# 4

# Uganda – The Case of Kampala

This chapter reviews the state of municipal finances in Uganda, focusing on municipal infrastructure financing in Kampala. In particular, it sets out the country macro-economic context, outlines the framework for decentralisation and local government finances and assesses the municipal finances, and the approaches to service provision and infrastructure financing in Kampala.

## Macroeconomic context

Uganda is a landlocked East African country with a population of 28 million, covering an area of approximately 241,000 square kilometres. The country's macro-economic performance over the past decade has been outstanding and per capita GDP growth exceeded the average in sub-Saharan Africa. Savings, exports and foreign direct investment continue to rise and sound macro-economic management with low inflation, stable exchange rates and foreign reserves have arguably supported economic growth. Overall, economic growth averaged 5.5 per cent between 2000 and 2005 and growth rates were higher than in the 1990s. The country's economy was expected to grow at 6.2 per cent in 2007. Urban areas have experienced particularly strong economic growth and poverty reduction. Nonetheless, with an estimated GDP per capita of US$316 in 2006, Uganda remains a least developed country.[1]

In terms of employment, Uganda is still predominantly an agricultural economy. However, the sector's contribution to the economy declined from 53 per cent in 1995 to 34 per cent in 2005. The industrial sector, based mainly on agricultural processing and manufacture of consumer goods, has grown an average of 8.4 per cent annually since 1995 and accounts for 21 per cent of economic activity. The main economic contributor is the service sector, at about 46 per cent of GDP. With the shift in economic activity, Uganda's urban population is expected to increase from 3.6 million (13 per cent) in 2005 to 15 million (21 per cent) in 2030.[2]

## Decentralisation framework

Local governments play a key role in local public service provision. The Ministry of Local Government oversees the local government's administration. The following sections outline the functional and fiscal decentralisation framework in Uganda.

### *Local government legislation and organisation structure*

Decentralisation in Uganda was first enshrined in the Local Government Statute of 1993 and later in the 1995 Constitution. The basic structure is laid out in the 1997 Local Government Act[3]. The Act provides a clear and legally based distinction between the roles of central and local governments. There are five basic tiers of local governments in Uganda. Figure 4.1 shows these tiers diagrammatically.

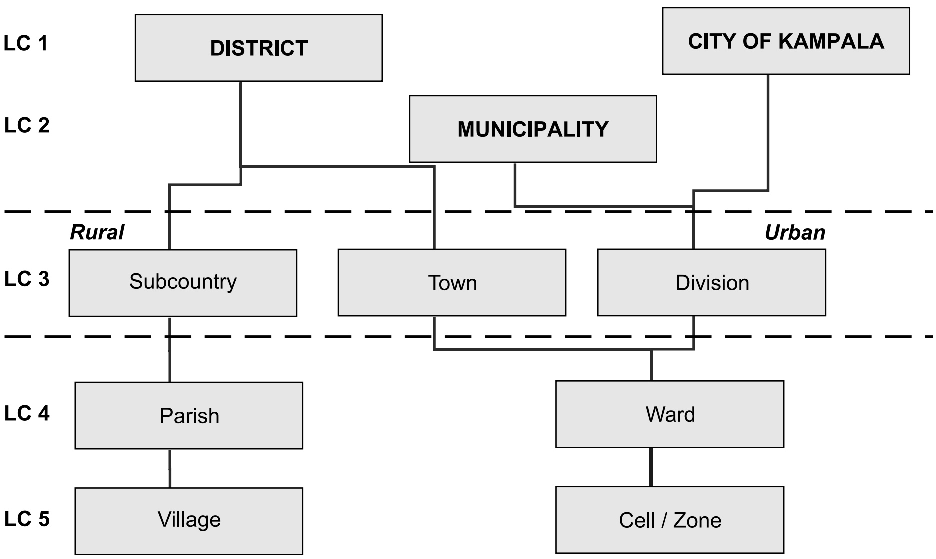


**Figure 4.1.** Decentralisation in Uganda – tiers of local government
*Source:* World Bank (2004a) Country Integrated Fiduciary Assessment

The various tiers of local government are linked through administrative arrangements. There is no formal subordination or hierarchical control across the different local government layers.[4]

- The highest level of local governments (LC1) comprises the districts and the City of Kampala. Urban areas are divided into municipalities (LC2) and towns (LC3).
- Only the LC1 and LC2 levels are considered local governments with legislative powers – subsequent levels are for administration purposes. Below LC2, Kampala City and the municipalities are split into divisions and, subsequently, wards and zones.[5] The five divisions of Kampala City Council (KCC) constitute lower local governments.
- In rural areas, the districts are split into subcounties (LC3).

### Functional and fiscal devolution of powers

In Uganda, a significant amount of the national budget is spent through the local government system. Local governments are assigned sectoral expenditure responsibilities to deliver basic services that affect their communities directly.[6]

The functions and expenditure responsibilities devolved to the various levels of local governments are set out in table 4.1 below. The provision of most infrastructure services is the mandate of local government. Most of the key functions/expenditure responsibilities are allocated to the KCC, the districts and municipalities. Generally, only the upper government tiers execute significant expenditures on their own.

