out at the sub-county level. The SNGs have great autonomy within the setting of the property tax on land or buildings, although there are certain minimum and maximum rates. The administration of this is also done at the SNG level.

Graduated tax contributes to about 70% of local revenue for districts but only approx. 35% for the urban councils. Property tax contributes about 19% of the total tax revenue for the SNGs, but it is implemented mostly within the urbanised areas. In fact, for rural local governments like Rakai, graduated tax constitutes the only source of tax revenue, since the taxable properties are normally located in towns. The same reliance on a single type of taxes has been seen in other districts. In Mbale municipal council, graduated tax contributes about 50% total tax revenues; the remainder comes from property. In a smaller town council like Mukono, over 80% of the total tax collections derive from graduated taxes. Graduated tax is the main source of revenue for sub-countries; in fact, for Nama sub-county, it contributes about 74% of the revenues. Property tax is partly low due to the outdated valuation of the properties on which the assessments are made.

Local revenues have remained low for most SNGs due to, among other reasons, small tax base, low tax rates and poor administration of revenue collection. The development of own taxes has shown a tendency to decrease in real values and in shares of total revenue from more than 20% of revenue in l995/96 to less than 10% in

[105] E.g. supported by Danida

l998/99. The problem is particularly serious regarding the property tax, where less than half the potential is realised. The analysis has indicated many good reasons for this, among the most important being local resistance to taxing own citizens, increase in state transfers, lack of tax registers and useful tax information/data bases, lack of sufficient qualified employees, lack of strong measures against defaulters. Some of the sub-counties/districts have shown good progress in this area by focusing on these remedies. The potential for increasing the tax revenue at the SNG level will be investigated further by a coming study under the auspices of the Local Government Finance Commission. Some stakeholders have argued that the secure and considerable transfers of funds from central governments have caused disincentives by SNG to increase their own tax yield. The research has given some evidence to that statement, cf. the great increase in state transfers. On the other hand, however, the present total revenues from all sources seem to be wholly inadequate to cover the needs, cf. Chapter 5.

The study adds to the previous estimates that less than 60% of the present revenue potential is realised.

Other Sources of Local Government Revenue
User charges and other revenue sources increased, but their relative contribution remained small, although a significant revenue source in the cities. In the municipal councils, user charges contribute up to 40% of the local revenue, and taxes contribute about the same share, whereas the grants have limited importance. A part of the reason for the low share of user charges and fees is that many of these revenues are not reflected in SNG's accounts, but are transferred directly to the local institutions.

The SNGs have the power to levy and collect licenses, permits and fees. These include market dues, education/development fund, trading licenses, parking fees, etc. The SNGs have the power to determine the base and the rates. The market dues and licenses/permits constitute a major source of revenue, with market dues accounting for up to 30% of local urban council revenue. Local councils also receive revenue from user charges, renting out their properties and sales proceeds from disposal of assets. The contribution of non-tax revenues to total SNG revenues is about 10%. In Kampala City Council, user charges account for about 15%. In Mukono District, market fees contribute about 20%, and licenses and permits contribute 8%. In Mbale Municipal Council, like other urban councils, market fees contribute up to 30% of the local revenue. The variation across the districts indicates some potential extra revenue from this revenue source as well. At the moment, only a few charges/fees such as market fees and licences/permits significantly add to the finances of the SNG tasks.

Donors and NGO Support to Local Governments
The districts and lower SNGs benefit from donor support. This support is directed toward activities geared towards development. One of the problems encountered with the donor support is the large discrepancy in the funding across SNGs and the lack of co-ordination between these grants and other types of resources, e.g. grants from central government. The SNGs receive donations from non-governmental organisations that account for about 10% of the total revenue in some districts. Rakai District receives a substantial amount of donor support, accounting for 15% of the

district's revenue. Generally, there has been a strong increase in donor funding during the reviewed period.

Loans
Although the sub-national governments have the power to borrow or raise a loan, it must not exceed 25% of the locally generated revenue, and the SNGs are not allowed to fail on their statutory obligations. These rules are supposed to ensure that the local government has the capacity to repay the loan and guard against misuse. If the loan is used for non-developmental purposes, it will over-burden the finances of the local government in the future. The sampled local governments have not contracted loans.

Revenue autonomy
The SNGs exercise significant discretion (within certain limits) in setting tax rates and user charges and fees. They also have the possibility to vary the quantity and quality of services according to local wishes only with regard to expenditure that can be incurred out of the funds available to them as locally generated revenues and unconditional grants. However, as seen from the tables in 4.2.4 and 4.2.5, this averages only about 25% of the expenditures among the districts and 85% among the urban SNGs. Thus, although the urban SNGs sustain more expenditure deficits than districts, they exercise more autonomy on their (limited) budgets. Since sub-counties and division SNGs do not receive any central transfers, they exercise total discretion over their expenditures but not their revenues. The districts/urban councils set the tax rates, although taxes are collected by the lower level of SNGs.

Revenue sharing amongst sub-national governments
The sub-county is a local government unit legally supposed to collect the local revenues within their areas of jurisdiction. This locally generated revenue has to be shared among local governments and administrative units. Revenue sharing enables local governments and administrative units to undertake their functions. The remission of funds to lower councils is intended to be a way of encouraging people to pay taxes and the SNG to collect, since the more they collect, the more they get back a share of what they collected. According to the sampled SNGs, a number of them were not able to remit a share to lower councils because of inadequate funding. The central government or local councils are not supposed to transfer any extra responsibility to a lower SNG without also transferring the necessary funds. The experiences so far with the revenue sharing mechanism have been varied, and a final evaluation of the system is still premature. Some of the findings have been that the system seems to place the sub-counties and the urban councils in a disadvantaged position compared to the districts/city councils. Additionally, some divisions and sub-county councils do not receive their mandatory 50% and 65%, respectively, where the district/city councils collect the revenue.

SNG budgeting and planning
The SNGs have been given authority to plan for the development of their areas. The SNGs are required to formulate and implement integrated and comprehensive medium-term development plans, incorporating the plans of lower level local governments within their areas of jurisdiction. The budgets have to be in accordance with the development plan. The lack of funds has hampered implementation of some of the plans and the quality of other plans, but most of the sampled local governments have recently made

development plans. The plans help to ensure that the limited resources are well invested and that they will assist SNGs in sourcing for funds for development.

The Ministry of Local Government issued the *Local Governments Financial Regulations*, 1995, which give guidelines on how to prepare budgets of local government councils. However, there was no uniform format for all the districts. Each district, therefore, developed its own format, which makes analysis and comparison difficult. These regulations were revised in 1998 in accordance with the Local Government Act of 1997. This provided a detailed format for local government budgeting. The regulations constitute a very important condition for improving the SNG budgeting and accounting procedure, but have still to be fully implemented at all SNG levels. The study has noted a great variation in accounting practises, e.g. in the treatment of donor funding and user fees. There are great challenges within the field of audit. The study has shown that few of the SNGs have audited accounts from 1996/97 and 1997/98. The study has also revealed problems in development of realistic revenue and expenditure projections.

Influence on the conditions for the SNG economy
The SNGs have not been directly involved in national budgeting, but they have been more involved and informed, as part of the Budget Framework Process, about their financial conditions (revenue and grants) for the coming budget year from FY 1998/99. There is no legal requirement for the central government to involve the local governments in the budgeting process. The consultations in October-November in 1998 and 1999 (meetings between central and SNGs) has provided SNGs with a better basis for making own budgets, since they were given indicative growth rates of central government grants. However, from the SNG point of view, the meetings were not to be seen as real negotiations on the SNG economy between equal parties.

In sum, while local governments have autonomy in formulating own budgets and funding them through own generated revenues, grants and donations, they have to ensure a balanced budget. Furthermore, they must give priority to National Priority Programme Areas. Most of the funding derives from external sources beyond their control. The challenge facing local governments is how to increase locally generated revenues and avoid unfunded mandates. The graduated tax remains the single most important source, and yet the amount of uncollected assessments is more than 15% in some districts like Mukono. Increased local revenue collection implies that the SNGs can implement a number of their own priority programmes.

