

## UGANDA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: UGANDAN SHILLING (UGX)

## POPULATION AND GEOGRAPHY

**Area:** 241 550 km<sup>2</sup>  
**Population:** 42.863 million inhabitants (2017), an increase of 3.4% per year (2010-2015)  
**Density:** 177 inhabitants / km<sup>2</sup>  
**Urban population:** 23.2% of national population  
**Urban population growth:** 5.8% (2017 vs 2016)  
**Capital city:** Kampala (7.0% of national population)

## ECONOMIC DATA

**GDP:** 79.9 billion (current PPP international dollars), i.e. 1 864 dollars per inhabitant (2017)  
**Real GDP growth:** 4.0% (2017 vs 2016)  
**Unemployment rate:** 2.1% (2017)  
**Foreign direct investment, net inflows (FDI):** 699.5 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 23.5% of GDP (2017)  
**HDI:** 0.516 (low), rank 162 (2017)  
**Poverty rate:** 41.6% (2016)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Uganda is a presidential democratic republic with a governance system comprising national and local governments. The President serves as the head of the state and the head of government.

The Constitution (1995) provides for a system of decentralization and local governments, which is further consolidated in the Local Governments Act 1997 (Cap. 243). In an urban setting, there are City, Municipal, Division/Town, Ward and Cell Councils. In the rural setting, the government structure includes a District Council, County (which is an administrative unit without a Council), Sub-County Council, Parish Council and Village Council. The 1995 Constitution, Article 181(4) states that local government elections shall be held after every five years. The law requires that at least one-third of the council members at all levels be women. Lower level councils (sub-county/city division and below) also have quotas for councilors representing persons with disabilities and youth councilors representing the youth. Elections to the lower levels of the local government structure – village and parish – are conducted by secret ballot. The last election for district/city, municipality/city division, and sub-country/town councils was held in 2016. In July 2018, the government organized elections for village councils for the first time in 17 years. In both elections, the ruling NRM received the majority of votes.

Uganda embarked on an ambitious decentralization program in the early 1990s under President Museveni after emerging from a series of dictatorial regimes and civil wars. In order to achieve greater empowerment and a more responsive public sector, Uganda's 1995 Constitution provided for an extensive system of local government. Schedule 2 of the Constitution provided for the first time, a clear distinction between Central and Local Governments' roles. Since 2005, the tendency in Uganda seems to be one of re-centralization of powers and authority, as central government has become more assertive over local affairs, while the administrative powers and financial resources of local governments have been gradually eroded.

Despite a constitutional framework defining a strong, devolved local government system, there is a considerable gap between the de jure status of local governments in Uganda and the de facto degree to which Local Councils are able to control local affairs. Although local governments at the district level are corporate bodies with their own political leadership, their ability to plan and manage their own affairs is limited. For instance, on the administrative front, constitutional reforms in 2005 eliminated the right of Local Councils to appoint their own Chief Administrative Officers.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	127 districts + the City of Kampala* 41 municipalities**			
	316 021 inhabitants per district (w/o Kampala) 42 860 inhabitants per municipality 1 353 180 inhabitants in Kampala City			
	169			169*

\* This number does not include 6 districts to be created in 2019

\*\*This number does not include lower level local councils (LC3, LC2 and LC1), such as division, town, parish, and village

**OVERALL DESCRIPTION.** Uganda territorial governance structure recognizes five levels of Local Councils (LCs) below the national level. The lowest level is the Local Council I (LC 1), which corresponds to village (or in the case of towns or cities, a neighbourhood). The highest level is the Local Council V (LC5), which corresponds to an entire district and the City of Kampala. Intermediate subdivisions in rural areas include the Parish (LC2), Sub-County (LC3) and County (LC4). Urban areas have a somewhat different territorial governance structure (including City (LC5), Municipality (LC4) and Town Councils (LC3)) in a structure that generally mirrors the rural system. An important legal distinction should be made between Local Government Councils (corporate bodies empowered by the Local Government Act of 1997 where the council is the highest political authority in its area of jurisdiction) and Administrative Unit Councils (where councils serve as political units to advise on planning and implementation of local services). For instance, in rural areas, only the District Council and the Sub-County are Local Government Councils. In urban areas, only municipalities are Local Government Councils (LC4). Municipalities report to districts in whose territory they are located. The City of Kampala has a special status under Kampala Capital City Act (2010) and is managed directly by

the central government through the Kampala Capital City Authority (KCCA) which is the governing body of the Capital City headed by a cabinet minister for Kampala. KCCA includes the Lord Mayor who is elected by universal suffrage through a secret ballot but plays a largely ceremonial role.