**Table 4.1.** Uganda, assigned local government functions and expenditure responsibilities

| *Level of government* | *Responsibility* |
|---|---|
| City council/districts | • Primary and secondary schools<br>• Primary healthcare and district hospitals<br>• Maternal and child welfare<br>• Construction, rehabilitation and maintenance of feeder roads<br>• Water and sanitation<br>• Land administration and planning<br>• Issue standards and policy guidelines to lower councils |
| Divisions/subcounty level | Upon devolution by the district/city council:<br>• Nursery and primary schools<br>• Community based healthcare<br>• Maintenance of community roads<br>• Provision and maintenance of local water sources<br>• Social, cultural and sporting activities<br>• Control of soil erosion and protection of wetlands<br>• Monitor administration and service provision in parishes and villages |

*Source:* Ministry of Local Government

### Overview of the provision of municipal services

This section provides an overview of local government service provision and expenditure policies across key municipal services. Table 4.2 shows sector expenditures of local governments, with the percentages indicating the magnitude of municipal expenses as a share of the total national public expenditures for the sector. The sector expenditures include donor project funding, which is a significant revenue source for local governments.

The key observations are:

- Local government expenditures peaked in 2001/02 at 35 per cent of the national budgets and have declined since to 26 per cent of budget allocations.

- The *education sector* has consistently had the highest share of local government expenditures, comprising about half of the local government budget over the years. This is a result of primary education being a responsibility of local governments. Also, as indicated by the percentages, local government incurs a majority of the national public education expenditure.[7]
- The *health sector* attracts the next highest financing. While the absolute level of expenditure is much lower than the education outlay, the local spend is a substantial percentage of the national allocation for the sector. However, this has declined significantly from 60 per cent in 2001/02 to around 37 per cent in 2004/05.
- Uganda's spending for *water services* at the local government level has been modest compared to that in education and health and stands at about 3 per cent of local government budgets. The share of local expenditure in these sectors has declined from 50 per cent of total public expenditures in 2001/02 to 27 per cent in 2004/05. These funds are allocated by the centre in the form of a conditional grant to the local governments.[8]
- The other sectors that received funding include agriculture, roads and other local government services.

**Table 4.2.** Local government expenditures, in billion Ugandan shillings (USh), and as % of total national public expenditures for sector

| *Sector expenditure* | *2001/02* | *%* | *2002/03* | *%* | *2003/04* | *%* | *2004/05* | *%* |
|---|---|---|---|---|---|---|---|---|
| Education | 330 | 73 | 363 | 65 | 393 | 67 | 432 | 68 |
| Health | 98 | 60 | 104 | 34 | 118 | 31 | 135 | 37 |
| Water | 25 | 50 | 26 | 29 | 27 | 29 | 29 | 27 |
| Agriculture | 7 | 18 | 15 | 13 | 20 | 18 | 22 | 18 |
| Roads and works | 23 | 15 | 18 | 8 | 21 | 8 | 22 | 6 |
| Other expenditures | 128 | | 147 | | 165 | | 180 | |
| **Total expenditure** | **611** | **35** | **673** | **26** | **744** | **26** | **820** | **26** |

*Source:* Ahmad et al. (2006)

### *Local government revenues*

This section sets out the sources of revenue of local governments in Uganda. Overall the main trend shows that:

- Intergovernmental transfers, the main source of local government revenues, are gaining further importance.
- Own-source revenues are declining, both in absolute and relative terms.

Further details of each of these revenue sources are presented below.

## *Intergovernmental transfers*

Government transfers exceeded 90 per cent of local government revenues in 2004/05. Table 4.3 presents the trend of government transfers until 2006/07. The key points to note are:

- Conditional grants, which are sector specific, amount to about 90 per cent of the total transfers. Eighty per cent of these grants are allocated for recurrent expenditures.
- Unconditional grants are, in theory, fully discretionary and can be used to delivery direct services to the citizens. In practice, however, unconditional grants are mostly used to cover necessary local administration costs, including councillor wages and allowances.
- Other transfers include compensation for the abolished graduated tax (G-tax), and a limited amount of equalisation grants.[9]

**Table 4.3** Transfers to local government, in million USh

| *Revenues* | *2002/03* | *2003/04* | *2004/05* | *2005/06* | *2006/07* |
|---|---|---|---|---|---|
| Unconditional grants | 77,436 | 83,037 | 87,530 | 98,755 | 94,396 |
| Conditional grants, of which | 588,178 | 654,896 | 714,483 | 733,885 | 839,291 |
| Recurrent grants | 445,957 | 481,782 | 544,477 | 558,075 | 674,685 |
| Development grants | 142,222 | 173,114 | 170,006 | 175,810 | 164,606 |
| Equalisation grants | 4,334 | 3,534 | 3,535 | 3,480 | 3,494 |
| Compensation for G-tax* | | | | 34,860 | 25,000 |
| **Total transfers** | **669,948** | **741,467** | **805,548** | **870,980** | **962,181** |

*Source:* Ministry of Local Government, Local Government Finance Inspectorate
*The graduated tax was abolished in 2004, and the central government provided transfers to compensate for the budget gap.