8.4.2 Recommendations on sub-national government finance (Chapter 4)

Major recommendations:

4.1 ST: The decentralised functions and services need to be *cost-evaluated* and matched with local government funding. The unconditional grants should balance the transfer of additional functions to meet the costs of the decentralised functions. The general use of many conditional grants to fund decentralised services may erode the power of local governments since they are reduced to being an implementing agency of central government programmes instead of being a policy making body, especially when grants are not negotiated. The tendency to transfer all additional resources to SNG in the form of

detailed conditional grants seems to undermine local democracy and create unnecessary bureaucratic procedures and lack of cross-sectoral priority settings. Therefore, the increased use of various conditional grants should be scrutinised and carefully reviewed and the objectives clearly spelt out. The balance of grants should favour a larger share of unconditional grants, as recommended by the Local Government Finance Commission. The conditional grants are appropriate in some key areas, but the more than 15 various earmarked grants should be streamlined and new conditional grants introduced only after a close review of the whole area.

4.2 The SNGs have stressed that the transfer of functions and tasks is characterised by severe imbalances with the *existing assignment of revenues*, i.e. that the SNGs have been assigned minor and non-stable, low yield revenue sources compared to their present tasks. A study has just been launched on this subject by LGFC, and it should be fully supported.

4.3 ST/MT: The effectiveness and *efficiency of tax collection, user-fees and charges* should be enhanced by streamlining procedures, including the establishment of a more efficient billing system and systems for coping with defaulting clients. The large variation in revenue from taxes suggests that a great potential exist. Sub-counties/districts, which have paid more attention to this matter, have improved their tax yields. Tax strategies dealing with the question of increasing tax base, defaulters, etc. should be decided in the Council each year and made public.

4.4 ST/MT: Statistics on *tax collection* should be developed at both the central and SNG levels. In addition, a review and publication of best practises on SNG tax collection (valuation, assessment and collection) should be initiated in order to learn across the SNGs.

4.5 ST: The central government should encourage the *updating of the tax base for property taxation,* possibly by financial incentives for carrying through a new and actual valuation in order to promote the justifiability of tax burdens among citizens.

4.6 ST: Adjustment of the entire *property tax system* and related legislation to be more suitable for better tax yield within the rural areas should be closely reviewed.

4.7 ST: The coming *study on SNG revenue enhancement* deserves the strongest support, as the present Study has confirmed a great potential for improved tax collection. The Central Government should support the SNGs in administrative development within areas such as valuation, registers, databases, etc. MT: In the medium term, the strengthening of the SNG tax revenue and strengthening of the local revenue base may lead to a reduction of the state transfers/changes in revenue composition at the SNG level.

4.8 ST: The right of SNGs to participate, in an appropriate manner, in establishing the rules governing the general *transfer of resources* should be expressly recognised. The move towards a strengthening of *information flow* on local government finance between the levels should be supported. ST: The possibilities should be investigated for establishing a more formal budget co-operation (or budget and grants commission) forum where the central government and SNGs negotiate the future economy and seek consensus. The law should be respected and all conditions for transfers negotiated with the SNGs.

4.9 ST: The recent introduction of equalisation grants in l999/2000 for the districts should be expanded and followed-up by equalisation grants to the urban authorities to address the horizontal inequalities as required in the Constitution. The donor contribution should also be seen in the context of horizontal variations in expenditure needs and revenue capacity. The grants formulae need currently to be revised in order to promote more equity and efficient sharing of the limited recourses.

4.10 All grants to local governments should be reflected in the local governments' budgets since it is important for monitoring and supervision. The urban councils and sub-county council budgets do not reflect the central government conditional grants because they fund services within their areas of jurisdiction without being circumscribed by their budgets. The district should have a mechanism for giving the local councils an indication of the grants budgeted by the central government, which is given to them at the time of budgeting. The present timing of the budget procedures should take due account of the SNG's need.

4.11 MT: It should be considered to include the SNGs' *own tax effort as a criteria* in the distribution of the unconditional grants in order to create incentives to improve the SNG tax yield. The unconditional grants should reflect to a greater extent the SNGs' tax revenue potential and their various expenditure needs. The recently introduced equalisation grants are a first step but they should be increased in importance in the future. Inclusion of a tax effort criterion should be considered.

4.12 ST: The present Budget Framework procedure, with a dialogue between central and SNGs in good time in advance of the FY, should be further developed by ensuring that the level and the distribution procedures for the final central government transfers are finally decided and (possibly legally backed) in sufficient time before the budget year starts. This approach would enhance the possibilities to make proper SNG budgeting and budget follow up.

4.13 ST/MT: The study has shown that many of the *accounts* have not been audited in recent years and that the accounts, although improved the recent years, are sometimes hard for outsiders/investors to compare and evaluate. This is a problem for all stakeholders, including the possibilities to become creditworthy in the longer run. There is evident need for a continued strong emphasis on strengthening the *financial budgeting and accounting system* and procedures to bring them up to modern standards and to achieve effective internal financial control and accountability. Audit of the SNG accounts should be strengthened as a part hereof.[106]

4.14 ST: *Fees and charges* constitute an important revenue source for many of the SNGs in the present system. There is still a non-utilised potential, for which better use should be made. In parallel, accountability and transparency should be improved, e.g. by ensuring that all revenues and expenditure deriving from this area are included in the SNG budgets and accounts. Some cities, such as Kampala, have taken the first steps, and the experiences from these pilot schemes should be made available to all SNGs.

[106] Part of this will be covered by the Local Government Budget Framework Paper (LG-BFP) process, which deserves full support.

4.15 ST: A review of the present practice of fee setting should be made as a basis for developing general guidelines from the central government on this area, including some max. limits for determination of the fee levels. The levels should take account of the ability to pay.

4.16 ST/MT: A larger share of total SNG expenditures should be sought/ reallocated from *general administration* toward more customer oriented service provision and infrastructure sector areas**.** The first step is a review of the present SNG structures in order to look for efficiency gains.

4.17 ST: The regulation on 15% maximum on expenditure to councillors has been heavily criticised by the SNG politicians. In some places, the resources are not available to finance the politicians in a proper way, whereas, in other places, the costs are biased towards allowances for the politicians compared to the real ISP needs. A detailed review of the whole area should be initiated in order to reform the remuneration of the SNG councillors, e.g. by setting a fixed salary/allowance according to the size and demands (supplemented by other criteria) of the territory.

4.18 ST: The weaknesses discovered in *financial control*, accounting procedures, and financial monitoring should be addressed and supported by the central government. Donor support should be better co-ordinated in order to avoid different accounting and audit systems being established, even within the same SNG, to comply with the rules of the donors.

4.19 ST: Establishment of a comprehensive *database on SNG finance*, accessible to all stakeholders and including all relevant statistics on revenue and expenditure, should be supported in a co-ordinated manner and such that all present available statistics are centralised. The key stakeholders should have access to this database.

8.5 Infrastructure and Service Provision – ISP (Chapter 5)

8.5.1 Main Findings and Conclusions

Central Government Objectives:

Since 1986, the government has been pursuing a decentralisation strategy whereby administrative and financial responsibility has been devolved to the SNGs, while the government has remained responsible for policy formulation, planning, inspection and management of national programmes. The provision of most infrastructure services is the mandate of SNGs. The government has also expressed a strong commitment to rehabilitate and maintain the existing infrastructure. Finally, the government has been pursuing a privatisation strategy, in which the role of government in running state enterprises is being reduced. Government is concentrating, instead, on the creation of an enabling environment for the private sector and encouraging private sector provision of services where this can be done more effectively and efficiently.

Main Findings from the study:

Over the last decade, Uganda has continued to register commendable gains in macro-economic stability and sustained economic growth. This has also enabled certain

improvements in infrastructure and service provision (ISP). Uganda's population, 16.5 million in 1991, is currently estimated at 22 million, corresponding to an annual growth rate of 2.5%. More than 88% of the population lives in rural areas with poor or under-developed infrastructure, poor health care and sanitation. The life expectancy of 48 years is quite low compared to other least developed countries. ISP - comprising services like community amenities (water supply, sanitation and solid waste management), education, health facilities, transport (road development) and energy - is woefully inadequate to meet the demands of the rapidly growing urban and rural population and to stimulate appreciable productive investment and economic growth.

