Local Government Fiscal Discretion in Uganda

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NYU Advanced Project in Management & Policy, May 2010
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I. Introduction

Country and Fiscal Framework
Decentralization in Uganda, which began in the early 1990s, is noteworthy not only because of the implications for improving local governance and increasing democratic participation, but also because it was an initiative, which began independently of external actors. Anchored in constitutional and legal mandates in subsequent years, decentralization set Uganda’s sub-national governments as the responsible agents for implementing national policies and delivering many crucial services at the local level. Through the creation of a comprehensive legal framework, power was devolved to local governments. The process was intended to assign localities important functions and a significant share of national revenues through the intergovernmental transfer system. In the context of the national development framework, the Poverty Eradication Action Plan (PEAP)\(^1\), decentralization was foreseen as the most effective pathway to overall poverty reduction. Expected benefits of decentralization in Uganda include an increase in democracy through representation and participation, collaboration among stakeholders, improved accountability and transparency of local government officials, and overall improvements in public sector performance.\(^2\) The devolution of responsibilities and authority to the sub-national level empowers local governments with considerable autonomy.\(^3\) Within their new range of responsibilities, local governments were provided higher levels of input in planning local development, setting budgetary priorities, generating and allocating locally raised revenues, and managing staff and payroll, as well as the delivery of services which had previously been overseen and controlled by the center.

Despite the many anticipated benefits, Uganda’s decentralization process was not without its challenges. Concerns regarding how tasks were being executed at the local level soon arose, and the ability of local governments to effectively deliver services was called into question.\(^4\) One manner in which the central government responded to these concerns was by creating the Fiscal Decentralization Strategy Paper (FDS) in 2002. This strategy aimed to address the issues by imposing a more stringent budget structure that limited the discretionary abilities that had been originally made available to local governments through devolution. The FDS imposed conditions on how funds should be allocated across expenditure categories, with three important funding sources within the intergovernmental transfer system: Conditional Grants, Unconditional Grants and Equalization Grants.\(^5\) Within the Recurrent Transfer System (RTS), unconditional grants cover finance, administration and other services,

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while conditional grants are provided to each sector annually and fund all of the sector budget lines. Equalization grants, which support districts with low revenue potential, are less important in the context of this paper. In addition to the RTS, intergovernmental transfers are made through the Development Transfer System (DTS), which targets non-recurrent expenditures and provides discretionary development and conditional grants for specific sectoral investments. Sectoral Development Grants are conditional, while Local Development Grants are largely discretionary but include minimum criteria intended to promote good performance.6

The FDS allows limited discretion over the allocation of resources across sectors, specifically during the budget process. However, some flexibility is supposed to be maintained through the bottom-up budgeting approach, which aims to incorporate the needs of the lowest levels of local government. Through this process, the public sector is more responsive to the appropriate target population and better able to ensure the direct connection between the payment of taxes and service delivery.7 The FDS also integrates a provision for local governments to reallocate funds after the budgetary process is complete. The flexibility provision allows local governments up to 10 percent flexibility for the reallocation of sector budget funds based on local priorities. The provision aims to not only ensure that individual local governments are able to meet specific needs, but also serves as a means by which the central government can evaluate the accuracy of sector budgeting. The rationale is that if a large percentage of local governments consistently reallocate funds from one sector to another, there may be overfunding in one sector budget line and underfunding in another.8 Theoretically, flexibility provides local governments an outlet through which to communicate funding priorities to the center. The only alternative route for local governments to spend outside of their allocated budget lines is by generating their own revenue, which they can then use for locally prioritized needs.

Conditional grants, as a function of national priorities, allocate funds by sector, and these funds are further split across sector budget lines that differentiate between wage expenses and operation costs. Conditional grants make up approximately 90 percent of the local government RTS, while unconditional grants comprise close to 10 percent. Within unconditional grants, which are intended to be a main source of discretionary funding, more than half of the budget line is allocated for wage expenses, leaving only 4-5 percent of the RTS budget available for discretionary spending.9 High levels of conditionalities on funds have obvious restrictive effects on local government fiscal discretion. Various provisions within the FDS have, in effect, brought about a degree of recentralization, with the central government reclaiming financial controls through exacted sector budget lines.

7 Ibid
8 Ibid
9 Ibid
The FDS provides for earned flexibility and discretion over time, as local governments improve their capacity and performance. As this capacity increases, some conditionalities on grants are supposed to be released, increasing the size of unconditional funds and allowing local governments improved fiscal discretion. As a policy, FDS sets standards by which the sub-national government of Uganda can be given essential responsibilities and powers as local governments reach capacity. However, there are important concerns about how the FDS is being executed on the ground, and whether the original intentions of the framework are being met.

**Scope of Research**

Our team was charged with conducting research in three select case districts to determine whether the FDS functions as intended and whether local governments are able to effectively execute government services given both the discretion and limitations afforded to them. The original intention of the interviews was to determine *de facto* avenues and uses of discretion relative to standard assumptions of *de jure* discretion lifted from the FDS. The process began with a number of specific questions, many of which overlap at the national and sub-national level. Preliminary questions, including: how conditional and unconditional grants afford local governments discretionary power, how local governments are provided more discretion and flexibility as they prove increased capacity, and whether local governments believed they are given an adequate level of discretion through the provisions of FDS, informed the anticipated direction of this research. For Ministry officials, an initial consideration was determining the measurement standard used by the central government to determine when local capacity levels are sufficient enough to qualify for the aforementioned release of conditionalities on intergovernmental funds. Initial considerations for local authorities concerned own-source revenues, specifically how locally generated funds expand discretionary power and/or autonomy, and how locally generated funds are allocated within budget lines.

Once in the field, the nature of the study shifted slightly. At both the national and sub-national level (within the case districts), specific levels of fiscal discretion, within the intergovernmental transfer system and locally generated revenue, was heavily influenced by various constraints that emerged as a more urgent concern than the study originally envisioned. As the team was unable to properly examine the modalities of inter-sectoral discretion as intended, and the dominant concern of interviewees was the constraints they faced in executing available discretion, the focus of this study was modified to better incorporate the concerns we encountered during
the fieldwork. The purpose of this research is to better understand the extent of, and how constraints on, local discretion are viewed by various stakeholders and actors, as well as how discretion is, or is not, exercised on the ground.

The paper explores the relationship between legally available avenues of discretion and the extent to which they are used. While the first is dependent on existing policies – namely conditional and unconditional grant stipulations and the FDS flexibility provision – the second is influenced by contextual factors, which would impede local governments from demonstrating capacity, collecting local revenue, and improving local service delivery. Through these case district studies, the team identified numerous factors that challenge discretion at the local level and constrain the ability of local governments to meet the goals of the National Development Plan (NDP), which was instituted in January 2010. Among the most prevalent constraints witnessed were challenges of local capacity and retention, local political credibility issues, and the performance of local economies.

II. Methodology and Fieldwork

In preparation for the fieldwork, the team gathered data and information on the avenues of discretion available to local governments as dictated by the FDS and other government policy. The team also conducted a review of the current intergovernmental transfer system, the evidence on its operation and impacts\(^\text{10}\), and a preliminary review of the concerns and priorities of involved stakeholders. On the basis of this information, the team developed a set of standard interview questions (see Appendix A).

The data collection for this research depended on interviews with various stakeholders involved in the execution and implementation of the FDS. The participants of the study were selected based on their association with or ability to implement or reform FDS, and practical experience of executing fiscal discretion at the local level. Through the guidance of client organization, Municipal Development Partnership of Eastern and Southern Africa (MDP-ESA), interviews were conducted with approximately 40 different stakeholders. District Council Members, Ministry officials, and representatives from donor and local government associations, among others, provided firsthand accounts and anecdotes that were used to develop the major findings and recommendations of this paper.

Fieldwork in Uganda lasted two weeks, during which the team conducted interviews in the three focal local governments in the districts of Kampala, Kanungu and Wakiso. During the fieldwork process, the team’s research included collaborative efforts with: Municipal Development Partnership of Eastern and Southern Africa (MDP-ESA), Local Government Finance Commission (LGFC), Ministry of Local

\(^\text{10}\) All references used for research prior to fieldwork are included in the bibliography

District Case Studies
The team’s findings are limited to fieldwork in three case study districts, which qualifies this research as more exploratory than formal. Each district presented a unique opportunity to engage at the field level to ascertain how policies unfold within each locality. Although this research began in a standardized fashion through the use of an interview template, because of varied, unequal access to information and officials, providing equivalent information on each issue is not possible and not all cases will receive equal treatment. Figure 1, a district map of Uganda, highlights where fieldwork was conducted for this research.

