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# Local Revenue Reform of Kampala Capital City Authority



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Mihaly Kopanyi

October 2015

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Kampala Capital City Authority

**Policy Note**

**Mihaly Kopanyi**

**October 2015**

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# Local Revenue Reform of Kampala Capital City Authority

## Executive Summary

**Remarkable Achievements:** The performance of the Directorate of Revenue Collection (DRC) over the last years shows that *own revenues can be substantially increased by improving the administration* without changes in the national legislation. DRC has not only *invested in the enhancement* of the revenue databases, administration and collection, but in parallel doubled revenue collection, 80% of which are from five revenue sources. *Many of the DRC's capacities and procedures today are comparable to capacities and procedures in revenue administrations of developed countries.*

**New Revenue Sources:** There are three revenue sources the DRC can tap into over time: *Taxing urban land*, which in other countries is often taxed with higher rates than buildings to increase revenue potential and improve urban planning and city development. Introducing *participation or development fees* to charge property owners for the off-site infrastructure, like roads, water, sewers, street lighting. Introducing *capital gain tax* for urban properties and providing KCCA with a share of that.

**Improve Cost Efficiency:** The *DRC needs to reduce operation cost of collection to the tune of 5% in the medium term.* Expanding the capacities of the DRC required substantial investments and increased operating costs. The investment costs were recovered within one or two years (exceptionally good results!) but the operation costs are high, in part because the DRC is still in transition.

**Institutional Modernization:** The DRC has completed fundamental modernization, but important steps still lie ahead, including but not limited to reforming the system for the property tax and the ground-rent, introducing operation procedures, training of staff, and procuring adequate equipment.

**Revenue Policy:** The KCCA needs to adopt and publish revenue policy annually or as needed. The DRC may elevate the revenue research unit to a *Revenue Policy unit*, since proposing revenue policy changes are among the most important functions for the DRC in coming years. Improving the scope and depth of revenue forecasting is among the important steps to support policy formulation.

**Legal and Institutional Constraints:** Discrepancies between and gaps in laws and regulations constrain KCCA in substantial revenue reform steps. Options for corrective actions include the followings:

- **National Legislation:** KCCA needs to promote and lobby for changes in national legislations like: changing the owner-occupancy exemption to a value-based and target community exemption, tax urban land, or introduce capital gain tax on urban properties;
- **KCCA Byelaws:** KCCA may issue byelaws or Ministerial Orders to fill gaps in the legal and regulatory framework; the revenue policy statement to stipulate the mass appraisal is a good example;
- **DRC Administrative Rules:** Several gaps can be filled by DRC administrative actions. For instance, before the next mass valuation, declaring that all properties within the KCCA jurisdiction are subject to valuation regardless of their legal status;

**Comprehensive Registry and Valuation Program:** KCCA has adopted a comprehensive registry and valuation program that combines developing a City Addressing Module (CAM) and a mass valuation program (CAMA) in three phases. There are implementation challenges and options to consider.

**Urban and Fiscal Cadaster:** Developing an urban and a fiscal cadaster for KCCA are important tasks, in particular because the cadastral map of the national land cadaster does not include the buildings, the infrastructures, and the superstructures;

**Data Shortage:** The mass valuation may be hampered by the severe shortage of rental data in many valuation zones of KCCA. Mitigating this requires *sophisticated procedures and expertise* or considering moving to a *hybrid valuation system* where CAMA coefficients and unit taxes are estimated from rental values but attached to and levied on the square meter area of the properties.

**Capacity shortage:** The KCCA units seem to face shortage of human capacities, expertise and experiences to complete the upcoming registry and valuation program timely and with high quality. Attempting to complete all due tasks with the existing in-house capacities and procuring only some software *may jeopardize the timely completion* of the city addressing and mass valuation program. To mitigate shortage risks there are two advisable options to consider. These options are not mutually exclusive, rather can be done in parallel or in sequence.

- **Hire a CAMA advisor** to guide, train, and control local teams, propose data collection modalities, guide collection, propose CAMA models, lead CAMA analysis, and support drafting the valuation roll. The advisor can play pivotal role in drafting ToRs and guiding the selection of general contractors or other target contracted firms as she/he may deem necessary. Hiring a CAMA advisor is urgent, and is strongly advised..
- **Hire a General Contractor Firm** to complete CAMA with substantial tasks assigned to KCCA or other national teams and subcontractors. The firm would be responsible for design and full implementation of CAMA modeling and selection and estimation of tax value zones and coefficients at least for the first phase of CAMA, and training KCCA staff in classroom and on-the-job forms alike.

**Train Staff:** KCCA needs to put high emphasis of timely sensitizing and training of staff involved in the registry and valuation program. The training may include study tours, class-room training in Kampala, attending training workshops abroad and systematic on-the job training during CAMA implementation. Trainings should start as soon as possible and should continue during the procurement of CAMA firm and/or advisors. Besides the planned study tour to Cape-Town, it is advisable to pay a visit to Vilnius city and learn from the Lithuanian experiences with CAMA and advanced e-governance systems.

# Local Revenue Reform of Kampala Capital City Authority

## A. Introduction

1. This policy note summarizes the analysis of the revenue performances, capacities, and plans of the Kampala Capital City Authority (KCCA) and particularly the Directorate of Revenue Collection (DRC). Since establishment of the KCCA in 2011 the DRC has completely refurbished Kampala's revenue management and administration system, substantially increased revenue collection in most of the revenue sources, and outlined plans for further important and overarching reforms. Completing a mass valuation of the taxable properties and updating the overdue 2005 tax roll is among the most significant and challenging tasks ahead. This note aims to support the DRC's endeavors by identifying specific options in several areas based on international experiences and the analysis of the local situation. The key message of the note is that the KCCA revenue reform is on track, the KCCA top executives have clear vision for future development, and the DRC staff are qualified and committed to complete the reform.

2. The case of KCCA and DRC shows best-practice examples of improving revenue administration. DRC has not only selectively and gradually *invested in the enhancement* of the revenue databases, procedures, administration and collection, but in parallel substantially increased effective revenue collection that shows *solid outcomes*. This is a sharp contrast to many developing countries where revenue enhancement reforms take a long time, but show moderate results against substantial investments. DRC has built the fundamentals for further revenue reforms and by selecting the adequate options. It has solid capacities to timely complete the next phase of revenue reform and graduate the DRC to a higher class of revenue administrations, among the best in Africa and the developing countries.

## B. Revenue Reform–Progress and Achievements 2011-15

3. ***The Directorate of Revenue Collection:*** DRC was established in 2011 and soon filled with experienced staff, many from various Government agencies, including, but not limited to, the Ministry of Finance, and the Uganda Revenue Authority. The staff compensation has subsequently increased to ensure staff stability and motivation. Finally, a number of key revenue collection reform measures have been implemented. As a result the level of professionalism in most fronts of revenue administration and collection has substantially increased; *many of the DRC's capacities and procedures today are comparable to capacities and procedures of revenue administrations in developed countries.*

4. ***Remarkable Revenue Increase:*** The said changes on the revenue administration have resulted in an exemplary increase of over 100%<sup>1</sup> of own-source revenues (OSR) from SHS41bn to SHS85bn between 2011/12 and 2014/15 fiscal year. At the same time, the share of OSR compared to the transfers has increased from below 40% to above 60% (Figure 1), and the share of OSR in total revenues, including the donor funded development revenues, increased to the tune of 30%<sup>2</sup> despite large increases of donor funds. The latter is a remarkably good share in developing countries, where OSR often stays around or

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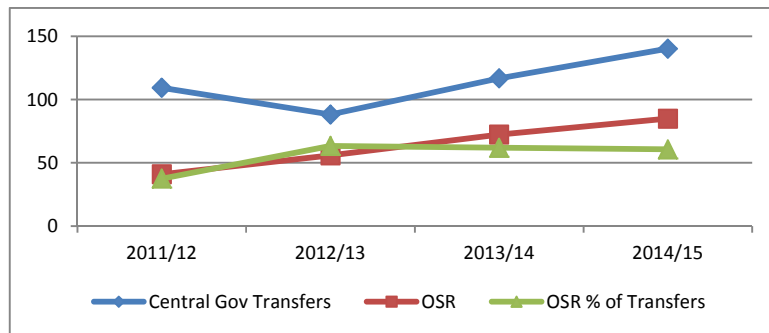
<sup>1</sup> Local revenue reforms in developing countries often aim and achieve a good 10 percent annual increase of OSR, hence donors often consider an about 50% increase in five years as successful reforms.

