CONSULTANCY SERVICES TO REVIEW THE LEGAL, POLICY AND ADMINISTRATIVE FRAMEWORK FOR LOCAL GOVERNMENT REVENUE MANAGEMENT AND DESIGN OF A LOCAL GOVERNMENT' OWN SOURCE REVENUE MOBILIZATION STRATEGY.

Reference No. MOFPED/REAP/CONS/19-20/00012

Local Government Own Source Revenue Mobilisation Strategy

Submitted by

www.eficon.co.ug

January, 2020
Table of contents

ACRONYMS ................................................................................................................................. 3

LOCAL REVENUE MOBILISATION STRATEGY: MAIN RECOMMENDATIONS .............................................. 4

1. OBJECTIVES AND TASK ........................................................................................................... 6

2. INTRODUCTION .......................................................................................................................... 6
   2.1. UGANDA’S LOCAL GOVERNMENT SYSTEM ............................................................................ 6
   2.2. LOCAL BUDGET REVENUES ............................................................................................... 7

3. METHODOLOGY ....................................................................................................................... 7

4. ASSESSMENT OF OSR MANAGEMENT ...................................................................................... 8
   4.1. KEY FINDINGS OF OWN SOURCE REVENUE ANALYSIS ................................................... 9
   4.2. GAPS IN OSR MANAGEMENT ............................................................................................ 9
      4.2.1. Revenue policies ........................................................................................................ 9
      4.2.2. Legal framework of own source revenues .................................................................. 11
      4.2.3. Challenges of specific local OSRs ............................................................................ 11
      4.2.4. Revenue administration ......................................................................................... 12
      4.2.5. Revenue management systems, ICT ........................................................................ 13

5. REFORM STRATEGIES .............................................................................................................. 13
   5.1. OSR MOBILISATION STRATEGY OBJECTIVES ............................................................... 13
   5.2. TARGETED CHALLENGES ............................................................................................... 14
      5.2.1. Systemic problems for policy solutions ................................................................ 14
      5.2.2. Legal questions ......................................................................................................... 15
      5.2.3. Challenges of specific local own source revenues ..................................................... 17
      5.2.4. OSR administration challenges .............................................................................. 22
      5.2.5. Issues of automation of Revenue Management and Administration .......................... 22
   5.3. INTERVENTIONS .................................................................................................................. 24
      5.3.1. Policy changes .......................................................................................................... 24
      5.3.2. Improved revenue administration ........................................................................... 27
      5.3.3. Developing revenue management automation (ICT) ................................................. 29
   5.4. CHANGE MANAGEMENT, COMMUNICATION .................................................................. 35

6. IMPLEMENTATION AND ACTION PLAN .................................................................................. 37
   6.1. OWN SOURCE REVENUE POLICY ACTIONS ............................................................... 38
   6.2. COMPREHENSIVE LEGAL ACTIONS ............................................................................... 41
   6.3. IMPROVED REVENUE ADMINISTRATION .................................................................... 42
   6.4. REVENUE MANAGEMENT SYSTEM DEVELOPMENT .................................................... 44
   6.5. CHANGE MANAGEMENT AND COMMUNICATION ......................................................... 46

List of tables

Table 1 Contributions of OSR to total revenues by all, district and municipal local governments, 2019/2020 8
Table 2 Proposed stakeholder approaches for delivering change management 35
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIA</td>
<td>Appropriation in Aid</td>
<td>MoLG</td>
<td>Ministry of Local Government</td>
</tr>
<tr>
<td>CAMV</td>
<td>Computer Assisted Mass Valuation</td>
<td>MoPS</td>
<td>Ministry of Public Service</td>
</tr>
<tr>
<td>COA</td>
<td>Chart of Accounts</td>
<td>NEMA</td>
<td>National Environment Management Authority</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organisation(s)</td>
<td>NIN</td>
<td>National Identification Number</td>
</tr>
<tr>
<td>DINU</td>
<td>Development Initiative For Northern Uganda</td>
<td>NIRA</td>
<td>National Identification and Registration Authority</td>
</tr>
<tr>
<td>DP</td>
<td>Development Partners</td>
<td>NITA-U</td>
<td>National Information Technology Authority Uganda</td>
</tr>
<tr>
<td>DRMS</td>
<td>Domestic Revenue Mobilization Strategy</td>
<td>ODI</td>
<td>Oversees Development Institute</td>
</tr>
<tr>
<td>DRS</td>
<td>Disaster Recovery Site</td>
<td>OSR</td>
<td>Own Source Revenues</td>
</tr>
<tr>
<td>EAC</td>
<td>East African Community</td>
<td>P2G</td>
<td>People to Government</td>
</tr>
<tr>
<td>e-LogRev</td>
<td>Electronic Local Government Revenue (System)</td>
<td>PAC</td>
<td>Public Accounts Committee</td>
</tr>
<tr>
<td>FMS</td>
<td>Financial Management Specialist</td>
<td>PAYE</td>
<td>Pay As You Earn</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
<td>PFM</td>
<td>Public Finance Management</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td>PIT</td>
<td>Personal Income Tax</td>
</tr>
<tr>
<td>GFS</td>
<td>Government Finance Statistics</td>
<td>PMT</td>
<td>Project Management Team</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>HLG</td>
<td>Higher Local Government</td>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
<td>PSC</td>
<td>Public Service Commission</td>
</tr>
<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
<td>REAP</td>
<td>Revenue Enhancement and Accountability Programme</td>
</tr>
<tr>
<td>IRAS</td>
<td>Integrated Revenue Administration System</td>
<td>RMS</td>
<td>Revenue Management System</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
<td>SC</td>
<td>Steering Committee</td>
</tr>
<tr>
<td>KCCA</td>
<td>Kampala Capital City Authority</td>
<td>SDLC</td>
<td>Software Development Life Cycle</td>
</tr>
<tr>
<td>LG</td>
<td>Local Government</td>
<td>SEATINI</td>
<td>Southern and Eastern Africa Trade Information and Negotiations Institute</td>
</tr>
<tr>
<td>LGA</td>
<td>Local Government Act</td>
<td>TIN</td>
<td>Tax Identification Number</td>
</tr>
<tr>
<td>LGFC</td>
<td>Local Government Finance Commission</td>
<td>TPD</td>
<td>Tax Policy Department</td>
</tr>
<tr>
<td>LHT</td>
<td>Local Hotel Tax</td>
<td>TREP</td>
<td>Taxpayer Register Expansion Program</td>
</tr>
<tr>
<td>LLG</td>
<td>Lower Local Government</td>
<td>UAAU</td>
<td>Urban Authority Association Uganda</td>
</tr>
<tr>
<td>LRDBMS</td>
<td>Local Revenue Database Management System</td>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>LST</td>
<td>Local Service Tax</td>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>MC</td>
<td>Municipal Council</td>
<td>URSB</td>
<td>Uganda Registration Service Bureau</td>
</tr>
<tr>
<td>MDA</td>
<td>Ministry Department and Agency</td>
<td>USMID</td>
<td>Uganda Support to Municipal Infrastructure Development</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
</tbody>
</table>
### Local Revenue Mobilisation Strategy: Main Recommendations

**Systemic Policy Reforms**

1. **Regulations of major local tax and non-tax revenue sources should be amended.** These revenue sources are the property tax, Local Service Tax, Local Hotel Tax and among the non-tax revenues the business charges, royalties, park user fees, advertising fee, solid waste charge, water tariff. In most cases the revenue base should be expanded or better formulated and the local discretion has to be enhanced.

2. **Local Service Tax is proposed to be combined with the national income tax.** This transformed personal income tax will be shared with the local governments. Three types of revenue sharing methods might be introduced (in parallel): origin based reallocation, sharing by formula and local surcharging.

3. **Introduction of new OSRs and increased local revenue raising autonomy.** Beyond the higher local discretion in property taxation and transforming the LST to a shared revenue, a more equitable business value tax, the local environmental fine and the decentralized local user charge setting are proposed.

4. **Improved local revenue policy design.** Local government OSR will be increased if the intergovernmental transfer system creates incentives for local revenue raising; through revenue regulations, which allow local autonomy within nationally set limits (on tax base, rates and exemptions); by improved governance framework.

**Improved Revenue Administration**

1. **Higher taxpayer engagement.** Revenue administration methods should support fiscal social contract at local level through dialogue and inclusion.

2. **Support to taxpayer registries and assessment.** Wide scale identification, digitized registries on tax base, assisted property valuation in coordination with URA.

3. **Increase in institutional and human capacities of local revenue administration.** Establishing independent, equipped local revenue departments. Strengthening internal audit, monitoring and control. Better information flow to LGFC and local governments. Staff training on revenue administration and related areas. Support to local management of informal economy through registries, combined information bases.

4. **Greater accountability through transparency and public information.** Establishing dispute resolution mechanisms. Regular reporting on collected revenues and spending. Information dissemination and communication; introduction of Citizen Charter on local taxes.
Revenue Management System (RMS) automation

1. **Better governance structure for RMS implementation.** Roles and functions of RMS sponsors, steering committee, business owners, project management teams and implementation workshops have to be separated and identified.

2. **RMS reform strategy should be designed, developed and implemented.** Decision on the preferred single local IT system should be made together with planning the implementation conditions. Related local business processes require re-engineering. Implementation of all core modules need proper testing and a guided rollout program. Documentation of processes and procedures is critical for system development. Business continuity measures are needed to prevent and to recover potential threats.

Change management and communication

Successful LRMS implementation requires elevated awareness, communication of transition, providing the capacities needed, addressing cultural challenges of tax reforms, creating delivery mechanisms and monitoring, feedback instruments.
1. OBJECTIVES AND TASK

The Government of Uganda has been concerned that, contrary to widely held views about its significant potential, Own Source Revenues (OSR) have continued to perform poorly. They make a very limited contribution to the local government (LG) budgets. Poor performance is linked largely to (i) gaps in policy and legal framework, (ii) weak capacity in administration and institutions for the management of OSR, and (iii) slow adoption of automation across OSR processes. The Government, accordingly, commissioned a study to clarify gaps in these areas in order to inform the drafting of a strategy for LG OSR improvements.

Supported by these diagnostic studies, the objective of this Local Revenue Mobilisation Strategy (LRMS) was to identify a set of reform actions to sustainably and significantly improve OSR collections. It is planned for the medium to long term period and to be implemented by the Government with support from its partners. These actions aim to increase local revenue contribution to LGs’ budgets and to expand the discretionary resources available to LGs. The reforms should enable the conversion of the revenue potential into actual collections.

The strategy is generated by consolidating the findings and recommendations from the analytical stage and converting them into actionable strategies. The main findings of these interim reports are referenced by this strategy and they provide further justification of the proposals. The Local Government Finance Commission (LGFC), in collaboration with the Ministry of Local Government (MoLG) initiated this series of studies to review the legal, policy and administrative framework for LG revenue management and to design a LG own source revenue mobilisation strategy. Despite these interventions by both the LGFC and the MoLG, the challenges still persist and some of the recent reforms have had limited impact.

Uganda, and indeed the whole world, have experienced a serious crisis, due to the Covid-19 pandemic. This has become a major threat to personal health and the economy at large. Under these circumstances own-source revenue raising reform does not aim to put additional financial burden on businesses and the citizens. It will target primarily the local policies and regulations for making local government revenue decisions more effective through increased local tax autonomy and higher local discretion in rate setting. Improvements are proposed also to make the local administration more efficient, partly by implementing revenue management system, the IT reforms. The options for adding new local own source revenues can be realized only if they are combined with reduced tax burden or with provisions to make local taxation more equitable.

2. INTRODUCTION

2.1. Uganda’s Local Government system

The Constitution of Uganda and the Local Governments Act (LGA) CAP 243 provide for a decentralized system of governance. The local government (LG) structure as at 30th June 2020 consisted of rural (district) and urban local governments. The Districts (134) are divided into lower units managed by sub-county councils (1,165), parishes (7,771), which have further units, as numerous villages, and zones under each district. The urban LGs (41 municipal councils) are further divided into divisions (129) and town councils (228), which also have further divisions and wards. Some municipalities have recently been transformed into cities. Kampala, as the capital city has a special status of City Authority directly managed by the central government.

The LGA under the Second Schedule, Sections 30, 31 assigns service delivery responsibilities to the various LG tiers. “To supplement the national budget funds for financing the delegated and other devolved, local priority services the Constitution assigned revenue raising powers to LGs and provided an enabling environment via the LGA”. LGs operating under a decentralized system of governance receive significant funding from national budget transfers to provide administrative, public services, provide for the development needs and amenities as demanded by the residents. To meet the costs of these local
services, LGs are expected to supplement national budget transfers with the Own Source Revenues (OSRs).

2.2. Local budget revenues

LG budget revenue is an aggregate of all financing inflows from (i) central government grant transfers (ii) locally raised revenues (OSRs) and (iii) direct grants, donations, and transfers from development partners. Whereas the higher local governments (HLGs) are responsible for overall policy direction, the lower local government (LLGs) collect own-source revenues, which are then shared with the higher local governments. Under the Local Governments Act (LGA) Lower Local Governments (LLGs) have the responsibility to assess and collect local revenues. In the district setting, the LLGs retain sixty-five percent (65%) of the revenues collected and the rest (35%) is remitted to the district Headquarters. However, the Town Councils (TCs) retain 100% of their revenue collections; For the Cities and Municipalities the LLGs (divisions) remit 50% of what they collect to their respective City or Municipality Headquarters.

LG staffing establishments (structure, employment) are determined centrally by the Public Service Commission (Ministry of Public Service (MoPS)). District councils appoint local administrative staff - except for the Accounting officers who are appointed centrally. To a significant extent therefore, the level of operating (labour) costs is regulated through the central personnel payment system. These costs are the largest administration expenses and they are funded by GoU through conditional grant transfers.

Current economic performance indicators indicate a high possibility for increasing revenue yields from LGs and potentially more from Urban LGs. The level of intensified business activities, local development initiatives, expansion of real estate development, industrialisation and the increased rural-urban migration create new opportunities for enhanced OSRs. Within the East African region however, local government OSR in Uganda is still low, it was 0.2 percent of GDP compared to Kenya 0.5%, Tanzania 0.4% and Rwanda 0.9 percent of GDP. This ratio shows the lower OSR reliance of LGs in Uganda, but also reflects the differences in devolved functions among these countries.

3. METHODOLOGY

For strategy design, the studies analysed three specific research components, as it was defined by the scope of this assignment. We undertook (i) a diagnostics assessment on the OSR with a focus on sources and factors that may be undermining the effective performance of OSRs, (ii) the legal, policy and administrative framework for OSR, and (iii) the Local Government digital Revenue Management Systems.

Development of the Local Government Own Source Revenue mobilization strategy followed a participatory and consultative approach. First, it was preceded by a diagnostic study that was participatory and consultative, surveying ten LGs, their lower units and MDAs and consulting Development Partners and CSOs that have played a part in issues of fiscal decentralising and development of local government own source revenues in Uganda over the years. This was coupled with an extensive review of the literature (see the specific references in the interim reports).

