UGANDA LOCAL GOVERNMENTS ASSOCIATION

Policy Advocacy Paper: Strengthening Local Government Financing in Uganda

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Uganda Local Government Association (ULGA)
Plot 136 Najjanankumbi Entebbe Road,
P.O Box 23120, Kampala – Uganda
Website: www.ulga.co.ug

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Introduction

The Uganda Association of Local Governments (ULGA) plays a crucial role in advocating for the interests and needs of local governments (LGs) in Uganda. One of the key concerns for ULGA is the state of LG financing, which directly impacts the ability of LGs to effectively deliver essential services to citizens.

This policy advocacy paper outlines the current state of LG financing in Uganda, highlighting key challenges and proposing recommendations for improvement. This paper draws on findings from a study commissioned by the Uganda Local Government Association (ULGA), with support from the Commonwealth Local Government Forum (CLGF), which assessed the performance of Uganda's Intergovernmental Fiscal Transfer Regime.

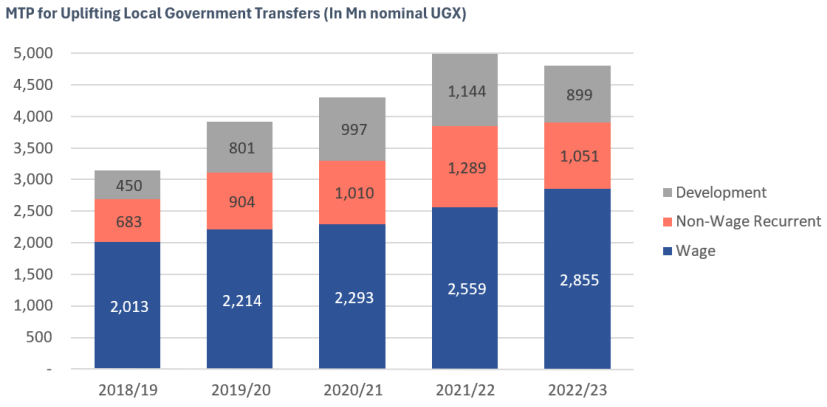
The Importance of Adequate and Equitable LG Financing

LGs are at the forefront of service delivery, responsible for providing essential services such as education, healthcare, water and sanitation, and agricultural support. Adequate financing is paramount to ensure that LGs can fulfil their mandates and meet the needs of their communities. A well-financed LG system is essential for:

a) **Improved Service Delivery:** Adequate resources enable LGs to provide quality services, including sufficient staffing, infrastructure, and operational inputs.
b) **Enhanced Local Development:** When LGs have the financial capacity to invest in infrastructure, promote economic activities, and address local priorities, it leads to improved livelihoods and overall development within their communities.
c) **Strengthened Accountability:** Greater financial autonomy empowers LGs to make decisions that are responsive to the specific needs of their communities, fostering a sense of ownership and accountability.

Achievements of UgIFT

a) UgIFT program has led to a significant **increase in funding** for Local Governments (LGs) since its inception in 2017. The total intergovernmental fiscal transfers rose from UGX 2.7 trillion in FY 2017/18 to UGX 4.8 trillion in FY 2022/23.



Source: MoFPED IGFTRP Implementation Report FY 2021/22 – 22/23

b) The program has **prioritized investments** in **crucial sectors**, including education, health, agriculture, and water.

- **Education:** Funding has supported the construction of seed secondary schools, increasing access to secondary education in underserved areas.
- **Health:** UgIFT has facilitated the upgrading of health facilities, improving the quality of healthcare services.

- **Agriculture:** The introduction of the Micro-Scale Irrigation (MSI) grant has supported agricultural productivity.
- **Water:** UgIFT has supported the expansion of piped water supply systems.

c) UgIFT has contributed to **enhanced equity** in the distribution of resources among LGs.
- The use of objective formulas has led to a more equitable distribution of non-wage recurrent and development grants, reducing disparities between better-off and less advantaged districts.