## *Own-source revenues*

Compared to the devolution of responsibilities, local authorities in Uganda have limited own-source revenues. Own-source revenues include property tax, fees and fines, licences and permits, interest on investments, rent from lease of property, market dues, donations, contributions and endowments, and parking fees (graduated tax is now suspended).[10]

Table 4.4 sets out the own-source revenues of local governments until 2004/05.[11] The key points to note are:

- The share of revenues mobilised locally has fallen in 2004/05, and has since dropped further as a result of the suspension of graduated tax. The graduated tax, which represented half of local tax collection, was suspended for a

10-year period in 2005, depriving local governments of their largest revenue source. To compensate for the loss of revenues, a number of new tax sources such as local government service tax, a hotel tax and a local motor vehicle tax, have been put forward in a bill for cabinet approval.

- Other than graduated tax, the main own-source revenues include property tax and user fees/charges. Income from property taxes has been growing gradually. With rapid urbanisation, urban authority permits are a growing source of revenue.
- However, the magnitude of other fees is limited, since local authorities have limited ability to modify tax bases and rates.

**Table 4.4.** Local government own-source revenues, in million USh

| *Revenues sources* | *2002/03* | *2003/04* | *2004/05* |
|---|---|---|---|
| Graduated tax | 44,116 | 45,134 | 25,675 |
| Property tax | 13,563 | 10,625 | 24,666 |
| User fees/charges | 17,801 | 22,005 | 16,783 |
| Urban authority permits | 7,054 | 9,933 | 11,327 |
| Other revenues | 16,150 | 23,136 | 8,586 |
| Revenue from departments | 2,178 | 2,554 | 3,036 |
| **Total own-source revenues** | **100,862** | **113,387** | **90,073** |

*Sources:* Ministry of Local Government, Local Government Finance Inspectorate

Overall, local authorities have poor administrative capacity and lack strong enforcement practices for tax collection. Furthermore, own-source revenues are subject to political manipulation.[12] The revenue-sharing arrangements within local governments are complex. Local revenues are redistributed within districts and municipalities, after being collected at the lower local government units. This redistribution takes place through a complex transfer system that has often generated incentives for underreporting revenue collections.[13]

### *Local government borrowing*

In principle, borrowing by local governments is allowed by law, but is limited to 25 per cent of locally generated revenue by the Local Government Act. In addition, any type of lending activity is subject to central government approval. Thus far, local government borrowing has been limited to working capital management. There are also deficiencies in the financial reporting and accounting practices of local governments. For example, International Monetary Fund (IMF) reports show that borrowings are often not included in budget documentation and there is currently no comprehensive information on the debt or contingent liabilities of local governments.[14]

### *Local government financial management*

The public financial management of local governments in Uganda was found to be coherent, but has a number of flaws in capacity and institutional design. Some issues related to budgeting and planning include:[15]

- The link between the specific policies and plans to the actual budgets is weak. Strategic development plans are often not properly linked to local budgets.
- Local budget implementation and expenditure controls are weak, reflecting capacity constraints and institutional loopholes.
- Local authorities lack an effective cash planning system. Most sub-national governments do not forecast their intra-year disbursements or plan their use, with cash received from the local government's own revenue collections being disbursed in an ad hoc manner.

## The case of Kampala

This section studies the municipal finances and service delivery in Kampala. It sets out the city context and describes the administrative framework guiding municipal finances in the city. The section goes on to discuss the sources of municipal revenues and expenditures respectively. It then discusses private sector participation in the city's service provision before finally examining the current state and potential of market finance.

### *City context*

Kampala, the capital of Uganda, is expanding more rapidly than any other city in the country. The city is the hub of the country's economic, political and administrative activities. It is estimated that about 80 per cent of the country's industrial and services sectors are located in Kampala and the city now generates over 50 per cent of Uganda's GDP.[16] Industrial activities are mainly medium-size manufacturing, small-scale agro-processing coupled with an informal small-scale industrial sector. The informal sector employs many people and is also growing rapidly.

Kampala has a population of about 1.2 million growing at 4 per cent per annum, with a day population of about 2.5 million. Table 4.5 shows the rapidly growing population of the city since 1980.

**Table 4.5.** Kampala population growth

| *Year* | *Population* | *City growth rate* | *National population growth rate* |
|---|---|---|---|
| 1980 | 458,503 | 3.14% | 2.71% |
| 1991 | 774,241 | 4.76% | 2.52% |
| 2002 | 1,208,544 | 4.10% | 3.40% |

*Source:* Kampala CDS (2003)

The urban expansion of Kampala is driven by demographic shifts in the form of rural-urban migration, which has led to creation of unplanned settlements and housing pressures in the city.[17] Over 60 per cent of Kampala's population lives in slums and only 20 per cent of the city area has been planned, with effective city planning being limited by existing land tenure systems.[18]

### *City administration and allocation of responsibilities*

The City of Kampala is a district under the 1997 Local Government Act. The mission of Kampala City Council (KCC) is 'to provide and facilitate the delivery of quality sustainable, customer oriented services effectively and efficiently'. KCC consists of five political administrative divisions namely Central, Kawempe, Makindye, Nakawa and Rubaga. Each of the five divisions is divided into parishes, with a total of 100 parishes in Kampala.