The diagnostic study also highlighted key areas that required systemic reforms, changes of the legal framework and assessed the status of revenue management (IT) system. These findings from the diagnostic study were reviewed by the Government Task Force set up to supervise the Consultant. The outcomes of the study, comprising three reports; (i) OSR Diagnostics, (ii) Review of Policy and Legal Framework for OSR, and (iii) Technical Review of Local Government Revenue Management Systems, formed the basis for the development of this LG OSR mobilisation strategy. This draft local revenue mobilisation strategy is being delivered to the Client LGFC and for other stakeholders for review and refinement.
4. ASSESSMENT OF OSR MANAGEMENT

Own Source Revenues (OSR) are important sources of financing for local governments. They contribute to local service provision, ensure local accountability and create financial incentives for the local administration. The Fifth Schedule, Part IV of LGA describes and classifies own source revenues under three categories: Tax, Non-Tax and Other Revenues. All these revenue types are levied by local governments consistent with Constitution Articles 191 and 192.

OSRs have the advantage of creating connectivity between taxpayers and service delivery. This linkage promotes the local accountability and strengthens the democratic process since, ideally, political leaders should be voted for based on the efficiency of service delivery. For that reason, LGs need to be supported to enhance local taxes that remain buoyant with economic base and costs of expenditure needs.

The table below, illustrates a simplified classification of own source revenues, using the Government Chart of Accounts used by local governments as issued by the Authority of the Secretary to the Treasury (Section 11(3)(a) of the Public Finance management Act, 2015.

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Aggregate LG</th>
<th>District</th>
<th>Municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on income and property</td>
<td>40.0%</td>
<td>34.6%</td>
<td>46.7%</td>
</tr>
<tr>
<td>Taxes on goods and services</td>
<td>18.3%</td>
<td>19.1%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Sale of Goods and services</td>
<td>16.0%</td>
<td>17.8%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Other non-tax fees, charges</td>
<td>25.7%</td>
<td>28.6%</td>
<td>22.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: LGFC database, consultant analysis

Collections from tax on income and property tax revenues form the majority of OSR, while taxes on sale of goods and services form the least contributions. This data also shows that there are significant differences depending on where these local revenues are raised i.e. in rural district councils and urban division/municipal councils. These and other characteristics of own source revenues were assessed in details by the interim Diagnostic Report, section 3.1 and 3.2.

However, OSR are only one source of local government revenues. Intergovernmental transfers (central government grant transfers), the other major source, constitute more significant resources and they dominate budgets of local governments. A properly designed transfer system should create financial incentives for own source revenue raising. They have should have reference to minimum service standards and local needs; encourage efficiency, accountability, and economy in service delivery. However, allocation methods of grants and subsidies are not a subject of this strategy and therefore not discussed further

---

1 “No tax shall be imposed except under the authority of an Act of Parliament”.
2 Data were available by district local governments and municipalities. These two categories are the rural and the urban local governments.
4.1. Key findings of own source revenue analysis

OSR account for about only 5% of total budget revenues across LGs. However, there are numerous local tax and non-tax revenues. Among them the major ones are the property taxes (23% of the total OSR), Local Service Tax (16%), business license fee (16%), market dues, rents (10%) and the group of non-tax charges (26%). LST, market dues, and some royalties are mostly collected by rural local governments, while property tax, LHT, parking charges are predominantly urban revenues. Studies have also established that due to the high rural population, the per capita revenues in the districts are 7.8 times lower than in the average of municipalities and cities.

On average collection efficiency for FYs 2013/14 to FY 2016/17 is below 90%, when actuals are compared to revised budget, but typically less than 70% when compared to the original appropriations. It makes OSRs rather unreliable sources for development financing and sustained service delivery.

The legal framework for local government own source revenues is provided in a diverse and complex set of laws and regulations: the Constitution, Local Governments Act, Public Finance Management Act, Local Government Finance Commission Act and other local government financial and accounting regulations. These are supplemented by source specific laws and statutory instruments issued from time to time. In addition, Local governments themselves also have the powers to enact bylaws but these have to be cleared by central government. This complex legislative system of diverse local own resources and revenue management regulations and practices is sometimes internally contradicting, calls for significant institutional capacities during implementation and enhances the risk of non-compliance.

The local revenue management system’s governance is uncoordinated and its implementation standards are currently initiated and sponsored by various actors: LGFC, MoLG, MoFPED, Development Partners and projects and the LGs themselves. This has resulted in an increasing number of systems with duplication of efforts and increasing challenges for sustainability. And whereas there have been good examples that demonstrate the positive impact of automation, the weak governance framework has been a major factor limiting faster rollout of and automation programme.

4.2. Gaps in OSR management

There are several own-source revenue mobilisation issues of policy design, the legal framework, local revenue administration and the information and communication technology. Gaps in OSR management are interrelated, but for the purposes of strategy design, here they are summarized under four separate categories.

4.2.1. Revenue policies

Local tax, non-tax and other own revenues are designed for financing devolved expenditure functions. OSRs connect taxpayers and service delivery, in a relationship that enhances accountability and local service efficiency. However, the low level of own source revenues limits this connection, weakens the local democratic processes and efficient service management. Due to the low OSRs, local governments cannot influence local economic development, either.

On average 95% of LG budgets are financed by central budget grants and other direct donor funding. These transfers do not create sufficient financial incentives for OSR raising at local level. They are predominantly allocated as conditional grants, which have limited flexibility, but which aim to fill the gap between planned expenditures and the estimated local revenues. The amount of central budget transfers depends on the available national budget funds, the sectoral priorities and political preferences of the Central Government. The transfers have no direct relationship with local OSR performance. The dominance of national budget transfers undermines intentions of fiscal decentralization and limits the ability to finance own local priority needs.
The composition of local government own source revenues also raises the need for effective equalization of local government revenues. Presently various fees, charges and levies (classified as revenues on sale of goods and services) dominate local government own revenues (51% of total OSR). Some of them are rather unique local revenue sources (e.g. market dues, parking fees), concentrated in a few local governments. Other major local revenues such as property tax, business charges, Local Service Tax are also differentiated not only along the rural-urban divide, but among districts or municipalities, as well. The present economic and financial crisis caused by the Covid-19 pandemic is likely to further deepen these existing differences in local revenue raising capacities of LGs. These differences may be redressed through use of revenue equalization grants, together with transfer schemes that ensure fair standardization in service delivery.

Realisation of local government revenue potential is constrained in part due to the limited local revenue raising autonomy. Rates are set by local governments in two major local revenues, that is, property tax and market dues. The Domestic Revenue Mobilisation Strategy has also advocated for adequate local discretionary resources to pay for locally-provided services. Local governments’ authority to determine the size of their own revenues is guided by policy direction from the Centre and therefore does not allow local governments to strengthen the linkages between services consumed; taxes and charges paid. It makes local leadership less accountable to their local constituencies. At the taxpayers’ side it limits tax compliance and discipline.

Revenue mobilization involves significant social-political activity that impacts on various stakeholders. Stakeholder engagement at the local government level is the systematic identification, analysis, planning and implementation of actions designed to influence the taxpaying communities or develop consensus on implementation of planned activity. Effective engagement ensures that the concerns of communities are fully accounted for, supports strategy promoting willingness to pay and to comply with the requirements in the tax law. LGs have not demonstrated significant efforts towards engaging and involving communities in decision making and policy design. For example, there has not been deliberate efforts to develop comprehensive fiscal social contracts and modalities for raising revenues.

Stakeholder engagement in national level revenue policy design can be also improved. Uganda’s tax laws have been adjusted with increasing frequency in the past, which has led to lower revenue stability and revenue predictability (e.g. elimination of graduated tax, fish, veterinary fees, centralization of collection of transport vehicles park revenues). LGFC is not sufficiently empowered to participate in implementing local revenue regulations. MoLG has not been successful in championing policy advocacy as many issues affecting OSR have remained un-resolved. Lacking proper analysis and consultation, local governments do not play an active role in the national tax policy arena.

All these policy making practices create unnecessary complications (e.g. in enforcement of LHT, LST, royalties), increase the compliance burden for taxpayers, introduce complexity of tax system by granting ad hoc tax exemptions and constrain overall growth in OSR collections. They also lead to direct political interference in OSR raising decisions, both from national to lower governments and at the very local level – a key factor cited by LGs as main cause for wide ranging exemptions. Political interference is often assumed to ensure equity in local revenue burden, but might have opposite impact.

Low fiscal discipline in revenue administration (e.g. by not sharing the collected revenues according to the law) is partly explained by systemic causes. Respondents indicated that often HLGs retain 100% of property rates revenue while in many instances the LLGs do not remit revenues to villages and other LLGs. The arguments advanced point to lack of relationship to both costs of revenue collected and actual services that these shared revenues finance.

Informal (unregistered, illicit) businesses such as roadside markets, welders, street vending and several domestic based businesses are generally unrecorded for national taxation purposes and LGs have difficulties in collection of revenues from such business especially when they change location frequently.

---

3 Grants to LGs having less per capita raising capacity - in order to bring capacity of resources of poor LGs to the national average per capita

10
The significance of the untaxed economy are major challenges of broadening the tax base. According to the Domestic Revenue Mobilisation Strategy 44% of the GDP is generated in the informal economy. In the agriculture and service dominated Ugandan economy, informal business traditions significantly limit the opportunities for local revenue raising. The political sensitivity of taxing small informal businesses and the expected low level of revenue collection make deeper policy reforms and wider administrative changes less acceptable. Previous administrative actions have attempted to reduce these losses through increased tax compliance and by closing leakages originating from the informal sector (e.g. through computerised databases, capturing potential tax payers).

4.2.2. **Legal framework of own source revenues**

Local government finance and financial management are regulated by several pieces of legislation, such as the Constitution, the Local Governments Act, Public Finance Management Act, Local Government Finance Commission Act, etc. These are supplemented by several source specific laws and guidelines. This complex and frequently amended set of laws has conflicting pieces of legislation. For example, Article 152 of the Constitution limits the level of discretionary powers provided under section 80 and the fifth schedule of the Local Governments Act, since no taxes may be imposed unless under an Act of Parliament. Therefore, introduction of new revenue regimes is limited. Although new revenue may be introduced through an Ordinance, this will also require approval by the Solicitor General at the Centre.

Numerous mandatory regulations on local government own source revenue raising and management do not provide deterrent sanctions for violation of these rules. The local government financial management system with a relatively weak audit is not designed to support the enforcement mechanisms. For example, the obligation to compile and maintain a comprehensive list of all internal revenue sources, non-remittance of shared revenues between higher and lower local governments, and penalties for revenue losses are all not attended by serious sanctions or accountability provisions.

It is important to note, that local governments are familiar and actively use only a part of the national legislation on own source revenues. The study revealed that HLGs focus on the laws regulating the major revenues and lack the legal knowledge on other sources that have the potential to enhance revenue, such as royalties and hotel tax. The study also revealed that local governments are prone to and often rely on the national government legislation and regulations and rarely develop their own detailed bylaws.

4.2.3. **Challenges of specific local OSRs**

The local government own resources are dominated by property tax (23% of total OSR), Local Service Tax (16%), business charges, Trade Licences and fees (16%) and diverse non-tax revenues (26%). Within this latter group the market dues, rent and the parking fees are the largest ones. However, there are other minor revenues, which could be significant own sources for some local governments: royalties, local hotel tax, advertising fee or the asset sale.

These own revenues are available for district (rural) local governments and for the urban councils. Total per capita OSRs are almost eight times higher in municipalities, which collect the majority of Local Hotel Tax, property charges and parking fees. While for the district local governments the main revenue sources are the Local Service Tax, royalties, market dues, rent, and agency fee. These differences should be taken into account for the revenue mobilization strategy action design.

The policy issues and administration gaps of the main local own revenue sources are, as follows:

- **property tax**: the rating act bases the valuation on rental values which maybe difficult to determine and moreover each valuation roll is valid for only five years. Valuation can only be done by approved professional valuers who are few in Uganda. The LGRA also exempts owner-occupied residential property in urban areas and fully exempts all residential property in rural areas. These
challenges and lack of property cadastre information have a negative impact on revenue growth from property.

- **Local Service Tax**: whereas the tax provides a schedule to include all gainfully employed persons, LGs have not fully embraced registration of all persons. A large category of payers is exempt.
- **Local Hotel Tax**: there has been a mix in interpretation on when to charge occupants. Some LGs believed the charge only applied to night occupants. This is an area that will require further guidance so that LGs collect all LHT paid by occupants irrespective of the time of
- **business charges, trade license fee**: there is no clear identifiable criteria for setting fees and charges which create inequity and resistance to pay. Perceived unfairness has often attracted political action to the detriment of LGs. Business license is not immediately related to for example, location or level of profits or category of goods sold. Low penalties may encourage low compliance
- **market dues**: the Markets Act is old, 1942 and vests the authority for establishment and management of markets to LGs and therefore has not fully accommodated PPPs or privately owned markets. Creating of an Ordinance as was the case for KCCA ordinance 15 of 2006 is a long and costly process.
- **royalties**: the determination is based on various laws and this is managed by sector ministries in charge of natural resources, minerals and energy. LGs have not has a direct influence on the rates or the amounts actually paid as royalties.
- **park user fee, street parking fee**: limited local powers (no collection on holidays), no revenue sharing for gazetted road parking;
- **advertising fee**: insufficient comprehensive regulation, low penalties

### 4.2.4. Revenue Administration

At the various stages of the local revenue cycle several gaps in the revenue administration are identified. The key ones of these are highlighted here below;

There has been generally low awareness creation on taxation by LGs and this has created low Public acceptance of paying local taxes and charges. Increased compliance depends on how well informed the taxpayers are about their financial obligations and the local services received for their payments made. The study established that there is more compliance in local business license fee, LST, and market dues, parking fees because of the direct relation to immediate service obtained or the ease of how the tax is collected as is the case for LST. The study also established that, low willingness to pay depends on the public acceptance and is also an illustration of the weak engagement of taxpayers in local decisions which in turn results into poor tax morale and compliance. Defaults are influenced by the perception of consequences of non-payment and the visibility of services delivered. Thus, the study found compliance rate to be the highest in the case of business license fees (as LGs can close down a business for non-payment) and LST, while the lowest in land related charges and royalties.

Local governments use largely manual tax registers and which are not regularly updated ones - as the study found. LGs with automated registers realized significant revenue collection benefits, documentary evidence indicates that KCCA and Kira Municipal council increase in revenue is related to better data integrity and computerisation of registers. They benefited from the LGFC developed tax payers’ electronic register (Local Government Revenue Database Management System), used by LLGs and the property rating lists at the HLGs. There are promising developments at KCCA and URA. The taxpayer registration expansion program of URA can be extended to more urban municipalities.

Low efficiency of tax assessment, billing and collection – beyond systemic reasons, such as economic capacity, low willingness to pay - is caused by the staff capacities in local revenue administration, which is typically a manual and cash-based process. According to the study, staff capacities are missing mostly in skills on enforcement, debt (arrears) recovery and the actual collection. Political interference also hinders efficiency in tax collection, especially in granting unjustifiable exemptions. Continued negative political statements have had significant negative impact to revenue collection as had been the case in for
suspension of boda boda permits, abolition of bicycle permit fees (but this source was abolished), fall in market dues, and centralization of collection of transport commuter buses and taxis park user charges.