<sup>2</sup> Kigali City in Rwanda is a good example and perspective for KCCA since the City of Kigali and its three districts univocal collect over 50% of revenues from own sources. But this is truly exceptional in Africa and among the cities in the developing world (Kopanyi 2015).

below 10% of total revenues even in countries that are larger and more developed than Uganda (like India and many African countries).

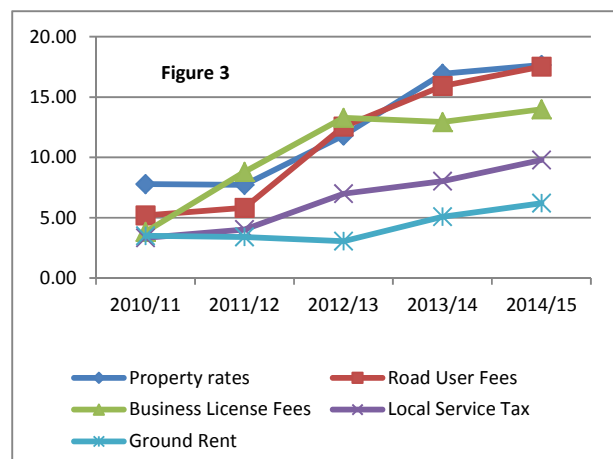
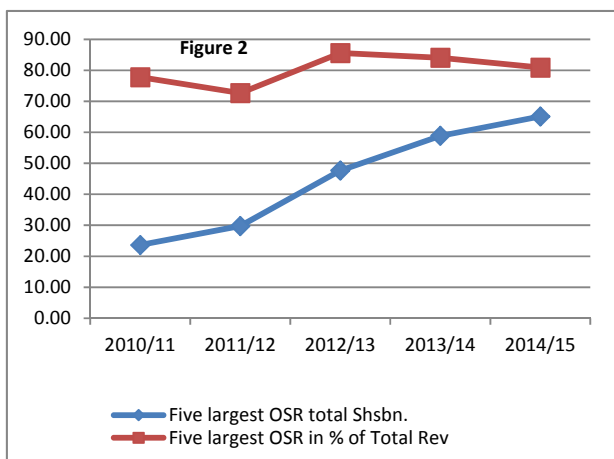
5. **The steady growth of OSR** followed immediately from the gradual implementation of revenue administration improvements; thus the revenue improvement is not only remarkably large, but also seems *sustainable*. Furthermore, the current results create a solid base for further improvement of the OSR and the DRC specialists have already identified specific steps that will be discussed below.

Figure 1 Transfers and Own-source revenues 2011-15



Source: KCCA-DRC

6. **The DRC achievements** reconfirm the key messages from leading scholars, namely that *the OSR can be substantially increased by improving the administration* without changes in the national legislation; which are often difficult, impossible, or unnecessary and are often used by local governments as an excuse rather than the real reason for the lack of their actions and results. Soon after establishment, the DRC team started analyzing each of the revenue sources to find out the underlying reasons and impediments to revenue increase; and very rightly often found simple and obvious issues like *unreliable databases, poor technology, and lack of clear procedures*; and then looked at the rates and fees in the context of the above. By focusing on improving databases, spreading the tax base, and improving collection procedures, the DRC increased OSR substantially in parallel with *improving the fairness* of the various revenue collections.



Source KCCA-DRC

7. **Focus on Main Revenue Sources:** The DRC also provides a good example for the other fundamental advise, namely to *focus on a short list of large revenue sources* and on the large tax-payers and large defaults. The five largest revenues already represented a high share in 2011, but further improved and moved above 80% of total revenues (figure 2), because as a result of general improvement of the revenue administration many other revenue items (like land and building permit fees) have also increased. Another best-practice example is that the property tax revenues are on the top (Figure 3) among large revenues despite the fact that the real property tax reform with revaluation of properties and expansion of the tax base are still only in plans for the next 5 year time period. Thus the present increase is purely a result of better administration, timely and good communication with tax-payers (see Box 1), an improved revenue database, and introduction of easy-to-use payment instruments the eCitie program.

**Box 1 Example of Communication Rules**

PUBLIC NOTICE TO ALL CURRENT AND PROSPECTIVE BUSINESS PROPRIETORS/ TRADERS

Pursuant to Section 8 (1) of the Trading License Act Cap 101, which states that **"no person shall trade in any good or carry out any business unless, he/ she is in possession of a trading license granted to him/ her for that purpose under the Act"**, KCCA herewith reminds all businesses in Kampala that all licenses issued for the calendar year 2015 will expire on the 31st December 2015. Section 24(3) of the Income Tax (Amendment) Act 2015 Act provides that: **"Every local authority, Government institution or regulatory body shall require a taxpayer identification number (TIN) from any person applying for a license or any form of authorization necessary for purposes of conducting any business in Uganda."**

KCCA therefore informs all esteemed clients who are doing or intending to run businesses in Kampala, but are currently not in possession of a Taxpayer Identification Number (TIN) to approach our URA Division offices or KCCA division offices to be facilitated/advised with the process of acquiring the TIN. All 2015 Trade licenses Must be acquired by 1st January 2016 to avoid any likely inconvenience that might be occasioned. Trade licenses will only be issued to businesses which will have complied with all legal requirements including Public health and Physical Planning Acts and also those in possession of the TIN.

KCCA shall take no liability for the delays occasioned to clients who will have paid for licenses but unable to access their Trade licenses due to absence of TINs.

All those without TINs are therefore advised to obtain them before the end of December 2015.

**Management**

(source: <http://www.kcca.go.ug>) October 15, 2015

## New Revenue Sources

8. **Possible new Revenue Sources:** KCCA collects over a dozen tax and fee revenues. The five largest revenues as said provide for over 80% of total revenues, besides there are 3-4 substantial revenues and the rest includes very small revenues aimed to cover transaction costs (certificates stamp duties). There is substantial room for improving revenues in the five main sources; however, there are a few opportunities to levy more new taxes or impose new fees, including *taxing vacant urban land*, charging property owners with a *development fee or participation fee* to contribute in developing trunk infrastructure, and introducing a capital gains tax and providing KCCA with a share of it. All of these revenue sources are very common not only in developed but increasingly in developing countries.

9. **Taxing urban land** is not only part of the urban property tax regimes, but local governments often set higher rates for vacant urban land. The supporting arguments include: reducing land speculation, incentivizing land mobility and development and better use of urban land that is a scarce resource. In short taxing land is not only a revenue issue, but also a prime urban planning and development tool, thus it is more important to KCCA than just a new source of revenue. In medium to longer term, KCCA should plan and may lobby for changing the national legislation or allowing KCCA with reference to the KCCA Act to impose taxes on vacant urban land.