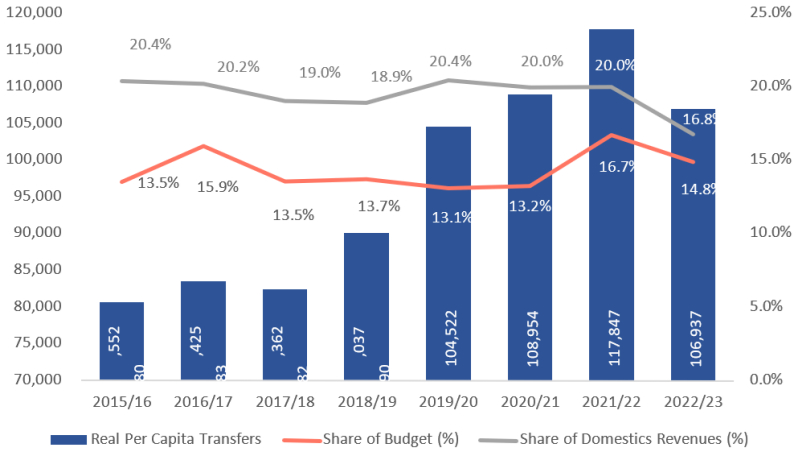
d) UgIFT has supported initiatives to **increase LG discretion** in resource allocation.
- Less restrictive guidelines for non-wage recurrent grants have provided LGs with greater flexibility to address local needs.

e) The program has had a **positive impact** on LG service delivery across Uganda.
- The construction and upgrading of facilities in education, health, and other sectors have enhanced the quality of service delivery.
- UgIFT has supported the recruitment of teachers and health workers, addressing staffing shortages and improving service provision.
- The MSI grant has enabled farmers to adopt irrigation technologies, boosting agricultural output and livelihoods.

Key Challenges in LG Financing

Despite the progress made under the Uganda Intergovernmental Fiscal Transfer (UgIFT) program, significant challenges persist in ensuring adequate, equitable, and discretionary financing for LGs in Uganda.

Figure 3. LG Transfers- Real Per Capita and Share of the National Budget

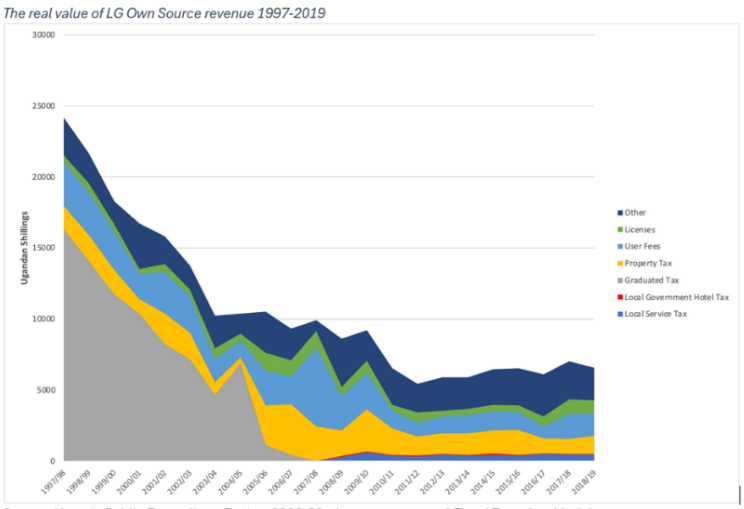


a) **Inadequate Funding:** While nominal transfers to LGs have increased, real per capita allocations remain inadequate due to population growth and inflation. This funding gap is particularly pronounced in sectors not covered by UgIFT, including key administrative and political functions.

b) **Inequitable Distribution:** Formula-based allocations have improved equity in some grants; however, inconsistencies in application, discretionary infrastructure allocations, and the underfunding of wage grants have resulted in persistent disparities. LGs facing unique challenges, such as those in hard-to-reach areas or hosting refugees, require specific considerations to ensure they receive adequate resources.

c) **Limited Discretion:** The central government maintains significant control over LG financing through conditional grants and restrictive guidelines. This limits LGs' ability to adapt budgets to local needs and priorities, hindering their responsiveness to emerging challenges.

d) **Underutilization of Own Source Revenue (OSR):** The real value of OSR has declined significantly since 1998, primarily due to the abolition of the Graduated Personal Tax (GPT). Despite the introduction of automated revenue management systems, challenges such as low system utilization, political interference, and the proliferation of financially independent town councils have hampered LGs' ability to generate and utilize OSR effectively.