The study found that dispute resolution administrative processes have been established in only a limited number of LGs to resolve debates arising from bye-laws. Where such processes exist, business licenses and property taxes attracted the highest number of disputes mostly in the areas of assessments and billing and less in collection. However, in general, there was a high degree of dissatisfaction with dispute resolution processes. The study found most disputes result from limitations arising from the gaps in the legal framework, tax payer education, integrity of staff and competence of the staff to assess.

Public information on tax administration as a critical condition of successful local tax administration is not sufficient. Effective local revenue administration requires cooperating taxpayers and voluntary compliance. In order to improve citizens’ and businesses’ willingness to pay their contribution to public services, they have to be properly informed. First, taxpayers should precisely know their obligations, the ways how taxes can be paid, its timing, their rights, and procedures of appealing and dispute resolution. Contact points to local tax administration is also needed to support direct communication and information exchange.

Secondly, discipline and tax compliance will be improved when taxpayers are informed about the use of their contribution to the local expenditures. So public information on the annual local budget and citizen charters on tax administration are critical conditions of successful local tax administration. Citizen charters on local own source revenues collection, their administration and spending would improve citizens’ and businesses’ willingness to pay and increase voluntary compliance.

The survey reported the highest administrative costs in the case of land related charges, property tax, market dues and business licenses. Across LLGs, LST and Royalties had the lowest administrative costs because they are directly collected and remitted by the centre and LGs have minimal investment in their collection.

4.2.5. Revenue Management Systems, ICT

The Local Revenue Databases Management System (LRDBMS) supplied by LGFC is most widely used across the LGs. It is a MS Access application for taxpayer registration, who key objective was to provide supporting data and information for the other revenue management systems electronic sharing of data and cannot be integrated with IFMIS. Its functionality is very limited.

The study evaluated three revenue management information systems on the basis of suitability to support all stages of local revenue management cycle namely stakeholder engagement and dialog, tax education and tax payer registration, assessment, billing, enforcement and collection, and reporting. The Integrated Revenue Administration System hosted by LGFC and developed by a local company scored highest (60.9%) followed by the electronic Local Government Revenue Collection and Management Information System (eLogRev) developed by a foreign company (45.3%) with MyTax championed by the GAPP or USMID) in third position.

Assessment of the local revenue management systems showed the lack of coordinated governance and implementation standards. It resulted into a high number of systems, which is a duplication of efforts and increases sustainability challenges. These multiple systems did not meet all functionality desired of automated RMS for local governments. Moreover, only a handful of LGs had access to these systems. Clear documentations for design and operations are missing. Lack of financing and capacity development plan creates sustainability risks and limits the future roll-out of the existing RMSs. The absence of these plans slowed down the implementation of interfaces for data exchange. All these problems raise the risk for information recovery and continuity of operations in the case of systems breakdown.

5. REFORM STRATEGIES
5.1. OSR mobilisation strategy objectives

The Local Revenue Mobilisation Strategy is developed within the framework of the national program on Domestic Revenue Mobilisation of 2019/20-2023/24 (DRMS). This national strategy has set the motivation for reform and its main objectives. This Revenue mobilization strategy is not a goal in itself, it serves the implementation of the National Development Plan, encourages economic development with increased reliance on domestic resources and supports the provision of public services needed for economic development. DRMS will achieve its targets by providing greater certainty in tax policy for investment, improving formalisation of the economy and making tax administration more efficient and effective from the taxpayer’s point of view.

The specific aim of the national program is to increase tax revenues annually by 0.5% of GDP. This ambitious target to raise the tax to GDP ratio from the present 14.4% by 4-6% in five years will be achieved by balancing three objectives. First, to raise revenues for financing the budget; secondly to encourage investments and thirdly to create a fair and transparent tax system.

The Government’s program affects the local government finances, as well. In line with the fiscal decentralization program, DRMS has set the basic principles and the direction of the reform. The targeted challenges are, as follows:

(i) multiplicity of rates making the system of taxation complicated, discouraging compliance and giving the impression of excess burden on taxpayers;
(ii) under-performing local OSRs that do not allow sufficient discretion in revenue raising;
(iii) weak revenue administration capacity and limited enforcement power;
(iv) local revenue collection not modernized in line with the national tax administration;
(v) insufficient and under-resourced monitoring and reporting capacities of Tax Policy Department.

These challenges and the proposed interventions of DRMS are supported by our findings, as well (see Section 3. above). Objectives of the Local Revenue Mobilisation Strategy reflect the issues and gaps of local government revenue policies and administration. To develop a specific and feasible local revenue mobilization program, these four strategic goals are selected:

1) Increase local government own-source revenues through policy improvements, by responding to the systemic problems of local taxation and charge setting;
2) Improve local revenue administration methods, institutional and human capacities;
3) Contribute to the further development of revenue management (IT) systems;
4) Support the implementation of proposed actions with a change management and communication plan.

5.2. Targeted challenges

Based on the findings of the Studies which informed this Strategy, several major challenges were identified in five areas of local revenue raising namely; (1) critical revenue policy related issues, (2) comprehensive legal problems which should be solved for successful policy design, (3) gaps in the regulations of the major specific revenue sources, (4) challenges in OSR administration and (5) revenue management system (IT) issues. These five sets of targeted challenges inform the formulation of proposed interventions.

5.2.1. Systemic problems for policy solutions
i. **Low level of own source revenues**

The study found that the primary policy challenge is the *limited role of own revenues* in financing local government functions. The low OSR contribution to total budget revenues (less than 5%) creates a high grant dependency for local governments on central government. This has at least two systemic consequences on local governments. First, local leadership will focus on national budget planning – negotiating higher transfers and neglecting the options for OSR raising. Citizens will not be able to specify local government responsibilities in public service provision, as service performance and investment opportunities depend almost exclusively on the national budgets. Secondly, local tax compliance consequently will be low and accountability of local leadership will remain minimal.

Not only the high level of intergovernmental transfers, but their *allocation method* also constrains OSR raising. The gap filling grant allocation intends to meet the cost of decentralised services and much less the spending on local priority services. Moreover, the level of transfers does not have a direct linkage to the level of local government own revenues. There are no institutional incentives for increasing OSRs. The conditional (earmarked) grant allocation neglects local revenue raising efforts, which further limits the financial motivation for OSR raising.

ii. **Limited local rate setting autonomy**

The low level of local own-source revenues is accompanied by *low rate and charge setting autonomy*. Lack of adequate local discretion in revenue generation is a major obstacle of local OSR raising. When the tax base, exemptions and the rates are set by standard national regulations, then local governments can increase their own revenues only by expanding the tax base and improving the revenue collection through administrative measures. Potential gains from these actions are much lower than from active local revenue decisions. However, absolute discretion might distort national economic policies and influence private sector investment possibilities. This is why the proposed rate setting regulations aim to keep the local government’s autonomy within limits, but allowing local discretion within these boundaries.

The widespread *informal economy* influences the local own source revenue raising options. Lack of effective control over the major national taxes (e.g., VAT, PAYE) limits the local governments’ powers, as well. Identification of businesses in the typically agriculture and service economies cannot be successfully managed at the local level. Local revenue administration and enforcement instruments might be built on regulatory powers on trading and other business operating local permit issuance, use of local facilities (e.g., market, infrastructure) and visible outputs of generated income (property taxation, taxes on vehicle and parks, etc.). These options will not effectively clean the grey or black economy. Several other actions are required to force the contribution of businesses to the costs of local services. They are the more effective local administrative powers, the taxpayers’ incentives of voluntary registration and contribute to local service provision. In cleaning the informal economy the national revenue administration might also help the local governments (and vice versa).

iii. **Malpractices in public financial management**

Beyond these specific OSR policy areas, there are systemic public financial management challenges, which should be addressed for local revenue mobilisation. At the very local level *low fiscal discipline and lack of effective audit* - especially at the LLGs - which further negatively impacts the overall efficiency of tax administration. The local revenue policy decision is made by the higher level government, but the actual collection and enforcement are at the lower level governments. In return they are allowed to keep majority (65%) of the collected taxes, charges.

There are other local revenues, such as LST, that are transferred to the HLG budgets and then reallocated according to the set norms. But these *formal revenue sharing rules* between higher and local level local governments have *not been fully implemented* in a majority of cases. It is the case of lacking fiscal discipline. Delays in transferring national budget grants or the collected OSR from the consolidated fund pressurises the affected local government level to break this rule and to stop transferring the collected
revenues. The fiscal audit does not effectively control this illegal action, that is, when internal revenue sharing is not implemented according to the regulations. These malpractices end up negatively affecting reporting on local revenue performance.

Local Government Finance Commission has a special role in policy development. According to the Local Governments Act it has an advisory and consultative function at the central level, but also supports local governments with advice on tax levies and dispute resolution. These dual and intermediary functions of LGFC might assist OSR policy development through wider stakeholder involvement in tax design. It may as well limit the direct central political interference in local own source revenue matters.

5.2.2. Legal questions

i. Conflicting legal provisions
The Constitution, the Local Governments Act and the Public Finance Management Act are currently the most significant pieces of legislation for the administration of local government own source revenue. Although the Constitution provides an enabling framework for the devolution of powers to local governments, its key taxation provisions do not support the local rate setting potential of local governments. For example, Article 152 of the Constitution unequivocally states that taxes in Uganda can only be imposed under the authority of an Act of Parliament.

Similarly, Article 191 of the Constitution empowers local governments to levy taxes and charge fees in accordance with laws enacted by Parliament by virtue of Article 152. The choice of drafting language in Articles 152 and 191 disempowers local governments and frustrates efforts to impose taxes and fees. The drafting language also creates ambiguity as it is not clearly elaborated as to whether the requirements under Article 152 should be applied to all revenue sources that is both taxes and fees as suggested in Article 191. The ambiguity in the above provisions has birthed further uncertainty in the form of a court decision that appears to suggest that the regulatory framework provided for own source revenue under Article 80 and the fifth schedule of the Local Government Act, is insufficient and cannot meet the strict test provided in Article 152 of the Constitution. Whereas Article 152 is well meaning, LGs will require guidance and support in formulation of ordinances that consistent with the Constitution.

Article 191(3) of the Constitution provides that funds of local government cannot be appropriated unless they are approved in a Council budget. The drafting language largely suggests that such funds have been received and allocated to the local government. This provision is implemented through section 82 of the Local Governments Act which provides for budgeting and appropriation of funds of council. It appears to suggest that the provisions in the Article 191(3) and section 82 of the Local Government Act have been curtailed by the Public Finance Management Act 2015.

The enactment of the Public Finance Management Act 2015 introduced changes, including the regulation of financial affairs of all votes. For example, Section 11 (3) (a) of the Public Finance Management Act 2015, vests the Secretary to the Treasury with powers to issue directives and instructions to Accounting Officers. Based on this mandate, the Secretary to the Treasury advised that Parliament had directed that all local revenue be remitted to the consolidated fund to guide subsequent releases and that expenditure for the first quarter was to be capped at 25%. This meant that own source revenues were to be subject to rules that regulate the consolidated fund and that the central government was taking keen interest in the collection and utilization of local government revenues and ignoring the central position of local government councils in the collection and appropriation of local government revenue.

Additionally, section 78 (1) of the Local Governments Act states that local government revenue should be regulated per the Fifth Schedule to the Act. Similarly, section 78 (2) of the Local Governments Act enjoins the Minister to enact financial and accounting regulations for local governments. That said, section 33 of the Public Finance Management Act 2015 states that the Secretary to the Treasury is charged with prescribing the framework within which votes conduct their banking and cash management activities. Local governments are votes and therefore have to comply with the Public Finance Management Act.
2015. That said, there is an apparent conflict between the financial and accounting regulations provided under the Local Government Act and the provisions in the Public Finance Management Act 2015.

ii. Restricted enforcement mechanisms
The mandate of the LGFC provided in sections 9 (a) and (c) of the Local Government Finance Commission Act 2003 suggests that the commission is an advisory body. This mandate restricts the potential of the LGFC to actively assist government to enforce laws on local government revenue collection and management.

With regard to matters of revenue sharing, Section 85(5) of the Local Governments Act penalizes district councils and permits sub county councils to retain a portion of the revenue collected until full recovery of unremitted revenue from the district council. This provision does not provide any sanctions and may be difficult to enforce especially in cases where the district council refuses to relinquish revenue collection to the sub county council. This in turn affects motivation for revenue collection at the sub county level. In addition, the Study also found that Regulation 39 of the Local Governments (Financial and Accounting) Regulations 2007 provides that Chief Executives of lower local governments and higher local governments should ensure that revenue collected is remitted to the respective local government. However, the regulations do not provide for any sanctions in the event of default.

Section 80(2) of the Local Governments Act is central to keeping track of OSR during its administration; developing an OSR database and enhancing revenue collection. That said, this provision is not attended by an enforcement clause to ensure that all local governments comply with this important requirement.

With regard to control of leakages; Section 78(3) of the Local Governments Act, imposes a surcharge on local government officials who misappropriate local government funds. However, this provision does not provide any sanctions and may not create incentive to desist from practices leading to loss of revenue.

The study also established that rural local government enforcement officials were disbanded and at present local governments do not have capacity to enforce their laws. Department of local administration police which existed at districts was disbanded in the early 1990s in favour of harmonized enforcement under the Uganda Police Force (UPF). However, LGs still use law enforcement officers especially in the Urban LGs. Enforcement of laws is done in collaboration with the UPF. The sections managing law enforcement may not be well versed with the legal framework and this could have a negative impact on compliance enforcement especially when matters come up in Court. This directly affects the collection of local government own source revenue.

iii. Amendment of legal provisions for OSR raising
All relevant laws on own source revenue should be amended to support the collection of potential own source revenue. The amendments proposed are provided in various sections of the Draft Interim Diagnostic Report-Analysis of the Legal Framework for LG OSR, particularly section 6, Annex: Summary on Legal Analysis. (Attached here as annex 1)

5.2.3. Challenges of specific local own source revenues
This section focuses on challenges imposed by legislation for specific OSR sources that inhibit growth and realisation of local own source revenue potential.

i. Property tax
The Local Governments (Rating) Act 2005 provides a narrow definition of the term property and appears to limit the application of Act to developed land. The current definition affects the number of properties available for taxation such as vacant land in cities and towns, especially vacant land that is utilised to generate income. The Local Governments (Rating) Act 2005 also exempts owner occupied residential buildings from taxation and reduces the number of properties available for taxation.
The study also revealed that the process of developing and updating the cadastral data and hence the valuation list is expensive and local governments do not often have the financial resources and technical personnel to develop and regularly update urban and rural cadastral data. As a result, property rates are often out-dated and therefore low and secondly, new properties are not identified and taxed in time. This is compounded by the fact that section 37(3) of the Local Governments (Rating) Act 2005 (as amended) and regulation 17 of the Local Governments (Rating) Regulations, 2006, do not prioritise expenses related to valuation and property rates, despite the inclusion of such expenses within the 25% allocation provided for administrative matters.

ii. **Local Service Tax**
Concerning local service tax, section 80 (1) (b) of the Local Governments Act is limited to the following categories of people: gainfully employed persons, self-employed artisans, business persons and commercial farmers producing on a large scale. The term gainfully employed persons limits the application of the Act to a narrow group of people, additionally, some taxpayers, for example commercial farmers, are not being subjected to local service tax due to absence of an enabling regulation. In addition, collection of local service tax is solely vested in the local government, which lack updated registers and have relied only on formal salaried employees.