10. **Development fees:** KCCA is on the verge of substantial development of the trunk infrastructure like roads, water and drainage lines, street lighting, side-walks and parks, solid waste collection, and organizing the public transportation. It is a public secret that the said new infrastructure increase the value of the adjacent properties; not only marginally, but manifold value increases are common. Cities around the world are increasingly approaching these large private benefits and transform a portion of them into public revenues which then can be used for further development with a one-time fee. The forms and ways include: betterment tax in Latin America (Ochoa 2011), development fee in South-European transition countries charged to the large housing, commercial, or industrial developers<sup>3</sup>, or 50% participation fee for road construction in Jordan. Rwanda has just introduced a participation fee too.

11. KCCA needs to explore legal and administrative opportunities to charge participation fees in case of major infrastructure developments. KCCA spends about a third of its annual budget for infrastructure development, and thus presumably generates very substantial private benefits, making it fair to charge the private beneficiaries. The development or participation fees are very different from country to country, but often are limited to a small percentage of the property value. Experience suggest that it is relatively easy to get acceptance of the development fee if it is discussed with the impacted community in the design phase of infrastructure projects (Ochoa 2011), but very difficult to levy after completion of the infrastructure.

12. **Capital gain tax:** Capital gain tax is levied in much of the world and includes gains in both real properties and financial assets. For real properties the gain is levied on the net value increase between the procurement and the divestiture of the property. It is often limited to a certain number of years like 5 or 10; means no capital gain tax is levied after holding the property for over 10 years. The capital gain tax is typically a national income tax, but a portion like 50% can be shared with the host local government. The only difficulty is that clear records of ownership transfer and transaction value records are required. This is again a medium to long term target for KCCA since it may require changes of national legislation, but also the development of the land cadaster with sufficiently complete transaction records. In many countries the Land Cadaster offices review and validate the presented transaction contracts and establish a higher value base in case the contract is found to reflect undervaluation of the property. These kinds of procedures could be used in Uganda to mitigate the informality of property transactions and lacking value records. Compared to the development fee, the net capital gain tax does not burden the owners at the time of the virtual gain (due to infrastructure development) but only when these gains are monetized at the time of divestiture of the property.

## Budget Performance and Cost Efficiency

13. **Budget performance:** Finally, after years of Kampala's chronic budget deficits in the 2000s, the KCCA has stabilized its budget, managed to gain an operating surplus, despite the facts that transfers from central government often fell substantially below predictions (KCCA plan/actual budgets 2011-2015). The 22% operating surplus is a stable result (table 1); albeit it might be less, since some part of the central government transfers appear to be earmarked development grants and thus should be

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<sup>3</sup> The Turkey Act on Municipal Revenues stipulates Participation Charges for Road, Water and Sewage Expenses. Up to 100% of expenses can be recovered from property owners; but effective collection is restricted by the rule that no more than 2% of taxable value can be levied. (Law 2464/2010, Articles 86-89). Participation revenues provide for about 2-5% of total municipal revenues. (Turkey case study 2015). With a similar share as in Turkey, the participation fee could generate about five to ten billion SHs annually in Kampala.

moved down to the capital budget<sup>4</sup>. The stable results justified the *first credit rating in Uganda's history* that was completed and announced on May 7, 2015, and KCCA was rated in the national rating as 'long-term A' and 'short term A-' by GCR international rating Agency Johannesburg<sup>5</sup>. These steady improvements are not only important to finance better services, but will also open the perspectives for KCCA borrowing or issuing bonds with preferential conditions supported by its good investment grade ratings that should be sustained in the coming years.

14. **Cost of Collection:** The DRC has analyzed the cost of revenue collection between 2011 and 2014 defined by total cost of the DRC over annual collection and found that the cost of collection has increased nine-fold. This might be considered as a shocking expansion of costs; however, the situation needs deeper analysis. First, the baseline reflects a situation with very limited administration capacity, extensive outsourcing of collections to private collectors, and missing fundamental investments. In short it was a low-cost but unsustainable collection. Second, the DRC needed and still needs more basic investments to establish systems and capacities. These investments should be compared to the collection impacts, and experiences suggest that the investments in revenue collections should be recovered in 3-5 years. In contrast, DRC's investments were largely recovered in one year! Furthermore, some operating costs can also be considered as one-time investments. The expected substantial investment in completing a mass valuation of properties includes procuring some assets, consulting services, and temporary labor. These are one-time expenditures that do not represent the running costs of the DRC. They might be recovered over 4-5 years, thus need to be considered as investments when measuring DRC cost efficiency.

Table 1 KCCA Budget SHs bn.	2014/15
OSR	85.0
Central Government Transfers	140.3
Operating Revenues	225.3
Operating Expenditures	184.8
<b>Operating Balance</b>	<b>40.5</b>
Self-financing from op balance	1.2
Grants from Donors	78.7
Development budget revenues	79.9
Development Expenditures	79.9
<b>Development Balance</b>	<b>0.0</b>
Transfer to Treasury	0.2
<b>Balance total</b>	<b>39.1</b>

Source: Author based on KCCA budget

15. **Operating-cost efficiency:** The cost efficiency needs to be measured by comparing the operating expenditures<sup>6</sup> to the total collections. In this regard DRC shows much better results, albeit still high costs. The cost of operation moved from 1.1% to 11.21% of collection by 2014. Assuming operating costs of collection for 2014/15 to be similar to the 2013/14 level and comparing it to the actual collection of 2014/15, the cost of collection drops to 9%. However, since the DRC is still in transition costs still include extensive "one-time" works in many revenue sources to develop databases, verify taxpayers and due taxes, and introducing new procedures (discussed below). In the longer term the cost efficiency of regular operations is expected to improve substantially.

16. **International experiences** suggest that collection of local urban taxes and fees are much more expensive than the collection of indirect national taxes (VAT, CIP, PIT), and often are in the tune of 5-10%. For instance, the Rwanda Revenue Authority has taken over tax collection from local governments

<sup>4</sup> KCCA does not use this basic budget format, albeit it would be useful since the rating agencies use this approach in assessing the budget performance.

<sup>5</sup> Johannesburg, 07 May 2015—Global Credit Ratings has today assigned first-time national scale ratings to Kampala Capital City Authority of A<sub>(UG)</sub> and A1<sub>(UG)</sub> in the long term and short term respectively; with the outlook accorded as Stable. The rating(s) are valid until 05/2016. (<https://globalratings.net/news>)

<sup>6</sup> The investment costs are factored in by accounting the depreciation of the procured assets.

and charges them with a 5% commission fee. The Greater Amman Municipality collects property tax and traffic violation fees for several large cities (e.g. Aqaba) and deducts 10% commission. In the light of these. In light of these, the *DRC needs to reduce operation cost of collection to the tune of 5% in medium to long term*; this could be nearly automatic if some tax rates are increased and some tax bases are expanded.

## Shortcomings and Challenges

17. **Databases:** DRC is in transition; thus in parallel with substantial improvements there are constant and gradually emerging shortcomings and DRC is well aware of most. Among these the most significant include: a) The property valuation roll is outdated back to 2005; The property tax base is outdated and no new properties have been added to the tax net since the last supplementary valuation 2009; there is a disconnect between the Planning and the Revenue departments and there is no standard procedure to capture new properties in the tax net; properties with unclear legal status or properties that have been built informally are not captured in the tax net. b) The ground rent database is heavily outdated (said to be 98% incorrect), needs revisions, revaluations, verification of renters or users, and revision and/or renewal of contracts.