Kampala:
Kampala, the capital city in Uganda, is also the largest city, housing a population of approximately 1.5 million. Kampala has the distinctive status of being the center of political and economic life within the nation. Despite having been in decline for nearly two decades prior, Kampala has experienced growth in population size and urbanization since the early 1990s, serving as home to the East African Development Bank and many of Uganda’s major businesses. This shift in economic opportunity has aided in the advancement of development projects in Kampala as well as improved service delivery as compared to other local government districts in Uganda.

Wakiso:
With a population of nearly 1 million, the Wakiso district is the second most populous district of Uganda. The district encircles Kampala, and reportedly, a significant number of Wakiso residents commute to Kampala city for work. The district benefits from its location on Lake Victoria, a tourist attraction that is also rich in resources, and also houses Entebbe International Airport, a gateway to the region. Wakiso district has been successful at forming numerous regulated agricultural markets and has been identified by UNDP as a site of further potential economic development through the agricultural sector.

Kanungu:
Located 258 miles by road from Kampala, the district of Kanungu has been defined by members of its town council as being “hard-to-reach.” Kanungu is located within a

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11 Government of Uganda, 2002 Census
12 Ibid
hilly terrain yet to be completely connected by roads, and according to the 2002 national census, has an estimated population of approximately 205,100.\textsuperscript{13} The remote nature of Kanungu’s location, as well as the tough and dangerous terrain on the Rukungiri-Kanungu section of the road leading to the district, have contributed to Kanungu’s physical and social isolation from the rest of Uganda. Despite these limitations, Kanungu is rich in natural resources that have the potential to support economic development and enhance local revenue generation.

Figure 1

III. Scope and Nature of Local Government Discretion
Existing de jure discretionary power in the three districts can be framed through the opportunities found in the transfer system, which include conditional grant transfers, unconditional grant transfers, the 10 percent budget flexibility provision for reallocating transfers between sectors, and local government revenue generation, which vary in their levels of available flexibility they provide (See Figure 2). The funds from these sources are used to support activities at the local level, which include but are not limited to health services (hospitals and health centers), education (nursery through second education & technical), sanitation services, and infrastructure.\textsuperscript{14}

\textsuperscript{13} Government of Uganda, 2002 Census
\textsuperscript{14} Government of Uganda (1997), 8.
Policies within the FDS afford local governments discretionary power to provide these services through the ability to allocate funds to development and recurrent activities in the areas listed above, in addition to other areas.  

All conditional and unconditional funds for recurrent expenditures are transferred through the RTS, which is based on the annual Recurrent Transfer Budget. Transfers are made monthly through a grant collection account to the District/Municipality Recurrent Sectoral accounts, against sector budget lines (See Appendix B). Local governments are required to provide quarterly expenditure reports that are supposed to be verified through comparison with the Recurrent Transfer bank account or sectoral bank account statement. An additional method for transfers is the Development Transfer System, which is based on the annual Development Transfer Budget, and includes conditional Sectoral Development Grants and largely discretionary Local Development Grants. The DTB and RTB both serve as the primary sources of funds for local government and are a core part of how local governments are able to utilize fiscal discretionary power to execute the services they are responsible for.

Figure 2

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De Jure Discretionary Power

Transfers
Based on the policies outlined by the FDS, local governments are able to make certain decisions on how to use intergovernmental transferred funds. Conditional grants represent the priorities of the national government and are divided by sector budget lines, so that the only available discretion within this grant is the determination of spending within these budget lines. The FDS outlines an incremental process of earned discretion for local governments that provides the increased flexibility to allocate resources with and across sectors as local government performance and capacity improves, local priorities are met, and poverty reduction objectives, as outlined by the central government, are achieved. The FDS policy indicates that local governments meeting these criteria will be rewarded with the release of an undefined percentage of conditionalities on funding; meaning that well-performing local governments would be provided with more discretion through increased unconditional funding, although the total amount would remain the same.

Unconditional grants under the RTS are an avenue in which local governments are given room to use funds for their own needs, yet these funds are used primarily for covering all Finance and Administration functions, and sectors that are not prioritized by the FDS. Approximately half of these funds are used to pay administrative staff salaries in Finance and Administration. To increase available discretion under FDS, local governments are required to first meet capacity standards determined by the center.

The most significant, through still limited, mechanism for flexibility within the FDS is a provision that allows local governments to reallocate up to 10 percent of a priority sector’s non-salary conditional grant allocation to recurrent sector budgets and sector budget lines across one or more different sectors. This provision is intended to provide the local governments with an additional avenue for exercising discretion on how to spend on respective priority areas (i.e. holistic local development). The flexibility provision allows local governments to fill in funding gaps based on a specific sector or project need with surplus funds from sectors that are deemed sufficiently funded.

According to the FDS, available discretion through the transfers listed should allow local governments to decide how to manage their funds, execute and formulate their own plans and budgets, and pursue additional sources of revenue to supplement the

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17 Ibid.16.
18 Due to post-war conditions, the provision allows up to 50 percent in Northern Uganda; however, districts in the North have unique circumstances which are less of a focus of this study
transfers. While local governments are required to arrange a comprehensive development plan for capital expenditures that incorporates official input from lower-level local governments (i.e. villages, parishes), they are given freedom in incorporating their needs and priorities into these plans.\textsuperscript{20} Within this context, local governments have decision-making power to make decisions like where schools will be placed, where new community health centers will be built and what services would be required within the health centers among other service-related decision making scenarios. This discretion also extends to the maintenance of infrastructure, such as electricity and roads, and to sustain and stimulate local economies through local economic development.

\textit{Local Revenue Generation:}
The highest level of fiscal discretion is on own-source funds. Collecting taxes from the citizens is the most effective way local governments can raise their own revenue and improve development. Taxation is also relevant for the purposes of DTS. When local governments seek central government support for larger investment projects they are required to co-fund specific investment projects at a 10 percent contribution from locally generated funds, mainly from taxes collected.\textsuperscript{21} There are a number of revenue sources being utilized by various localities within Uganda. Local governments are able to raise funds through user fees and charges, which include the local hotel tax, the local service tax and tourist license fees (See Appendix C).\textsuperscript{22} Additionally, if properly measured and managed, property revenues – including rent on commercial buildings and land as well as land search and registration fees – have the potential to significantly increase local revenue.\textsuperscript{23} Other tax sources being used include revenue from formalized local markets, in the form of rental fees and tax, and trade activities, such as a slaughter fees or the transportation of wood.

\textit{De Facto Discretionary Power}

\textit{Transfer Realities:}
There are differences between the stated intentions and policy provisions of the FDS and \textit{de facto} discretion available to local governments (See Figure 3). Approximately 90 percent of the funds are provided from the center are in the form of conditional grants. Although these grants are earmarked for specific sectors and projects, officials of our three case districts indicated that the existence of conditionalities did not negatively affect their discretion as conditionalities tended to align with district needs. Yet as future needs extend beyond what is dictated by the center, questions arise as to whether there are sufficiently accessible and flexible opportunities available in the transfer system.

\textsuperscript{21} Government of Uganda (1997)) and the Local Government Finance and Accounting Regulations 1998 (LGFAR)
\textsuperscript{22} C. Nagutta, N. Sharma, Citizen Engagement and Local Government Revenue Generation in Uganda (2008) 24
\textsuperscript{23} Ibid, 24
More discretion over conditional grants seemed to be less a priority to local government officials because the center places priority on services that are also local priorities. Although the two levels have similar priorities, the case district representatives did express some concern about the imbalance in the ratio of unconditional to conditional grants. Local governments also expressed dissatisfaction with the fact that approximately half of the unconditional funds allocated through the RTS are used to pay employee salaries, which to a certain extent reduced the freedom to allocate as much funds as they would like to various areas for improvement and additional support.

Local governments indicated that they are unable to utilize the 10 percent flexibility provision without the consent of involved sectors, which currently lack any incentives to reallocate any portion of their budget lines to another sector. During the interview process with both Ministry and local government officials, the team was only provided with theoretical examples of how flexibility could be used. The near universal understanding, which extends beyond the indicated case districts, is that sectors are generally unwilling to consent to the reallocation of funds. Sectors felt that their funding was already inadequate for meeting national criteria. The response was a “silod” sectoral approach, with no incentives in place to promote holistic development. The Ministry of Education, for example, opposed the flexibility provision on grounds that they needed to operate in a manner consistent with the formula used to determine their budget lines. The budget for the Ministry of Education is determined for each locality according to the number of students in the district, and the Ministry argued that reallocating any funds from education to another sector would not provide sufficient support for the number of children in school and potentially undo gains from Universal Primary Education (UPE).

*Local Revenue Generation Realities:*

Of all the financial resources available for local governments, local revenue generation was consistently underutilized and often constituted a limited proportion of local government’s budgets. Of the districts interviewed, local revenue generation accounted for less than 10% percent of their budgets. The limited ability to collect revenue hinders local governments’ ability to execute discretion, as these funds theoretically allow the highest level of discretion. Depending on the opinion of those interviewed, local governments are constrained, by either weak revenue bases or weak revenue collection. Regardless of the source of the constraint, these shortfalls position them to be heavily dependent on central transfers and international donors in order to finance service delivery.