Human progress, as measured by the human development index (HDI), exceeded 0.4 in 1996, virtually double the level of 1980. The proportion of the population that is in abject poverty has declined. These indicators, when compared with other countries, are still poor. There is a glaring inequality between urban and rural areas: 43% of the rural population is poor compared to just 20% of urban residents, and 55% of the population live on less than US$ 1per day.

The comprehensiveness of ISP with respect to consumers' needs thus remains a daunting challenge to all SNGs in Uganda. Despite the government's commitment to the rehabilitation and maintenance of infrastructure, a number of factors have impeded the pace and, therefore, rendering it poor. Inadequate financial resources for development of infrastructure and institutional constraints have adversely affected the ability of the SNGs to deliver services of sufficient quality and quantity. Development funds are yet to be decentralised, apart from ongoing pilot projects. There is a lack of comprehensive development and maintenance strategy; lack of placement programme for tools, equipment and machinery; and a rise in the rate of vandalism of public property.

Absence of co-ordination among stakeholders concerning ISP

While the demarcation of responsibility is clearly defined within the government system, considerable overlap persists at the level of control/management and actual delivery of ISP by the various stakeholders. Adequate harmonisation and co-ordination of the activities of various stakeholders in the provision of ISP is not undertaken, little integration exists and there is duplication and fragmentation of the contributions of donor and other NGOs. This has significantly compromised efficient delivery of services to consumers. NGOs and donor budgets, in some instances, are not yet integrated into the districts' recurrent and development budgets.

The study has clearly shown that financial resources available to SNGs are not adequate – 80-90% of available resources are used for recurrent expenditures, to the detriment of capital investments (basic infrastructure and community amenities). SNGs have limited economic and political power. They depend largely on government transfers, usually with stringent conditionalities. The allocations are made without actual assessment of SNGs' needs and priorities. Hence, appropriate mechanisms are not in place to periodically review and update the inventory of infrastructure. This database would serve as the basis for planning and allocation of public funds for ISP.

Actual ISP-performance in the reviewed SNGs

The absence of a well-developed enabling environment for the SNGs in the field of ISP is reflected in their actual performance in delivering services to their residents. The study of the sample SNGs indicates some improvements in all areas of service delivery; however, the data and information collected indicate a performance level of the sample SNGs characterised by medium or poor performance.

In the field of education, the majority of the nursery schools are concentrated in towns and trading centres or around higher educational institutions. Although pre-primary schools are privately owned, the government provides the curriculum. Enrolment is quite low: 30% in Kampala, 11% in Mukono and below 5% in the rest of the SNGs. The government implemented Universal Primary Education (UPE) in 1997. This programme provides free education for four children per family. The parents, community and government are responsible for construction of classrooms and other school infrastructure. Because of UPE, primary school enrolment increased, and there is now an acute shortage of classrooms, scholastic materials and teachers in all local governments sampled. The share of pupils attending classes in incomplete/temporary structures comprises 32% in Kampala, 60% in Mukono, more than 65% in Lira and Bushenyi, and 70% or more in the remaining SNGs. In 5 out of 7 sample SNGs, the number of teachers is 25% to 40% below the satisfactory level. Secondary education is provided mainly by the central government; however, according to the Local Government Act, it is supposed to be decentralised.

With respect to the provision of *health facilities and services,* the central government, SNGs, NGOs and private sector are all active in health service provision. The SNGs are responsible for some hospitals, clinics and health centres, while the central government is responsible for referral hospitals and training. Many rural health services are run on grants provided by the centre and assistance from donors. One of the leading problems facing the health centres and hospitals is the lack of qualified health workers to man them and provide services. Geographical access to health care has been limited to about 50% of the population, i.e. those living within five kilometres of a health service unit. Rural communities are particularly affected, mainly because health facilities are located mostly in towns along main roads. Among the health facilities, many do not provide the full range of essential primary health care services. More than 60% of mothers are not attended to by trained health personnel during childbirth. The estimated performance indicators concerning health facilities for the sample SNGs show one SNG with a good level of facilities (Kampala District: performance level 3 (corresponding to 51-60% coverage)), one SNG with a poor level of facilities (Kotido District: performance level 1 (corresponding to less than 40% coverage)) and the remaining eight SNGs with a fair level (performance level 2 (corresponding to 41-50% coverage)).

Water supply has been identified as a priority programme area by central government and SNGs. The National Water and Sewerage Corporation provides water in a few urban centres, and local governments are responsible for provision of water in the rural districts. Sewerage service coverage in the sampled urban councils is quite low relative to the demand for the service. Sanitation and water improvement has been supported mainly by donors: the Water and Environmental Sanitation (WES) Programme (supported by the GOU and UNICEF with funds from Sida), the Rural

Water and Sanitation (RUWASA) Programme (supported by Danida), the Water and Sanitation Programme (WATSAN) and the South West Integrated Project (SWIP). Two of the sample SNGs (Mbale and Lira) are estimated to have a very good water supply performance (level 4: corresponding to a coverage of 61-80%); four sample SNGs are estimated to have a good water supply performance (level 3); and the remaining three SNGs have, respectively, level 2 (fair), level 1 (poor) or no estimation is given.

The performance concerning *sanitation/sewerage/latrine* reveals a quite depressing picture. In Uganda, environmental sanitation has traditionally been accorded low priority. The sector has suffered as a result of poor application of sanitation practices and insufficient community mobilisation and sensitisation. This situation has been exacerbated by inadequate legislative and policy guidelines, low staffing and inadequate resource allocation. Worse still, there has been insufficient research on appropriate technology options and inadequate integration of all stakeholders. The predictable effect has been high mortality and morbidity. Four of the sample SNGs have performance level 2 (fair), two SNGs have performance level 1 (poor) and the remaining SNGs have performance level 3 (good).

With respect to *waste management,* the performance level is also depressingly low. Informal dumping of refuse within the urban areas is common; it has created a serious health hazard and, in some cases, has impeded access. Secondly, collection points are not conveniently located for households, and removal from secondary collection points is not frequent enough because the municipal councils lack both physical and financial resources. Disposal sites are poorly designed and managed. Solid waste disposal is a serious problem in urban areas, with often only 40% of generated waste being collected. Municipal waste is a potential source of water, land and air pollution, especially since there is no sorting out of hazardous from non-hazardous wastes, nor is there any kind of treatment. Households in rural areas dump refuse around the house or in open dumping sites. Contrary to popular belief that waste generated from rural households poses no problems, the situation resembles those of small or medium-sized towns, with tendencies toward source contamination where the population is dense and the water table near the ground surface. Rural areas also consume plastics, dry cell batteries, synthetic fibres and fabrics, all of which are non-biodegradable, and the traditional composting disposal method is no longer effective.

Concerning the *road network and transport,* the provision of feeder roads is one of the means of fighting against poverty, which is Government policy. There are three basic types of roads: trunk, feeder and community roads that are managed, respectively, by the central government, the districts and the communities. The central government has a conditional grant for maintenance of feeder roads. Under this grant, local governments are supposed to involve the private sector, since government has a policy of promoting the private sector. This grant is inadequate to address the maintenance needs of local governments. Government has divested itself of the provision of transport services. Generally, the transport network is very poor, especially in the rural areas, where roads become impassable during the rainy season. Road maintenance performance in the sample SNGs comprises: one SNG with level 3 (good) performance (Kampala), one SNG with level 1 (poor) performance (Kotido) and the remaining SNGs with level 2 (fair) performance.

With respect to *housing*, the housing industry is mainly a private sector affair, with government accounting for only 0.3% in rural areas, where the majority of the people live. Even in the urban areas, the government's share is limited. Dwellings in rural areas are generally of poor quality. The law on land makes it difficult to plan the towns and to provide the necessary infrastructure, since the landowners have to be compensated before roads are created. Nevertheless, the value of the land could even appreciate, with the creation of roads and provision of other facilities like water. Although dwellings in urban areas are of semi-permanent and permanent nature, they lack proper planning. In addition, districts and urban councils do not have enough qualified surveyors, thus compounding the problem of town planning.

Concerning *electricity*, the Uganda Electricity Board (UEB) is a parastatal company with a monopoly on generation, transmission and distribution of electricity. The generation of power will soon be liberalised. Although the country has enormous potential to generate electricity, it is faced with acute shortage. Power is currently being rationed, and the deficit is projected to grow further until the planned power projects start operation. SNGs are not involved in generation, transmission and distribution of electricity. The performance level is very poor, as only 5% of the population are connected to the electricity network.