Paragraph 5 of Part II of the Fifth Schedule of the Local Governments does not provide a tax rate for the category of self-employed professionals earning between UGX 900,000/= (Uganda Shillings Nine Hundred Thousand) but not exceeding UGX 1,000,000/= (Uganda Shillings One Million). Paragraphs 3 (3) (b)-(e) of Part II of the Fifth Schedule of the Local Governments Act exempt groups of self-employed persons who actually earn income.

In 2008, section 22 of the Income Tax Act was amended to include local service tax as an allowable deduction. According to the above-mentioned amendment to the Income Tax Act, local service tax should be deducted before PAYE (Income Tax). The date of Presidential Assent to the Income Tax (Amendment) (No 2) Act of 2008 was 18th October 2008 and the date of commencement was 1st July 2008. The commencement date appears to be retrospective.

The Local Governments (Amendment) (No 2) Act of 2008 introduced Local Service Tax and Local Government Hotel Tax. The Local Governments (Amendment) (No 2) Act of 2008 in paragraph 3(2) Part II of the Fifth Schedule to the Act, clearly defines take home salary as gross salary after deducting PAYE (Income Tax). It provides for payment of local service tax after payment of income tax. The date of presidential assent is 24th June 2008 and the commencement date as 7th July 2008. There is a conflict between the Income Tax Act and the Local Governments Act.

The conflict in the above laws results in double taxation, uncertainty on the part of local government officials and also affects the amount of disposable income available to taxpayers after payment of LST and PAYE. The tax computation provisions for Local Service Tax in the Income Tax Act result in less disposable income compared to tax computation provisions for Local Service Tax in Local Government Act. This position is illustrated in the Practical Guide for Implementation of Local Service Tax and Local Government Hotel Tax. The above conflicts should be addressed through harmonization of the two laws.

iii. **Local Hotel Tax**
The choice of drafting language in section 80 (1)(a) of the Local Governments Act and Paragraph 1 of Part II of the Fifth Schedule of the Local Governments Act does not clearly set out the basis for taxation. The provisions indicate that the tax is paid by hotel and lodge room occupants. This is set out in Paragraph 7 of Part III of Fifth Schedule of the Local Governments Act Cap 243 (as amended). The tax also appears to result in an unfair tax process as some hotels are exempt from Value Added Tax (VAT)

---

while others are not. The hotels that are not exempt from VAT pay both VAT and Local Government Hotel Tax.

Section 80 (1) (b) of the Local Governments Act vests sensitive tax administration duties, such as collecting and remitting taxes within the control of regulated entities. While the same can be said for national taxes such as withholding tax, Uganda Revenue Authority (URA) has a detailed database of taxpayers. Additionally, such taxes are only remitted monthly. This affects local revenues especially since it was noted in the study that hotels keep parallel books of accounts to avoid payment of local government hotel tax.

Paragraph 7 of Part III of Fifth Schedule of the Local Governments Act does not expressly provide for accommodation rooms let through online platforms. In addition, Paragraph 8 of Part III of Fifth Schedule of the Local Governments Act does not visit any sanctions on the management of hotels that fails to remit taxes on time.

The tax assessment system is not clearly elaborated in the Local Governments Act. Although the Practical Guide for Implementation of Local Service Tax and Local Government Hotel Tax attempts explain the basis for assessment and provides guidance for the compilation of data from hotels; the guidelines are subjective and are not captured in the Local Governments Act.

iv. Non-tax revenues

**Royalties**

LGs have raised concerns about payment of royalties citing issues of transparency and enforcement. The following gaps are identified in current legislation in this regard

Sections 78 and 79 of the Public Finance Management Act 2015 do not expressly visit sanctions on persons who refuse/fail to comply with the requirement to pay royalties provided in section 75 of the Public Finance Management Act 2015.

Section 75 (7) of the Electricity Act makes special reference to the district local governments and in doing so limits the application of the provision to other local governments.

Contrary to the broad definition of electricity in section 3(n) of the Electricity Act; section 75 (7) of the Electricity Act limits payment of royalties to hydroelectricity generation.

The rate of royalties, as per the Amended Guidelines for Fixing of the Quantum of Royalties Payable by Hydro Generation Licensees in Uganda, 2012, appears to be low. The guidelines capped the amount of royalties payable at UGX 292/MWh (Two Hundred and Ninety-Two Uganda Shillings per Megawatt hour). The guidelines also provide that royalties should be paid in Uganda Shillings and should be paid annually. Royalties are paid on the basis of net energy generated and sold or exported. Comparatively for example, in China, although hydroelectric royalties vary across provinces, they are all in the range of $0.30MWh to $2.25MWh.\(^5\) In Brazil, the hydropower royalty paid is approximately $1.58/MWh.\(^6\) The royalties in China and Brazil are based on different assumptions and policies and are only highlighted as examples of rates in other jurisdictions.

The Amended Guidelines for Fixing of the Quantum of Royalties Payable by Hydro Generation Licensees in Uganda, 2012, exempt all licensees producing less than 0.5 MW from payment of royalties. This narrows the potential revenue base for payment of such royalties.

\(^5\) Pierre-Olivier Pineau et al Hydropower Royalties: A Comparative Analysis of Major Producing Countries (China, Brazil, Canada and the United States) Water 2017, 9, 287

\(^6\) Pierre-Olivier Pineau et al Hydropower Royalties: A Comparative Analysis of Major Producing Countries (China, Brazil, Canada and the United States) Water 2017, 9, 287
The fines provided in section 89 of the Electricity Act do not provide adequate incentives to enforce compliance with provisions in the Act. The Electricity Act provides that a person convicted of an offence under the Act for which no penalty is expressly provided, is on conviction, liable to a fine not exceeding UGX 200,000 (Uganda Shillings Two Hundred Thousand) and in case of a continuing offence, to a fine not exceeding UGX 20,000 (Uganda Shillings Twenty Thousand) for every day or part of a day during which the offence continues after conviction. The offences provided do not expressly include non-payment of royalties.

Section 98 (2) of the Mining Act 2003 does not provide for royalty sharing between higher and lower local governments as is the case for other forms of OSR. The provision does not provide for information sharing between central government and local governments.

Sections 98(3) and 99 of the Mining Act 2003 should be amended to cap the quantities of minerals that may be exempted from royalty payments. Undefined limits on quantities may render the provision open to abuse and lead to loss of revenue.

Additionally, parliament should pass the Draft Mining and Mineral Bill 2019 as it will provide additional revenue to local governments through licensing of extraction of building substances for example, sand and clay for brick making. The Bill should apply to mining of all building substances and should not be restricted to artisanal mining.

The LGFC has noted that the National Forestry and Tree Planting Act, 2003 makes no provision for royalties for revenue generated from central forest reserves. In addition, regulations are yet to be enacted to support implementation and enforcement of the National Forestry and Tree Planting Act, 2003. Although the Forests Act Cap 146 was repealed by the National Forestry and Tree Planting Act, 2003, the Forest Rules, Statutory Instrument No. 146-2 continue in force. The National Forestry and Tree Planting Act, 2003 should be amended to provide for royalties and the fees provided in the rules should be revised to reflect current commercial rates.

Section 65 of the Uganda Wildlife Act 2019 does not define the local government to which payments should be made and only provides revenue sharing in respect of park entry fees. The Uganda Wildlife Act 2019 should be amended to provide for royalties of all licenses/permits issued under the Act. The Uganda Wildlife Act 2019 should also be amended to expressly provide a revenue sharing framework within local governments.

**Trade license fees**

Sections 8 (2) and 31 of the Trade (Licensing) Act provide broad exemptions to the Act and restrict the amount of revenue collected from trade licenses. Also, Section 8(2) (f) of the Trade (Licensing) Act expressly exempts persons licensed under other laws from paying for and obtaining trade licenses under the Act. The exemption provided in section 8(2) (f) has motivated professional services providers to litigate against licensing. A recent example is the case of *Uganda Law Society V Kampala City Authority and Attorney General Misc. Cause No 243 of 2017*. In this case, the High Court held that law firms/advocates are not required to pay for and obtain trade licenses under the Trade (Licensing) Act Cap 101 (as amended). On the basis of such litigation, some local governments have suspended trade licenses for professional service providers. The distinction between operational licenses/professional licenses and trade licenses should be highlighted in the law. The objective of trade licensing is to ensure that regulated persons/entities comply with the trade regulations in the Act.

The grading system provided in the Trade (Licensing) (Grading of Business Areas) Statutory Instrument No. 1 of 2017 only relies on the location of the business and does not consider the size of the business. This system may not reflect the accurate license fees that ought to be charged. For example, a successful business located in a business area with a low-grade classification may be subjected to a lower trade license fee than a less successful business in a business area with a high-grade classification. Licensing should be equitable and should be based on objective criteria, with limited application of subjective criteria.
Section 15 (1) of the Trade (Licensing) Act Cap 101 penalizes persons who obstruct or knowingly make a false declaration or give any false information to the licensing authority in the performance of his or her duties. Such persons commit an offence and are liable on conviction to a fine not exceeding approximately UGX 960,000. The fines provided in section 15 of the Trade (Licensing) Act should encourage compliance and discourage false declarations.

**Park user fee, street parking fees**

Section 13 (h) of Part IV (Other Revenues) of the Fifth Schedule to the Local Governments Act, provides for parking fees as a revenue source for local governments.

Regulation 2 of the Traffic and Road Safety (Parking of Motor Vehicles) Regulations, 2001, only applies to Kampala district and does not apply to local governments across the country. Regulation 8 of the Traffic and Road Safety (Parking of Motor Vehicles) Regulations, 2001 limits amount of revenue collected as parking fees cannot be collected on Sundays and public holidays.

Section 54 (6) of the Road Act No 16 of 2019, provides a new regulatory framework for gazetted road parking but does not provide for revenue sharing with other levels of local governments as is the case for other sources of OSR. The fines provided in the Local Governments (Amendment of Fifth Schedule) Statutory Instrument No. 73 of 2020 are too low to encourage compliance with requirements to pay park user fees.

**Market dues**

Pursuant to section 1(1) of the Markets Act Cap 94, powers to establish and maintain markets are vested in the administration of a district; a municipal council or a town council. This provision is obsolete and not in line with recent government directives to include market vendors in ownership management structures. Paragraphs 10 and 15 of Part 4 of the Second Schedule of the Local Governments Act which provide for devolution of powers to establish markets from higher local governments to lower local governments appear to be in contrast to the provisions in section 1(1) of the Markets Act.

Section 2 (1) of the Market Act enjoins the Minister to enact regulations but does not define the term Minister and therefore creates uncertainty in the regulatory oversight function. Since the passage of the Markets Act in 1942 the Minister has not enacted rules regulating market dues. Section 3 of the Markets Act Cap 94 provides that any person who contravenes any provision of the Act or any rule or byelaw made under it commits an offence and is liable on conviction to a fine not exceeding UGX 500 or to imprisonment for a period not exceeding three months. The penalties provided in section 3 of the Markets Act cannot support compliance as the fines are too low. The amounts are based on an old colonial era law which is obsolete. It should also be noted that the Markets Act does not define the term “market” this creates challenges in regulating markets and collecting market dues. The Markets Act for example does not set out whether all ungazetted retail spaces are markets for purposes of the Act and whether they can be subjected to regulation, especially collection of market dues.

**Advertising fees**

Section 80 (1) of the Local Governments Act does not provide a comprehensive regulatory framework for advertisement fees. The Act should be amended to comply with Article 152 and 191 of the Constitution. The Local Governments Act and the Physical Planning Act 2010 (as amended) do not provide specific penalties for non-payment of advertising fees. Although local governments regulate advertisement and levy advertisement fees, they face challenges in collecting fees as the offices of the large advertising clients are located in Kampala.
Building and occupation permit fees

Section 34 (1) of the Building Control Act 2013, prohibits building without a valid building permit. It states that a person should not carry out a building operation unless he or she has a valid building permit issued by a Building Committee. Section 34 (2) of the Building Control Act 2013 provides that a person who contravenes subsection (1) commits an offence and is liable on conviction to a fine not exceeding UGX 1 Million (Uganda Shillings One Million) only or imprisonment not exceeding two years, or both.

Section 44(3) of the Building Control Act 2013 penalizes persons who occupy buildings before obtaining an occupation permit or who occupy buildings in breach of the terms of the building permit issued. Such persons commit an offence and are liable, on conviction to a fine not exceeding UGX 400,000 (Uganda Shillings Four Hundred Eighty Thousand).

Regulation 42(1) of the Building Control Regulations 2020 provides additional penalties, including deviation in a material degree from building plans, altering buildings in violation of the approved plans and changes in the class of occupancy. Such persons commit an offence and are liable on conviction to a fine not exceeding UGX 960,000 or imprisonment not exceeding two years or both, and in the case of a continuing contravention, an additional fine not exceeding UGX 100,000 for each day during which the contravention continues.

The fines provided in sections 34 (1) and 44 (3) of the Building Control Act 2013 are too low to encourage compliance with building and occupation permits for commercial buildings. The fines provided in regulation 42(1) of the Building Control Regulations 2020 is too low to deter persons constructing commercial buildings from deviating from the relevant permits issued.

Waste collection charge, water tariff

Regulation 13 of the National Environment (Waste Management) Regulations, S.I. No 49/2020 does not indicate the fees payable for local government consent. The regulations do not provide for revenue sharing between NEMA and the local governments. Water supply services have since reverted to the ministry of water and environment, the Local Governments Act has not been amended to reflect current practices.

Other permit, license fees

The Local Governments Act appears to provide two types of “other revenue.” That is, other revenue defined in Paragraph 13 Fifth Schedule and any other revenue prescribed by local governments and approved by the minister. In terms of Article 152 of the Constitution, the other revenue prescribed by local governments and approved by the minister, should be attended by a comprehensive statutory regulatory framework. Currently some charges imposed under other revenue, for example loading charges are not expressly regulated under the Local Governments Act Cap 243 (as amended).

The Draft Interim Diagnostic Report-Analysis of the Legal Framework for LG OSR, particularly section 6, Annex: Summary on Legal Analysis, provides a summary of all other challenges associated with permits and licenses.