In addition to the vertical fragmentation of the local government system, the structure of local governments in Uganda has become considerably more fragmented at the district level over the past twenty years as well. Since the early days of the NRM government there has been a trend for creating new councils by splitting the existing ones into ever smaller units. Uganda has moved from 33 original districts in 1986 to 45 in 1997 to 80 in 2006 and eventually to 127 as of 1st July 2018. This process is still under way as the Government plans to create six more districts in 2019 bringing the total number to 133.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Local Government Act of 1997 specifies the roles and responsibilities of local governments, separately for rural and urban local councils. Schedule 2 of the Act requires Local Governments to provide a broad range of services ranging from education to water provision and urban services. Furthermore, the Local Government Act specifies that numerous functions and services have to be devolved onward by district councils to lower local government councils (i.e. the Sub-County level in rural areas). In practice, however, the district level retains the bulk of service delivery responsibility over local services while in practice central line ministries often continue to be extensively involved in different aspects of local service delivery.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL (DISTRICTS)	
1. General public services	Civil status registry; Statistical office; Public buildings and facilities
2. Public order and safety	Fire protection; Civil protection; Criminal justice
3. Economic affairs/transport	Agriculture, forests and fisheries; Local economic development and promotion; Tourism; District and community access roads; Public transport and public vehicle parking
4. Environmental protection	Sanitation; Refuse collection and disposal; Cemeteries and crematoria; Slaughterhouses; Environmental protection; Consumer protection; Public parks, gardens and recreation grounds
5. Housing and community amenities	Town planning; Regional planning; Public lighting; Water supply (joint)
6. Health	Primary care (discretionary); Hospitals (discretionary); Health protection (discretionary)
7. Recreation, culture & religion	Theatres and concerts; Museums and libraries; Parks and open spaces; Sports and leisure facilities
8. Education	Pre-school (kindergarten and nursery); Primary and secondary education; Vocational and technical
9. Social protection	Family welfare services; Welfare homes; Social security

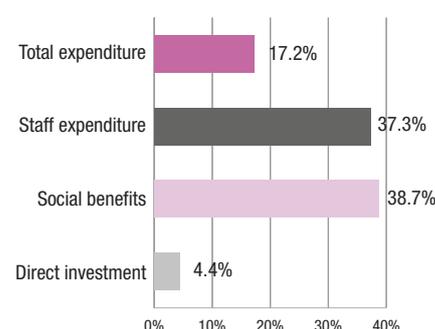
## SUBNATIONAL GOVERNMENT FINANCE

<b>Scope of fiscal data:</b> districts, municipalities, city council and town councils.	SNA 2008	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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**GENERAL INTRODUCTION.** The Constitution and the Local Governments Act allow Local Governments to collect revenue from a number of specified sources, formulate plans and budgets, allocate expenditure, and make investments in a wide range of services. The development budgets of Local Governments are invariably funded with conditional and equalization grants, a large proportion of which comes from external donors. The share of public sector resources being transferred to Local Councils has stagnated over time around 15%. A number of initiatives have been undertaken to deepen and consolidate reforms in Public Financial Management (PFM) in Local Governments which aim at further strengthening and sustaining accountability and transparency in public expenditure management. To date, the government has introduced an integrated financial management system in 22 district councils, one city and five city division councils. The Government also introduced a Local Government Performance Assessment System aligned with Intergovernmental Fiscal Transfer Reforms to increase the adequacy, improve equity and ensure efficiency of LG financing. The assessment was conducted in 144 district and municipal local governments in FY 2017/18.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>57</b>	<b>3.2%</b>	<b>100%</b>	
<b>Incl. current expenditure</b>	<b>53</b>	<b>2.9%</b>	<b>91.6%</b>	
Staff expenditure	31	1.7%	54.5%	17.2%
Intermediate consumption	11	0.6%	19.7%	
Social expenditure	2	0.1%	4.1%	38.7%
Subsidies and current transfers	8	0.4%	13.0%	
Financial charges	0	0.0%	0.0%	
Others	0	0.0%	0.3%	
<b>Incl. capital expenditure</b>	<b>5</b>	<b>0.3%</b>	<b>8.4%</b>	
Capital transfers	1	0.0%	2.1%	
Direct investment (or GFCF)	4	0.2%	6.3%	4.4%