In the field of *telecommunications,* there also appears to be a very low level of performance. The telecommunications network is quite poor, with some districts (like Kotido) having no access to telephone services. The coverage of telephones lines is 0.25 lines per 100 persons.

The vital importance of a policy based on the principles of cost-recovery
The issue of the establishment of a policy concerning ISP, based on the principles of cost-recovery, is much influenced by the very modest means of the vast majority of the population. Alternative mobilisation of financial resources by user charges is currently under discussion. The Local Government Act of 1997 states that local revenue shall consist of user charges, where applicable, and any other revenue that may be prescribed by the local government and approved by the minister.

There is a strong economic case for subsidising health care and education in Uganda. However, public resources are extremely constrained. Hence, for health, the decentralisation of the decision about user charges to the local level is appropriate. Much should not be expected; user fees are still limited and cannot replace public support. In education, government is already sponsoring 4 children per family under UPE. Primary education in government-aided schools is free of user charges except in urban areas, where students' parents are supposed to pay a maximum of ten thousand shillings to cover security, lighting, water and supplementary benefits for teachers, since the cost of living is relatively higher in urban areas. The parents are responsible for buying exercise books, uniforms and meals. Cost sharing has been introduced in all tertiary institutions effective 1999/2000 academic year.

Solid waste management is still a free service offered by concerned urban councils, almost exclusively from their local budgets. Kampala City Council is considering introducing a charge for garbage collection. The introduction of user charges and a

'dedicated Road fund', where all funds for road development and maintenance can be pooled, is still a subject of discussion. In the past, attempts were made at cost recovery via road tolls, but such charges have since been abolished by both central government and SNGs.

The attitude to the issue of a cost-recovery policy for major components of ISP is influenced by norms, habits and opinions of what is reasonable to pay for the various goods and services. Focus group discussions with opinion leaders and political leaders undertaken in this study indicate that people in urban and semi-urban areas are willing to pay, and are in fact already paying, for water and sanitation facilities. People in rural areas, however, regard water as free, and they will only contribute to maintenance of water points when there is a breakdown. Solid waste, roads and drainage are seen as a function of the municipality and councils. Solid waste management was also mentioned as a problem in urban areas, as the facilities are inadequate.

Private sector involvement in Infrastructure and Services Provision – barriers
The Government of Uganda promotes private sector growth and considers it as an engine of growth. It has divested itself of a number of activities, but there is no clear policy to involve the private sector in service provision at the local government level. Currently, there is little participation of the private sector in service provision. They are more involved in running markets, schools, health centres and recently car parks and cleaning services in Kampala City.

There is a very long way to go for a substantial involvement or participation of the private sector in ISP, in relation to the aforementioned basic components of ISP. The absence of a tariff and user charge policy, based on the principles of cost recovery in at least some fields of ISP, could form a quite considerable constraint for the involvement of the private sector. The private sector must operate on commercial principles, on a well-known economic framework related to cost recovery, in order to meet the demands of the community

The affordability issue
Closely connected with the issue of the SNGs' ISP performance is the issue of the population's affordability and attitude towards payment for infrastructure and services. A substantial part of the population lives in abject poverty and faces problems in relation to payment for ISP. There is a glaring inequality between urban and rural areas: 43% of the rural population is poor, compared to just 20% of urban residents, and 55% of the population live on less than US$ 1 per day. Poverty is particularly pervasive and increasing among rural women. More than 75% of Uganda's rural households depend on subsistence farming as their main source of livelihood, and only about 1.4% are engaged in commerce. The findings of a recent study showed that between 1992 and 1996 absolute poverty declined from 56% to 46%. However, poverty reduction has taken place more in urban areas than in rural areas, and the poorest 20% have become poorer.

At present, the largest share of household expenditures is directed to food, beverages and tobacco. Urban households spend 19% on rent, fuel and power; the corresponding figure for rural households is 10%. On average, 3-4% is spent on health and medical care. Despite the crucial importance of safe water for quality of life, expenditure for

water in urban areas comprised less than 1% of total expenditures. There is no clear picture of the relationship between affordability and willingness to pay for ISP. In the case of low-income communities in urban areas, the research found that such households actually pay more than households living in high or medium cost residential areas. An indication of the lack of means for payment is the substantial share (30%) of registered disconnections to water supply. One major reason for the very low level of electricity connections lies with very considerable capital expenses needed to establish the basic connection.[107]

8.5.2 Recommendations on SNG infrastructure and service provision (ISP) (Chapter 5)

Recommendations:

5.1 ST/MT: C*o-ordination among different levels of government should be strengthened by the creation of a co-ordination framework and* by strengthening the leading role of the SNGs in co-ordination activities concerning ISP components, so as to reflect and balance local priorities and allocations of new infrastructure investment.

5.2 ST/MT: Central government and SNGs should develop a strategy and implementation plan for improving *sanitation* (including sewerage and latrines) and *household waste management (* including the introduction of user charges for financial mobilisation).

5.3 ST/MT: Central government and SNGs must address the challenge of introducing user charges for ISP in order to mobilise additional financial resources for developing services such as water supply, sewerage, drainage and household waste management, especially where absence of such services serious affects the health and social conditions of the population. Awareness campaigns and the involvement of the political leadership in awareness building of the necessity of paying for these basic amenities constitute steps to improving performance of ISP.

5.4 ST/MT: Both central and local government institutions should develop and implement comprehensive infrastructure development and maintenance strategies, including a clear policy for tariff setting within the *framework of a cost recovery principle*. The cost recovery issue should address the following elements: 1) adjustment for inflation effects, 2) current costs (e.g. for water, also covering the necessary purifying chemicals, etc), 3) the necessity for preventive maintenance and repair costs and 4) the depreciation costs in order to allow for re-investment. In order to counteract the non-affordability of full cost-recovery of the poor, systems of fee differentiation or special support to weak income groups should be introduced.

5.5 ST: SNGs, in relation to ISP, should duly consider the preferences, affordability and willingness to pay - as well as the preferences of the citizens within their jurisdiction areas - by adopting a participatory approach to decision-making (design, planning and implementation of ISP).

[107] The willingness to pay survey, which was carried out in the 4 pilot municipalities under the preparatory phase of LGDP, indicated that on average household were willing to spend about 1.7% of their total household income as a contribution towards financing capital investments costs. About 5% of their incomes were for recurrent cost expenditures as payment of fees.

5.6 MT: *A framework and strategy for systematic involvement of the private sector in ISP* should be implemented by SNGs and developed in order to gather experiences concerning the possible contribution of the private sector in addressing local needs, better maintenance and responsibility for facilities.

5.7 MT: Projects aimed at developing better *accounting and budgeting procedures* within the major infrastructure and service areas should be addressed in order to establish a prompt and adequate user-fee revenue system.

5.8 ST: Decisions related to investments in ISP that are the responsibilities of the SNGs should be made by the SNG councils and benefiting communities.

5.9 ST: Development of service delivery standards should be supported in connection with a better ISP monitoring system to evaluate the actual provision compared to the objectives.

8.6 The Regulatory Framework (Chapter 6)

8.6.1 Main Findings and Conclusions

Central Government Objectives:

The legislative framework of the SNGs was enacted by the Constitution in l995 and the Local Government Act in l997. The objectives behind this legislation have been to gradually develop the decentralisation and the legislative framework, through a consultative process where both technical and political considerations are incorporated.

As previously mentioned, the key objectives behind the regulatory framework are to secure a gradual decentralisation, containing devolution of functions, power and responsibilities to the SNGs; to support people's participation and democratic control at all levels; to secure a sound financial basis and reliable revenue sources; to ensure that the staff belongs to SNGs; and to ensure that the SNGs have the capacity to carry out planning. The central government has stated that they currently will examine and revise the legislation to bring the laws and regulations in harmony with the Constitution and the Local Government Act.

A comparison of the findings from the study and the stated *objectives* has shown that there is still much work to be done.

Main findings from the Study (Chapter 6):

The Constitution and the Local Government Act
The Constitution and the Local Government Act provide a solid legal framework for proper functioning of all levels of SNG in Uganda. The Constitution and the Act are some of the most developed and clearly defined regulations of their kind in the Sub-Saharan African region and are generally seen as main pillars and a strong guarantee

for local democracy in the country. None of the sample SNGs had any major concerns or problems with the key elements of this legislation.