**Table 4.6.** Kampala – administrative units and councillors

| *Area* | *Parishes* | *Villages* | *Population* |
|---|---|---|---|
| Central | 20 | 138 | 90,392 |
| Kawempe | 22 | 122 | 268,659 |
| Makindye | 22 | 132 | 301,090 |
| Nakawa | 23 | 279 | 246,298 |
| Rubaga | 13 | 131 | 302,105 |
| **Total District** | **100** | **802** | **1,208,544** |

*Source:* Kampala City Development Strategy (2003)

KCC is responsible for making policy decisions and by-laws and also monitors the implementation of service delivery programmes and policies. The enactment of the Local Government Act 1997 gives urban authorities autonomy over their financial and planning matters. KCC is responsible for:

- education,
- medical and health services,
- water construction and rehabilitation,
- maintenance of roads and
- all other decentralised services and activities.

While KCC is predicated to devolve the provision of certain services to lower government levels, it remains responsible for providing these key public services.

### *Municipal revenues*

KCC's total local revenue sources have remained more or less stagnant over the last few years. Table 4.7 provides details. While a description of the main sources of revenues are provided below, the key points to note are:

- Of the total revenues of KCC, nearly 50 per cent accrues from own-source revenues and the remainder from transfers.
- Property related taxes amount to 18 per cent of revenue sources. Business-related taxes accounted for about 9 per cent of local revenues in 2006/07. The abolition of the graduated tax has adversely impacted the level of own-source revenues.
- More than 70 per cent of government grants are as earmarked for delegated services or as conditional grants.
- KCC has so far not engaged in any borrowing activities to finance capital expenditures. However, a loan of 1 billion Ugandan Shillings (USh) is expected to be raised in 2007/08.
- Despite not being a part of the official financial accounts, donor financing has increased and amounted to about USh18 billion in 2006/07, which adds funds equivalent to a third of the city's total budget.

**Table 4.7.** Kampala revenue structure, 2004/05 to 2007/08, in million USh

| *Revenues* | *2004/05* | *%* | *2005/06* | *%* | *2006/07* | *%* | *2007/08** | *%* |
|---|---|---|---|---|---|---|---|---|
| **Total own-source revenues, of which** | **18,384** | 46 | **19,659** | 39 | **19,698** | 42 | **27,481** | 51 |
| Total property rate | 4,521 | 12 | 5,201 | 10 | 6,552 | 14 | 9,550 | 18 |
| Licences | 3,862 | 10 | 3,572 | 7 | 3,916 | 8 | 4,795 | 9 |
| Vehicle parks/street parking | 3,549 | 9 | 3,834 | 8 | 2,848 | 6 | 4,329 | 8 |
| Debt realisation | 162 | 0 | 283 | 1 | 519 | 1 | 2,936 | 5 |
| Ground rent | 1,683 | 4 | 2,466 | 5 | 2,160 | 5 | 1,502 | 3 |
| Markets | 1,049 | 3 | 1,065 | 2 | 1,389 | 3 | 1,564 | 3 |
| Building plans | 0 | 0 | 1,057 | 2 | 1,289 | 3 | 1,418 | 3 |
| Advertising | 0 | 0 | 133 | 0 | 275 | 1 | 225 | 0 |
| Housing | 38 | 0 | 20 | 0 | 14 | 0 | 35 | 0 |
| Graduated tax | 3,520 | 9 | – | | – | | – | |
| Other income | 2,247 | 6 | 2,030 | 4 | 736 | 2 | 1,126 | 2 |
| Capital income | 3,646 | 9 | 3,782 | 8 | 2,844 | 6 | 949 | 2 |
| **Total local revenue** | **22,030** | 56 | **23,441** | 47 | **22,542** | 48 | **28,430** | 53 |
| **Total transfers, of which** | **17,638** | 45 | **26,450** | 53 | **23,985** | 52 | **24,255** | 45 |
| Unconditional grants | 2,629 | 7 | 4,040 | 8 | 4,520 | 10 | 3,872 | 7 |
| Delegated funds | 9,236 | 24 | 11,005 | 22 | 10,012 | 22 | 10,012 | 19 |
| Conditional grants | 5,773 | 15 | 11,405 | 23 | 6,289 | 14 | 6,416 | 12 |
| Compensation for G-tax | – | | – | | 3,164 | 7 | 3,955 | 7 |
| **Bank borrowing** | – | | – | | – | | **1,000** | 2 |
| **Total revenues** | **39,668** | | **49,891** | | **46,527** | | **53,685** | |
| **Donor financing**** | **21,883** | | **1,702** | | **18,000** | | **18,000** | |

*Source:* KCC (2007a,b,c)

*Estimated budget, **the majority of donor funding to KCC is disbursed directly to projects and is not part of the council's financial accounts