18. **Internal procedures:** Several internal procedures are still to be developed, taxpayers' registration and revenue management (registrations, billing, and payments) need to be simplified. a) Policies and procedures for effective collection and clear accounting of arrears are to be established, and proposal to be drafted for writing off arrears over 6 years overdue. b) Unclear legal framework and missing implementation rules unnecessary narrow the tax bases and hamper taxpayer identification, registering, billing, and collection. c) Training of DRC staff is behind the needs and no comprehensive training plan has been drafted and budgeted. d) There is a shortage of adequate equipment (cars, phones, office space). How to address shortcomings is discussed in the following sections.

## C. Legal and Institutional Framework Achievements and Opportunities

19. **Institutional Modernization:** Developing the institutional framework has been exemplary, consistent, strategic, and result oriented. The DRC has established in-house capacities for revenue management with a radical departure from the former private revenue collection practices<sup>7</sup>. The DRC has appointed focal persons for key revenue issues and sources; and adopted a state-of-the-art organization (Figure 4), including two units: the *Collection* and the *Business Support and Compliance Units* (see Organogram). (i) Under *DD Collection* one *Revenue manager* oversees 3 units: *collection* (122 persons) in which separate teams are formed for *taxes* and for *fees*, *Valuation* (7p), and *High-value collection* (6p). (ii) Under *DD Business Support and Compliance* Management there is a *Compliance inspectorate* that includes 3 teams: *Objection and appeals* (3p), *Audit and risk management* (3p), and *Arrear management* (6p). It is very adequate that the unit for collection of arrears is under the compliance inspectorate and it is segregated from the collection of regular taxes and fees; sharp contrast to most developing countries where arrears are managed together with regular collections and results are reported in mix.

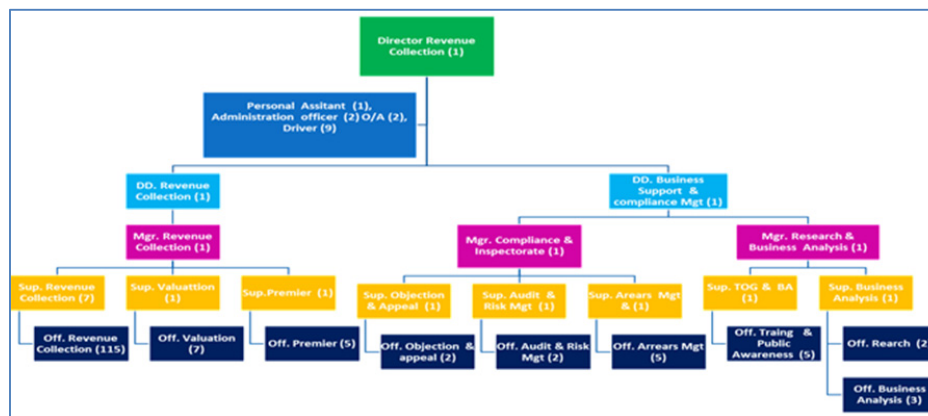
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<sup>7</sup> Under the Kampala City Council most of own revenues, including property taxes were collected by contracted private collectors with low efficiency.

## State-of-the-art organogram

20. **Research and Business Analysis:** Finally, the DRC established a *Research and Business analysis Unit* with an office of *training and public awareness*, and an office of *research and business analysis* – uncommon practice in developing countries. The Research and Business analysis unit seems to have played a pivotal role in completing critical studies, drafting operation procedures, projecting revenues, and proposing revenue measures. These have been of crucial importance in feeding top management with fundamental business information and supporting informed decisions. The DRC may consider elevating the business analysis unit to a *Revenue Policy* unit with teams responsible for research/analysis, and *propose business strategy and policy formation*. This unit has been working already like the explained policy unit; it has developed numerous policy proposals many of which have been implemented and played substantial role in the revenue achievements.

Figure 4 DRC Organogram 2015



## Revenue Forecasting and Projections

21. **Revenue projections:** The DRC has adopted a culture of systematic revenue projections<sup>8</sup> based on verifiable baseline figures, specific actions, and projected changes of tax base or rates. This advanced procedure is common in developed countries, but quite uncommon in developing countries. The DRC may consider to take one step further up, namely to *develop rolling five-year revenue forecasts with annual revenue plans* for the upcoming fiscal year. The reason behind this suggestion is that several actions in the revenue modernization can be completed over 2-3 years and impact the revenues gradually in medium term. The planned mass valuation of properties is a good example of such a gradual program. But the last 4 year results in DRC show that nearly all reform actions have gradual revenue impacts. Revenue investments should fully recover in 2-3 years. Thus the multiyear revenue forecasts are also important to plan and communicate well, that the bulk investment costs of some revenue reform actions are expected to increase revenue in the medium term.

22. **Reasonable projections with large variations:** The 2013/14 and the 2014/15 revenue plans are generally good and eventually resulted in steady and substantial growth of collection, but the performance reports indicate areas of weaknesses. It is good that the plans use serious assumptions and calculate the revenue impacts precisely; however, results indicate that many important assumptions

<sup>8</sup> This tradition is a legacy of the 2004-2008 revenue reform that developed a financial recovery action plan (FRAP) under the KIIDP 1 World Bank project.

have become inadequate over time and thus the plan/actual performances show large variations. With few exceptions plan/actual performances<sup>9</sup> were either above (some far 150-190%) or below (some far 50-70%) of targets in 2013/14 fiscal year. The variances reduced by size, but moved towards underperformance with an average of 85% by June 2015. The initial projections were generally quite reasonable and numerically correct, but situations have changed. The revenue projection procedures and the sophistication need to be further enhanced.

23. **Revenue planning and forecasting procedures need to be refined.** There are several specific actions that can improve revenue forecasting and planning: (i) *More careful review of assumptions* and particular those actions or events that are beyond the control of the DRC; approval of increasing rates for taxes or fees are good examples. The 2013/14 plans included increasing: the property rate from 6 to 10%, parking fees by 50%, market rates by 200%, and outdoor advertising fees by 100%; however, the upper bodies approved neither of these proposed increases. (ii) Avoid multiple and radical rate increases in one year, since they have strong policy and political implications. (iii) Radical rate increases should be proposed with a supporting policy analysis and dialogue to explore the impacts, and help calibrating the magnitude of the changes. (iv) Use radical fee/tax rate increases first in medium term forecasts. The proposed increases above were presumably justified, and thus would be good to use in a medium term forecast, but not for a next year plan. (v) Start communicating the proposed rate increases the earliest possible in the planning cycle, and prepare a revised revenue plan after information on the reality or specific decisions validate the used assumptions.