5.2.4. OSR administration challenges

i. Not matching modernized collection procedure

Major stages of OSR administration cycle are the stakeholder engagement and dialog, tax education and registration and assessment, billing, enforcement and collection, and reporting. Typical challenges are the low taxpayer engagement, neglected fiscal social contract, and predominant use of manual registers which increases the risk of irregularities, manual billing and receipting. More critically there is low digital
penetration complicating the entire controls and accountability process. These challenges are discussed in detail in the Study Report.

ii. Limited local administrative capacity and enforcement powers
The revenue management positions are not well filled, on average they are about 50% of the establishment. There are inadequate skills for revenue projection, budgeting and people management skills. In most cases there is low awareness about respective laws and to a great extent enforcement is coercive which negatively impacts taxpayer relationships. Revenue enforcement has often been by physical closures of premises and manhandling defaulters. Even then taxpayer compliance with tax laws and regulations by paying tax timely and accurately is low and it raises costs of collection. Legal processes at the court for defaulting cases take a long-time before they are fully resolved. Enforcement processes are often undermined by training in interpretation of the law, poor debt collection skills and policing. Some LGs are unable to afford services of a lawyer. A majority of LGs do not have a dispute resolution administrative process to resolve revenue related disputes or ensuring fair taxation.

iii. Dispute resolution between taxpayers and tax authorities (LG)
Faster dispute resolution and agreement of assessments and payment schedules saves costs and improves taxpayer relations. Many LGs do not have administrative procedures for resolving revenue related disputes or ensuring fair taxation. This handicap maybe due to inadequate skills training exposure to modern revenue administration best practice.

iv. Central monitoring and reporting of local collections
In the absence of a comprehensive integrated revenue system, monitoring of OSR centrally is still a challenge. Information is not captured and shared in real time, creating a gap between record capturing and reporting. Lapse in information sharing increases the risk of leakages and poor accountability. Central government institutions, such as LGFC and MoLG, are unable to get current and reliable statistics on revenue assessment, collections, and debt. LGFC only gets data on actual collection from the external audit reports which are at least 6 months after closure of the financial year. This challenge maybe resolved when a fully operational internal revenue administration system is in place.

v. Lack of public information
Taxpayer willingness to pay is enhanced when there is access to information and accountability of funds. Taxpayers have little knowledge on why they should pay, what their obligations are, where the money comes from, how they should pay and where the money goes. Contact points to local tax administration are lacking and moreover there is scanty direct communication and information exchange.

5.2.5. Issues of automation of Revenue Management and Administration
An assessment of the implemented revenue management systems was undertaken to establish any operational, functional and system deficiencies and gaps, leading to recommendations to improve system functionality and governance for local revenue management. The systems reviewed included The Integrated Revenue Administration System (IRAS), The Electronic Local Government Revenue System (e-LogRev), and My Tax system. The following cross cutting observations were made as highlighted in section 3.6 of Interim Report 3:

i. Governance and coordination
Clearly, there are challenges for coordination of system implementation: planning, design, procuring, financing, oversight, maintenance and support. A number of players are currently involved with initiating and sponsoring systems; LGFC, MoLG, MoFPED, Projects (DINU, USMID), Development Partners and LGs themselves. There is no coordinated governance, guiding framework with standards to be followed in
implementation. This has resulted in an increasing number of systems with likely consequences for duplication of efforts and increasing challenges for sustainability.

ii. Lack of comprehensive plan for introducing and supporting systems
In addition to absence of coordination arrangements for RMS implementation, there is no clear plan for coordinated financing and capacity development that will ensure sustainability. For instance, the LGFC which administers the LRDBMS and is expected to extend its role over IRAS is weakly staffed for this role. It is unable to accommodate the demands that come with system support and maintenance. This challenge also extends to the Ministry of Local Government, which is expected to rollout the e-LogRev.

iii. Incomplete coverage of LGs
The two systems that were most promising; the IRAS and eLogRev, were in early stages of implementation. At the time of the study, IRAS had been implemented in two (2) cities of Gulu and Fort Portal, in four (4) Municipal Councils (Entebbe, Mubende, Nansana and Makindye Sabagabo), and in four (4) rural local government (Yumbe, Adjumani, Amuria and Zombo) while eLogRev had been implemented in 2 divisions in Jinja city (Walukuba and Central) and one division in Kira MC (Namugongo). This left a gap of at least 115 districts and their LLGs, 9 cities and their divisions, and 37 municipalities and their divisions. Thus huge gap means a large number of LGs are still yet to access the benefits of automation.

iv. Un-coordinated systems implementation
There is no coordinated strategy for implementing and rolling out systems. The regulatory role given to MoLG (Section 109 of Local government Act) does not appear to be exercised. This has seen multiple systems with potential conflicting or overlapping implementation plans. For example, it is planned to rollout e-LogRev to Mbarara MC, Masaka MC and Mbale MC in FY2020/2021 while IRAS has similar plans over the same period. This situation is also repeated in Kole Districts where it is planned to implement IRAS in FY2020/2021 while there are also plans through DINU to implement the P2G system in the same district.

v. Link with other systems
The absence of a coordinated and institutionalized plan has also slowed progress towards implementation of interfaces/integrations with RMS for data exchange. For example, whereas the e-LogRev was meant to interface with IFMS and NIRA form design in 2016/17, this has never been achieved. Office of the Accountant General has been hesitant to engage Oracle to implement the IFMS interface with e-LogRev and NIRA considers the interface as a security risk. There is also need to provide link with and leverage the capacity and opportunities offered by URA eTax and related systems.

vi. Documentation
Lack of adequate documentation of systems for design and operations is a major issue. This is increasing the risk of system implementation and support, it challenges business continuity, especially as dependency on the system increases. As a good professional practice, clear documentations for design and operations needs to accompany each system. Implementation of systems should follow standardised best practices for Software Development Life Cycle (SDLC) with proven acceptable approaches to design and documentation.

vii. Disaster recovery arrangements
For many reasons cited above, the system discussed are largely implemented without any basic business continuity plans. This raises risk for recovery and continuity of operations in the event of planned or unplanned systems breakdown.

5.3. Interventions
5.3.1. Policy changes

Policy changes are needed to respond on one group of targeted challenges. Without systemic reforms local own source revenues will grow only marginally. Local taxes, charges and fees should be re-examined and supplemented by new local government own revenues. These proposed interventions are categorized into four groups:

(i) Amendments of revenue regulations of major local tax and non-tax revenues;
(ii) Transformation of LST to a shared revenue
(iii) Introducing new local taxes, and
(iv) Improving OSR policy design

i. Amendment of revenue regulations

These recommendations target only the major local OSRs. Similar techniques might be used for increasing other taxes and non-tax revenues, which are not discussed here. The general approach is to focus on the more significant own source revenues and gradually decrease the multiplicity of local OSR by eliminating the minor fees, charges and taxes.

a) Property tax: Tax base should be increased by incorporating vacant land (undeveloped land but with economic activities) and gradually expanding property tax to the presently exempted owner occupied homes. Expanded property taxation to include owner occupied property should be accompanied with income based equalization techniques. Improved property cadastre information by combining national and local asset related databases of both commercial and private properties. Better local revenue database management to support property assessment with proxies and mass valuation.

b) Local Hotel Tax: Regulations should specify that LHT is levied by guest-stay (not by rooms and it is levied either by day or night). Classification of hotels should be sufficiently regulated. Non-licensed accommodation (reserved through online platforms) should be subject to LHT. Incentivising local government LHT collection through matching national grants, which supplement taxes collected by local governments (e.g., multiplying actual LHT collection by 1.5 as a revenue grant).

c) Business charges, trade license fee: Business licence fee is not only a regulatory instrument, but it is a significant local OSR, as well. It is a contribution to local infrastructure services. Business charge base should be made more equitable by levying it on the value (e.g. net turnover or asset size) of the business. The present broad exemptions and low penalties for non-compliance should be reviewed as part of a comprehensive re-assessment of all business related taxes, charges.

d) Market dues: Definition of market should be widened by including all forms of market operation, such as contracted market vendors, trading areas and other PPPs schemes. The market due setting power should be delegated to the lower local government, where the market is actually located and fees are collected. The HLG will keep its coordination and controlling powers. Ministerial regulations on market dues should set the (lower and upper) limits by LG categories, allowing local discretion in setting the market dues within this range. Compliance should be increase by adjusting the present low fines to the valorised market dues.

e) Royalties: Basis of royalties should be expanded to all forms of resource exploitation; electricity generation, forestry, mining, conservation parks. Exemption limits in all cases should be should be specified. The major obstacle of collecting proper royalties is the unreliable information on local shares. Information sharing with local governments on major royalties by applying the methods of Extractive Industries Transparency Initiative (joined by Uganda) will increase local royalty revenues. Standard revenue sharing methods should be developed for allocating royalties within those local governments, which are affected by extractive resources such as oil, gas, minerals and energy generation activities.
f) **Park user fee, street parking fee**: Parking regulations should be harmonized with the legislation on traffic and road safety. It will oblige all local governments to follow the national regulations. Within this framework local governments should have the authority to set the parking charges or the parking hours (when the standard charges apply). The amended legislation should not restrict local parking significantly (e.g., setting charge limits broadly; open parking hours, days for local regulation). On-street parking charges should be shared local revenues for gazetted road parking.

g) **Advertising fee**: A comprehensive legislation should be designed in cooperation with the involvement of all stakeholders (e.g. advertising business association, local governments). The future regulation should authorise local governments to set the advertising fee and the penalties for non-compliance.

h) **Waste charge**: National solid waste management charges should be set with local government consent. Permit fees collected by NEMA should be shared with local governments. A sharing formula should be provided in the law.

i) **Water tariff**: Despite the fact, that water management service have been centralized, local governments still have responsibilities for local water base protection. These local functions might be funded by shared water tariffs, which are allocated to local budgets.

ei. **Transformation of Local Service Tax to a shared revenue**

Local Service Tax is a parallel local personal income tax. It is highly regulated without any local influence on the tax base (e.g. with nationally defined exemptions of some self-employed groups, non-implementation of provisions on commercial farmers). Contradictions of these national regulations should be eliminated (whether LST is paid on the net or the gross income). LST is locally administered, so local governments should have access to the required information on taxpayers and their income levels.

A more promising solution would be to **transform the LST to a shared income tax**. Combining LST with the national income taxation (PAYE) would assign a more significant revenue source to local governments and with centralization the tax administration costs will be reduced.

The single income tax can be shared between national and local budgets through three different schemes. The sharing ratio should be regulated by law without frequent changes, so shared personal income tax will be a predictable revenue source for the local governments.

One option of tax sharing is to reallocate a pre-defined portion of the (increased) national income tax to its **place of origin**. Taxpayers’ residence information is available at the employers, as the present LST is also transferred to the home local government where the employee resides.

An alternative to this origin-based income tax sharing is the **formula based reallocation**. In this case the local portion of total income tax is transferred to local governments by measurable indicators, such as population number, area or a weighted combination of various statistical indicators.

The third option is to authorize local governments to levy a **municipal surtax** on national income tax. This form of local income tax sharing is primarily used in the Scandinavian countries for financing local governments. There are two generally used surcharging methods: the local component is levied on the national income tax base or it is charged as a flat rate on the income tax imposed by the national government (tax on tax). These locally levied income taxes should be regulated by setting a range (minimum and maximum) of local tax rates or by defining the maximum allowable total amount of collected local income tax.

The three income sharing methods can be combined. A set portion will be returned to the local government, where the taxpayer lives and uses the local infrastructure. Local revenue autonomy will be provided by introducing the surcharging mechanism. The largest part of the personal income tax is allocated by measurable criteria (statistical indicators).
With the tax sharing mechanism the local tax administration burden will be lowered. The unified income tax will be under the URA control, which is better equipped to identify taxpayer, to assess the tax base and manage enforcement.

iii. **Introduction of new local taxes**
Local governments presently have access to very limited own source revenues. Mobilisation of existing own resources might produce only marginal increase of OSR, which is realized only over a longer period. An active national government revenue policy should promote new local revenues and allow greater local discretion in local taxation.

These systemic reforms should take into account the fiscal bases of local governments and the related economic and social policy considerations. Introduction of new taxes is a long reform process, when these three objectives should be harmonized and their impacts are balanced. Higher local revenues should not create disincentives for businesses and the tax burden has to be equalized by parallel social policy measures.

Future local own source revenues should be *adjusted to the country fiscal architecture*. Local revenue design has to take into account several factors. Uganda has an *agriculture* dominated economy (this is 26% of GDP employing 68% of the working population) with a high share of *informal businesses*. Under these conditions local taxation should target primarily the tangible assets, because personal income is less easily identifiable and they will make income-based revenue collection more costly. So the visible assets, like residential units, land ownership, motor vehicles, value of businesses, etc. are the preferred tax objects. Other non-tax revenues, like the present various license and administrative fees are also acceptable in this environment, if they are significant and designed in a progressive and fair way.

The predominantly *rural society* and less developed *urban structure* - with the exception of some large cities - also influences local government revenue options. Simplified land related charges, owner and developer contribution to infrastructure development and the communal taxes are convenient forms of local revenues. In the urban centres the market fees, excise taxes and taxing of special activities such as tourism are more acceptable and easier to administer.

The younger generation dominated population structure will allow active user charge based financing of local services. For them, the direct payment for the services consumed is more acceptable. The *institutional environment* matters a lot, as well. The core municipal services, such as utilities, communal and other infrastructure services are typically financed by user charges, connection fees and targeted land value capture mechanisms. *Tax traditions* also influence the fiscal architecture, which makes the property-based funding schemes and the contractual mechanisms more acceptable.

All these conditions will open up new possibilities for local OSR raising. The enhanced local *(i)* *property taxation* and the changes in *(ii)* *Local Service Tax* as the largest potential own and shared revenues were already proposed. Beyond the above there are four other options to be developed by the OSR mobilisation strategy.

The *(iii)* business license fee is usually a charge paid for the administrative services. These centrally regulated, but locally managed business charges, fees raise 15%-16% of all local own-source revenues. These significant local government revenues actually finance more local services, so they serve other than regulatory purposes. The LRMS should design a business value based local revenue, which is paid for local infrastructure (roads, utilities, etc.) and other social and environmental services. Local governments should be authorised to set these business charges within a pre-defined range. It will further help the adjustment of own-source revenues to the local needs.

Environmental pollution is often geographically concentrated, such as air pollution of a local factory, discharge of polluted sewage, damping hazardous waste or just littering and using noisy technologies in a

---

7 National Labour Force Survey 2016/17, UBOS
residential area. Introducing (iv) environmental fine levied by local governments is an effective financial instrument to regulate pollution and to contribute to the local cleaning costs. The sources of pollution are identifiable, the local governments are in a position to manage some of its harmful consequences. It will receive wide support from citizens, so a pollution charge could increase the accountability of local leadership. Sharing the present National Environment Management Authority (NEMA) levied administrative fines and penalties with the local governments would produce new local revenues. Alternatively, local government might be authorized to levy a local environmental charge for pollution.

With the development of local utilities, environmental and communal services the (v) user charges will have greater importance among own-source revenues. Public services, such as solid waste collection and deposition, public markets, sports facilities, street parking are often financed mostly by user charges and tariffs. Tariffs are levied by that government entity, which is responsible for the service. The charge setting powers should be connected with the service responsibilities, because it increases local government accountability. The service users, that is those citizens and businesses who pay the user charges can monitor and claim quality services, comparable to the tariffs paid. User charges are also effective indicators for the service providers on the demand for local services. As service costs and service management methods are different by local governments, the prices to be paid should be regulated locally. Centrally defined user charges cannot follow diverse local conditions and not able to reflect local preferences in service quality.

iv. Improved own source revenue policy design

Local government own-source revenues form only one, but critical group of resources. Local governments are predominantly funded by transfers from central government and/or donations / grants from international organizations and donors. These intergovernmental transfers are important mainly because of the incentives they create for local own-source revenue raising (and spending efficiency). They are allocated by objective criteria and local governments are free to spend the funds received. The locally collected revenues are not supposed to decrease the funds received.