As the following figure illustrates, the FDS policy provides discretionary opportunities within all revenue sources – both locally generated and transferred. In reality however, the flexibility provision is irrelevant, because it is not being effectively
utilized. Local revenue generation contributes a minimal amount to local budgets and is therefore provides insignificant levels of discretion. Unconditional grants are apportioned for salary expenses with little discretionary funding remaining, and conditional grants, which are least discretionary in nature, provide the most decision-making power to local governments for deciding how and where services are delivered. This disconnect is not just a matter of misaligned policy and practice, but a product of the various constraints on local governments.

Figure 3

Lack of compliance by constituents (and a lack of resources for poorer districts) is also deemed a major hindrance to the proper collection of taxes. This problem, as local governments explained, stems in part from the perceived difficulty in the ability to link locally generated revenue to effective service delivery. In addition, the local governments identified specific and localized constraints in some districts that prevent their officials from being able to collect the full potential value of local revenue. This can include anything from tax exemptions on certain properties (reducing the potential value of collecting property taxes) to infrastructure issues, which may limit the ability of tax collectors to reach certain properties.

The abolishment of the controversial Graduated Property Tax (GPT), a long-standing tax which required every able-bodied working male and female above age 18 to contribute to their country’s development, further added to constraints on local revenue yields. Local governments have identified the loss of the GPT as detrimental

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24 Government of Uganda (1997), Fifth Schedule Part II
to their ability to raise sufficient revenue. Although the tax was not considered economically desirable, it was financially significant and a valuable source of local revenue. In the case districts, the morale of local officials seems to have been damaged by the abolition of the tax, as rebuilding the tax base has been met with much opposition. The revenue sources used to replace GPT, such as the hotel tax and service levy, are only relevant in some districts and at best, do not fully compensate for the loss. Thus, while there are opportunities for local governments to generate local revenues, significant challenges remain that prevent local governments from fully reaping potential benefits, either due to constraints levying, enforcing or collecting taxes.

IV. Analysis of the System

The FDS creates many challenges that hinder the successful achievement of the comprehensive goals outlined in the strategy. While some of these constraints on local governments come directly from the policies, other constraints have emerged as a result of various political and bureaucratic dynamics at the national and local levels. These challenges make it difficult for local governments to effectively exercise even the minimal amount of discretion afforded to them by the strategy. Although the team spent limited time in the field and did not have access to certain important actors, three key issues emerged in one or more of the case studies. These issues, which deserve attention when assessing the implications of the FDS at the local level, are capacity, retention, and political interference. Together, these factors create a host of challenges for local governments that diminish their ability to successfully execute their powers assigned to deliver services and enhance development at the local level. Each issue will be briefly highlighted to provide a background on the topic before we delve into the experiences witnessed during the fieldwork and the implications of these challenges.

Capacity

As defined by the World Bank, capacity is the “ability of people, organizations and society as a whole to manage their affairs successfully.”\(^\text{25}\) In the case of Uganda, capacity relates to the district’s ability to properly collect revenue, manage information, comply with ministry demands, and successfully deliver public services. While the issue of capacity plays an integral role in a district’s overall development, determining what defines a suitable or unsuitable level of capacity in the context of non-uniform districts proves difficult, as there is no formal, standardized measure to define “improved capacity” of local governments in the FDS. Furthermore, the fact that capacity varies considerably from district to district also increases the central government’s difficulty to effectively assess or define capacity.

\(^{25}\text{Economic Policy Research Center, Rural Taxation in Uganda (2004), 3.}\)
This issue is particularly important in the context of the FDS as the policy outlines a plan that intends to relax conditionalities on an unspecified amount of transfers when local governments can prove they are capable of managing their resources effectively. In this way, capacity is directly linked to increased discretion.

However, as evidenced by local level struggles, districts find themselves unable to initiate activities to improve capacity precisely because they feel that the conditional transfers constrain their ability to effectively strengthen it holistically.

The FDS’ sector-focused approach appears to constrain local governments by emphasizing the performance of each sector individually and measured only against sector-specific goals, rather than an approach emphasizing improved overall capacity of the district as a whole. The sentiment expressed by many of the government officials interviewed during the course of the research reflected a belief that they lacked the necessary and vital resources and structure to effectively carry out their tasks, and more discretion over spending grant money would be helpful; yet, increased discretionary funds would not be available to them until they could prove an increased capacity. Thus, districts felt they were caught in a catch-22 where they felt they needed increased discretion to successfully boost capacity, but could not receive additional discretion without first proving they had increased capacity (See Figure 4). Local governments reported that they had to cope with central government expectations in order to prove and continue to develop capacity, but for the most part from the districts researched, they are unable to meet these expectations with the existing barriers, which encapsulate the catch-22 challenge. This challenge, as expressed by the local government representatives, is crucial to better understand and to address, because capacity is an important and necessary tool in generating revenues, executing plans strategically, and delivering quality services to constituents.
Challenges in Case Districts

In Kampala the challenges posed by capacity limitation were manifested in the under-collection of revenue. District leaders explained that one of the largest barriers to revenue collection was their lack of ability to assess existing and potential revenue sources. Collecting property taxes is one apparent example that illuminates the intersection between capacity and revenue generation. While there are many challenges inherent to the generation of local revenue, the collection of property taxes is a relatively straightforward and less controversial opportunity to exercise the capture of local revenue. District leaders believe that if they were able to collect more revenue from property taxes, they would be able to exercise more discretion in fixing issues related to government services (especially when it comes to closing funding gaps or implementing new and beneficial programs). A lack of strong data management software and utilities has limited the ability of the district leaders to fully assess potential property values and keep track of residency information. The Kampala City Council aims to improve this situation by utilizing improved technology to assist in data management and valuations, and the results – while still quite new – show promise. Original official estimates pegged the value of revenue from property taxes at being 7 billion, but after conducting a reevaluation with Geographic Information
System (GIS) technology, the new value was determined to be 20 billion.\textsuperscript{26} Challenges still remain in effectively collecting this newly-identified revenue, but these developments indicate potential for continued improvements moving forward.

Kanungu also indicated difficulties concerning capacity issues, though in contrast to Kampala, many problems were related to its “hard to reach” location and affected even the most basic levels of operations. For example, there are only a limited amount of computers with which to conduct government services, and Internet and power are frequently unstable and susceptible to prolonged outages. During our fieldwork visit, government officials were forced to conduct official work in private cafes, after a lightning strike weeks earlier had impaired their secure Internet access. Furthermore, Kanungu’s remote location, and the poor road quality made access to/from the district time-consuming and challenging. Local officials felt their remoteness, exacerbated by unreliable connectivity to the Internet, made it difficult for them to improve even their most simple, yet fundamental day-to-day tasks.

**Retention**

The challenge of retaining qualified civil servants is a ubiquitous problem in many developing countries, and Uganda’s experiences are no different. The need for qualified civil servants, to help deliver services to citizens via the government, is a challenge many local governments struggle with frequently. According to Yilmaz, Beris, and Serrano’s paper entitled *Local Government Discretion and Accountability: Diagnostic Framework for Local Governance*, the issue of retention and discretion are closely linked:

Local government competency and discretion over civil service and employment policies ideally covers pay policy autonomy (setting local hardship and remote allowances, and setting overall wage rates), budget transparency (paying staff from one’s own budget), budget and establishment control (controlling staff numbers and authority to remove surplus staff), recruitment autonomy (recognition as formal employer, authority to hire), career management control (vertical and horizontal mobility, including transfers to deconcentrated units within the local government system), and performance management (directing and supervising activities and tasks, conducting evaluations, and exercising the ability to discipline and fire).\textsuperscript{27}

While the FDS affords local governments certain liberties outlined above, there is a persistent challenge to incentivize service due to constraints in pay policy autonomy and career management control (See Figure 5).\textsuperscript{28} In addition, retention of civil

\textsuperscript{26} This was prior to the Government Exempting Occupied Homes


servants is integral to the capacity and performance of local governments. Human capital, in the form of qualified staff is one of the greatest assets to local governments. Many local governments are spending a large portion of their budgets to pay competitive salaries; however, there are limited funds for employee salaries within the budget line. The private sector, in charging for services delivered, is able to offer better compensation and often provide superior working conditions and occupational resources on the job. An official from MFPED commented that, “many people are recruited for government jobs directly out of university, but leave as soon as their training is complete for higher paying positions in the private sector.” It seems that the private sector uses the government as a filtration system to better identify good candidates. In the process, government resources are being wasted on identifying and training many employees who will eventually choose careers in the private sector.