**Box 2 Policy analysis and revenue reform proposals by Research & B. Analysis Unit**

**Reports**

- Annual Revenue performance report 2013/14
- Cost of Revenue Collection 2011/12-2013/14
- Revenue performance by sources 2010-15
- Revenue targets 2015/16

**Strategy Proposals for 2015/16**

- Arrear recovery: large debtors, government agencies
- Taxpayer registers: trading license and local service tax
- Verification of ground rent register
- Operationalize Road user fee statutory instrument
- Revenue audits
- Automate more Administration processes (Local service tax, hotel tax)
- Tax-payer sensitization
- Staff training
- Increase fees: street parking by 50%, building plan fee by 150%, outdoor advertising fee by 100%

## Revenue Policy

24. **Need for Formal KCCA Revenue Policy:** The above forecasting challenges underscore the need for the DRC to draft and propose for approval a *KCCA Revenue Policy* that includes the policy issues and decisions for a coming year. Changing of revenue bases and particularly rates are key elements of such revenue policy that needs political support and high level approval that are beyond the authority of the DRC. The DRC still needs to be very ambitious and innovative in proposing revenue changes; but also needs to be aware of the fact that this is a part of a political game. The proposed rate increases discussed above failed to reach political support and formal approval. Politicians are typically unenthusiastic in supporting rate increases; but they are more so when no strong supporting arguments and reality checks are attached to the proposals. The DRC draft proposals should always take short and longer term perspectives into account; for instance it is not advisable to increase the tax rate when the tax base is full of loopholes and the revision of the taxable values are in the plans. An increase of the

<sup>9</sup> Annual revenue performance report 2014 and 2015, KCCA-DRC Research and Business Analysis unit

property rate in 2014 would have been unfair for those who are in the tax net when tens of thousands are unregistered and non-payers and the valuations are 10-year old.

25. **KCCA Revenue Policy:** The KCCA Revenue Policy can be a document published annually and attached to the KCCA annual budget documents. The higher bodies of KCCA (Council and/or Minister) should approve the revenue policy document and publish it with adjacent statutory instruments as may deem required. For instance, the planned mass revaluation of the properties can be approved with specific programs, phases, steps, and details and published in the Revenue Policy before commencing the effective revaluation (the preparation need no announcement). For instance, statutory instruments or Minister’s Decrees will be required to declare the move from individual to *Mass Valuation* and declare the required new tax registers the *sole base of taxation* and mass valuation results legal<sup>10</sup>. Likewise many other revenue rate or base decisions that require Council approval could be part of the Revenue Policy (the Public announcement in Box 1 is a good example). A number of other possible policy decisions will be discussed below.

**Table 2 Median monthly rental values SHs/month**

Divisions	Current/ actual 2013	KCCA Tax data 2005	Increase %
Central	325,000	350,000	92.9%
Kawempe	220,000	71,917	305.9%
Makindye	300,000	101,333	296.1%
Nakawa	450,000	136,649	329.3%
Rubaga	190,000	48,833	389.1%

Source: Business Synergies Consultants report 2013

26. **Rate and Base Policy Challenges:** Completion of a new valuation after 12 years will increase the tax base so substantially, that KCCA may need to reduce the rates in order to make the reform politically acceptable. A field survey of property samples compared the 2013 actual rental values to the 2005 property roll values of the same properties in five divisions (Table 2).

The sample indicates that KCCA may face a median increase of up to 300% (or even much more in 2017-18) of new valuations compared to the 2005 outdated roll. This is not surprising, since substantial subsequent inflation and economic growth has changed the property values and the rental fees significantly. The indicated dropping of the rates in the Central division is against the said logic and could be either a sampling error or real and thus need further scrutiny; in particular because much other evidence shows that the economic boom was more robust in the central division than the others in general (half of the large buildings seem to be built after 2005). There is no strong evidence of oversupply of rented properties that would explain a part of the lower rental rates. These are among the key issues that need to be taken into consideration in planning and regulating the foreseen mass valuation program that will be discussed below.

**Box 3: Some reform measures and outcomes**

- Audits; 37 revenue audits were conducted in 2013/14 (SHs1bn. extra revenue collected);
- Segmentation of large taxpayers in property rates and ground rents (SHs10bn extra collection);
- Collection of arrears from large debtors (SHs2.6bn. extra was collected);
- Improved taxpayers registration by sharing databases and joint field operation with URA and URSB:

<sup>10</sup> For instance references to the Rating Act 2005.

## Improvement in Revenue Administration

27. **Improvements in Revenue Administration:** The KCCA has made remarkably substantial improvements in the revenue administration; this exemplifies that the power of revenue collection relies on a good administration and institutional framework. First of all, the KCCA established the DRC with state-of-the-art organization structure and experienced staff. The adequacy of staff, number, skill mix, and the respective provision of equipment has substantially improved, but it can be seen as a moving target and need to be revised in the light of the emerging development and sophistication of the DRC. Second, the DRC has produced an exemplary magnitude and broad scope of reform measures in line with the best international practices (Box 3). Significant progress has been made in revenue automation and introducing the e-Citie program for easy registry and payment systems, simplification of revenue processes, business license revenue database improved and rules adopted; dozens of revenue audits completed with substantial impacts on collections; customer's satisfaction survey completed to measure areas of weaknesses on complaints management, standard procedures for complaints management adopted, customer sensitization plans and campaigns conducted.

28. **Improved Taxpayer communication:** DRC established or enhanced procedures for tax-payers' education, communication; establishing an internet based revenue help center with internet access (Box 1), and team for systematic revenue analysis and projections. These units not only depict a healthy and consistent structure of a good revenue directorate, but have already completed important analyses to explore issues and improvement options with specific revenue enhancement proposals; many of which have been implemented in due course (Box 4).

29. The example list of actions well underscores the fact that revenue collection improvements require first, identifying and implementing very specific and adequate actions; second, institutional improvements that make the results sustainable; and third, strong and clear political support from the KCCA high leadership level.

30. The most substantial actions ongoing and foreseen short term include:

- **Revenue Administration:**

- Continue the automation of the revenue administration, including the e-Citie program, and reduce manual processes to the bare minimum;
- Verification and revision of revenue databases;
- Segmentation of small and large taxpayers with specific focus on large payers and large debts, including discussions with the Ministry of Finance on overdue taxes by government institutions;
- Improve revenue bases by agreeing on information sharing with partner authorities (URA, USSB, NSSF) especially on trading license and local service tax registers (TREP Project). ;
- Policies and programs for systematic collection of arrears are necessary; Such policies might include writing-off of arrears that are over 5 years and hard to verify;
- Communication campaign,
- Revenue Audits;
- Training of staff;

**Box 4: Revenue Help Center –**  
downloadable documents at KCCA site  
Trading License step by step guide [PDF]  
Trade License FAQs [PDF]  
Local Hotel Tax FAQs [PDF]  
Local Service Tax FAQs [PDF]  
Trading License Rates  
Grade of Business Areas  
Revenue sources

*Source: KCCA website*

- **Property rate:** Planning and timely commencing the mass valuation of all properties in Kampala in the next 3-5 years;
- **Ground Rent:** The ground rent database has been found to be extremely outdated. There is an urgent need for revision of the Ground rent database, including revaluation of properties, verification of leases and uses, and revision of contracts;
- **Trading license:** Revision and improving tax registers with shared information;
- **Local Service Tax:** Revision and improving tax registers with shared information;
- **Business License Fees:** Maintain new system (see box 1);
- **Legal and Institutional Modernization:** Review laws and regulations, fill the gaps with KCCA byelaws, Ministerial Orders, Revenue Policy Statement, or Administrative Procedures;

## Legal and Institutional Modernization

31. **Legal-Institutional Challenges:** The KCCA and DRC have been faced with challenges emerging from the legal and institutional framework that sets the stage and often limits actions in revenue management modernization. This is not unique to Uganda; local governments especially in developing countries are often faced with similar challenges, including discrepancies between various Laws and gaps in the legislative framework (missing rules and regulations). The KCCA and specifically the DRC has reacted to this situation very well so far, lobbying for changes of national Laws (Road User Fees statutory instrument and Revised Trading License Act) and introducing internal rules and procedures.