A number of important achievements have been realised within a rather short time, among them transfers of important functions to SNGs, organisation of basic political and administrative structures within SNGs, development of uniform financial regulations (l998), and establishment of district service commissions and tender boards.

On the other hand, the study revealed that the Constitution and the Local Government Act are not fully implemented within certain key areas, such as division of functions, competencies and finance. The legislative framework, in other words, is rather advanced compared to the real development and stipulates the wish of a future system whose reality is quite different. Some of the key problems are discussed below:

Finance of SNGs
The constitution provides that unconditional, conditional and equalisation grants shall be disbursed to districts out of the Consolidated Fund. In recent years, the unconditional and conditional grants have been transferred to the districts, cf. Chapter 4, but the equalisation grants have only been introduced from l999/2000 and on a limited scale. Although an important first step has been made, the grants do not fully capture the inequalities among the SNGs in terms of revenue capacity and differences in expenditure needs. The Constitution states that conditional grants should be negotiated with SNGs before introduction, but, in reality, this has not happened. Some areas are not fully compensated, and most areas are decided unilaterally by the line ministries/Ministry of Finance. The increase of conditional grants in comparison with unconditional grants is not directly against the text in the regulatory framework, but against the ideas behind this, namely, the devolution of power and responsibilities.

The goal was to establish reliable, sound and strong SNG revenue sources. Central government transfers have increased in recent years, but the SNGs' own revenue yields have diminished in importance. Further analysis of this problem has recently been initiated by the Local Government Finance Commission. The discussion between central and SNGs concerns the question of whether this low yield is due to the structure and types of taxes assigned to the SNGs or only due to the present low collection efficiency at the SNG level.

The whole system of SNG financing, therefore, requires reform in order to boost generation of own SNG revenue sources and, in this way, enable the SNGs to carry out more of the functions devolved to them.

Budgetary power
According to article 96 of the Constitution and section 78 of the Local Government Act, the SNGs have been empowered to approve their own budgets. A few restrictions on this area include: 1) that budgets should be balanced (between expenditures and revenues), 2) that the expenditures should reflect the national priority area programme and 3) that the expenditure on councillor's emoluments and allowances must not exceed the limits of 15%. Beside the latter restriction, the budgetary regulations are not generally perceived as a constraint for the SNGs. The SNGs have considerable

autonomy within property tax, graduated tax and user charges, but the question, cf. above, is whether these revenue sources have a sufficient importance and potential revenue yield.

Transfers from central governments are not directly negotiated with the SNGs, and knowledge about the fixed and final amount of transfers is available too late in the SNG budget process in order to be adapted to the other revenues sources and expenditures. This has been improved the latest years FYs l999/2000 and FY 2000/2001 with the Budget Framework Process, but needs still further development.

Regulations on accounting
The Local Government Financial Management Framework of 1998 is an effective initiative towards strengthening the accounting procedures, but it needs a current revision to expand it and to assist the urban councils, which feel it does not adequately suit their activities. The format should be more detailed to allow more useful analysis and permit aggregate comparisons. This should be co-ordinated with further training of the staff in the use of these regulations.

Power by central government to intervene in SNG infrastructure and service provision
Unlike many other countries in the Sub-Saharan Region, the intervention of central government in important decision-making processes at the SNG level is not seen as a general problem in Uganda.

District service commissions
The intention and regulations on the district service commissions are not anticipated as a major problem among the key stakeholders, although some district councils have attempted to exert political influence on their decisions. The problem is caused mainly by financial restrictions. This problem is twofold – on one hand, there is a need to look at the arrangement of remuneration of these commissions, and, on the other hand, there is a need for the SNGs to strengthen their own revenue sources.

Payment to Councillors
The procedures and rules on payment to councillors seem to be rather complicated, time-consuming and costly for most districts. In addition, the heated discussion regarding the 15% maximum rule on expenditure to politicians of total own revenue sources seems to indicate a need for a close review of the whole arrangement behind remuneration of politicians.

Functions/responsibilities and the law
Many of the mandatory functions stipulated in the various laws concerning local governments are not carried out by the SNGs in the present system, i.e. there is no harmony between the reality and the laws in these areas. This is seen within the sectors of health care, education, water and road transportation. The clear definition of functions to be carried out by SNGs assumes that the institutional arrangements, manpower and sufficient resources will be available at all SNG levels to carry out decentralised functions. The analysis in Chapters 4 and 7 has shown that this is not the case. One example is the area of secondary education.

Privatisation
There is no policy or regulation pertaining to involvement of private sector.

Property Rate Decree
The Property Rate Decree of l979 is outdated and need a detailed review.

Land management
The new Land Law (l998) has provided opportunities for Local Land Boards to handle matters pertaining to land within the framework of the Constitution, but resources are still lacking for an implementation of this Law.

Supporting guidelines and regulations
Although the basic legislative framework for SNGs has been developed, a number of guidelines and regulations have to be developed (or revised) in order to support the SNGs in their daily work, among them planning manuals, reporting requirements, etc.

8.6.2 Recommendations on the regulatory framework (Chapter 6)

Major recommendations:

6.1: ST: The Local Government Act should be up-dated currently and amended to reflect the present needs and requirements. The prevailing regulatory framework concerning the many different aspects of ISP requires that it be re-adjusted in order to create a comprehensive and non-conflicting administrative basis for SNGs. The basic legislation should be supported by relevant guidelines and regulations, e.g. within the fields of planning, budgeting and reporting.

6.2. ST/MT: The accounts and audit progresses have shown severe weaknesses during the study. The existing legal framework of Financial Regulations has to be fully implemented and supplemented by good practices, guidelines, manuals and auditing and stores manuals, especially for the sub-county level. The regulations should be developed by the Ministry of Local Government.

6.3. ST/MT: The central government should be encouraged to fulfil its present obligation to negotiate the conditional grants and transfer tasks to the SNG level.

6.4. ST: Regulations guiding the payment of politicians and members of commissions and boards should be closely reviewed in order to introduce more stable, fixed, affordable and fair compensation for time spent on these duties and better adjusted to available SNG resources.

6.5. ST: The tax laws within the fields of property and graduated taxes should be reviewed with a view toward enhancing the yield at the SNG levels.

6.6. ST: Stakeholders should undertake to create a central data bank, especially for SNG financial data. These data should be stored and available to major stakeholders in the agreed upon formats and definitions, through electronic facilities to ease analysis, monitoring and evaluation. Standardisation of the definitions and formats should allow for comparison. It should be the clear obligation for all SNGs and relevant central government institutions to ”feed” this data bank, and *legal regulations* for this activity should be issued.

8.7 The Institutional Framework (Chapter 7)

8.7.1 Main Findings and Conclusions

Central Government Policies and Objective:

The autonomy of the SNGs concerning human resources and administrative matters is laid down in the Constitution and in the Local Government Act.

Article 176 of the Constitution states that:

"*Persons in the service of local governments shall be employed by the local governments*" *and "The local government shall oversee the performance of persons by Government to provide services or the implementation of projects in their areas"*.

The objective is that the SNGs should have the power to manage their own human resources, including the power to hire and fire as well as to supervise the efficiency of central government staff deployed in their jurisdictions.

In order to ensure the SNG's control over its own human resources and also to ensure the selection of the most qualified staff, the District Service Commissions are supposed to function as intermediate institutions between the councils and the employees in terms of hiring and firing and to safeguard against political manipulation and political appointment of civil servants.

Other key objectives of the Public Service Reform in Uganda are to streamline organisational structures, introduce result-oriented management and proper information systems, improve management of personnel payrolls, establish appropriate financial control, ensure adequate training conditions and establish strong incentives at the SNG level to provide an extra effort.

Finally, the objective of the central government has been to pursue a bottom up planning procedure where SNGs, in consultation with the major stakeholders in the local territories, prepare and implement development plans.