### *Own-source revenues*

Local own-source revenues amounted to USh22.5 billion in 2006/07 – about 51 per cent of KCC's total revenues. This is in contrast to the national trend, where own-source revenues are limited to about 10 per cent of local government budgets. However, it is felt that the full potential of own-source revenues has not been realised. Own-source revenue in KCC, as shown in table 4.7, comprise:[19]

- *Property tax*: This is currently the largest revenue source for KCC. Revenues have been growing constantly over the last years, and KCC collected USh6.55 billion in 2006/07.[20] The collection of property rates was contracted out in March 2003 to five private collection firms. However, many properties remain off the property roll and the revenue potential is reduced by many exemptions.
- *Business licence fees:* With revenues from trading licences contributing around 10 per cent to the total budget, KCC appears relatively successful in tapping business-related own-source revenues. However, some business categories are not marked for licensing (e.g. hotels, bank, power, water, telephone companies, etc.) and licence fees in all categories are considered low and have not been revised in a long time.
- *Vehicle parks and street parking*: The collection of revenues from the KCC's two vehicle parks has been contracted out since 1995. The management of street parking is also contracted out. KCC raised a total of USh2.8 billion in funds from the operators of the vehicle park and street parking. However, payments for the vehicle park fell short of the contract sum and substantial potential revenue from street parking remains untapped.
- *Ground rent:* This amounted to USh2.2 billion in 2006/07, equal to five per cent of all local revenues. Ground rents remain limited because of an inadequate database and an ongoing conversion of leased land into freehold land.
- *Market fees:* A total of USh1.4 billion was collected in 2006/07 in current contract sums or arrears from contractors for markets. Overall markets only realised 50 per cent of the contract sums in the budget, on account of illegal markets backed by lower councils and a lack of managerial skills by private revenue collectors.

It expected that in the future, own-source revenues will be raised from the proceeds of the new taxes to be levied in lieu of graduated tax. These include local government service tax, the hotel tax and the local motor tax. The cabinet has already approved the municipal service tax.

### *Intergovernmental transfers*

KCC anticipated receiving USh25.9 billion in central government transfers in 2006/07. It is argued that national transfer policies put KCC at a disadvantage since transfer calculations are based on the census population and do not account for a day population twice as high as census data.[21] Government transfers comprise:[22]

- Conditional grants, which are supposed to fund national priority programme areas,
- Delegated funds, the bulk of which is allocated for salaries of primary and secondary teachers, and
- Unconditional grants, which are limited to about 20 per cent of government transfers.

### *Revenue enhancement plans*

As a core part of the World Banks' Institutional and Infrastructure Development Project, KCC has designed a financial recovery plan.[23] The revenue enhancement component of the recovery plan focuses on medium-term strategies up to 2009/10 on how best KCC could enhance its local revenues. A key element of this programme is capacity building for improved local financial management and enhanced revenue collection measures. Specifically, revenue enhancement measures include:[24]

- *Raising tax awareness amongst the public*: Across most revenue sources, the revenue enhancement strategy aims at sensitising the public about their obligation to pay taxes for service delivery. KCC is building compliance in the community through accountability and transparency using a public awareness campaign, councillor's education programmes on the need to pay taxes, better linking taxes to services, and reducing bureaucracy. These measures will be accompanied by stricter enforcement of prompt payments for all revenues.
- *Effective billing:* KCC aims at privatisation of all revenue sources for which it aims to have efficient and effective contractors for property rates. Measures include stricter monitoring of contractor performance, procurement of new contractors with stronger capacity, and where contractors are adequate, renegotiation of running contracts. KCC plans to award contracts on a 12-month period as opposed to the current three years, which often discourages competition and encourages complacency.
- *Enhancing property tax revenues:* A number of measures are ongoing to improve revenues from property tax. Proceeds are expected to increase to a level of USh12 billion by 2010.[25] Among others strategies, KCC aims for a change in the law on owner-occupied properties, to engage more reputable

companies to collect all property rates, undertake supplementary valuation every two years, and link properties to the GIS system. In addition, measures will be taken to recover property tax arrears.

- *Maximising revenue from trading licences fees.* These measures seek to amend the Licensing Act for new businesses, revise grades and fees and continuously update the licensing database. Further strategies include stricter supervision of contractors, stronger enforcement measures and improved awareness of the need for tax compliance among business owners.
- *Strengthening revenue from markets fees.* KCC aims for a new market law and an improved policy for the management and development of markets. It intends to improve contract management for markets and adopt a hard stance on illegal markets.
- *Widening the tax base.* New sources of revenue are being considered, including taxation of idle land, community and user charges. Further reform measures are planned to strengthen revenues from the ground rent, commercial vehicles, advertising and building plans.

Overall the revenue enhancement plan aims at increasing own-source revenues in KCC from USh19.7 billion in 2006/07 to about USh29 billion by 2010/11.