32. **Legal modernization options and challenges:** The mentioned discrepancies and gaps in the legal and regulatory system impede some major modernization opportunities for KCCA. The only way for KCCA or DRC to approach these is to analyze impacts, propose changes, and lobby for changes in the national legislative framework. There are, however, numerous gaps that can be filled by local byelaws (KCCA Ordinance) KCCA policies, or administrative procedures initiated by DRC. Needless to mention, some measures require longer preparation or longer time to achieve changes in national legislation. Repealing the owner-occupied and the urban land exemptions or moving from rental value to market based property valuation can be planned and expected in the longer term. In contrast, the KCCA administrative procedures or even byelaws can be adopted in the short and medium term. Several discrepancies and gaps have been identified in a detailed study by the Business Synergies Consultants<sup>11</sup> 2013; the following analysis and proposals are largely based on this study.

33. **Limits by National Legislation:** There are discrepancies between the Local Government Act, the KCCA Act and the Local Government Rating Act; these have been well known for years with minimal corrective actions. Among these issues the most important include: a) unclear limits for the competency of the KCCA Council and Minister in the Local Government Act, since KCCA is not a local government, rather a quasi-corporate entity under the central government; b) The Local Government Rating Act sets the rental value as revenue base, and the Rating Act Amendment 2006 stipulates tax exemption of owner occupied properties, and exemption of urban land. These are examples for cases when KCCA may initiate changes and may lobby, but has no power to change laws directly. Consultations suggest that the Local Government Finance Commission has taken steps towards changing the owner occupancy tax exemptions. Indeed, this exemption reduces the tax base for KCCA, in the meantime it creates substantial administrative burden and cost, since KCCA needs to prove if a property is found to be rented. An equitable solution could be to change the owner occupancy exemption to a value based and

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<sup>11</sup> The study was initiated and financed under the preparation of the KIIDP2 World Bank project that supports KCCA in infrastructure and institutional development.



specific social exemption: exempt properties below SHs10,000 rental value and properties in specific slum zones, for example. An alternative would be to empower KCCA (and local governments) to decide and grant exemptions according to self-defined rules.

## Options to fill the Gaps in the Legal and Institutional Framework

34. **KCCA Administrative Power to Change Limits and Fill Gaps:** The long list of discrepancies, gaps, and legal limitations presented in the above mentioned Business Synergies Consultants' study<sup>12</sup> is worth detailed scrutiny, since it seems to include lots of issues that can be resolved by KCCA byelaw, Council policy decision, or DRC administrative procedures. DRC could hire a legal specialist to analyze this list, maybe identify more limitations, and suggest specific measures that can resolve the issues by KCCA in-house actions. A few specific examples illustrate the opportunities that are summarized below. There are many more areas that need clarification and can be fixed by KCCA regulation, but let's limit issues here to the tax base and tax rate regulations.

35. **Defining the Property Tax Base:** The property rate roll is dated 2005 and some may say it is no longer valid. More than that, the regulation gaps (or interpretations) seem to have prevented the DRC to capture new properties in the tax net. This is a major shortcoming for revenue management. Capturing properties in the tax net immediately after completion and/or issuance of the occupation/use permit is a mandatory action, not just an opportunity in most of the world. In contrast, the last supplementary valuation happened in 2009 and covered the properties that were built with building permits. Thus, the properties built in informal settlements or in formal areas but without permits, and all properties built after 2009 are missing from the current tax net. This causes not only major revenue loss for KCCA, but undermines the fairness of property taxation. The KCCA plans to commence a mass valuation to update the property tax database in the coming years; this is the only cost-effective solution to the problem.

36. **Options for Correction<sup>13</sup>:** There are three specific areas or instruments that can be used to improve the legal and regulatory framework for revenue collection within the KCCA mandates: KCCA policy statement, byelaws or ordinances, and DRC administrative procedures; examples explained below.

37. **KCCA byelaw:** A KCCA byelaw can set several critical rules (all possible in the Rating Act) to guide implementation of the Rating Act:

- Stipulating the mass valuation program (CAMA) with phases and steps, and state that the property tax register defined and filled by the mass valuation is the sole legal tax roll;
- Stipulate that the CAMA coefficients are valid for 5 years unless KCCA decides a new CAMA subsequently or decides to postpone revaluation; (Thus CAMA valuation is planned to be completed every five years.);
- Supplementary valuation is mandatory every year to capture all new properties by using the valid coefficients defined by CAMA (in the assumed 2016-18 mass valuation);
- Property owners of multiple properties should declare and prove their PRINCIPAL RESIDENCE, which then will be exempted as owner-occupied property, but all other properties owned by the same person in KCCA jurisdiction are subject of property tax. Owners, who declare and prove principal residence outside the KCCA boundaries, are subject to pay property tax for all properties owned within KCCA jurisdiction.

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<sup>12</sup> Ibid page 58

<sup>13</sup> These options meant to explain the content and economic rational and illustrate opportunities, but they are not intended to be interpreted as draft normative text of legal instruments, but also these option need legal scrutiny.

- Regulate procedures for levying property tax in various leasehold and mortgage circumstances. Many African countries have introduced a so called street addressing program to overcome the unclear and undocumented ownership situations for property tax collection purposes. They first attach street numbers to the houses and then levy property tax to the occupiers, regardless if they do or do not have clear land and house ownership titles. These rules are also supported by the provision that the payees are eligible for deducting the paid property tax from the lease fees due to the property owners.

38. **Defining the Tax-Rate Policy and Tax rates** The Rating Act empowers Local Governments and KCCA to set tax rates from zero to 12 percent of taxable value. The historic legacy is a 6% property tax rate. KCCA should step in and define its own tax rate policy and tax rates. KCCA can issue a byelaw that may stipulate the following:

- State that the KCCA may change rates for all kinds of local taxes and fees in annual Revenue Policy documents;
- Property tax rates will be differentiated in line with revenue policies, such as
  - Zero percent rates can be granted for specific zones like slums;
  - KCCA will set tax-rates for the revaluated taxation zones;
  - Tax-rates can be differentiated based on use; (This might be particularly important if the tax exemption is changed for owner occupied property. The KCCA may set higher rates for commercial and industrial properties (6%) and lower rates for residential properties (say 4%). Higher rates for commercial and industrial properties are quite common around the world.
- KCCA may decide to reduce the property rate after revaluation in order to reduce the immediate burden and ease political pressure. One appropriate way for this could be to declare a medium term rate policy (for 5 years) and impose reduced rate for all or some taxpayers, for example reduce the rate for households from 6% to 4% initially, but declare that the rate will increase by one percentage point every other year, to reach the current 6% rate by the fifth year.