Main Findings from the Study

In the field of human resources and institutional framework, the research has shown a number of important achievements in recent years, among them:

- The district council is seen as the highest political organ in a district with legislative and executive powers, while the chairperson is a political head of the district. The councillors must elect a speaker from among themselves to preside over all council meetings and enforce the rules of procedure of the council. The chairperson presides over meetings of the executive committee. A district executive committee performs executive functions of the council, and each of them is responsible for a sector. The district council appoints standing committees from among themselves. Local councils at each level of local government are elected by the people representing the electoral areas and different interest groups. The chairperson is directly elected

by universal adult suffrage on individual merit. Since councillors are elected, it implies that their decisions have to take into account the views of the electorate. This system seems to be rather stable and generally well functioning.

- Establishment of the District Service Commissions and decentralisation of the human resource competence for hiring and firing have taken place.
- In reality, the civil servants refer to the SNGs and are accountable to them (no double subordination exists).
- "Ghost workers" have been weeded out of the payrolls and restructuring made in many SNGs.
- Establishment of tender boards has taken place.
- Information Technology has begun to be introduced in most SNGs, with a gradual focus on planning and financial management.
- New initiatives to address the problem of land management have been made, although these remain insufficient, cf. below.
- There has been increased focus on training needs and a number of relevant training activities.
- The Central Government has been restructured to improve its performance and be in line with the constitution and decentralisation policy. The 'Public Service Reform' was initiated to foster the efficiency and effectiveness of service delivery at various levels of government. These reforms in the public service, ongoing since 1989 to date, have made a number of achievements, some of which are: staffing structure reorganisation and administrative levels have been rationalised, particularly at the centre; the value for money concept has been introduced; and records management improved. The Central Government has a representative in the district appointed by the president to oversee central government programmes.
- The Decentralisation Secretariat has been established within the Ministry of Local Government. The Secretariat has been instrumental in supporting local governments, especially as they take up new challenges accompanying decentralisation. A constitutionally defined body, the Local Government Finance Commission (LGFC), has been created to handle financial matters pertaining to SNGs. Its membership consists of representatives of central and SNGs. The Commission is mandated to advise the President and the Government on the allocation of grants to SNGs, to identify potential revenue sources for SNGs and to arbitrate in case of budgetary disputes between the central and SNGs.

The analysis has also revealed a number of problems and remedies within the existing institutional framework:

Independence of district service commissions but lack of funds and problems in the relationship

The SNG personnel management function was decentralised to the district council. The council appoints a district service commission, which is responsible for appointment, deployment, confirmation and discipline of employees in the local government. The staff working for SNGs is accountable to the SNG councils through the district service commissions (DSCs), while they are supervised by the chief administrative officers (CAOs) or town clerks. The law guarantees the DSCs independence in their decisions, and they are supposed to discharge their duties according to the national policies for public service. The law allows an employee to

contest a DSC decision by appealing to the Public Service Commission or courts of law for arbitration.

The study has revealed that SNG councils lack funds to enable DSCs to sit more regularly, to complete the backlog of work and to hire and retain well-trained and experienced staff. According to the Services Commissions, there are a number of examples where the District Councils still indirectly try to control the Service Commissions by making their level of funding negotiable, whereas the District Councils stress that this is due to lack of funding. The fact is that the DSCs are generally inadequately funded.

Another problem of a more general nature is the payment system of councillors, where the allowances and the accompanying costs seem to be very expenditure-heavy compared to a more regular payment system, e.g. fixed payments based on estimated time consumption.

Critical gaps in manpower
There are critical manpower gaps in some SNGs, despite the fact that they are legally empowered to fill these positions. The skill shortage varies considerably from SNG to SNG. Kampala City Council has filled virtually all its positions, while Kotido District has filled only 40% of all posts. This may be attributed partly to the local capacity to collect local revenue and provide other benefits like transport to staff. The main constraints on the level of manpower are financial, as the SNGs are free to hire more staff paid by their own budgets. The lack of skilled employees within the technical and managerial posts is especially severe. All districts have very few or no environmental officers, physical planners, economists and engineers. Manpower gaps were identified in the following fields: engineering, education, health, accounts, physical planning, etc.

Problems in attracting and retaining qualified staff
The Study has revealed a major problem in retaining qualified staff due to low payment and poor logistical support (computers, transportation, etc.), especially within the rural areas.

Unequal distribution of manpower
The present distribution of human resource capacity/personnel seems to be unequal compared to the size and needs of the SNGs; it is more a reflection of the available resources in each area.

Long lasting and expensive civil servant adjustment procedures
The long lasting and very expensive firing procedures (with long term salary compensation schemes) make it nearly impossible for the SNGs to adjust their work forces to current needs. This reduces the efficiency of the system, as it is hard to discharge unproductive employees.

Sitting allowances
The system where most of the payment of politicians and members of commissions is based on sitting allowances, daily and nightly allowance, transport fees, etc. of a considerable amount. As a result, the meetings and the activities of these councils and

commissions are all very costly to the districts. The complicated payment accounting system also places the administrative systems under pressure.

Some employees are still financed 100% by the central government. Despite the expressed desire to decentralise staff, a large number of SNG employees (the largest share of the local staff) are still financed by and under the payroll of the central government, e.g. teachers and medical personnel.

Training needs
There is still a great need for focused training, both at the political and administrative levels, related directly to the daily working procedures and necessary skills, e.g. on-the-job-training.

Information technology
IT has been introduced in most SNGs, especially within the planning and financial departments. There is still a great need for investment in additional equipment and human development in this area.

Planning
Some of the SNGs have not yet developed real development plans or developed without the sufficient consultative procedures prescribed in the Law due to lack of financial resources.

Land management
The Land Act of l998 recognises four types of land but not public land ownership as a separate form of tenure. Land management suffers from lack of finance for compensation of private property; this field also has an inadequate supply of skilled manpower due to lack of financial resources and educated employees. The districts have argued that these tasks have been transferred as unfunded mandates, that the implementation of the well intended Land Board and Committees will suffer from this, and that the Act will lack implementation.

Capacity related to SNG finance and budgeting
There is generally weak administrative capacity within all sector areas. The most severe problem within many SNGs lies within the area of SNG finance and budgeting, especially within the capacity to develop realistic budgets; to link budgets to realistic objectives and plans for service delivery; to manage budget procedures and supplementary appropriations; to set objectives for future finance; to control expenditure during the budget year; to develop proper accounting and to audit the accounts; and to assess, administer and collect taxes and user fees.

A number of factors hinder effective financial management within councils. These include default on the payment of rates, lack of an enabling legal framework, poor rate collection and/or cost recovery, and to a certain extent financial irregularities.

Use of strategic planning as management concept
The major means by which SNGs in Uganda have sought to improve their management processes have been through development plans. Many of these plans have still to be developed in some SNGs, and their quality varies greatly.

8.7.2 Recommendations on the institutional framework (Chapter 7)

Major recommendations:

7.1 ST: The central government has transferred the management of the SNG council employees to DSCs, and yet some districts lack funds to ensure that the commission meets as necessary to deliberate on employee issues. The operative functioning of the District Service Commission (DSC) should be strengthened by tackling the barriers associated with the present remuneration system for members - a system that enhances regular and responsive meetings, corresponding to the needs of SNGs.

7.2 ST: The payment system of politicians and members of various commissions should be reviewed in order to introduce a more stable, fair and less administratively time-consuming arrangement for payment, e.g. by establishing fixed payment regulations based on the size and number of duties, the size of the SNG, etc.

7.3 ST/LT: SNGs should upgrade their human resource functions in order to improve recruitment and upgrading capability concerning general managers and key staff, especially within the technical areas.

7.4 ST/MT: The central government should be more supportive within the field of SNG tax administration, e.g. by issuing guidelines, performance indicators, monitoring systems and by supporting valuation and information on best practises on tax administration and collection.

7.5 MT: The SNG staffing levels need to be reviewed in relation to the decentralised functions, services and identified manpower gaps so that they may undertake the functions and services being decentralised. The SNG council should look at methods for hiring services of specialists, in areas where full time employment is not justified, but where services might be required from time to time. The districts could co-operate and hire specialists or consultants on a contract basis within the region (share the resources).

7.6 MT: SNGs should develop their decision-making and administration along the lines of the concept of "Good Governance" by a systematic involvement of the citizens within their jurisdiction; this process should employ user-surveys, community participation and the delegation of management functional areas of ISP in accordance with target-oriented performance management.

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7.7 MT: The SNG councils are not able to terminate services of some categories of staff because of the stringent conditions imposed by the law, especially as it relates to compensation. The system of compensation should be subject to a closer review.