Source: Uganda Public Expenditure Review 2022-23 – Intergovernmental Fiscal Transfers Module

Policy Recommendations

To address these challenges and strengthen LG financing in Uganda, ULGA advocates for the following policy actions:

1. Enhance Funding Adequacy:

- **Increase LG Share of National Budget:** Advocate for a larger and more predictable share of the national budget to be allocated to LGs, recognizing their crucial role in service delivery and local development.
- **Prioritize Operationalization of Existing Infrastructure:** Shift focus from funding new infrastructure projects to ensuring the full operationalization of existing facilities, including adequate staffing, equipment, and operational budgets. This approach will maximize the impact of previous investments and ensure the sustainability of service delivery.
- **Rebalance Sectoral Allocations:** Address funding imbalances across sectors by prioritizing primary education and healthcare, which are fundamental to human development. Ensure adequate funding for non-UgIFT sectors and administrative functions, recognizing their essential role in effective local governance.

2. Promote Equitable Resource Allocation:

- **Expand Formula-Based Allocations:** Implement objective, needs-based formulas for all grants, minimizing discretionary infrastructure projects and ensuring a fair distribution of resources across LGs.
- **Address Wage Grant Disbursement Challenges:** Guarantee the full allocation and timely disbursement of budgeted funds for wage grants to address staffing inequities, particularly in education and healthcare.
- **Develop Targeted Support for Disadvantaged LGs:** Design specific interventions and funding mechanisms to address the unique challenges faced by LGs in hard-to-reach areas, those hosting refugees, and those with historically low revenue generation capacity.

3. Enhance Local Discretion:

- **Reduce Earmarking in Conditional Grants:** Relax overly prescriptive guidelines within sectoral grants to provide LGs with greater flexibility in allocating resources according to local needs and priorities.
- **Strengthen and Expand the Unconditional Grant:** Advocate for an increase in the size of the Unconditional Grant, providing LGs with more discretionary funding to address locally identified priorities. Demonstrate the effective use of the UCG to strengthen the case for its continued allocation.
- **Introduce Block Grants:** Implement block grants, particularly in service delivery sub-programs, to allow LGs to allocate resources across programs and functions based on local needs, while still adhering to national development frameworks.
- **Empower LGs in Procurement Processes:** Advocate for increased LG involvement and decision-making authority in procurement processes related to infrastructure projects, ensuring that projects are aligned with local needs and implemented efficiently.

4. Strengthen Local Revenue Mobilization:

- **Improve Utilization of Revenue Management Systems:** Ensure full implementation and effective utilization of IRAS and E-LogRev across all LGs, addressing training gaps, providing necessary IT infrastructure, and expanding system coverage to all potential revenue streams.
- **Minimize Political Interference:** Advocate for legal and administrative reforms to protect LGs from political interference in revenue collection, guaranteeing their control over locally generated resources.
- **Expand the Revenue Base:** Explore and implement new local tax measures and innovative revenue generation strategies, leveraging opportunities in tourism, natural resources, and local enterprises.
- **Strengthen Taxpayer Identification and Enforcement:** Develop and maintain comprehensive taxpayer databases and implement robust enforcement mechanisms to enhance revenue collection efficiency and minimize leakages.
- **Promote Revenue Sharing:** Facilitate dialogue and collaboration between LGs and town councils to establish equitable revenue-sharing models that benefit both entities and ensure that resources are used effectively for local development.
- **Prioritize OSR for Service Delivery:** Advocate for a shift in mindset within LGs to allocate a significant portion of OSR towards direct service delivery, demonstrating a clear commitment to improving service quality and accountability to citizens.

Conclusion

Strengthening LG financing is crucial for achieving sustainable development and improving the well-being of citizens in Uganda. By implementing the recommendations outlined in this paper, the Government of Uganda can empower LGs to effectively deliver essential services, promote local development, and enhance accountability. ULGA remains committed to working with all stakeholders to ensure that LGs have the financial resources they need to fulfill their mandates and build thriving communities.