39. **DRC Administrative Action:** Examples for issues that can be resolved by DRC Administrative procedures or internal regulations:

- All properties within the KCCA jurisdiction boundaries are subject to valuation regardless of their legal status (built with or without permits), and regardless of current exemptions;
- All properties remain subject and owners liable for paying property tax based on the 2005 valuation until the CAMA valuation is completed and the new roll issued for the respective valuation zone;
- Commercial parts of the mixed use properties should be valued and taxed proportionately;
- Zero % rates: All properties will be valued (by CAMA) but the exempt properties will be accounted with zero % tax rate. (this way the losses from exemptions can be calculated);
- The 6% rates remain valid until a zone will be revaluated;
- DRC needs to introduce Standard Operation Procedures for all major revenue management functions in order to make actions of the revenue officers impersonal, fast, and cost-effective;

## D. Mass Valuation Program

40. The outdated property valuation roll 2005 needs urgent actions and KCCA has decided to commence a computer aided mass valuation/appraisal<sup>14</sup> (CAMA) as a cost-effective method of revaluation of 200-300 thousand properties in Kampala. Establishing the system for and completing a CAMA is a substantial investment; and international experiences suggest it may cost SHs10-20bn. (USD3-6million). KCCA has obtained financing under the second Kampala Infrastructure and Institutional Development Project (KIIDP 2). The volume of money may seem to be large, but a moderate estimate suggests that the results can more than double the property rate revenues over 3-4 years of gradual implementation. Thus it is very likely that the *investment will recover by the end of the full implementation* or even before; so revaluation is not only a pressing mandate, but also a good investment for KCCA. Furthermore, the expected results will make the *property taxation more equitable*, since currently a substantial portion of the taxable properties are not captured in the tax-net and the registered taxable values are far below the real market-based value estimates (discussed above). This section discusses some challenges and opportunities in the foreseen revaluation of the properties.

41. **Phased CAM and CAMA Program:** The KCCA has rightly decided to complete the CAM and CAMA program in three phases. First it plans to complete the CAM by developing a digitalized city map with various GIS mapping layers that would include identifying the buildings, infrastructure, and superstructures. This would create the basis of the mass valuation. The second phase will complete the revision of the property database and property valuation in the two most advanced divisions, the Center and Nakawa division, by using the CAMA IT systems and methodology. The third phase will complete the revision of the property database and property valuation in the last three divisions of Kampala. This phased approach seems both realistic and cost efficient, since it would utilize capacities gradually over the next 2-3 years or maybe a bit longer.

### Challenges and Response Options

42. **Challenges ahead:** The registry and valuation program is faced with multiple challenges, including: (i) The national land register that is computerized includes only the maps of land parcels, no mapping of the buildings, infrastructures, and superstructures; (ii) a large number of buildings are built on leasehold land parcels with different owners of land and buildings and multiple buildings and owners in one land parcel without formal subdivisions; (iii) large numbers of these various leases are informal and uses are not registered in the legal covenants of the land cadaster; (iv) large numbers of streets have no names and there are no street-numbers attached to the buildings; (v) the Rating Act allows mass valuation, but stipulates rental values as the tax base. The KCCA and DRC have been aware of many of these challenges and have already planned some specific responses. However, there are a number of details and options worth considering for further responses; these are discussed below.

43. **Comprehensive Registry and Valuation Program:** In responding to the above-mentioned challenges the KCCA has adopted a comprehensive registry and valuation program that combines developing a City Addressing Module (CAM) and a mass valuation program (CAMA)<sup>15</sup>. It has been a clever decision to launch the CAM first and attach names to the streets and house numbers to the properties, for the first time in Kampala's history. This is more than a symbolic step to elevate the identity of the city and the citizens, but it is also vital to establish a solid information base for the CAMA

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<sup>14</sup> Article 14 of the Local Government Rating Act 2005 provides the clear legal framework for CAMA valuation.

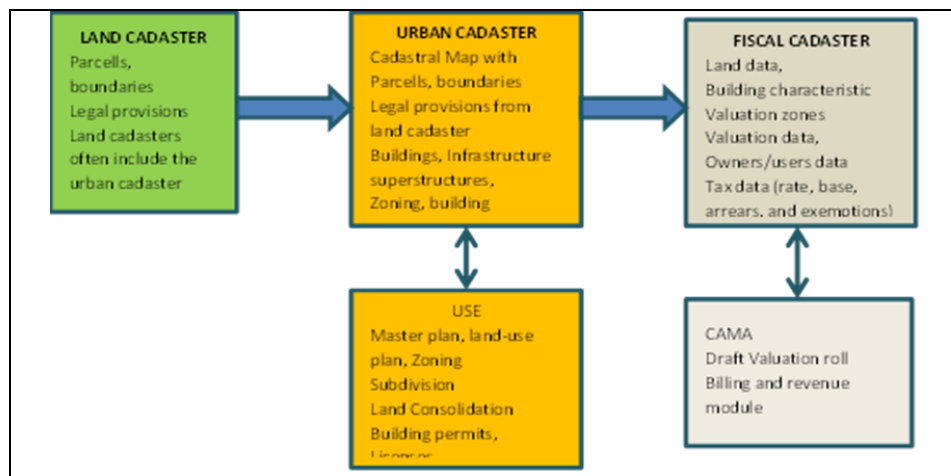
<sup>15</sup> The mass valuation program is referred for as CAMV, but we do suggest using the CAMA acronym that is international standard.

mass valuation. The CAM is planned to be developed by integrating GIS mapping into the CAM module by imposing various GIS map layers into a digitalized city map.

44. **Urban Cadaster:** The limitations of the national land cadaster suggests that it is advisable to elevate the CAM program and aim to develop a multifunction *Urban Cadaster*<sup>16</sup>; in fact the CAM plans are close to this setup. One major underlying reason is that, as opposed to most of the countries, the Uganda cadastral maps do not include the buildings or other infrastructures or superstructures; and the change of the national cadaster is unlikely. The KCCA urban cadaster would be built on and subordinated to the national land cadaster which is the sole legal cadaster of land ownership. The subordination means that all changes in the land cadaster should be correspondingly recorded in the urban cadaster; but no changes in the urban cadaster can trigger changes in the land cadaster. The urban cadaster would import all possible relevant data from the national land cadaster, but supplement these with the land-contour of the buildings, infra- and superstructures, and the technical details of these plus the urban planning-and zoning information.

45. **Urban Planning and Governance:** The *urban cadaster* would serve not only as a key link between the Land and the Fiscal cadaster, but it would also be a *key instrument for urban planning and governance*: the basis of urban planning, land-use planning, zoning, and construction permitting, infrastructure services' planning and development. Further, the urban cadaster would provide vital information to the property tax register, which can be called *fiscal cadaster* and is subordinated to the urban cadaster. Figure 5 depicts the three cadasters and their relations.

Figure 5 Land Urban and Fiscal Cadasters (options)

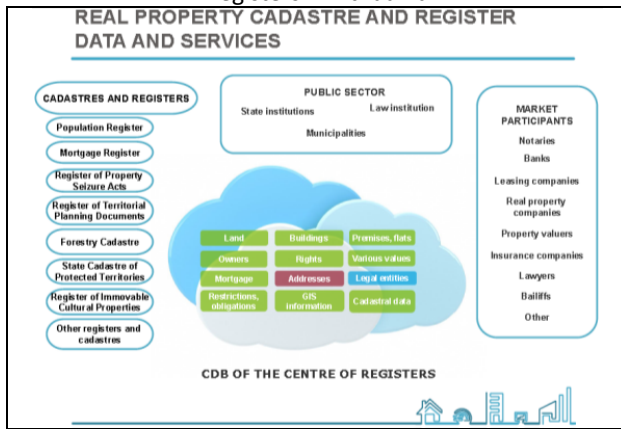


Source: Author

46. **Log-frame for Land, Urban, and Fiscal Cadasters:** Figure 5 depicts the logical frame of the land, urban, and fiscal cadasters, but modern IT technologies offer more flexible and somewhat different realization of cadasters with various registers that serve specific roles. Figure 6 and 7 depict the inter-relation of various cadasters and registers and the substance of virtual urban registers based on Lithuania experiences.