7.8 ST/MT: The barriers (the lack of management and qualified staff of the District Land Board) related to the decentralisation of handling of land requires a readjustment of the financial set-up and proper attention in order to support the physical planning and development of SNGs. The related regulations/guidelines should be issued to the SNGs on how the new boards and Law should function at the district level.

7.9 MT/LT: A supportive, effective and sustainable management information system should be established in all SNGs; this system should provide accurate, reliable, timely, and user friendly data that is required, not only for organisational performance monitoring of key ISP indicators, but also for the broader aspects of policy analysis. The absence of this type of information in most sample SNGs mitigates against the central and SNGs' ability to respond accurately and promptly to incoming signals and emerging trends. The SNG's capacity for economic forecasting, programming and strategic planning also depends on the availability of timely and reliable data (data that might be established through the billing and revenue generating process). Furthermore, the possibilities to share/reuse data (e.g. ownership-, property-, land-, and land-use files) among various ISP functions should be investigated and emphasised. The central government should continue to support the establishment of such a comprehensive system and the linkage of information between levels of government, supported by the donor community.

7.10 ST/MT: The possibility should be promoted for further development of the training centre for local government councillors and staff to conduct sustainable and ongoing specialist training within all sector areas. The existing institutions involved in training, i.e. ULAA, UAAU and Decentralisation Secretariat should strengthen their ties within the field of training and co-ordinate their activities more closely. SNGs should investigate the possibilities of undertaking training as a joint activity and of establishing central (and regional) local government training centres.

7.11 MT: Strong budget, accounting and auditing units, manned by highly qualified and competent personnel, should be further developed at the local level, and financial management should be currently improved. The system and structure of financial management should be further up-graded, and the monitoring/auditing of performance improved. The first ST step should be continued training and exposure to new technology and financial accounting systems.

7.12 ST: Central government guidelines concerning the budgetary process and budget formats should be revised regularly and the requirements to the budget procedures, accounting procedures and budget information from various ministries, e.g. Ministry of Finance, Ministry of Local Government, etc, currently harmonised. Books of accounts in councils and ministries need to be brought up-to-date.

CHAPTER NINE PROCEEDINGS OF THE NATIONAL WORKSHOP OF MARCH 7, 2000

9.0 Introduction

The Uganda National Workshop on Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision was held on 7th March 2000 at the International Conference Centre. The workshop was opened by the Honourable Minister of Local Government and closed by the Executive Director of the Economic Policy Research Centre. A total of 80 delegates attended the workshop. These were drawn from a cross-section of stakeholders including ambassadors, member of the donor community, mayors, town clerks, decentralisation secretariat officials, senior government officials and district local council executives.

The workshop objectives were to:

- Discuss and analyse the findings of the study;
- Identify financial constraints facing local governments in infrastructure and service provision and make appropriate recommendations; and
- Identify issues that require legislative intervention and make specific proposals for amendments, where necessary.

The structure of the workshop consisted of presentations by the consultants, followed by plenary discussions. This took place in the morning. In the afternoon, participants formed the following three groups: Decentralisation and Local Government Finance, Government Infrastructure and Service Provision and The Institutional and Regulatory Framework of Local Government. Each group discussed its assigned issues in depth and submitted recommendations to the plenary for review and adoption.

The outcomes of the working groups largely confirmed and expanded on the issues in the study report. The purpose of Chapter 9, therefore, is to reflect on the proceedings of the workshop, particularly the issues raised in the discussions that may not have been highlighted in the report, both during the consultants' presentation and at the working groups.

9.1 Government's Perspective

In his opening address, the Minister reaffirmed government's commitment to decentralisation. He said that the theme and issues tackled in the study constituted a large part of government policy. This included making a clear distinction between the central and local governments in terms of service delivery and enabling the people to decide how to allocate funds. This was in conformity with Article 1 of the Constitution, which gives all power to the people.

The Minister explained that the process had been slow because of the need to ensure that all people participate and to allow for capacity building. Decentralisation has been a systematic process that involves establishing and building a framework. The remaining work is mainly to link the decentralisation structure to the provision of infrastructure and services. He therefore called for patience as government continues to provide focus and to build capacity of local governments to harness the opportunities that are available to them.

The Minister commended the workshop, saying it would go a long way in reviewing the decentralisation process and mapping the way forward. He also said that there was the need to co-ordinate and give direction, not directives, to establish a systematic approach to complete decentralisation in a way that will ensure sustainability.

9.2 Presentations by the Consultants

The consultants' presentations took place in three sessions. Session 1 was on fiscal decentralisation: the international experience and covered Chapters 1 and 2. The second session was on fiscal decentralisation: the Ugandan experience and covered Chapters 3 and 4. The final session on infrastructure, service provision and the regulatory framework covered Chapters 5, 6 and 7. At the end of each session, there were discussions whose proceedings are reported below.

9.2.1 Discussions for Session 1: Fiscal Decentralisation – the international experience

Issues of concern

- The study showed a heavy reliance of local governments on transfers from the central government. The local governments were only given the autonomy to retain and use the property and graduated taxes, which are difficult to collect. Clarification was required as to which ways local government revenue can be increased, e.g. by increasing the share of taxes to be retained at the districts.

- The comparison of tax revenue transfers from central government, and what the local governments in the different countries locally raise, should be backed with facts on composition. It is not uniform what constitute local taxes in the various countries. What is left as local taxes in one country may be in the domain of central government tax revenue in another.

- It was observed that the study portrayed the local governments as receiving a lot of money. However, the clear picture required the flows to be matched with the expenditure assignments given to the local governments.

- It was suggested that the analysis include per capita and not just percentage transfers.

- There should be a balance between quality and quantity of conditionalities attached to the release of conditional grants. Otherwise, this was expected to limit the choices available to the local governments.

Responses

- The transfer of tax collection responsibilities was not as easy as that of transferring other responsibilities. This partly explains why more responsibilities than taxes have been transferred to the local governments

- It was observed that big transfers by the central governments could act as a disincentive for local governments to enhance revenue collection efforts. It was noted that while the local governments need to expand their tax bases, they also need to improve their efficiency in collecting the current taxes. Tax performance leadership was still an area of major concern.

- It was noted that the transfer of responsibilities creates expectations that, in turn, create demands and have cost implications. The response of local governments is usually a mere request for more funds but without carrying out the detailed costing to establish the actual amounts required.

- It was noted that some of the responsibilities transferred to the local governments were not expenditure items in the central government budget. In such cases, there were no reciprocal funds to transfer from the central government. Therefore, it may not be possible to match the transfer of responsibilities with that of funds, at least in the short run.

- Clarification was made that the restrictions on local governments' activities to raise more funds on their own were aimed at ensuring compliance with national policies and priorities.

- Uganda was noted as the only country that was offering equalisation grants.

9.2.2 Discussions for Session 2: Fiscal Decentralisation – Uganda Experience

Issues of concern

- Though the central government transfers have been increasing, the increases are mostly in the category of conditional grants, which are up to 80 percent of the total, in some cases. This excludes urban authorities whose figures are albeit very small. Given the conditionality of the grants, the local governments' discretionary powers to allocate to their priority areas are greatly inhibited.

- More so the unconditional grants are mainly for salaries and wages, which local governments are not allowed to transfer to other sectors.

- Local governments were advised to attract property investors in order to have more property revenue collections. However, it was noted that this required up-front capital to invest in the infrastructure that is needed to attract such investors.

- The central government was reported to be a big debtor to the local governments, with an annual debt of about shillings 2 billion.

- Collection of local property taxes requires a re-evaluation exercise every 5 years, and yet it has not been done for the last 10 years. The municipalities cannot currently carry out this costly venture on their own.

- It was noted that the local governments at higher levels did not transfer all the funds due to the lower levels.

Responses

- ♦ The issues of increasing local revenue were found to mainly centre on politics, manpower and financing of the process of collection. Establishment of the actual tax bases and the ways to harness them still needed a lot of input.

- ♦ It was observed that the internal debts have generally not been accurately reflected. There was need to consult the Ministry of Finance and Economic Planning on the issue of arrears.

9.2.3 Discussions for session 3: Institutional Environment & Legal Framework

Issues of concern

- The study needs to reflect the roles of several other stakeholders such as parliament, line ministries and courts.