Beyond these general grants there are other transfer schemes, which fund spill over effects of local revenues (e.g., in tourism, environmental protection). These local revenues (hotel tax, environmental charges) can be supplemented by national grants. Performance-based grants also improve local revenue collection (e.g., by setting targets on establishing registers, modern billing method, alternative revenue collection techniques as conditions for additional funding).

Improved intergovernmental transfer design will increase OSRs. Gradual supplements of the present specific, grant allocation methods with these alternative techniques will create better incentives for own-source revenue raising.

All these public finance rules assume an effective local governance system. The public decisions should be made in a locally controlled political environment (“no taxation is without representation”). Local governments should operate under social accountability schemes, when decision making is transparent, conflict of interest and corruption risk are managed.

5.3.2. Improved revenue administration

Wide range of problems in local revenue administration were specified by the diagnostic report and in the previous Section, part "4. Challenges of revenue administration". Financial reports of FY 2018/19\(^8\) showed, that local governments collected UGX 85 billion against targeted amount of UGX 122 billion, which is a 76\% performance. Overall improvement is required to adopt best practices in domestic revenue management, especially in local policy formulation, tax education and sensitization, registration of taxpayers, billing, enforcement, collection, and accountability.

---

\(^8\) Auditor General Report to Parliament, FY 2018/19, Pg 47.
i. Higher taxpayer engagement
Participatory fiscal social contract should be developed at local governments. Diverse mechanisms of inclusion are needed through select committees such as municipal development forums, dialogue with property owners association, business associations and lower political leadership.

ii. Tax registries
Enhanced revenue potential by identifying all taxable persons and objects. To be able to collect as much revenue as possible all taxable items should be identified and registered. Preferably digitized registers built from village level upwards for all taxpayer categories.

The URA and LGs to improve coordination in data capture and storage especially for property and income taxes. Develop a unified tax identification number for taxpayers at both LG and URA.

iii. Support to local property valuation
To manage the high costs of property valuation, the GoU should provide funds for mass property valuation as provided under section 12 of the LGRA and computerization of the valuation lists which are currently out of date. Further improvement in collection efficiency should be ensured by comprehensive computerized property register, assessments, billing and tax collection. Feasibility study is needed on the introduction of property valuation in rural areas.

iv. Increase in revenue administration capacities
The Ministry of Public Service should urgently approve proposals for independent revenue departments at least within new cities, municipalities and districts that are able to sustain staff costs for the departments. Local capacity in terms of equipment such as computers and transport and budget allocation need improvement. Strengthen the internal audit function for better monitoring and control. Install and operationalise a comprehensive integrated revenue system to enforce easy monitoring of OSRs.

Currently, the LGFC only gets final information by extraction of data from the external audit reports. A fully operational Revenue Management system should be expedited so that there is real-time sharing of information. LGs should be given an opportunity to participate at least through the LGFC in all tax policy initiatives that have a direct impact on LG revenue. LGs are closer to the taxpayers’ locations and will have better opportunity to capture tax data. URA should support LGs in data collection and sharing to support tax policy development.

Training staff in revenue projection, budgeting, and other aspects in revenue management, like interpretation of the legal framework and building taxpayer relationships.

The undocumented informal economy is prevalent in the Uganda business sector. LGs are best placed to register all business. The URA should support LGs with data collection tools to update all business and therefore expand the national and local tax base. LGs should evolve deliberate strategy to support Local Economic Development (LED) which may result into increased investment in business assets and property.

v. Establishing dispute resolution mechanisms
Domestic Revenue Management committees and tribunals should be operationalised. LG should create a section within revenue administration for rapid resolution of complaints on assessments and valuations. Immediate handling of disputes illustrates care for the taxpayers and builds taxpayer confidence in the tax system. Establishment of special courts to expedite revenue related cases should be supported.

vi. Greater accountability through transparency and public information
Taxpayer willingness to pay is enhanced when there is access to information. Greater financial accountability supports the linkage between taxes and local services received. It is exercised through regular reports which show where the money comes from and where the money goes. To facilitate voluntary compliance increase information access on; why they should pay, their obligations, where and
how they should pay. Develop citizen charters on local taxation. The LGFC should support LGs by developing a standard communication strategy.

5.3.3. Developing revenue management automation (ICT)

Experiences in implementing ICT based systems in local governments so far have demonstrated the transformative power of technology in strengthening revenue management operations and in improving OSR mobilization. The LGFC supplied LRDBMS has improved the recording and usage of tax payer registers and there is evidence (discussed later in the report) that in the LG where 2 of the system (IRAS and eLog-Rev) have been implemented, collection have grown significantly (refer to Diagnostic Study on Revenue Management Systems). Strategies and interventions proposed under this section form the recommendations intended to address the issues identified in Section 4.2 (part 5) above, and to provide a plan of action to the roll out of the automation programmes for local government revenue management systems.

Objective

Over the past few years, through different actions by multiple players, there have been reasonable efforts on the automation of the local government revenue administration processes. The LGFC has introduced LRDBMS in 123 LGs to assist them in computerizing and management of their tax payer registers. At least three others systems (IRAS, e-LoGRev, MyTax) have also been introduced and two of these (IRAS and eLogRev) have been implemented and are in use in at least 2 cities, 5 urban (municipal) councils and 4 rural local governments earlier indicated. Overall, this effort has remained very limited. The study established that while the LRDBMS is mostly widely deployed, its functionality is limited to primarily tax-payer registration. Moreover, it has various technical limitations based on the technology platforms on which it is based; it can only be implemented in standalone installation without the possibility for networking or interacting with other systems such as the IFMS.

The other 2 systems (IRAS and eLogRev) offer better functionality and less technical challenges. However, even in the case of these two, beyond the limited coverage of LGs, major gaps were found when rated against a set of requirements for such systems in the Uganda context. These efforts, however, offer a lot of opportunities for moving forward with the automation of local revenue management processes; they have provided knowledge about technical solutions to support automation, enlisted lessons to inform implementation of such a programme, demonstrated opportunities at automation will provide and mobilise stakeholders (central government, local governments, donor community) around a common desire and willingness to go ahead with this programme.

Building on these earlier efforts, the objective of this programme therefore is to develop and rollout out to all LGs, a suitable, well-functioning and sustainable system for revenue management system for all the new 15 cities and local governments (Urban and rural, higher and lower governments).

Specific objectives include (i) providing comprehensive coverage; for all LGs (HLGs and LLGs involved with revenue processes), for all sources of revenues and for all financial transactions related to OSR, (ii) limiting and possibly eliminating manual transactions related to OSR, (iii) supporting the full cycle of OSR including to the extent possible, including policy aspects related to central government, (iii) providing a means to enforce compliance with internal and security controls; (iv) providing interfaces with other key PFM systems to improve exchange of data; and (v) providing a reliable mechanisms for reporting on OSR including in responding to local council's needs and central government financial reporting requirements. Finally, in order to ease implementation and management of the revenues system, it will be important
that (vi) the solution is based on a *centralised web-based architecture* as is the case for IRAS and eLogRev⁹.

In order to address the objectives here above, the following strategies and interventions are identified

i. **Clarification and Empowerment of Governance structures for Revenue Management Systems**

As discussed earlier, the absence of a well-functioning and empowered governance structure had created space for proliferation of different revenue management system across local governments with likely consequences for duplication of efforts and increasing challenges for sustainability. The strategy should, as a first step, address this gap and ensure that such a structure is operational and sufficiently empowered.

**Composition of Governance mechanism**

Governance structures will need to incorporate central government institutions with direct interest of responsibility for systems in LGs as well as for the development of OSR. These key players include

- **The Ministry of Local Government (MoLG);** MoLG has policy responsibilities for OSR - for developing and ensuring implementation of accounting policy and financial and accounting regulations and for approving accounting information systems. MoLG is therefore well suited to lead the governance structure for the development and implementation of revenue management systems.

- **The Local Government Finance Commission (LGFC).** LGFC has an advisory role on OSR policy including on sources, rates, distribution and reporting. On the basis of these responsibilities and given the experience garnered in rolling out the LRDBMS and in implementing the IRAS, LGFC’s inclusion is critical and best placed to house the secretariat to these governance structures.

- **The Accountant General’s Office (AGO), Ministry of Finance, Planning and Economic Development (MoFPED);** the LG Finance and Accounting Regulations require the AGO extend advice to MoLG on accounting policy as well as accounting information systems for LGs. At the same time, AGO has overall responsibility for the Government’s IFMS supporting the accounting and financial reporting processes across central government and in most LGs and with which interfaces with the LG revenue management system will have to be built. AGO is therefore well suited to be a key member of this governance structures.

- **National Information Technology Authority (NITA-U);** provides the technical guidance on systems implementation within the National IT policy ensuring technical standards are observed and providing guidance of areas of overlap and duplication. It has responsibility for clearing all IT systems before they get implemented.

- **Other members** that may be considered to this governance structures LGs through their associations – Urban Authorities Association (UAAU) and Local Governments Association (ULGA); to ensure direct voices of LGs are represented.

---

⁹ Interim Report III – Section “Summary Findings of the Assessment and Conclusions” Pages 19 & 20
This high level structure should form the clearing house to technical IT solutions for LG revenue management and oversee the implementation of interventions laid out further in this section.

Assigning Power to the Governance Mechanisms

Ensuring the Structure above is able to function and is effective will be critical to the implementation of automation programme for revenue management systems. The roles and authorities of MoLG are provided for in the law. Other players have also well enshrined authorities which will facilitate coordination and inclusion. Empowering and ensuring effectiveness of the structure can therefore take various forms including (i) issuance of a formal statement under the signature of MoLG to all LGs, DPs and other stakeholders on the formation of this structure and its responsibilities and barring LGs for acquisition of related solutions without clearance through this structure, (ii) Communicating clearly to all stakeholders (LGs, DPs, etc.), steps (and time table) the Governance team will take to acquire a solution for revenue management system for LGs, (iii) setting up a secretariat for the Government structure and which will direct responsibility for implementation of the RMS, and (iv) working with MoFPED to establish a budget line (vote) for mobilising and disbursement of funds for the secretariat and systems implementation.

Specific actions

To actualise the Governance structure above,

a) The PS/MoLG will convene a meeting with SEC/LGFC, Accountant General and PS/ST – MoFPED to discuss the proposals outlined above and to set up the Governance structure of the Secretariat and to provided funding mechanisms for the system

b) Detailed ToRs guiding operations of the Committee and specifying operational modalities and relations with other parties (such as DPs) in the implementation of the system should be prepared

c) The Secretariat will be appointed and set up

d) Communication on the roles and functions of the committee will be made to all LGs and other stakeholders including the DPs, and

e) The Committee will move to acquire the solution for revenue management and to bar development and deployment of other solutions for usage in LGs for this purpose

ii. Acquisition of software solution for Revenue management

Once the governance structure is clarified, this forms the next immediate step – to identify and acquire and suitable solutions, develop it full test and commission it. The Study assessed two applications for revenue management under use namely IRAS and eLogRev. While both did not meet all the functionality, IRAS was found to have an edge and represented significant opportunity for further development and ultimately deployment for the purpose across LGs. This selection would need to be confirmed. Developing a completely new solution would take considerably more time and would not benefit from the experiences obtained through these past experiences. However IRAS, while housed under LGFC, is supported by external parties – the World Bank, and developed by a private sector firm - YOYA Consultancy Limited. If this solutions is confirmed, rights to it must be formally acquired by the Government (MoLG / LGFC) and a contract entered into with the private firm for further development and deployment.

The following actions are therefore proposed under this intervention.
a) Project Management Team: The Governance Committee on RMS will establish a project management team to steer the project. This will prepare a project charter which will details key roles and resources required in the implementation of the project.

b) Finalising user specifications; the Study was able to list a set of high level functional requirements. These will need to be fully developed and validated with users before further development of the system. The users list should cover central governments bodies (MoLG, LFGC, MoFPED), all levels of LGs with direct roles for revenue management (HLG, LLG (divisions / towns / sub-counties) and all forms of LGs: Rural LGs, Cities and other Urban LGs (including Municipalities and Towns).

c) To ensure maximum benefit, the user requirements will need to be based on business processes that are reengineered to suit the objectives of a modern solutions. Re-engineering will be required to improve revenue management business processes during future implementation, to reduce redundancies, to strengthen the implementation of internal controls in order to reduce leakages, to increase tax payer access in order to improve compliance, to ensure all revenue sources are implemented within the realm of the governing legal framework and NITA-U policies and guidelines, and ensure all stakeholder needs are provided for.

d) Selection of solutions; the Study recommended adoption of IRAS for revenue systems automation. This selection of the solution will be formally made and the application formally acquired by the Government, represented by MoLG, from the sponsors for this purpose. If an alternative solution is selected, acquisition will be achieved through formal contracting of the supplier.

e) Further development of solutions; once the application is acquired, it will be fully developed or customised to meet the approved user specifications in (i) above and tested. Testing should cover the full cycle and all stakeholder needs (see (i) above)

f) Pilot implementation and final approval; the fully developed and tested solution will be deployed in production in a set of pilot LGs. Pilot LGs will constitute those where the solution, in the case of IRAS, was already implemented; IRAS has been implemented in two (2) recently inaugurated cities of Gulu and Fort Portal, in four (4) Municipal Councils (Entebbe, Mubende, Nansana and Makindye Sabagabo), and in four (4) rural local government (Yumbe, Adjumani, Amuria and Zombo). This provides a well representing pilot. The implementation, at this point should also cover central government agencies - MoLG, LGFC and MoFPED. After running the solution in pilot for and agreed period, a formal seal of approval will be granted by the Governance Committee. It is critical for the RMS to be fully operational and stable on all the modules before it is rolled out.

---

Box 1. Revenue Management System modules

A. Core Modules
   i. Tax Payer Registration
   ii. Revenue Source Administration/ Management
   iii. Revenue Billing and Assessment
   iv. Tax Collection and Receipting
   v. Accounting and Reporting

B. Non-Core Modules
   i. Revenue Budgeting and Forecasting
   ii. Tax Payer Sensitization

C. Interfaces/ Integrations
   i. IFMS
   ii. URA
   iii. Planning and Budgeting System
   iv. Commercial Banks
      v. POS

Source: Interim Report 3, Appendix 2
iii. Implementation – expanding coverage to all Local Government

Implementation will entail the roll out of the approved solution above across all LGs. The roll-out will cover at least 115 districts and their LLGs, 9 cities and their divisions, and 37 municipalities and their divisions. A proper strategy will be needed to carry out this complex task. Specific actions under this interventions will include;

   a) Project Plan: The Project Management Team will prepare a detailed strategy and plan for rolling out the revenue management systems. This will include a data migration strategy and identification of staff teams for training and change management activities

   b) Migration of existing data; numerous amounts of data, such as on tax payer registration, already exist from digital form through systems that already exists (LRDBMS, IRAS, eLogRev). These may be used but may require cleaning reorganisation to meet formats required under the approved solution. Preparing of this data for migrations will need to be organised. Once the data is ready, it should be placed on the system

   c) Training and change management plan will need to be conducted against a scheduled plan,

   d) The system will be rolled out in accordance with the project plan under (i) above, and

   e) An independent quality assurance mechanism will be needed to confirm completeness of implementation processes and milestones during the rollout phase.

iv. Implementing Interfaces with other PFM systems

Automation of local revenue management processes will not be complete until interfaces with other PFM systems with which they should share data are implemented. The key PFM systems comprise 2. The first of these is the IFMS which handled the Government’s accounting and financial reporting requirements. Revenues collected must be accounted and reported as part of the financial statements within the IFMS. Similarly, the PBS is the Government’s budgeting – in year reporting systems. Accordingly and in the same way, the two systems (PBS and MRS) need to exchange data seamlessly on approved revenue budgets and actual collections. Other integrations will also need to be implemented with electronic payments system and with Banks facilitating tax-payer interactions and with URA for purpose of exchanging data. A proper guiding framework has got to be prescribed to determine how systems interact and exchange data. The framework will clarify the standards that will support the interoperability between systems. Since the URA systems are premised on TIN and may be the NIN, this may assist in the cleansing and harmonization of tax payer data.