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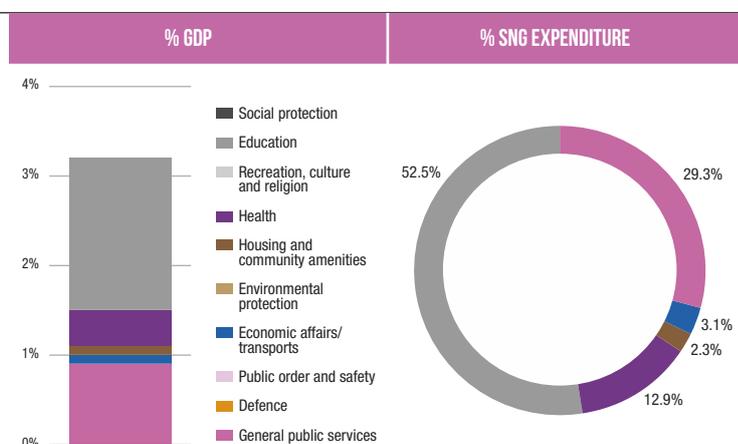
**EXPENDITURE.** Uganda has a low level of total Local Government expenditure per capita compared to other countries in the region including Kenya (PPP\$89.7), Tanzania (PPP\$93.7), Rwanda (PPP\$107.4) and South Africa (PPP\$1 728).

Subnational staff expenditure makes up over one half of the total subnational government expenditure reflecting the predominance of recurrent finance in the expenditure structure and minimal capital transfers and direct investment. The share of municipal annual expenditure averages 24% of the district expenditures but the variation is great and may be as low as 12% for Arua municipality or as high as 53% for Gulu municipality, reflecting in part the regional disparities in development and the Government's efforts to direct additional funding for underdeveloped regions.

**DIRECT INVESTMENT.** Subnational expenditure is characterized by a low level of direct investment (investment in nonfinancial assets) at 6.3% of the total. The main area of investment are roads, and this has been the trend for a number of years. There is no borrowing by local governments (because of the borrowing thresholds tied to annual own source revenue collection which is very low for most districts). There are no regulatory provisions for borrowing from capital markets. The Public Private Partnership framework is in place (the PPP Act was passed in 2015) but local PPPs are generally management arrangements whereby a private sector manages local governments assets (e.g., markets) and remits an agreed share of revenues/flat payments to local governments. There are no examples of local Build-Operate-Transfer-type PPPs.

#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The bulk of the subnational expenditure (52.5%) is in education, which is the biggest government employer at the local level. This is followed by general public services (29.3%) and health (12.9%). Taken together, these three sectors account for about 95% of all subnational expenditure. Noteworthy is the low expenditure in economic affairs/transport and housing/community affairs due to the lack of capital finance for local governments.



#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>60</b>	<b>3.3%</b>	<b>20.9%</b>	
Tax revenue	1	0.0%	0.3%	1.4%
Grants and subsidies	58	3.2%		96.3%
Tariffs and fees	1	0.1%		2.2%
Property income				0.0%
Other revenues				0.0%

**OVERALL DESCRIPTION.** Local Government revenues have been growing steadily from 2010-2016 at an average rate of 13.9% from UGX1 054.3bn in 2010 to UGX1 931.4bn in 2016. However, inflation during the same period averaged 8.4% annually, and the real increase in revenues was around 5.5% consistent with the average GDP growth. 96% of revenues come from Central Government transfers reflecting the low revenue base of local government.

The Government of Uganda has initiated a reform of intergovernmental transfers to local governments in four stages: 1) Interim Consolidation of Local Government Transfers (the number of Sector Conditional Grants was reduced to 13 in 2015/16); 2) Reform to Transfers for 2016/17 (consolidating and redesigning discretionary transfers, including the allocation formulas); 3) Reforming frameworks for accountability and strengthening incentives (introducing performance conditionality to lever institutional and service delivery improvements from 17/18 onwards); 4) Fiscal Decentralization Architecture & Share of Transfers (reviewing Local Government mandates and the overall legal and policy framework for local government revenues and expenditures).

**TAX REVENUE.** Local governments in Uganda can levy taxes and receive non-tax revenue as prescribed by parliament. In rural areas, the district councils set taxes and the sub-county councils collect tax and non-tax revenues on behalf of the various tiers of local government. In urban areas the municipal town councils set their own taxes, which are then collected by divisions of the city council and by town councils. A typical revenue structure is predominantly composed of direct taxes on personal income under Local Service Tax, wealth tax through property rates, taxes on consumption through user charges on services rendered, and production through permits, licenses, tax on agriculture production and business levies. In the recent past, taxes on property and user levies have become more prominent than direct taxes on personal incomes and wealth. However, a majority of the local revenue (particularly in districts) is generated from fees and

finances, taking on average nearly half of the total local revenues. Locally raised revenue is, by law, shared between district councils (35%) and sub-county councils (65%) as well as between city and municipal councils (50%) and their divisions (50%).