### *Municipal expenditures*

Following the analysis of KCC's municipal revenues, this section outlines the corresponding expenditures for service provision. KCC's total expenditure has increased since 2004/05 and amounted to about USh47.8 billion in 2006/07. Some general trends in expenditures are:

- Recurrent expenditures amount to more than 80 per cent of KCC's expenditures. Of these, more than 50 per cent of expenditures are spent on paying salaries and wages for employees for delegated activities,[26] to cover related administrative costs, and the recurrent establishment costs for the council (committee).
- Capital expenditure amounts to about 20 per cent of the total spend, half of which is spent on loan repayments and payments to creditors. The remainder of about 10 per cent of expenditures go to sector specific conditional transfers and road maintenance.
- Capital expenditure for donor projects (about USh18 billion in 2006/07) are not channelled through KCC's budget. The budget only shows capital expenditures in form of counterpart funds.

**Table 4.8.** Kampala expenditure structure, 2004–2007, in million USh

| *Expenditures* | *2004/05* | *%* | *2005/06* | *%* | *2006/07* | *%* | *2007/08** | *%* |
|---|---|---|---|---|---|---|---|---|
| **Recurrent expenditures, of which** | **35,136** | 82 | **37,988** | 80 | **38,583** | 81 | **39,694** | 75 |
| Delegated fund activities | 9,236 | 22 | 11,005 | 23 | 10,012 | 21 | 10,012 | 19 |
| Conditional grant activities | 5,076 | 12 | 4,597 | 10 | 5,618 | 12 | 5,731 | 11 |
| Employees | 5,153 | 12 | 5,153 | 11 | 5,411 | 11 | 5,681 | 11 |
| Administration | 5,034 | 12 | 4,534 | 10 | 4,029 | 8 | 4,110 | 8 |
| Health | 1,104 | 3 | 2,796 | 6 | 2,936 | 6 | 3,083 | 6 |
| Council (committee) | 1,860 | 4 | 1,860 | 4 | 1,953 | 4 | 2,051 | 4 |
| Property | 1,832 | 4 | 1,832 | 4 | 1,924 | 4 | 2,020 | 4 |
| Transport and plant | 1,736 | 4 | 1,736 | 4 | 1,823 | 4 | 1,914 | 4 |
| O&M others | 1,325 | 3 | 1,516 | 3 | 1,592 | 3 | 1,671 | 3 |
| Donors activities | 920 | 2 | 973 | 2 | 1,200 | 3 | 1,200 | 2 |
| Others** | 1,860 | 4 | 1,986 | 4 | 2,086 | 4 | 2,222 | 4 |
| **Capital expenditures, of which** | **7,758** | 18 | **9,400** | 20 | **9,183** | 19 | **13,024** | 25 |
| Conditional grant | 697 | 2 | 2,275 | 5 | 671 | 1 | 685 | 1 |
| New investments | 35 | 0 | 30 | 0 | – | | 6,000 | 11 |
| Counterpart funds | 1,043 | 2 | 814 | 2 | – | | – | – |
| Transport and equipment | 295 | 1 | 130 | 0 | 130 | 0 | 300 | 1 |
| Machinery and equipment | 289 | 1 | 125 | 0 | 125 | 0 | 131 | 0 |
| Land, buildings, etc. | – | | – | | 600 | 1 | 800 | 2 |
| Roads and bridges | 1,159 | 3 | 864 | 2 | 1,850 | 4 | 2,000 | 4 |
| Payment of creditors*** | 4,139 | 10 | 3,980 | 8 | 5,160 | 11 | 2,929 | 6 |
| Others**** | 101 | 0 | 1,182 | 2 | 647 | 1 | 179 | 0 |
| **Total expenditures** | **42,894** | | **47,388** | | **47,766** | | **52,719** | |
| Capital expenditure from donor projects | 24,934 | | 5,262 | | 18,000 | | 18,000 | |

*Source:* KCC 2007 a,b,c

*Estimated, **Including production and welfare, boards commissions, roads and bridges ***Including loan repayments ****Including furniture/fitting, retrenchment, research

## ***Municipal service provision and local PSP activities***

Kampala's rapid urbanisation has increased the pressure on the city's infrastructure facilities. Some key challenges KCC faces in this context include:[27]

- About 70 per cent of land in Kampala is privately owned, making planning and provision of land for infrastructure development difficult.
- There is inadequate funding for infrastructure provision resulting in problems in solid waste management, poor road maintenance and insufficient

coverage of water and sanitation services. Unplanned developments magnify these problems.

- Local contractors widely lack planning and implementation capacity. In addition, there is limited expertise and transfer of knowledge by stakeholders involved in infrastructure development.

Given these challenges, KCC has been active in engaging the capacities of the private sector in local service provision.

### *PSP at sub-national level*

There is an absence of an overarching legal and regulatory framework for PPPs, both at the national and at sub-national level.[28] However, the Local Governments Act 1997 permits local governments flexibility in choosing the most effective methods of service delivery. All urban councils may contract out services to the private sector, and local governments are encouraged to outsource service provision.[29] In line with this policy, KCC has been actively pursuing contracting out of non-core public services since 1995. KCC concentrates on the role of a facilitator and enabler in service delivery.