Therefore, specific actions under this interventions will include;

   a) Development of an integration framework covering all systems including the IFMS, PBS, URA systems, Banks and payment systems – to guide implementation of integration needs for the RMS

   b) Design and implementation of electronic interfaces between the RMS, the PBs and the IFMIS

   c) Design and implementation of integration interfaces with banks and payments systems.

v. Business Continuity

Once the implementation is completed, the system will store massive data on OSR financial transactions across all local governments. All Users across all LGs and at central government level are bound to
become dependent on it for their operations and for reporting. Possible system failure must be mitigated to ensure the system is available to its users and the data it will store will be secure at all times. The process of creating systems of prevention and recovery to deal with potential threats to the revenue management system was found to be lacking. The measures of prevention, with the overall objective of enabling ongoing revenue management operations before and during execution of disaster recovery are a critical aspect of the LGRMS.

Investments in disaster recovery infrastructure, which are key to business continuity, are expensive. However, the Government, through NITA-U, has established and is maintaining a Government disaster recovery centre - a tier 3 hot site, which is available to all Government units and for all Government systems. The DRS is based on private cloud computing technology and provides backup, recovery and replication for the primary Data Centre site which is also available for purpose of hosting the revenue management system. Therefore, it will be of great importance that the Project Management Team works with NITAU to obtain access to this DRS for purpose implementing business continuity for the RMS

This intervention will therefore require the following actions;

a) Drawing up a business continuity strategy and plan for the revenue management system, and
b) Engaging NITA-U to obtain access and use the Government DRS as part of the business continuity plan.

vi. Support, maintenance and sustainability
A support and maintenance strategy and programme will need to be designed to ensure the system is sustained at all times. The strategy will consider resources; internal and/ or external which shall be used to provide maintenance and support over the time. The strategy may also consider establishing a service level agreement (SLA) with the solutions supplier. Financing is key for the support programme; a budget line will need to be established form which expenditures relating to support and maintenance will be funded.

The following specific actions are proposed:

a) The Project Team will prepare a support and maintenance strategy and plan. This will, at minimum, include identification of internal support teams, defining relations with the system supplier during support activities, and costing support activities
b) Training & capacity building; the Project Management team will have to prepare a training and capacity building programme to ensure continuous strengthening of skills around the revenue management systems
c) Documentation; the Project Team will ensure all documentation related to the system is stored properly for use during support and maintenance of the systems. Documentation of processes and procedures is a critical aspect of system development cycle. These should entail document change control procedures and versions where necessary. A checklist of this has to be maintained. The Project Implementation Team has will need to establish a centralized repository of all implementation documents.

vii. Managing implementation dependencies
These are factors that will affect the successful implementation of the integrated revenue management system. The following are the dependencies to be managed across the entire re-engineering implementation:

- Provision of stable IT infrastructure within the LGs - higher and lower to enable timely implementation and roll out of the RMS
- Interfacing and/or integration with IFMS, Planning and Budgeting, URA, Commercial Banks, POS. Achievement of these interfacing and/or integration requirements will require a close working relationship between the Implementing and the relevant institutions
- Availability of relevant stakeholders during training sessions on the re-engineered modules and functionalities identified
- Provision of revenue codes for specific revenue sources.

**Box 2. Critical implementation success factors**

Implementation should pay attention to the following critical success factors for systems of this nature

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Full inter-module integration</td>
</tr>
<tr>
<td></td>
<td>All modules systems modules must fully integrated; successful usage of the RMS in tax payer registration, assessment through to payment processing and generation of required reports needs full integration of all modules in the RMS</td>
</tr>
<tr>
<td>b)</td>
<td>End User Training</td>
</tr>
<tr>
<td></td>
<td>Successful implementation requires a protracted process of training end users to use the implemented system. A training instance which can be refreshed regularly must be provided.</td>
</tr>
<tr>
<td>c)</td>
<td>Capacity Building and Knowledge Transfer</td>
</tr>
<tr>
<td></td>
<td>Capacity building within the MoLG, LGFC and other relevant departments is required to ensure that there are sufficient staff with the right skills to support RMS usage at the LGs.</td>
</tr>
<tr>
<td>d)</td>
<td>Approval Hierarchies</td>
</tr>
<tr>
<td></td>
<td>Internal controls must reflect approval hierarchies and/or access rights in the system to ensure layering of rights and responsibilities in usage of the system.</td>
</tr>
<tr>
<td>e)</td>
<td>System Document Management</td>
</tr>
<tr>
<td></td>
<td>To ensure sustainability, proper documentation of all processes should be carried out and regularly updated with appropriate document control measures.</td>
</tr>
<tr>
<td>f)</td>
<td>Successful validation of data</td>
</tr>
<tr>
<td></td>
<td>For the RMS to have correct and meaningful data, it is important that appropriate measures are put in place to check the correctness of data input.</td>
</tr>
<tr>
<td>g)</td>
<td>Provision of Several Instances</td>
</tr>
<tr>
<td></td>
<td>Best practices require that the production instance remains the live working environment for users, training instance be used for user training and practicing, test instance be used for testing before anything is deployed into production and development instance be used by the developer/vendor for development purposed. The Project Implementation Team must ensure that these instances are in place.</td>
</tr>
</tbody>
</table>

**5.4. Change management, communication**

For a long time, there have been concerns about growth in OSR collections. OSR gives unique benefits to LGs; it provides LGs with a discretionary resources freeing them to make decisions in their best interest, and, if well administered, it strengthen the bond with the local communities. Yet this has not grown and, overtime, it has been crowded out by grant transfers from Central Government.

Recommendations over the years to tackle issues of policy, legislation, institutional capacity have received very limited support by the Central Government and remained not implemented. Study after study, these
issues continue. In some cases, these issues have exhibited in new form because in many ways, decisions taken at the Central Government level, such as expanding the number of administrative units, delays in passage of legislation, abolishing revenue sources, are taken without considering their impact on OSR.

Implementing the OSR strategy will have to be owned at the highest level and led by central government for it to succeed. A communication and change management strategy will be necessary to nurture this ownership and to build the willingness to implement and sustain the reforms. Accordingly, as part of the reform plan, a Communication and Change Management strategy will need to be developed targeting politicians and decisions makers at the Central government as well as local governments and the general public and expounding the benefits from increasing LG OSR.

This section of the strategy provides a framework that shall be adopted for the effective engagement of stakeholders to ensure that they understand, accept and support the strategy and positively contribute towards its realization and the anticipated benefits of the related implementation initiatives.

The key objectives of change management and communication are, as follows:

i. To raise awareness of the entire Strategy through its various implementation stages and pass over the key messages to various target stakeholders

ii. To communicate and manage the change processes in transition at the central and at local government levels

iii. To create and increase awareness plus capacity to adopt to the changes

iv. To address cultural challenges at all levels including among politicians, key policy and decision makers at central and local governments

v. To provide internal and external stakeholders with a documented mechanism of delivering information to selected targeted audiences

vi. To effectively disseminate strategy implementation issues and updates to key stakeholders

vii. To avail a mechanism for seeking and initiate action on feedback received to encourage the involvement of and assist in creating and maintaining a positive perception among target audiences

Critical condition of managing changes for improved local own-source revenue is to map the key stakeholders and their likely attitudes and approaches to changes. Table 2 below summarizes these factors for future action planning.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Stakeholders</th>
<th>Likely Attitude</th>
<th>Change Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Class</td>
<td>Political leaders; Parliament, LG Councils</td>
<td>Political Decisions affecting OSR policy and administration</td>
<td>Sensitization, consultations, Participations</td>
</tr>
<tr>
<td>LGFC</td>
<td>All</td>
<td>Key drivers</td>
<td>Participatory, Involvement</td>
</tr>
<tr>
<td>MoLG</td>
<td>Permanent Secretary, Directorate of Inspection</td>
<td>General acceptance</td>
<td>Participatory, Involvement</td>
</tr>
<tr>
<td>Resource Enhancement and Accountability Programme – REAP</td>
<td>Programme Coordinator, Senior Planning, Monitoring and Evaluation Officer(I)</td>
<td>Key drivers</td>
<td>Consultative</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Accountant General</td>
<td>Concern about OSR</td>
<td>Consultative,</td>
</tr>
</tbody>
</table>
Proposed actions of designing and implementing the change management strategy are grouped into three sets of activities:

i. **Development of a change management strategy**
A Change management strategy and plan will be developed to guide change management activities. The strategy will be based on a change readiness assessment which will examine change required and its impact on institutions or groups of institutions (policy institutions, national and local government institutions) and politicians. The strategy will also take into account the culture and organisational attributes of institutions and governing laws, policies and procedures that may constraint the adaptation of the upgraded system. The strategy will identify change champions at all levels; at national and at local government level and will include a plan of actions and associated costs.

ii. **Developing a change monitoring framework**
Specific outcomes and targets, and their measures, will be defined. This monitoring framework shall be used to track and monitor the impact of change management activities, and shall form the basis for reporting on progress of implementation. The indicators in the framework shall be used to track and assess levels of acceptability and support for the change within the politicians, national Government institutions and at LG level. Tracking these indicators will also be used to inform change to the strategy to improve impact.

iii. **Strategy implementation**
Implementation of the Strategy will follow the plan provided under (i) above. Every attempt will be made to use existing processes and structures, such as existing government meetings of Cabinets or tools such as budget call and other service circulars, to the deliver the change. These strategies will ensure the implementation will be affordable and change management will be sustained within the Government.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Stakeholders</th>
<th>Likely Attitude</th>
<th>Change Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Officers, Planning and Budgeting Directorate</td>
<td>fiscal impact and interfacing/integrating the IFMS with LG RMS(s)</td>
<td>Receptive</td>
<td>Involvement, Engagement, Training</td>
</tr>
<tr>
<td>URA</td>
<td>Revenue Department</td>
<td>Receptive / Collaborations</td>
<td>Involvement, Engagement, Training</td>
</tr>
</tbody>
</table>
6. IMPLEMENTATION AND ACTION PLAN

Implementation of the Local Revenue Mobilisation Strategy should be based on a manageable action plan. The proposed interventions responded on the analysis of the various OSR raising problems in four areas:

1. revenue policies and regulations on specific taxes, charges, fees
2. legislative framework and legal questions
3. revenue administration challenges
4. issues of Revenue Management System (IT).

Several interventions were developed along these four areas for future implementation. They are accompanied by the fifth area of intervention, the proposed change management and communication program. It is integral part of the Local Revenue Mobilisation Strategy, because it helps the strategy implementation through monitoring and by identifying various stakeholders and specifying their priorities and potential support.

The Strategy is a complex reform program which is transformed to a detailed action plan. The proposed actions below follow the four intervention areas. The critical activities needed for the LRMS implementation are accompanied the following information:

- importance of the proposed action (high/medium/low) for the successful implementation of the Strategy;
- how the proposed steps should follow each other (by years);
- indicating the lead government entity, which is primarily responsible the implementation;
- What is estimated time needed for completing the specific actions?

The action plan is presented in a table format. Most of the technical details of successful implementation are presented by the Strategy and its three background reports, prepared by the project.
### 6.1. Own source revenue policy actions

<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority High/ Medium/ Low</th>
<th>Sequencing, phasing (t + years)</th>
<th>Lead government entity</th>
<th>Time needed for implementation</th>
</tr>
</thead>
</table>

#### 1.0. Amendment of revenue regulations

**1.1. Property tax**
- a. Comprehensive review of property taxation (fiscal, economic, social impact)  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months
- b. Improve cadastre information  
  - Priority: High  
  - Sequencing: t+1  
  - Lead government entity: MoLG  
  - Time needed for implementation: 18 months
- c. Combining national-local property databases  
  - Priority: High  
  - Sequencing: t+1  
  - Lead government entity: LGFC  
  - Time needed for implementation: 2 years
- d. Transfer of KCCA tax reform lessons/solutions to LGs  
  - Priority: Medium  
  - Sequencing: t+1  
  - Lead government entity: MoLG  
  - Time needed for implementation: 3 months

**1.2. Local Hotel Tax**
- a. Legislative amendments to expand tax base  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months
- b. Develop matching national grant scheme to support LHT collection  
  - Priority: Medium  
  - Sequencing: t+1  
  - Lead government entity: MoFPED  
  - Time needed for implementation: 1 year

**1.3. Business charges, fee**
- a. Improve fairness through business value tax  
  - Priority: High  
  - Sequencing: t+1  
  - Lead government entity: MoFPED  
  - Time needed for implementation: 1 year
- b. Re-assessment of exemptions, penalties  
  - Priority: Medium  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months

**1.4. Market dues**
- a. Amendment of regulations: widen base, delegate due setting authority within limits, increase fines  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months

**1.5. Royalties**
- a. Legal amendments: expand base on electricity, specify exemptions  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months
- b. Information sharing on royalties, based on EITI  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: MoFPED  
  - Time needed for implementation: 1 year
- c. Develop regulation on local sharing rules  
  - Priority: Medium  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 6 months

**1.6. Park user fee, street parking fee**
- a. Adjustment to national regulations  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 1 year
- b. Authorization of local fee setting and parking regulations  
  - Priority: High  
  - Sequencing: t  
  - Lead government entity: LGFC  
  - Time needed for implementation: 1 year