**GRANTS AND SUBSIDIES.** As a result of the recent reforms of the intergovernmental fiscal transfer system, the current grant system has been reduced to 10 grants for recurrent (wage and non-wage) and capital expenditures. 6 are conditional sector grants (Health, Education, Agriculture, Water and Environment, Public Works, Community Development), 2 are unconditional (District Development Equalization Grant and Urban Development Equalization Grant) and 2 are *ad-hoc* conditional grants (Support Services and Transitional Development) to be phased out at a later stage of reforms.

The allocation formula for the unconditional DDEG grants uses 5 criteria with differing weights for different local governments depending on their particular situation, namely: Conflict (5-3%), Constant (fixed allocation 10-5%), Rural Population / Urban Population (30% for rural and 72% for urban), Poverty Head count (50% for rural and 20% for urban), and Land area (5% for rural and 0% for urban).

#### OTHER REVENUES.

##### Tariffs and fees

User charges and licenses show some growth in the recent past. This may be an indication of the impact of increased rates for trading permits and licenses rather than efficiency in revenue management. However, it is evident from economic growth indices that there is an increase in trading premises and business in most of the urban areas in Uganda which in itself creates an opportunity for revenue expansion. The recent revision of rates for trading licenses and permits has made it difficult for some low income Local Governments to collect prescribed licenses and permits. Local Governments do not have the legal discretion to change these rates to suit local economies and in most cases no collection has been done. The growth in user fees indicates that there is more willingness to pay revenues that directly respond to services obtained and suggests that future reforms should focus heavily in the area of user fees or direct contribution to service costs.

##### Property income

Property taxes have grown slower than anticipated, at about 45% of the estimated potential. One of the reasons for this shortfall is the provision for exemptions on residential property for owner occupied residences. The cost of property valuation and the subsequent post valuation process costs have been unaffordable for most Municipalities and Town Councils who are legally prevented from collecting property tax without an updated property register. In 2013, the Local Government Finance Commission recommended that rural Local Governments should introduce a Property Service Tax (PST) by creating a bye law to assess all residential properties exempted under the rating Act. However, this proposal has not yet been adopted.

#### ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>0.3</b>	<b>0.02%</b>	<b>0.3%</b>	<b>100%</b>
Financial debt*				

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Fiscal rules require local governments to have a balanced budget and establish a maximum of 60% (of own generated revenues) for Local Government debt and guarantee loans. The Accounting Officer appointed by the Secretary to the Treasury (District Chief Administrative Officer or Town Clerk) is ultimately responsible for financial administration of a local government unit. The Accounting Officer prepares and submits half-year and annual financial statements, the latter being audited on an annual basis by the Office of the Auditor General.

**DEBT.** According to the Local Government Act (Schedule VI), a local government council may raise loans by way of debenture, issue of bonds, or any other method, in amounts not exceeding 25 percent of the locally generated revenue provided that a local government council demonstrates ability to meet its statutory requirements. For the City of Kampala, the borrowing threshold is established at 10%. Borrowing is subject to the approval of the Ministry of Finance and unqualified audit opinion for the preceding financial year. The Public Finance Management Act of 2015 allows the Minister of Finance to guarantee the repayment of the principal money and the payment of the interest and other charges on a loan raised within or outside Uganda by a local government council, subject to the approval of Parliament.

Currently, no debt and borrowing market exists for local governments. The depth and capitalization of Ugandan markets are low and there is no regulation on local government shares or bonds. The upside of this situation is that Ugandan Local Governments have no market loans or debts; their indebtedness consists of outstanding payments to providers of goods and services.



Lead responsible: UNCDF  
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**Socio-economic indicators:** World Bank // UNDP // UN DESA // ILO.

**Fiscal data:** IMF Government Finance Statistics // Ministry of Finance, Planning and Economic Development, Annual Budget Performance Report, FY 2016/17.

**Other sources of information:** Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // Commonwealth Local Government Forum. The Local Government System in Uganda. Country Profile 2017-18 // Ministry of Local Government Factsheet (2017) // Auditor General (2016) Financing of Local Governments in Uganda Through Central Government Grants and Local Government Revenues // Local Public Sector Initiative, Country Profile: Uganda 2010-11 // Local Government Finance Commission Review of Local Government Financing (2012) Management and Accountability for Decentralized Service Delivery.