The most notable examples of PSP include outsourcing contracts in solid waste management, road maintenance, operation of the taxi park, street parking and local markets. PSP has largely materialised in contracting out of these services to the private sector, while KCC retains the overall supervisory and regulatory control. Contracts are generally awarded for one to three years on a competitive basis using standardised contract documents.[30]

There are no official estimations of efficiency savings through private sector contracting of services. Lack of competitiveness of the tendering process and poor capacity of the private sector operators remain problematic in many cases and the quality of services provided is found to be poor. Table 4.9 briefly describes the most significant examples of PSP in the city.

**Table 4.9.** Ongoing practices of PSP in Kampala

| *Municipal services* | *Examples of private sector participation* |
|---|---|
| **Solid waste management** | KCC embarked on a policy reform to revise the solid waste management ordinances and resolve the poor state of environmental conditions in the city. In 2004, this led KCC to involve private sector operators in collection and transportation of wastes to the landfill. KCC remains responsible for waste disposal while collection and transportation is fully privatised.[31] However, there have been growing complaints about inadequate collection and contracts are to be re-tendered shortly.[32] |
| **Road maintenance** | The city's five divisions are in charge of road maintenance. Maintenance work is largely contacted out to private sector operators and payment is said to be performance related. The award of contracts attracts a lot of attention and is allegedly subject to strong political interests.[33] |
| **Retail/ wholesale markets** | Markets are in most cases managed, controlled and maintained by private firms. The operation is advertised competitively and contracted out. Revenues are collected from market fees and the operators are obliged to make fixed contractual payments to KCC.[34] |
| **Taxi park** | The operation of the city's taxi park is contracted out. The initial contracts attracted funding of USh60 million per month. However, the contract value was renegotiated and the current collection from the taxi park amounts to USh120 million per month. |
| **Property development** | There are currently plans to harness private sector activity in property development. Two KCC owned estates are dedicated for development by private operators. The development is expected to include housing units and business parks. KCC provides the land to private operators for free and, in turn, expects to collect a substantive amount of property rates once construction is complete. The infrastructure should be returned to KCC after about 15 years. Total investment is estimated at US$300–400 million.[35] |

## *Alternative sources of municipal financing*

As mentioned earlier, to date neither KCC nor other municipalities in Uganda have accessed any borrowing from the capital or credit markets for their capital investments. The idea of a municipal fund type institution, as well as the possibility of accessing capital markets has been explored in the past, but it has not materialised.[36] The cost of raising funds through commercial banks is very high to meet the credit needs of sub-national governments. Also, the creditworthiness of sub-national governments remains an issue, and local authorities have few securities or assets in the form of buildings and other property.[37]

In 2007/08, KCC intended to borrow USh1 billion from Stanbic Bank to finance development projects in the city.

### *The state of the Ugandan financial sector*

The financial markets in Uganda have limited depth and breadth of products, but are gradually evolving. In the late 1990s, the Bank of Uganda and other commercial banks supported the introduction of long-term government bonds. The Kampala Stock Exchange was set up in 2000 and has issued long-term bonds of up to 10 years since 2004. The market capitalisation in 2007 was about US$2.9 billion with 22 bonds traded in the fixed income market. From the take-up of government bond issues, there appears to be sufficient liquidity in the capital market.[38] Nevertheless, there are limited investors that hold long-term liabilities and can invest in long-term assets. One such potential investor, the National Social Security Fund (NSSF), has USh600 billion of its current portfolio of USh800 billion invested in fixed-income securities.[39]

Some of the key challenges to further develop the country's financial markets include:

- The savings rate in Uganda remains low at about 10 per cent of GDP. This is not expected to change in the near future, without a concerted effort to expand financial sector outreach.[40]
- There is a need for competition in, and regulation of, the pension industry. The current social security reforms envisage the abolition of NSSF's exclusive status in mobilising compulsory savings to foster demand for capital investment. This is expected to lead to the emergence of several private providers offering competing savings vehicles, supervised by an independent regulator for the industry. The regulator is expected to close down bogus schemes and clearly stipulate how much of the funds collected should be invested in the country to benefit the wider economy.[41]
- The absence of sufficient long-term funds in financial institutions has made long-term lending and borrowing hard. This continues to constrain long-term investment sectors, such as the mortgage industry. In an attempt to jump-start the development of the mortgage market, the International Finance Corporation (IFC) has issued a partial local currency guarantee to the NSSF for lending to local commercial banks.[42]

## Summary

Uganda's economic performance over the last decade has been outstanding by regional standards, and growth has particularly occurred in urban areas. The country's urban population is expected to increase fourfold to 15 million by 2030. Local governments in Uganda have been assigned a large set of functions and their expenditures account for almost a quarter of national public expenditures.

Kampala, the capital with a daytime population of about 2.5 million, generates over 50 per cent of the country's GDP and hosts almost the entirety of the country's industrial and service sectors. The city represents the highest level of local government, has legislative power, financial and planning autonomy, and executes significant expenditures on its own. It can devolve certain municipal service responsibilities to its five urban divisions.