Figure 5

Feedback from other Ministry officials further illustrated how this problem affects local government autonomy and discretion. For example, a number of local governments in Uganda have unstaffed posts, as there are no qualified candidates willing to work at the available salaries. Often, desirable civil servants are being lured into private sector positions that provide more competitive salaries, which as a result has been detrimental to local governments’ service provision. The ability to retain
government employees poses great challenge to local governments, directly affecting a district’s service delivery capability. If services are not being provided efficiently or effectively, it becomes difficult to motivate citizens to pay taxes, as there are no visible or tangible results that constituents can link to their tax compliance.

Salary is only one component to incentivizing civil service jobs. The lack of advancement and educational opportunities in the more remote regions of Uganda can dissuade individuals from taking posts outside of urban centers. Likewise, the more remote local governments often lack the facilities and resources that would allow an individual to use their skills to the utmost or to reside comfortably where they work. Some districts reported that providing teacher housing proved difficult in less populated, harder-to-reach areas, while others believed potential civil servants were disheartened by the lack of medical equipment, computers, or perhaps even access to water and sanitation services.

While the discrepancy between public and private sector compensation is present in virtually all countries – both developed and developing – this challenge is still important to recognize in the case of Uganda, as it severely inhibits the government’s ability to deliver services as effectively or efficiently as needed. A lack of competitive internal or external incentives for civil servants in the country appears to leave local governments struggling to plan strategically for the long-term when they are aware their top performers are only able to commit a small number of years to civil service.

**Challenges in Case Districts**

Kampala City Council benefits from being located within the capital city where there are lucrative social resources available that other districts cannot provide. Civil servants in Kampala have the opportunity to pursue higher education at one of the nearby universities, as well as access to other additional training opportunities. However, this advantageous location is not without challenges; competition for skilled, qualified workers is strong. One concern shared by Council members was the private sector’s poaching of qualified employees. In private interviews, some council members admitted that their current salary was unsatisfying, but external incentives, such as educational benefits, kept them in their service positions in the time being. Unfortunately, low morale was reported despite this access to outside opportunities. City Council members openly discussed the challenges of retaining bright, well-qualified workers, but seemed resigned to the fact that most of their highest-valued employees would eventually be poached by the private sector.

Kanungu illustrates additional challenges to retention that affect their ability to perform even the most basic aspects of service delivery for their constituents. Kanungu’s aforementioned distance away from major towns or cities, combined with regular power outages and unreliable internet have created a set of challenges to service delivery unique to those observed in Kampala. Officials in Kanungu expressed
their frustration that, due to the lack of advancement opportunities in rural locations, they experienced constant “brain drain”, as civil servants fled to more well-connected areas near Kampala and beyond.

To illustrate the challenges faced by Kanungu, one needs to only look at the struggle they have to retain even basic service providers like doctors and lawyers. There are currently only two doctors working in the main hospital in the district, although it is estimated that five are necessary for proper provision of services. In addition, two of the health centers are not manned by medical officers, but instead are supervised by volunteers. Citizens are well aware that public medical services in Kanungu are inadequate, and during our stay we met commercial contractors who were building private medical centers to fill in the provision gap. Local government officials attribute their staffing challenges to their location and feel they cannot offer doctors the advanced training and access to further educational opportunities because of their remote location.

In addition, the Chief Administrative Officer shared a particularly indicative anecdote about a young lawyer who was hired by Kanungu for land management. After beginning work in the district, he was sent to Kampala for official certification, a trip expected to take a few days, but never came back. While in Kampala he was hired by the judiciary and opted to stay in Kampala because he felt there were more opportunities for education, career growth, and training while working.

Officials in Kanungu highlighted some of the ways they had attempted to utilize the discretionary powers available to them in order to improve capacity and generate additional revenue – though often to little effect. Districts have the ability to create or do away with a post within their locality, and Kanungu took advantage of this autonomy by creating a tourism officer position, capitalizing on the fact that they view the tourism industry as one of their highest potential local assets. While this autonomy was recognized and appreciated, the problem of attracting and maintaining staff overshadowed the benefits and the post was unable to be utilized effectively.

**Political Interference**

There are research efforts, including on Uganda, which focus on the politics surrounding fiscal decentralization. Comparative econometric studies document broad patterns, and case studies illustrate details of complex relationships among politics, governance, and decentralization.\(^{29}\) The relationship between decentralized policies, especially as they relate to revenue generation, and local and national politics is problematic and requires exploration. In particular, the challenges of political

\(^{29}\) P. Smoke, Local Revenues under Fiscal Decentralization in Developing Countries (Cambridge, MA: Lincoln Press, 2008) 6.
interference and political credibility are inherent to issues of capacity and discretion on the ground (See Figure 6).

Figure 6

Despite efforts to decentralize and empower local governments, there continues to be struggles at both the national and local level. These challenges are present in the case of Uganda, as well as numerous other countries implementing decentralization policies. More broadly, local governments appear to struggle with implementing their own action plans for generating local revenue, which can be easily undermined by Parliamentarians who feel threatened by the potential power created by new revenue sources. At the national level, even with agreement to assign revenue sources to local governments, efforts to limit the autonomy with which they are executed are common, including the introduction of arbitrary central interventions and onerous regulations. Together, these tactics serve to undermine local autonomy and hinder overall revenue productivity.  

Challenges are also present at the local level, where ambitious politicians can often seize upon tax-related issues in order to drum up support from voters. Politicians

30 Smoke (2008), 5-6.
who seek to undermine local taxation initiatives, appear to have a significant influence on the attitudes of constituents, and can be very effective at limiting progress on locally-levied taxes. The constant politicization of these issues impedes revenue generation activities and negatively impacts opportunities for improved service delivery, which in turn affects citizenry willingness to support taxation. While these challenges are clearly not true in all situations, in Uganda’s case it is apparent that political motives and interventions at both the local and national levels may hinder the ability of local governments to fully exercise the discretion afforded to them to generate revenue locally, and in turn, increase their discretion.

The precarious nature of the execution of these policies partially stems from the tight grip of governmental influence, even on issues that are independent from the FDS. Political interference appears to be rife. The politicization of taxation has been a particularly problematic area. Since 1996, Presidential elections have led to the lowering of the minimum tax rate and the abolition of the GPT. Although there is a historical precedent for opposition to taxation in Uganda, the political competition that arose from the introduction of multi-party elections in 2006, has played an additionally decisive role in reshaping how political decisions at the central level affect local governments. With the opportunity for competitive elections, Ugandan citizens are now able to express their displeasure with existing government policies, and in pursuit of reelectitions, politicians have responded.

Even when local governments are able to generate revenue effectively, the issue of political credibility comes into play that can help perpetuate anti-tax attitudes and distrust between citizens and local governments. In particular, the issue of equity arises, as taxes often fail to cover all sectors and exhibit preferential treatment of certain taxpayers or groups, commonly results from specific tax regulations and weak or selective administration. In addition, political credibility is also undermined when intergovernmental transfers do not reach their intended beneficiaries. A case study from Uganda on the education sector illustrates how improper administration of services affects the tax paying culture:

Education allocations in Uganda, for example, often did not reach intended end-users (schools) over a five-year period. Schools received on average only 13 percent of allocations, with the bulk captured by local officials. Within local governments, however, the great variations in percentage of allocation realized suggest that certain schools had power to claim more of what they

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were due. Such a situation should be expected to influence willingness to engage in local affairs and pay local taxes.33

A lack of enforcement or oversight can make it easy for certain groups of citizens to secure preferential treatment, creating a culture of taxation based on inequity. If the services provided through locally-generated funds are visibly benefiting select groups over others, or if these services are not reaching their intended users, local residents may be unwilling to pay future taxes.34 This has the potential to create significant problems in local districts that aspire to rely heavily on locally-generated revenues as a major portion of their discretionary funds.

**Challenges in Case Districts**

Taxation is one of the biggest hot-button issues in Kampala politics, and its highly politicized nature makes it difficult for the Kampala City Council to effectively plan, as Council officials maintain that both local and national politicians tend to “hijack” the issue of taxation for their own political gains. For example, officials describe the period between January 2010 and May 2011 (leading up to elections) as a “dead period” as far as revenue generation is concerned. Various politicians garner support by emphasizing the “unfairness of taxes”, which the KCC feels promotes a further lack of compliance and general anti-tax attitudes.

Weak compliance stems from the problem Kampala citizens have in being able to link generated revenue directly to service delivery. This challenge is exacerbated by the lack of a full fledged property tax—many occupied residential properties are exempted from taxes, though all businesses are still charged, even if the businesses are run out of a residential property. The KCC sees this as benefiting mostly the technocrats and government officials living in wealthier areas of Kampala. Although no taxes are collected, these nicer areas, such as the Kololo area of Kampala, enjoy services such as road maintenance, street lights, and regular garbage collection, while shop owners in rural suburbs and less wealthy neighborhoods are paying taxes on their homes – out of which they sell vegetables, for example – and aren’t benefiting from any services.