- There is need for guidelines of the interface between certain line ministries and the local governments. For instance, education guidelines were found to interfere with the tender board regulations.

- The law governing graduated tax should be studied and reformed. In its current state, the tax is regressive, costly to collect, very inelastic and prone to interference. For instance, disasters, calamities and political interference tend to reduce revenue collections from this tax. Sometimes, the graduated tax is not collected with the required intensity for fear of losing political votes.

Responses

- ♦ It is true that matching what the law says and what is practically being done on the ground is still one of the greatest challenges. However, this should be understandable, given the current stage in the process of structural development and decentralisation.

- Local governments were advised to exploit areas of raising more funds where the law is not prohibitive. For instance, they could intensify and improve on the efficiency of collecting user fees in priority areas such as health and water.

- In order to supplement local governments, the revenues from graduated tax part of Pay as You Earn (PAYE) should also be retained at the local government level.

- The central government should activate the national planning authority in order to synchronise district plans and transfer of resources from the centre to local governments.

9.3 Proceedings of the Working Group Sessions

After the consultants presentations and brief comments from the participants, three working groups were formed to deal, in detail, with each of the following three thematic areas of the study: Decentralisation and Local Government Finance; Government Infrastructure and Service Provision; and the Institutional and Regulatory Framework of Local Government. Each group was given a list of some of the major issues to guide the discussion. The groups were required to identify and review the key issues relating to each of their subject areas and to draw conclusions and recommendations. The experiences of the participants in the local government sector were used in mapping out a way forward.

9.3.1 Working Group on Decentralisation and Local Government Finance

The group discussed the question of how to establish the right balance between central government's need for co-ordination and steering of the national economy and the advantages of having a strong decentralised system of local government finance. The discussions concentrated on the following issues:

- How to guarantee sufficient resources for investment in service provision in the future.

- How to design the system of state grants in order to secure a balanced and well functioning system of local government finance.

- How to increase local governments' own revenue resources, borrowing abilities and creditworthiness.

- How Local Government could obtain higher levels of cost recovery in an efficient way from user charges and fees.

Issues raised

- It was noted that there are differences in perception between the central and local governments on a number on issues: for instance, the conditionalities imposed on grants and the selection of priority areas to be funded. Different local governments

may have different priority areas at different times. In the event that this is not the same priority area as perceived by the central government, then vital services may not be delivered in time.

- Natural calamities and disasters were found to reduce the local tax base while at the same time increasing expenditure.

- It was noted that the share of total government recurrent expenditure between the central and local governments was not in proportion with the decentralised services.

Recommendations

- The central and local governments should agree on the areas of funding and the conditionalities in a participatory manner.

- The central government should institute a study with the objective of reforming the local taxes, particularly graduated tax.

- In order to increase the local revenue base, the central government should consider the introduction of shared taxes. For instance, the local governments should retain part of PAYE and other income taxes.

- Government should effect training for service delivery implementers at the local government level.

- The central government should help the local governments to prepare investment profiles and to look for funds, particularly funds of a long-term nature.

- In addition to funds from the centre, local governments were challenged to ensure efficient administration of local resources. They should ensure, both in planning and in practice, that adequate training and logistics are available.

- Local governments should build asset bases, which can possibly be used to access credit within the provisions of the law.

- It was noted that a group of local governments could come together and create a revolving fund from which they could borrow at concessional rates.

- Accountability should be enforced in the delivery of services.

- Development plans for local governments should be prepared and presented to donors to allow the donors to get to the local governments directly.

- Immediate plans should be made to establish a national planning authority to synchronise district plans.

9.3.2 Working Group on Government Infrastructure and Service Provision.

The group discussed some of the major issues in relation to an efficient system of local government infrastructure and service provision. The discussion concentrated on:

- Identifying the problems, other than finance, that faces local government infrastructure and service provision;
- Evaluating the organisation of the infrastructure and recommending any changes that should be initiated in the assignment of responsibilities for infrastructure and service delivery;
- Evaluating the appropriate involvement of the private sector, both in the present and in the future; and
- Considering the relationship between maintenance of the existing infrastructure and new investments.

Issues raised

- Local Governments are faced with numerous constraints in infrastructure provision. Some of these constraints include the lack of powers by Local Governments to acquire land compulsorily in the public interest for infrastructure provision; limited expertise (manpower) and little transfer of knowledge by the various stakeholders; Lack of appropriate and sustainable technology; Lack of proper planning facilities, equipment and reliable data and information; user fees concept not well appreciated; conditionalities attached to grants and transfers not enabling and non-flexible; Local Governments not adequately consulted in policy formulation and yet they are major partners in implementation; and no guarantee of employment opportunities for the local people.
- Observed that the capacity of local contractors had improved, although they still lacked specialised equipment and had problems of accessing credit facilities.
- Considering the maintenance of existing structures and new investments, there is need for considering maintenance costs at the project inception stage. Maintenance should be timely and prioritised in order to preserve vital and costly investments.
- The current organisational set up was found to be acceptable but only lacked medium to long-term plans. For instance, the ten year road sector development plan was not practically available for trunk roads.
- Infrastructure availability is constrained by factors such as problems in solid waste management; inadequate funding for the maintenance of roads, especially at the lower and urban councils; poor water coverage and sanitation services faced with low technology and a poor maintenance culture.

Recommendations

- There should be collaboration between all the stakeholders so as to ensure collective effort in infrastructure and service provision. This calls for enhanced sensitisation of all the stakeholders including the users.

- Establish standards of service, operation and maintenance costs to use as a basis for setting tariffs for cost recovery. This should ensure exchange that is based on value for money.

- In order to ensure provision of quality infrastructure and service delivery, monopolies should be discouraged in preference for competitive arrangements.

- There is need to carry out capacity building to improve procurement methods and contracting.

- The various laws in relation to local government should be harmonised.

- Local governments should take the lead in advocating for legal reforms.

- Politicians should be involved in advocating, within both the community and government, for improved sanitation.

9.3.3 Working Group on the Institutional and Regulatory Framework of Local Government.

The group discussed the impacts of legislation, regulation and administrative procedures on the instruments and abilities of local governments. These included control over tariffs and the national prescribed planning and building guidelines/codes. The group discussions concentrated on:

- the budget procedures;

- local government borrowing and external financing of service provision;

- land management and property rights;

- approval procedures in the relationship between the central and local governments;

- the relationship with key ministries;

- identification of laws and procedures that should be changed;

- recommended changes in the regulatory framework.

Issues raised

- It was noted that the central government tends to take unilateral decisions on budget issues and does not respect the outcomes of prior negotiations. The central government also takes a long time to resolve issues.

- Borrowing to finance service provision is inhibited by the reluctance of financial institutions to lend to local governments.

- Land management and property rights are partly hindered by the lack of instruments and other capacities to develop land in the urban areas.

- There are improper guidelines and conditions for service delivery that conflict with decentralisation.

- Private sector involvement is inhibited by the weak capacity of local governments to relate with the private sector; however, the private sector too, lacks adequate organisation, particularly in the rural districts.

- The relationship with the central government line ministries is characterised by mutual suspicion and mistrust.

- Human resources, in terms of skills and training, have many deficiencies; the main problems are in the areas of incentives and salaries for attracting skilled manpower, the lack of management capacity and inadequate support equipment.

Recommendations

- ♦ A negotiations committee with a membership from the central government, Local Government Finance Commission, Local Governments and Local Government Authorities among others be established.

- ♦ Government should support Local Governments to attain creditworthiness in addition to reviving the LGRLF.

- ♦ Legal and financial power should be given to the local governments on a pilot basis to enable local governments to acquire land and manage for infrastructure provision.

- ♦ Consultations and negotiations are made with all the stakeholders before the setting of conditionalities and guidelines.

- ♦ Local Governments should pool resources, when dealing with the private sector, so as to benefit from economies of scale, and guidelines for private sector participation should be established.

- ♦ Dialogue and partnership between Local Governments and line Ministries should be emphasised as a way of attaining openness, transparency and consensus.

- Local Governments, line ministries and the Ministry of Public Services in particular, should take on the roles of lead agencies in on-job training, facilitating volunteers and availing incentives for disadvantaged Local Governments.