**1.7. Advertising fee**
- a. Comprehensive legislation, with increased local fee  
  - Priority: High  
  - Sequencing: t+1  
  - Lead government entity: MoFPED  
  - Time needed for implementation: 1 year
<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority High/ Medium/ Low</th>
<th>Sequencing, phasing (t + years)</th>
<th>Lead government entity</th>
<th>Time needed for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>setting authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8. Solid waste charge</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Design local government revenue share</td>
<td>Medium</td>
<td>t+1</td>
<td>LGFC</td>
<td>1 year</td>
</tr>
<tr>
<td>1.9. Water tariff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Regulation on local shares from water related revenues</td>
<td>Medium</td>
<td>t+1</td>
<td>LGFC</td>
<td>1 year</td>
</tr>
<tr>
<td>1.10. Transformation of LST to a shared revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Assessment of LST allocation and impact of LG budgets</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>b. Analysis of LST and PAYE regulations and administration</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>c. Policy study on combined income tax sharing options</td>
<td>High</td>
<td>t+1</td>
<td>MoFPED</td>
<td>6 months</td>
</tr>
<tr>
<td>d. Legislation and administrative reform on income tax and its sharing rules, mechanisms</td>
<td>High</td>
<td>t+2</td>
<td>MoFPED</td>
<td>1 year</td>
</tr>
<tr>
<td>2.0. Introduction of new local taxes revenue sources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1. Business license fee and permits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Assessment of business licence fee revenue in local budgets</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>b. Policy study on Business Value Tax options</td>
<td>High</td>
<td>t+1</td>
<td>MoFPED</td>
<td>6 months</td>
</tr>
<tr>
<td>c. Drafting legislation on increase local revenue powers in business license fee setting</td>
<td>High</td>
<td>t+2</td>
<td>MoFPED</td>
<td>1 year</td>
</tr>
<tr>
<td>2.2. Environmental fine</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Assessment of allocation, rules of administrative fines (NEMA)</td>
<td>Medium</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>b. Policy study on local environmental revenues options</td>
<td>Medium</td>
<td>t</td>
<td>NEMA</td>
<td>6 months</td>
</tr>
<tr>
<td>c. Draft legislation on local environmental pollution related revenue</td>
<td>Medium</td>
<td>t+1</td>
<td>NEMA</td>
<td>1 year</td>
</tr>
<tr>
<td>2.3. User charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Comprehensive assessment of user charges in local service provision and on service organizations</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>Intervention and reform action</td>
<td>Priority</td>
<td>Sequencing, phasing (t + years)</td>
<td>Lead government entity</td>
<td>Time needed for implementation</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------</td>
<td>---------------------------------</td>
<td>-----------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>b. Modelling alternative regulations on communal service user charges</td>
<td>High</td>
<td>t</td>
<td>Line Ministries</td>
<td>1 year</td>
</tr>
<tr>
<td>c. Matching charges setting powers with service responsibilities</td>
<td>High</td>
<td>t+1</td>
<td>MoLG</td>
<td>6 months</td>
</tr>
</tbody>
</table>

3.0. Improved own source revenue policy design

3.1. Incentives for OSR raising in grant allocation

a. Impact assessment of intergovernmental transfers on local OSRs | High | t | LGFC | 6 months |

b. Policy design study on grant allocation methods, aiming to increase local OSRs | High | t+1 | MoFPED | 1 year |

c. Introduction of alternative grant allocation schemes | High | t+2 | MoFPED | 1 year |

3.2. Comprehensive policy on local OSRs

a. Policy study on harmonising OSR regulation principles, methods | Medium | t | MoLG | 1 year |

b. Legislating OSR setting rules in the LGA | Medium | t+1 | MoLG | 1 year |

3.3. Increase local government social accountability

a. Overview of all accountability mechanism in local governance | High | t | LGFC | 1 year |

b. Identifying the critical components of social accountability in local finances and financial management | High | t | LGFC | 6 months |

c. Action plans for managing the accountability issues of public inclusion, transparent decision making and administration, conflict of interest rules and procedures | High | t+1 | MoLG | 1 year |
### 6.2. Comprehensive legal actions

<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority High/ Medium/ Low</th>
<th>Sequencing, phasing (t + years)</th>
<th>Responsible leading government entity</th>
<th>Time needed for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0. Harmonising National and LG laws</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Amendment of the Local Governments Act and the Public Finance Management Act 2015</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td></td>
</tr>
<tr>
<td>2.0. Improving enforcement mechanisms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Enhance powers of LGFC</td>
<td>Medium</td>
<td>t+1</td>
<td>LGFC</td>
<td>1 Year</td>
</tr>
<tr>
<td>b. Provide sanctions for non-compliance with administrative provisions in the Local Governments Act</td>
<td>High</td>
<td>t</td>
<td>MoLG</td>
<td>6 months</td>
</tr>
<tr>
<td>c. Expand local revenue collection and enforcement personnel</td>
<td>High</td>
<td>t+1</td>
<td>MoPS</td>
<td></td>
</tr>
<tr>
<td>3.0. Comprehensive legislation on local OSRs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Amendment of all relevant provisions, as proposed by the Diagnostic Report (Section 6. and Annex: Summary on Legal Analysis)</td>
<td>High</td>
<td>t+1</td>
<td>LGFC</td>
<td>2 years</td>
</tr>
</tbody>
</table>
### 6.3. Improved revenue administration

<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority</th>
<th>Sequencing, phasing (t + years)</th>
<th>Responsible leading government entity</th>
<th>Time needed for implementation in years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.0. Taxpayer engagement and dialog</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Formation of taxpayer consultative forums at LGs</td>
<td>M</td>
<td>t+1</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>b. Develop communication strategy on OSR</td>
<td>M</td>
<td>t+1</td>
<td>LGFC</td>
<td>2</td>
</tr>
<tr>
<td>c. Develop and launch local social contract on finances</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>d. Training and sensitisation of taxpayers, local politicians, and staff</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td><strong>2.0. Improved revenue registries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Identification and mapping of revenue potential</td>
<td>H</td>
<td>t</td>
<td>LGFC</td>
<td>2</td>
</tr>
<tr>
<td>b. Update revenue databases</td>
<td>H</td>
<td>t</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>c. Propose design for taxpayer identification number</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Adopt reforms along the KCCA quick wins</td>
<td>H</td>
<td>t</td>
<td>LGFC</td>
<td>1</td>
</tr>
<tr>
<td><strong>3.0. Support to property valuation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. GoU provide budget for comprehensive property valuation</td>
<td>H</td>
<td>t+3</td>
<td>MoLG</td>
<td>3</td>
</tr>
<tr>
<td>b. LG earmark funds in annual budget for property valuation</td>
<td>H</td>
<td>t+1</td>
<td>MoLG</td>
<td></td>
</tr>
<tr>
<td>c. Disseminate KCCA mass appraisal methods</td>
<td>H</td>
<td>t</td>
<td>LGFC</td>
<td>1</td>
</tr>
<tr>
<td><strong>4.0. Organizational and institutional capacity improvement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Approve establishment of local revenue departments</td>
<td>H</td>
<td>t+2</td>
<td>MPS</td>
<td>2</td>
</tr>
<tr>
<td>b. Strengthen LG internal audit</td>
<td>M</td>
<td>t+1</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>c. Design fiscal transfer system linked to OSR performance</td>
<td>M</td>
<td>t+2</td>
<td>MoFPED</td>
<td>2</td>
</tr>
<tr>
<td><strong>5.0. Harmonization of local and national tax administration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Study URA revenue collection on behalf of LGs</td>
<td>M</td>
<td>t+2</td>
<td>MoLG</td>
<td></td>
</tr>
<tr>
<td>b. Review legal framework Property tax and Rental tax administration</td>
<td>H</td>
<td>t+1</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>c. Review LST and Income tax administration</td>
<td>H</td>
<td>t+1</td>
<td>MoLG/ MoFPED</td>
<td>1</td>
</tr>
<tr>
<td>d. Review the Trade licence Act</td>
<td>H</td>
<td>t+1</td>
<td>MoLG/ MoTIC</td>
<td>1</td>
</tr>
<tr>
<td>Intervention and reform action</td>
<td>Priority</td>
<td>Sequencing, phasing (t + years)</td>
<td>Responsible leading government entity</td>
<td>Time needed for implementation in years</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------------</td>
<td>----------</td>
<td>---------------------------------</td>
<td>--------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>6.0. Information collection for TPD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Information sharing for central monitoring and reporting of local revenue collections</td>
<td>H</td>
<td>t</td>
<td>MoFPED</td>
<td>1</td>
</tr>
<tr>
<td>b. Mapping revenue potential for LGs</td>
<td>M</td>
<td>t+2</td>
<td>MoLG</td>
<td>3</td>
</tr>
<tr>
<td>7.0. Capacity development of local revenue administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Comprehensive training for staff and political leaders</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>b. Comprehensive digitisation of OSR process</td>
<td>H</td>
<td>t+2</td>
<td>LGFC</td>
<td>2</td>
</tr>
<tr>
<td>c. Increase budget for OSR mobilization</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>8.0. Revenue enhancement from the informal economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Support to local registration of all business entities</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>3</td>
</tr>
<tr>
<td>b. Development of fiscal social compact</td>
<td>H</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>c. Sensitization of community and politicians</td>
<td>H</td>
<td>t+1</td>
<td>MoLG</td>
<td></td>
</tr>
<tr>
<td>9.0. Dispute resolution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. LGs to create a taxpayer relationship function</td>
<td>H</td>
<td>t+1</td>
<td>LGs</td>
<td>1</td>
</tr>
<tr>
<td>b. Design and disseminate customer relationship rules and procedures</td>
<td>H</td>
<td>t+1</td>
<td>MoLG</td>
<td>1</td>
</tr>
<tr>
<td>10.0. Improved accountability through better public information and transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Annual public perception and opinion surveys</td>
<td>M</td>
<td>t+3</td>
<td>LGFC</td>
<td>3</td>
</tr>
<tr>
<td>b. Sample &quot;Citizen Charter&quot; on local revenue administration for different types of LGs</td>
<td>H</td>
<td>t</td>
<td>LGFC</td>
<td>1</td>
</tr>
<tr>
<td>c. Develop a OSR communication strategy</td>
<td>M</td>
<td>t+2</td>
<td>MoLG</td>
<td>2</td>
</tr>
<tr>
<td>d. Develop and sustain LG websites for public access</td>
<td>H</td>
<td>t+1</td>
<td>MoLG</td>
<td>1</td>
</tr>
<tr>
<td>e. Publicity of citizen quarterly information on sources and use of funds</td>
<td>H</td>
<td>t+1</td>
<td>LGFC</td>
<td>1</td>
</tr>
</tbody>
</table>
### 6.4. Revenue Management System development

<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority</th>
<th>Sequencing, phasing (t + years)</th>
<th>Responsible leading government entity</th>
<th>Time needed for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.0. Institute governance structures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Create and set up a high level Governance Committee for the RMS, define ToRs and boundaries for the structures</td>
<td>High</td>
<td>Immediate</td>
<td>LGFC, MoLG</td>
<td>6 weeks</td>
</tr>
<tr>
<td>b. Co-opt members to the Governance Committee</td>
<td>High</td>
<td>Immediate</td>
<td>Governance Committee</td>
<td>6 weeks</td>
</tr>
<tr>
<td>c. Communicate to the members with the ToRs</td>
<td>High</td>
<td>Immediate</td>
<td>LGFC, MoLG</td>
<td>6 weeks</td>
</tr>
<tr>
<td>d. Set up a Secretariat and Project Management Team (PMT)</td>
<td>High</td>
<td>Immediate</td>
<td>LGFC, MoLG</td>
<td>6 weeks</td>
</tr>
<tr>
<td><strong>2.0. Acquisition of Solution for RMS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Finalisation of user specifications for the RMS including process re-engineering</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>2-3 months</td>
</tr>
<tr>
<td>b. Select the Solution; Choose the single RMS to be implemented across all LGs</td>
<td>High</td>
<td>Immediate</td>
<td>Governance Committee</td>
<td>2-3 Month</td>
</tr>
<tr>
<td>c. Further development / customisation of solution to cover all functionality</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>3-6 months</td>
</tr>
<tr>
<td>d. Pilot Implementation</td>
<td>High</td>
<td>Immediate</td>
<td></td>
<td>6-12month</td>
</tr>
<tr>
<td>e. Approval of solution for further roll-out</td>
<td>High</td>
<td>Immediate</td>
<td>Governance Committee</td>
<td>12-18months</td>
</tr>
<tr>
<td><strong>3.0. Implementation – rollout to all LGs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Agree on a roll-out plan</td>
<td>High</td>
<td>Immediate</td>
<td>Governance Committee</td>
<td>1-3 Months</td>
</tr>
<tr>
<td>b. Clean up data from existing systems and migrate to RMS</td>
<td></td>
<td></td>
<td>PMT</td>
<td></td>
</tr>
<tr>
<td>c. Rollout to further LGs with additional non-core modules</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>1-3 Months</td>
</tr>
<tr>
<td><strong>4.0. Implement interfaces with other PFM systems</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Agree on the interface/ integration framework to be</td>
<td>High</td>
<td>Immediate</td>
<td>Governance</td>
<td>1 Month</td>
</tr>
<tr>
<td>Intervention and reform action</td>
<td>Priority High/ Medium/ Low</td>
<td>Sequencing, phasing (t + years)</td>
<td>Responsible leading government entity</td>
<td>Time needed for implementation</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------</td>
<td>---------------------------------</td>
<td>--------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>b. Design and Implement electronic interfaces with other agreed systems in the framework above</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>3 - 6 Months</td>
</tr>
<tr>
<td>5.0. Design and implement business Continuity Framework</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Draw up a business continuity strategy and plan for the RMS</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>18-24months</td>
</tr>
<tr>
<td>b. Engage with NITA-U to obtain access and to use the Government DRS</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>18-24months</td>
</tr>
<tr>
<td>6.0. Documentation Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Establish a checklist of documents to be delivered at each stage of implementation</td>
<td>High</td>
<td>Immediate</td>
<td>LGFC</td>
<td>1-6 months</td>
</tr>
<tr>
<td>b. Establish document control measures</td>
<td>Medium</td>
<td>Immediate</td>
<td>LGFC</td>
<td>1-6 months</td>
</tr>
<tr>
<td>c. Establish a repository of all documentations</td>
<td>Medium</td>
<td>Immediate</td>
<td>LGFC</td>
<td>1-6 months</td>
</tr>
<tr>
<td>7.0. Support and Maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Prepare a support and maintenance strategy and plan</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>1 year</td>
</tr>
<tr>
<td>b. Establish support and maintenance capacity including internal and external</td>
<td>High</td>
<td>Immediate</td>
<td>PMT</td>
<td>18-24 months</td>
</tr>
</tbody>
</table>
### 6.5. Change management and communication.

<table>
<thead>
<tr>
<th>Intervention and reform action</th>
<th>Priority</th>
<th>Sequencing, phasing (t + years)</th>
<th>Responsible leading government entity</th>
<th>Time needed for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.0. Development of a change management strategy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Assessment of readiness for change in OSR governing institutions</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>b. Change management action plan with costing</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>6 months</td>
</tr>
<tr>
<td>c. Impact assessment of planned reforms on affected institutions</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>1 year</td>
</tr>
<tr>
<td>d. Identifying the champions of change at all levels</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>continuous</td>
</tr>
<tr>
<td><strong>2.0. Establishing change monitoring framework</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Defining specific OSR reforms outcomes and targets, with their performance measures</td>
<td>High</td>
<td>t</td>
<td>MoFPED</td>
<td>1 year</td>
</tr>
<tr>
<td>b. Regular tracking and assessment of acceptability and support level</td>
<td>High</td>
<td>regular</td>
<td>LGFC</td>
<td>continuous</td>
</tr>
<tr>
<td>c. Information and feedback mechanism to strategy development process</td>
<td>High</td>
<td>regular</td>
<td>LGFC</td>
<td>continuous</td>
</tr>
<tr>
<td><strong>3.0. Strategy implementation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Use of existing GoU structures and procedures for LRMS implementation</td>
<td>Medium</td>
<td>t</td>
<td>MoLG</td>
<td>continuous</td>
</tr>
<tr>
<td>b. Informing the public about LRMS objectives and implementation progress</td>
<td>High</td>
<td>t</td>
<td>LGFC</td>
<td>continuous</td>
</tr>
</tbody>
</table>