Despite all of the significant impediments to the smooth implementation of local revenue generating activities, the City of Kampala has prioritized this issue and is seeking ways of addressing many of the aforementioned factors. To make collection more effective, the KCC is placing less emphasis on broadening to new potential sources of revenue, and is instead planning to target sources of revenue that are not being realized due to lack of compliance. They are also looking for ways to utilize the many private companies in Kampala who represent a significant source of potential revenue as a way of avoiding political interference. The KCC has already engaged

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33 Smoke (2008), 8.
34 Ibid, 7.
private organizations in local services by providing free advertising rights in roundabouts in exchange for beautification and maintenance.

District officials in Wakiso also expressed frustration in their stifled ability to levy and enforce taxes. The Wakiso District Council reported substantial financial hardship resulting from the central government’s abolition of the GPT. According to Wakiso, the budget deficit that resulted was “meagerly compensated” through the G-Tax Compensation Grant from central government. Wakiso claims that the major problem with the G-Tax Compensation Grant was that grant figures were calculated at the time closest to G-Tax abolition, where tax payer morale was extremely low, and enforceability even lower, rather than at the peak of the G-tax when local governments were raising considerably more.

It was also reported that interference from the center has created an unfavorable environment for tax collection and enforcement at the district level, though the details behind these statements remains unclear. In particular, officials described the challenges of gaining central government acceptance of proposed new taxes, and also once again noted the politicization of taxation during the election period, making it difficult to enforce tax compliance during election periods. Both case districts described in this section felt that political interference and the constant politicizing of tax compliance left them with limited options for generating local revenue.

**Promising Approaches**

Despite the numerous challenges outlined above, there were examples of successful initiatives throughout the case studies that provided glimpses for future opportunities. While perhaps not all were easily translatable to large numbers of districts, certain initiatives in Wakiso, Kanungu, and Kampala all illustrated examples of creatively exercising available discretion as means to circumvent the aforementioned challenges in ways that have the potential to be translated to additional districts on a wider scale. While these are not necessarily perfect in their conception or execution, they serve to exemplify that the aforementioned challenges discussed are not insurmountable. Wakiso’s market was perhaps the most successful initiative witnessed during the fieldwork in the case districts, and it will thus receive the most attention here. However, Kanungu’s incentive program for doctors and Kampala’s exploration of alternative strategies for capturing revenue also merit further description and should be specifically highlighted for potential further study.

**Wakiso: The Market**

The Wakiso District has had some success in addressing local revenue generation issues through the pursuit of local agricultural markets. This not only brings in revenue, but also presents an opportunity for long-term local economic development. From the perspective of the local government, improving these two areas may ameliorate the factors that inhibit the local governments from exercising discretion in
their efforts to adequately respond to the need of their constituents. In tailoring solutions to the economic conditions and resources of the district, Wakiso has aimed to utilize its agricultural base as one of the main pillars and focuses of support in its effort to combat poverty and solve issues for its citizens. By striving to identify specific services that citizens are willing to pay for, Wakiso has been able to improve their revenue generation capabilities; one such example is the Wakiso local farmers market.

The market began three years ago and is centrally located within the district, offering a variety of produce and meats grown from farms within Wakiso. The Wakiso District initiated the development of this regulated market, and invited traders, who had previously sold goods through an informal, unregulated market on the same land as the current market, into the planning process. Traders were asked for input on designing a structure for the market, with consideration of where to put vendor stalls and how to make it functional for people. The local government exercised its own discretion by supporting the cost of building the infrastructure.

Currently, participants in the regulated market pay a monthly fee of 15,000 shillings to the government to continue their trade, in addition to 9,000 shillings bi-annually for health tests aimed at ensuring the safety of the market and its products. In addition to these fees, the government taxes participants on their overall sales and for stall ownership; tax rates can reach up to an additional 30,000 shillings for ownership alone.

The revenue from the market is a particularly important aspect of the local government’s efforts to expand their revenue base. With the abolishment of the GPT, the remaining sources of local revenue for Wakiso were all non-tax related. The Wakiso District Council predicted that after the contribution from fees and interest (45.1%), the next largest source of revenue are market dues, which could make up to 36.5% of locally generated revenue.35

The perceptions of those involved in the market seem to reflect a positive sentiment towards the role of the market in improving their livelihood and correlate improvements within the district with the role of their local government, which may contribute to a willingness to pay taxes.

35N. Tanzam, Gender Impacts of Revenue Collect in Uganda (Commonwealth Secretariat: 2008)
One market vendor shared his views on participating in the local market, and how it has changed his outlook on the surrounding improvements in service delivery and infrastructure:

I came to Wakiso 7 years ago looking for a job and began working as a porter. I had nothing when I arrived. I worked to save some money to buy some capital in order to rent out some space to begin selling goods. I eventually saved up enough money to buy a plot of land and eventually became the chairperson of the association that represents all the traders. I am able to provide for my wife and send my child to school. There have been many improvements to infrastructure in the town since the market arrived. The schools are good, buildings and services are improving and the tax amount is reasonable.

These sentiments are echoed by others, who assert that there have been marked improvements in certain areas of service delivery within the Wakiso district. For example, schools and other businesses were built (with support from the local government) in areas surrounding the market. When speaking with market participants we found that many were not opposed to paying taxes, primarily because the links between the taxes levied and the success of the market and service delivery were visible from their perspective. In addition, the market manager asserted that if taxes are raised, they must be related to the level of local economic development in the district. These factors help mitigate challenges of political credibility, as taxation and services are linked and viewed as equitable in both collection and provision, respectively.

The market is not without issues. Farmers who opted not to pay for the support and security of the market still operate on the fringe of the market grounds. This presents a challenge to participants and regulators of the current farmers market, as outside vendors sell at reduced prices to undercut market profits. Appeals to the district council to alleviate the problem have not resulted in any immediate action. In addition, one market participant who sold fruits deemed the health fee that the traders had to pay for inspections and vegetables to be a burdensome constraint.

The hope for the market is that infrastructure will grow and the requested needs of the market – ranging from sanitation concerns to street vendor activity – will be met with the help of the local government. At the same time, continued and more expansive improvements to infrastructure and capacity as related to the market may give the Wakiso District Council the opportunity to prove to the central government that they merit more flexibility in funding in order to creatively address the needs of their citizens.
What especially stands out about Wakiso’s strategy is the ordered and seemingly concerted effort in which infrastructure was improved along with the building of new structures (i.e. schools) near the market, an approach that seems to clearly signal a positive change in service delivery to local participants. This strategic discretion may pay off for Wakiso, despite the problems identified by the local governments concerning grant allocation, political interference, and limited taxation opportunities. As evidenced from this example, despite the noted significant constraints, there are opportunities to utilize discretion to create new opportunities from existing situations that provide short-term and long-term benefits for the council and its constituents alike.

*Kanungu: Doctor Incentives*

One discretionary solution employed by Kanungu officials to counter retention challenges was offering a monetary incentive of 500,000sh to doctors as a “top up” in addition to their base salary. Since incentive salary provisions no longer exist within central funding conditionalities, this sum is paid for out of locally generated funds. Kanungu has been creative in using available resources, despite their limited capacity to overcome retention difficulties. One such success story from Kanungu is a case of a doctor who was incentivized to begin her career in Kanungu despite the lack of access to higher education. The District chairperson made arrangements for her to work for two years in Kanungu, before she was eligible to receive funding for her Masters degree. Such provisions overcome the difficulties in providing the needed environment to make doctors desire to work in remote regions of the country. This approach shows great potential, and, with cooperation and funding assistance from the central government or universities, could be replicated to help address the retention challenges of health care and other civil service workers, particularly in hard-to-reach districts.

*Kampala: GIS, Partnerships, and Tax Collection*

The Kampala City Council has instituted a number of reforms that aim to address some of the key challenges they face in generating local revenue. For example, the KCC found itself struggling to identify the locations of homes and property values when they sought to invoke the property tax. Recently, KCC leaders have employed the use of the Geographic Information System (GIS) in order to solve the tracking issue. Using GIS now helps officials locate homes with precision and identify the worth in order to determine taxability. Aided by this data management technology, the Kampala city council is now also able to maintain this vital information on property values and more accurately capture and tax properties, increasing revenue that can be used at their discretion on a locally-prioritized areas. It is too early in the process to ascertain whether any clear, numerical improvements in revenue collection have occurred, but future follow-up will be essential in determining the extent to which GIS has improved KCC’s revenues.
KCC also ran into problems when it came to physically collecting tax revenue. For taxes that are appropriate for collection by the City of Kampala, such as business taxes, it was typical that the actual collection was outsourced to private contractors, who then separately delivered the funds to the Council. This practice left the situation open to corruption, and the lack of official oversight meant that receipt of proper funds was once again based on the honor system. Recently this process was revised, and businesses now pay their taxes to the KCC directly without private sector involvement. After the first year under the revised system the Council compared the results to the previous year – they reported that this process identified 30,000 more businesses that were not identified previously, which allowed for the collection of an additional 1.3 billion shillings. To make the generation of local revenue more effective, the KCC is placing less emphasis on broadening to new potential sources of revenue and instead planning to target sources of revenue that are not being realized due to lack of compliance.