Kampala's fiscal capacity is strong in comparison with other local governments, which depend almost exclusively on government transfers (on average 90 per cent) and suffer from declining own-source revenues. The city is taking initiatives to strengthen its pool of own-source revenues, which currently constitutes 50 per cent of the city budget. Property tax and business-related taxes are the main revenue drivers. Enhanced revenue collection and improved financial management are expected to strengthen own-source revenue further. Nevertheless, revenue sources, in particular government transfers, are considered insufficient to close the infrastructure financing gap. The city is unable to ensure proper operation and expansion of infrastructure services, and 60 per cent of the population live in unplanned settlements.

The private sector capacity to provide and finance infrastructure services has only been harnessed to a limited degree. Borrowing is allowed by law, but confined to a maximum of 25 per cent of own-source revenues. Kampala has so far not accessed market finance. The financial sector is evolving and long-term government bonds have been taken up comfortably. However, market financing has not been pursued at the municipal level.

As for private sector participation (PSP), the city council has been contracting out services like solid waste management and operation of taxi parks. However, an overall legal and regulatory framework to strengthen PSP at the national and subnational level is still outstanding. The lack of local capacity to implement infrastructure projects has been named as a further constraint.[43]

## Notes

1. The Republic of Uganda (2005); (IMF 2007a); (IMF 2007b).
2. World Bank (2006d); United Nations (2006).
3. In addition to the Local Government Act 1997, the fiscal decentralisation framework is supported by Local Government Financial and Accounting Regulations (LGFAR), initially enacted in 1998 and revised in 2005. It is in line with the 2003 Public Finance and Accountability Act and covers the framework for development planning, budgeting, revenue collection, expenditure management, accounting and audit.
4. The Republic of Uganda (2006); Ahmad et al. (2006).

5. Commonwealth Local Government Forum (2007b). Overall, the local government system comprises 69 districts, 88 town councils, 13 municipal councils, 900 subcounties, 5,225 parishes and 44,402 villages. In the rural areas, the districts are split into subcounties (LC3) and subsequently into parishes and villages.
6. The Republic of Uganda (2002). To address some outstanding problems in the decentralisation process, the Fiscal Decentralisation Strategy (FDS), adopted in 2002, aims to improve the grant allocation formulae and expenditure management by local governments.
7. Despite increased allocations of government transfers to the sector and universal primary education as a key government policy, the quality of primary schools and their infrastructure remains inadequate.
8. Ahmad et al. (2006).
9. Equalisation grants are given to local governments that are lagging behind the national average standard in service delivery. It is planned that the magnitude and distribution of these grants will be revised in the context of the Fiscal Decentralisation Strategy (Ahmad et al. 2006).
10. Section 81 of the Local Government Act 1997 provides local government powers to levy, charge and collect fees and taxes.
11. There is currently no recent financial data on own-source revenues across all local governments available from local government institutions.
12. For example, due to its lack of popularity, the graduated income tax was picked up as a frontline issue in the local and presidential campaigns of 2004/05.
13. Ahmad et al. (2006).
14. Ibid.
15. Ibid.
16. World Bank (2005b).
17. Lwasa (2004).
18. UN-Habitat (2007).
19. KCC (2007a,b,c).
20. Property tax collection is governed by the Local Government (Rating) Act 2005. The Act provides for the levy of rates on property by local governments within their areas of jurisdiction. However, the Local Government (Rating) (Amendment) Act 2006 has exempted all owner-occupied residential buildings in an urban area.
21. Kampala City Development Strategy (2003).
22. KCC (2007a).
23. World Bank (2005b). Earlier revenue enhancement strategies, which started in the 1990s, included contracting out of revenue management by promoting PPPs and divesting KCC of non-core activities.
24. KCC (2007b).
25. KCC (2007c).
26. The council currently employs 326 health staff, 639 regular council staff, 1,476 primary school staff, 1,043 secondary school staff and 94 tertiary institutions staff. There are also

several hundred pension staff. The teachers' bill is a delegated service that is handled separately.

27. Kampala CDS (2003); Interview with Kampala City Council.
28. Generally the national precedence for PSP is very limited. There were attempts to build toll roads in the 1990s, but the plans were discarded.
29. Interview with World Bank Kampala Office, and KCC.
30. Interview with KCC.
31. Households pay between USh10,000 and 15,000 per month for door-to-door emptying of their waste storage facilities.
32. Interview with KCC.
33. Interview with Kampala World Bank Office and KCC.
34. Ibid.
35. Interview with KCC.
36. Danida (2000).
37. Interview with Local Government Finance Inspectorate, and the Kampala Securities Exchange.
38. Interview with Kampala Securities Exchange.
39. Kitabire (2005).
40. *East African Business Week* (2007).
41. *People Daily* (2007). The NSSF, which is a mandatory contribution scheme, has an asset portfolio of USh800 billion in 2007. Apart from that, there are more than 50 private occupational savings schemes, with assets of about USh100 billion – these funds remain unregulated.
42. IFC (2007). The guarantee of US$10 million will enable the mobilisation of a total of US$40 million in local currency mortgage long-term funding for developing a sustainable mortgage market.
43. At the time of writing, the government is commissioning consulting services to strengthen the PPP environment and intends to set up a PPP unit.