Finally, the KCC has begun identifying ways to utilize the many private companies in Kampala who represent a significant source of potential revenue. The KCC has already engaged private organizations in local services by providing free advertising rights in roundabouts in exchange for beautification and maintenance. Innovative approaches to public/private partnerships such as this one appear to hold a great deal of potential, and by exploring these options further the KCC could feasibly tap into a vast amount of new resources within the city.

V. Opportunities for Improvement
The ways in which the case districts creatively overcome and manage constraints to executing discretion attests to the aptitude of the sub-national government of Uganda. However, the aforementioned constraints persistently hinder the ability of local governments to fully execute policy provisions outlined in the FDS. Local government fiscal discretion can be deepened within the current policy environment to strengthen and improve the performance of local governments in desirable ways. Meaningful reforms, if implemented effectively, could appropriately incentivize the original goals of FDS and empower local governments to realize available discretion. Two key potential reforms include an increased focus on intersectoral collaboration with a more holistic, territorial based approach to development, and concerted, amplified efforts to bolster local economies through local economic development (LED).

Holistic Development
All levels of the Government of Uganda share the vision of promoting development and alleviating poverty. While existing conditionalities on funding imposed by the central government tend to relatively align with local priorities, in order for local governments to have more agency in increasing their capacities and services beyond central priorities, barriers to the flexibility provision would have to be overcome. A
culture of collaboration among sectors would need to begin at the national level in order to influence decisions made by local ministry heads. One shortfall of FDS is that the policy provides for flexibility and holistic development, yet no real incentives exist to encourage the practice. A structure of sectorally-apportioned budget lines has created incentives for ministries to act in a silo, promoting individual goals in response to national ministry objectives without considering relevance or priority at the local level. While these objectives are beneficial for promoting development, each project or investment at the local level comes with a trade-off for another needed program.

During our interviews there was frequent discussion of holistic development and financing. A member from MFPED stated that there is a need for local economic development but that national directives block sector flexibility: “local governments that desire to use the flexibility provision within FDS are opposed by sectors that are responsible for following strict national priorities and the approach to local development is not a holistic one.” The flexibility provision is one of the most significant avenues for discretion in that it allows local governments to reset priorities based on current need and encourages a more holistic approach to economic, social, and human development across the country. Creating incentives in order to make the 10 percent reallocation more palpable to sector leaders should be a priority reform for national decision-makers. Through this measure, local governments will have the opportunity to manage their priorities, creating the potential for substantial increases in local level capacity. The discretion available in the flexibility provision is a valuable first step for cultivating a more accountable, efficient and sustainable local government system that has the resources, knowledge and capability to serve their citizenry effectively.

**Intersectoral Collaboration**

If the flexibility provision, in particular, is to be an effective way to promote holistic development, the policy requires an additional incentive structure. Opportunities to incentivize sectoral collaboration can take place at various levels, from an amendment added to the FDS policy, to a shift in power dynamics at the local level, or a reward system for compliant sector ministries. Currently, the context for utilizing flexibility depends on the consent of ministry heads who, although may agree with the overlapping nature of some services and value a more comprehensive approach to development, are accountable to their respective ministries rather than their local council. An alternative approach is for the central government to begin implementing the provision for the release of conditionalities among well-performing local governments.

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36 Ministry of Finance Planning & Economic Development (MFPED) (interview)
Strengthening the flexibility provision is not the only means by which the central
government can promote holistic development. There are short-term benefits to
following a sectoral approach to development – individual sectors are able to specialize
in promoting performance within a particular area and measure impact in reaching
target goals for education, health, sanitation, agriculture and so on. While this
measurability and goal-oriented approach is crucial to service delivery, especially in
the most formative years of decentralization, local development is likely to eventually
stagnate under this system. As the premise of decentralization is to bring service
delivery closer to the people, the center is in turn obliged to trust localities with real
responsibility in allocating public resources within their districts. As detrimental as
this process would be without first ensuring that adequate accountability and
absorption provisions are in place, it should be an intended long-term goal of the
central government. Thus, well-run local governments should benefit from the FDS
provision for releasing a percentage of conditional intergovernmental funds to
unconditional in an effort to begin realizing long-term objectives. If local
governments are provided more discretionary funds through unconditional grants,
sectors will have an incentive to pursue development opportunities beneficial to
multiple sectors. This approach would not only improve sub-national morale, as they
are trusted with more discretionary liberty, but also allow local governments to begin
practicing a holistic approach to development and service delivery within their
respective districts. The flexibility provision is merely one means by which the central
government has made an exception to centrally imposed conditionalities as unique
circumstances arise at the local level rather than reducing conditionalities on funding.
Utilizing flexibility is one way for localities to prove capacity, which if practiced,
would in turn earn them higher levels of discretion. Ultimately, development is
multifaceted; a multi-sectoral approach, with shared responsibility for overlapping
local need, would need to be incorporated into the FDS.

Local Economic Development
The second major area of reform is opening better avenues to promote local economic
development to increase own-source funds, which are entirely discretionary and can
greatly increase local government autonomy. Unfortunately, locally generated revenue
is an immaterial portion of a localities’ budget – according to field interviews,
individual local governments are between 90–99 percent dependent on
intergovernmental transfers to cover their operating and wage expenses.\textsuperscript{38} Recognized
in the field as a challenge to local government financing, there is both a physical and
cognitive separation of local and central funding. The share of funds distributed to all
sub-national governments for public provision is 24 percent of the total national

\textsuperscript{38} MFEPD (interview)
budget, which is comprised of funds from donors as well as taxes levied on the population.\textsuperscript{39}

\begin{quote}
While government financing is a separate issue, the linkage between financial sourcing and discretion cannot be ignored. A systematic reform may be needed in the long-term, but as an immediate response, it is not beyond local governments’ ability to overcome this separation by reducing reliance on transfers.
\end{quote}

Across all three case districts, as well as during meetings with Ministry officials, there was a resounding belief that enhanced revenue generation through LED was the much-needed solution to increase discretion. In order for local governments to increase autonomy, districts must utilize all available resources in order to collect more revenue. There is an interdependent relationship with capacity and discretion – increases in one will return higher yields in the other. Discretion is likewise correlated to LED – increased discretion will enable localities to invest in and bolster local economies, which would yield more discretionary resources and higher levels of capacity. Recognition of LED as a key component of successful decentralization has increased significantly at the national and sub-national level in Uganda. Since 2007, LED has been listed as one of the six main objectives of decentralization, with the goal to “enhance LED in order to increase local incomes and expand local revenue bases”.\textsuperscript{40} The Government of Uganda needs no further recommendation of the importance of LED, yet moving forward will need to take notice of how the relationship between the constraints addressed in this research can hinder the successful promotion of LED, as well as take precautionary measures to ensure that LED does take place within the current sectoral divisions.

Aforementioned sectoral fragmentation prevents local governments from meeting a number of the needs of their constituents and undermines their ability to think and act in a holistic manner as required to promote LED. While LED is a uniform objective, it calls for integrated work among sectors, and can only take place within an appropriately decentralized system. Because LED requires an individualistic, locally-focused approach, as each district would have to be evaluated to determine specific functional needs and revenue opportunities, the individual designs and execution of LED cannot be a directive of the national government. While there is an extreme need for a national LED framework, which provides power, guidelines and processes, local governments are best positioned to promote growth and leverage local resources. As local governments work to create jobs, boost enterprise investment, improve infrastructure development, increase incomes, and strengthen the local tax base – all

\textsuperscript{39} Parliament of the Republic of Uganda (Interview)
the benefits of LED\textsuperscript{41} – the detailed designs cannot be effectively tailored to meet the unique needs of the local environments, unless determined respectively by the 80 various districts. LED focuses on identifying specific opportunities and elaborating on what stakeholders can do in order for each district to reach its full potential, opposing strict sector divisions to focus holistically on the locality in an integrated approach to service delivery.

**VI. Summary, Issues and Future Needs**

The extent and level of discretion local governments have to successfully execute services and respond to the needs of their citizens is ultimately dependent on actual local government access to avenues of discretion. There were four main avenues of discretion considered in this paper: conditional grants, unconditional grants, flexibility across sectors and local revenue generation – with local revenue generation representing the highest degree of potential discretion, and conditional grants being least. While conditionalities tended to align with district priorities in the cases studied, local governments require additional resources to meet particular needs that extend beyond the priorities dictated by the center and outlined in the FDS. Additional discretionary recourses are necessary to shift to a holistic approach to development and to promote LED.

The avenues of discretion are only as important as a locality’s ability to make the most of them. The systematic problem with the FDS – poor incentive structure to comply with good policies – is less important than the systemic failures currently plaguing local governments in Uganda. While the FDS provides a variety of available opportunities in which local governments can access various funding sources, whether by transfers or local revenue generation, the barriers to access were both sizeable and complex on multiple levels. There are the constraints which have the been the focal point of this paper – retention, capacity, and political credibility – as well as the barriers within FDS, such as the non-release of conditionalities on funding with improved performance and capacity, and the generally underutilized flexibility provision. While this paper presents an array of long-established and well-known constraints that affect sub-national governments, especially in less developed countries, the research intends to establish how closely they are linked with local government fiscal discretion. Although these constraints are not exclusively affecting fiscal discretion – rather, the entire performance of local governments – policy reforms are needed to address the capacity, retention, local revenue generation and political interference constraints outlined within this paper. These issues are interlinked, not just with one another, but in a larger context associated with governance, public service management, political accountability, public servant retention, local economic development, tax adherence, and the overall effectiveness of decentralization.

\textsuperscript{41} Nuwagaba (2008) 6.
Constraints to Discretion

Capacity relates to the district's ability to properly collect revenue, manage information, comply with ministry demands, and create adequate infrastructure to deliver public services to the population. While provisions within FDS depend on a capacity measurement for increasing discretionary funding to localities, it includes no formal, standardized measure to define “capacity”, or the improvement thereof, of local governments. Inadequate capacity, manifested in Uganda in the under-collection of revenue as well as technological and logistical challenges, is caused in some localities by an inability to fill posts or retain qualified civil servants. Retention poses a great challenge to local governments, as the current environment cannot provide the monetary and social benefits to entice qualified public servants, especially in rural locations. Civil servants are commonly poached to the private sector, or lured to pursue a career in central government by the additional amenities available. Local governments, in part because of dependence on fiscal transfers, are unable to pay competitive salaries due to capacity constraints, or to provide meaningful work and educational opportunities. This lack of retention severely hinders the quality of service delivery, the ability to collect revenue, and efforts to increase capacity. Local governments also struggle with implementing their own action plans for generating local revenue which at times is undermined by the nature of competitive presidential elections and multi-party parliamentary elections, where “vote-seeking,” behavior reduced, removed or blocked the ability of local governments to utilize certain locally generated revenue sources. This political interference will stifle local governments as they work to generate own-source funds and improve capacity.

Recommended Policy Reform

Given the limited scope of this research, it is possible to go only so far in making specific policy recommendations. In the following, an attempt is made to link the key issues identified in this work with discretion and to outline some possible initial steps to improve the policy environment to better empower local governments. Within this context, local governments could be better able to leverage the fiscal discretion outlined within the FDS. The following policy reforms are presented not as firm or fully developed steps, but primarily as suggestions to provoke thought and guide dialogue around reducing barriers for local governments to exercise the discretion they are provided through the decentralization of fiscal powers.

Capacity

The only way to break out of the budget template is to build capacity, and when that criterion is met, local governments are rewarded with increased discretionary powers. If capacity is the objective, and a reward system is a means for accomplishing that end, it is important to have a strategic approach by which local governments are able to increase capacity.
• Clear standards of “improved capacity” and its measurements are necessary to implement the current incentive structure within FDS, including an outline of specific, attainable ways in which to prove increased capacity.
• This policy reform would require additional research with a specific focus on reevaluating the current polices.
• Because capacity is linked with discretion reciprocally, for the improvement of either, more consideration should be given to the idea of shifting from capacity-based criteria to needs-based criteria for allocating conditional and development grant.

Retention
There are many examples of the utilization of incentives in overcoming retention. Even since this research began, a “hard-to-reach” salary subsidy has been introduced in districts of Uganda that are disadvantaged by issues such as security or distance from Kampala.

• This idea mimics the concept of a “hardship allowance”, utilized by many international organizations, which provides a boost in salary or benefits to compensate for the challenges of being posted in a difficult location or post. This provision in Uganda could be explored as a potentially important step in the right direction for strengthening disadvantaged local governments as they compete against the private sector.
• Additional policy initiatives which could be considered, as they have already been successfully and innovatively utilized by some districts, is an ‘Education to Public Careers’ initiative, which subsidizes or pays for an individual to receive higher education if they commit to work in the public sector for a certain number of years afterwards.
• This policy can be implemented universally across districts and creatively designed to serve the unique needs of individual districts based on their individual circumstances.
• Lastly, the Government of Uganda can consider the use of appropriate non-monetary compensation, which would provide a long-term incentive structure for individuals to stay in the public sector including subsidized housing, special training opportunities, or future provision of higher education to the spouse or family of a public employee. Additional or more suitable benefits should be researched and considered.

Political Interference
It is not within the scope of this paper, nor realistic, to make recommendations for changes to the political dynamics of Uganda or the universal challenges political factors can pose for effective revenue generation. There is need for more research to better understand the tangible links between interference and revenue generation. Additionally, there are a number of national and local issues, focusing on the issue of
who is facilitating and blocking what within the national and sub-national system, that can be further researched.

- The long-term solution to the problem of political interference is to increase levels of transparency and accountability, creating a clear understanding between local governments and the citizens they serve so that local governments are able to provide services according to the needs and desires of their citizenry.
- Increasing tax compliance can be further achieved through powerful incentive or sanction structures. Despite political difficulties, a case is to be made for the effectiveness of stricter enforcement publicized in a way that creates a demonstration influencing others’ decision to comply. Uganda may need to undertake this approach; however, a reward or incentive structure may be just as effective.
- Increasing the credibility of local governments and building the trust of citizens can mitigate current challenges inhibiting effective taxation.
- Ultimately, there needs to be increased efforts to link taxes to service delivery. This can be achieved by working with various NGOs, or community or merchant groups, to negotiate and agree upon the particular needs of a local demographic, and illustrate the role that local taxes play in realizing its achievement. By providing a voice in the decision-making process, there is opportunity for citizens to determine their needs ex ante. Organized groups are likely to be more inclined to pay for collective benefits, such as public services associated with the sanitation of a neighborhood, or the upkeep of a local market.
- A further recommendation is to research other examples of how this public collaboration takes place, and use models of past successful community participation to devise training for local officials on how to effectively negotiate the challenges and benefits of participatory decision-making.

**Intersectoral collaboration and LED**

Sectoral fragmentation prevents local governments from meeting a number of the needs of their constituents – necessary for political credibility and greater engagement in local governance – and undermines the ability of local governments to think and act more holistically in a way that will promote LED.

- There is a need for increased efforts to promote holistic development, as well as to restructure an incentive system that encourages sectors to respond to local needs collectively, rather than solely depend on nationally set ministry objectives. One precursor to this reform is research and strategy creation to identify holistic benchmarks and incentives.
- A method for promoting intersectoral collaboration and encouraging cooperation for holistic development includes a provision to reward sectors for
effectively utilizing flexibility. The new responsibilities that holistic development places on local governments cannot be dismissed, as they are dependent on capacity, retention, and political will. However, a number of entities are already in place to support local government growth. The local government associations, the ULGA and UAAU, could provide support and training on how to better utilize strategic decision making when addressing overall service delivery. This support would help improve the capacity of local governments to plan with a focus on holistic development and goal achievement that provides more widespread benefits, rather than merely allowing each sector to independently work to meet individual national benchmarks.

- Local economic development also heavily depends on the ability of sectors to successfully collaborate. Additional research should be done, in a similar fashion to this study, to determine the constraints to LED. In considering all the resources within a district, LED is able to leverage opportunities and resources to create growth that will have positive spillover effects in all sectors. Promoting LED should be a priority in Uganda, as it is deeply connected to the ability of local governments to successfully function independently from the center, as they are able to generate their own revenues and expand their local economies and tax bases to increase discretion.

**Final Remarks**

Adequate local government discretionary power is fundamentally linked with the success of decentralization in Uganda, and deserves significant consideration by researchers and policymakers. As developing countries embrace decentralization as a means for reducing poverty, Uganda will serve as an exemplar of both successes and shortfalls. This exploratory research outlines a set of prevailing concerns regarding fiscal decentralization, and questions whether national authorities are truly willing to devolve resources and decision-making power to lower levels of government. This research should be expanded to additional local governments in order to paint a more accurate, comprehensive picture of the levels of fiscal discretion available in practice across the country, as well as major constraints, rather than simply evaluating the policies of the FDS in isolation.

As this research developed, the emerging recommendations, separate from those specifically reincentivizing better outcomes for capacity growth, public employee retention, and improved political credibility and tax compliance, are to promote intersectoral collaboration and local economic development. These improvements provide the most promising way forward for increasing local government capabilities. Within this context, holistic development and financing can be realized. Eight years after the implementation of the FDS, the prevailing wisdom points to the need for more local discretion in order for local governments to improve performance levels, bolster their local economies, and improve capacity to fully benefit from the gains of
decentralization. Within this framework, fiscal decentralization policies in Uganda can empower local governments to reduce poverty and more effectively achieve the country’s national development objectives moving forward.
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ACKNOWLEDGMENTS

Municipal Development Partnership of Eastern and Southern Africa (MDP-ESA)
New York University Wagner School of Public Service
Local Government Finance Commission
Ministry of Local Government
Ministry of Health
Ministry of Education
Ministry of Finance
USAID
United Nations Capital Development Fund (UNCDF)
World Bank
Urban Authority Association of Uganda (UAAU)
Ugandan Local Government Association (ULGA)
Parliament of the Republic of Uganda
Kampala City Council
Wakiso District Council
Kanungu District Council
APPENDIX A: FIELDWORK QUESTIONS

~District/Sub-County Level~

General Overview

• Could you briefly describe the Recurrent Transfer and Development Transfers Budgets/procedures and your thoughts on it?
  o What do you feel works well?
  o What do you feel needs improvement?

• Were you in your current position during the transition in policy and procedures 8 years ago?
  o What effects have you seen this transition create over these years?

• Do you believe that these policies have been positive or negative to you at the District/Sub-County level?
  o How so?

• How do you believe the current system has impacted the (further) lower levels of local government (i.e. the Parish levels)
  o Has the relationship between the District level, Sub-County and lower levels changed over time based on the changes in the budgetary processes?

• What are your impressions of the consultative budget process?
  o Do you feel this gives your District and other local governments an adequate voice in the budget process?
  o Has it provided you the opportunity to truly prioritize your local priorities?

Discretion: Unconditional Grants & Local Revenue Generation

• How are decisions made on where discretionary, unconditional funds given to you in the RT and DT are directed within the budget?
  o Who is in charge of these decisions?

• When it comes to the resources and discretion a District/Sub-County has, as outlined in the conditional and unconditional grants, do you feel you are able to budget and provide services based on local needs?

• One of the goals is to increase the proportion of unconditional funds to a local government to use at their discretion as their capacities improve:
Do you feel that this process is being realized?
Has your district received more discretionary funds each year?
How have these funds been used/reprioritized from how they would have been used as a conditional grant?

What other types of discretionary resources are you utilizing?
Do you generate/collection funds at the local level?
If so, how are these revenues generated?

One critique of the budget process is that the conditional and unconditional grants disincentivize local revenue raising–
Do you agree?
Is the central government doing anything to encourage/assist local revenue raising?

How successful has your locality been in generating revenue?
How do you generate your revenue?
What percentage of your budget is locally-raise revenue?
What are your future goals for generating this revenue?

How much flexibility do you have in raising the funds? Do you have control of the rate of taxation? The base?

Local Needs & Priorities

Based on the discretion you are allowed by locally-generated funds, how do you prioritize where these funds will be used?

How are local needs measured across all priority sectors?
How are they measured within budget lines?

Do local civilians have any voice/participation in deciding how any available locally-generated revenue will be used?

Based on these needs, are costs taken into consideration when determining budget allocations within sectors and budget lines?
When do you evaluate these costs? How?
How do you prioritize?

How do you feel that the budget process has a positive or negative effect on basic service delivery overall?
National priority sectors?
How has it affected local priority sectors?
• What do you think can be improved upon in the RT and DT budget process to make it easier to meet local priorities most effectively?
  o Do you feel you have ownership of the raised funds and can use them for your local priorities?

• How has the central government’s mandated use of conditional grants on PEAP priorities impacted local priorities?
  o National priorities?
  o Based on your knowledge, do you feel that individual sectors have been strongly influenced by PEAP?

~Local Government Finance Commission~

The following questions are for members of the Local Government Finance commission. Focusing primarily on the following topic areas:

(1) The efficiency of the transfer system
(2) The feasibility of local governments to being to rely more heavily on locally generated sources of revenue
(3) The amount of discretion and autonomy local government has with funds allocated from the center
(4) Recommendations for improving the current system, if necessary.

• How much flexibility do the local governments have allocating resources provided to particular sectors under the budget template to specific functions, locations and facilities within that sector?

• What evaluative criteria are used to advise the central and local governments on appropriate tax levels to be levied?

• How does your role vary in terms of recommendations on the use of funds via fiscal transfers and fiscal efficiency for individual local governments?

• In your view, how much are local governments expected to rely on their ability to generate local revenue sources as opposed to revenue allocated through transfers?

• Is there a percentage breakdown between allocated revenue from the central government and local sources?

• What other individuals or groups do you consult with when creating recommendations, doing research, and decision-making activities?

• Are local governments exercising discretion to increase other sources of revenue
that are available to them?

• How would you rate the feasibility and efficiency of the intergovernmental system on a scale of 1-5? 1 being relatively inadequate and inefficient and 5 being extremely efficient. What causes you to rate the system in this manner? What are the positive attributes of the system? What areas could be developed more

• If you feel some amount of system reform is necessary, what areas would you say should be the initial focus and for what reasons?

~Ministry of Local Government~

• How much flexibility do local municipalities have in allocating resources provided to particular sectors under the to specific functions within the
  o Water & Sanitation Sector
  o Health Sector
  o Education Sector
  o Agriculture Sector

• Does this level of discretion vary in any clearly identifiable ways across sectors? Or functional types of expenditure?

• How do you encourage local governments in their efforts to tax local citizens?
  ▪ What type of obstacles have you encountered in your efforts?
  ▪ What kind of solutions have you proposed to the local governments?

• What legal discretion do local governments have in local revenue generation?

• Are local governments exercising their allowable discretion to increase other sources of revenue that are available to them? Why or why not?

• To what extent are local governments using the Local Government Service Levy & Hotel Tax?
  o How much discretion do they legally have?
  o Do they exercise this discretion?

• Do local governments need central approval for making decisions within the guidelines that govern their behavior?

• Under what circumstances do local governments tend to ask for capacity grants?
• How does the role of foreign assistance factor in to the way the overall system is financed and structured?
  o Specifically how does it factor into how local governments make fiscal decisions?

~Questions for the ULGA and Other NGO & Citizen Groups~

• What is the main role of the ULGA? How is it constituted to run?

• What are some key ways ULGA works to build democratic and accountable local governments?

• What is the state of local democracy and accountability?

• Who is responsible for negotiating programs and conditionalities of Conditional Grants among Sector Ministries? What criteria are used? Is this a unique process for each LG or for each sector?

• How are resources allocated across sectors—how much of this is mandated from above, and how much local discretion is available/used?

• How is funding for services prioritized? Are costs taken into consideration when determining budgets? How are these costs evaluated?

• What other types of discretionary resources are available from either local or central funding sources? How successful are LGs in generating revenue?

• Is there a scope for improving LG generation of funds?

• How are locally generated funds allocated? Who has decision-making power?

• Does ULGA in any way work with citizens or citizen groups? If so, what role (if any) do citizens have in how resources are allocated?

• How do LGs benefit from being a member or ULGA? How are membership fees determined?

• Do ULGA in any way consider itself a monitoring organization, keeping track of LGs?

• How does ULGA promote decentralization and efficiency of LGs through training, legal services, communication, R&D?
• Do you feel that the GoU supports these efforts and promotes the work of ULGA?

• Does ULGA influence national government in regard to LG financing?

• Does ULGA try to work with national government on reforms desired by their membership?
APPENDIX B: SECTOR BUDGETS WITHIN RECURRENT TRANSFER BUDGET

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## APPENDIX C: REVENUE SOURCES AVAILABLE TO LOCAL GOVERNMENTS

<table>
<thead>
<tr>
<th>OWN-SOURCE REVENUE</th>
<th>TYPES</th>
</tr>
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| **User Fees and Charges** | Hotel tax  
Trading Licenses  
Parking fees (cars, taxis, buses, motor cycles)  
Market dues  
Fish Monger permits  
Tender application fees  
Tourist license fees  
Registration fees for certificates of birth, marriage, death and political party registration |
| **Property Revenue** | Rent on commercial buildings and land  
Ground Rent  
Building plan approval and inspection fees  
Sale of boarded assets  
Land search and registration fees |
| **Revenue from specific Trades** | Slaughter fees  
Traditional healers practice fees  
Brewing and sale of alcohol  
Transportation of charcoal and wood  
Lumbering  
Permits for stage plays and public entertainment |
| **Revenue from persons in gainful employment** | Local service tax is applicable to civil servants, artisans, businesspersons and commercial farmers. |

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