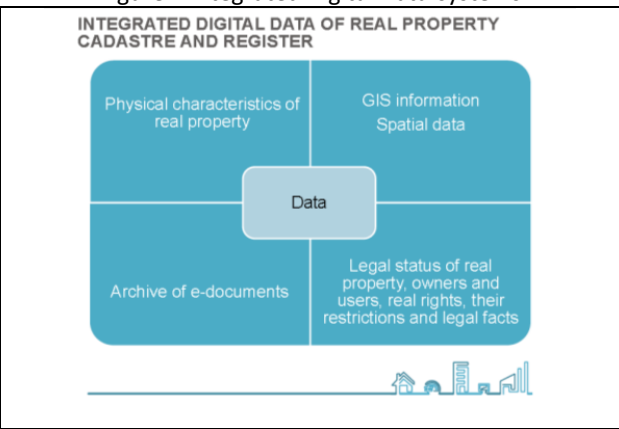
<sup>16</sup> Ethiopia developed urban cadasters after 2006 (Alemie 2015) and the cadastral maps include buildings, parcels, administrative boundaries, roads, and topography (Ethiopia 2015). Several Turkish cities have own urban cadasters (Turkey 2015)

Figure 6 Inter-relation between Various Cadasters and Registers in Lithuania



Source: Kasperavičius 2015

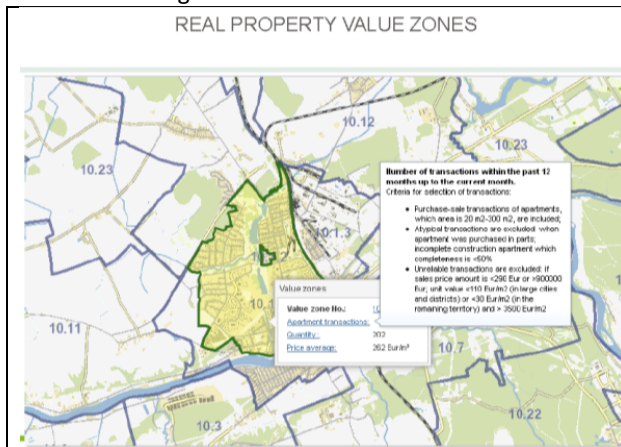
Figure 7 Integrated Digital Data-systems



Source: Kasperavičius 2015

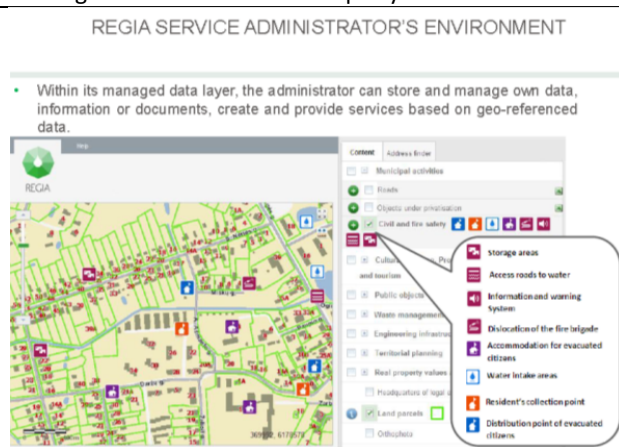
47. **Learning from the Lithuanian Experiences:** As opposed to the KCCA plans, the Lithuanian system is a national system that includes a State Enterprise Center of Registers and a regional geo-information environment service (REGIA) that serves all municipalities, ministries and other government agencies. Selected data and layers of the GIS maps are available also for businesses and citizens. Figure 8 shows the value zones and exemplifies that defining the value zones in a CAMA system is a very specific task and that it is important to ensure that the estimated coefficients are statistically significant and the CAMA estimated property values are in close (95%) correlation with the effective market values and the time of the estimation. As a result, the boundaries of the value zones are far from being straight; rather they need to follow the market reality. Figure 9 depicts an example of the GIS map layers in the REGIA system used by large cities in Lithuania.

Figure 8 Taxation value zones



Source: Rimkiene 2015

Figure 9 Urban Services Map Layer in the REGIA



Source: Rimkiene 2015

48. It is worthwhile learning from the very positive experiences of Lithuania that has been using modern technologies including CAMA, GIS mapping, internet-based networks of various registers; e-governance and high levels of transparency with classified access of various users, including central and local governments, businesses, and households or other private property owners. The development of the Lithuanian land registry, mass valuation and property taxation system benefited from many donors,

including the World Bank, the Lincoln Institute, and the IAAO specialists. A study-tour to Lithuania for a KCCA team of key staff would be an instrumental learning opportunity.

## CAM and CAMA Implementation Issues

49. **CAMA – a Cost-effective Solution:** The Computer aided mass valuation is undoubtedly the only cost-effective solution the KCCA can consider; since individual valuation of hundreds of thousands of properties would be disproportionately expensive. The required modern technologies are now accessible at quite affordable prices. That said; the CAMA is not a silver bullet that would solve everything by purchasing a number of software. There are significant challenges that remain to be responded to, including: (i) missing reliable property data; (ii) the rental value based property tax system with large number of informal rentals and difficulties in obtaining rental data; (iii) there is a need for substantial statistical and mathematical knowledge and experience in analyzing data in CAMA modeling and defining value zones, valuation coefficients, and completing ratio analysis.

50. **Specific challenges:** The CAM program will provide most of the reliable positioning and technical data of buildings and other structures; CAM needs “only” technically straight forward actions, time, and money for the data collection teams. In contrast, collecting rental data in each zone in large observation numbers for CAMA modeling seems much more problematic, but there is no way to move to market value based assessment at this stage. However, data collection under CAM should factor in the specific requirements for CAMA modeling, thus the *CAM and the CAMA activities should be timely harmonized*. Finally, unless the KCCA foresees that the needed robust statistical, mathematical, and CAMA expertise are available in Uganda (e.g. National Institute of Statistics, Makerere University), CAMA modeling and data collection requires *procuring CAMA specialists and/or specialized consulting companies*.

## Data Shortage

51. **Turkey experiences with CAMA:** Piloting the CAMA in selected townships in Istanbul and Ankara, Turkey signifies the data challenges (Turkey 2015). Turkey uses market value base for property taxation; but still the collection of a sufficient number of observations and relevant data was among the biggest challenges. Market value proxies were collected eventually from various different sources, including registered sales transactions, valuation reports prepared by the licensed real estate valuation companies for mortgage purposes; value survey studies by Land Registry Offices to provide sufficient number of value data in some zones; “asking prices” at real estate advertisement web sites, and various research studies made by local real estate agencies.

52. **Data sorting and analysis** included several steps in Turkey. First, a long list of 51 variables<sup>17</sup> was considered to cover all key factors intuitively justified as influencing the market values of properties. Second, many variables dropped because no data were available at rational costs; third, various statistical and mathematical modelling (like principal component method, decision tree) were used to reduce the number of factors to a short, manageable list and avoid the natural interdependences (multicollinearity) of factors that would hamper the multi-variable regression analyses. The reduced list included 8 variables in the Istanbul town that includes multi-storey buildings: gross indoor area, floor number of the dwelling/office unit, elevator, street width, distances to main road, to metro station, to metro-bus station, and area per share. KCCA will obviously identify a different set of relevant variables.

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<sup>17</sup> This high number of variables was driven by academic interest in piloting rather than the true necessity for CAMA exercises.

53. **Data availability challenges in KCCA:** The problem for KCCA data collection is that only the rental transactions are the possible sources for the CAMA assessment. However, in some zones it will be difficult to collect a substantial number of rental transactions required for CAMA to ensure the estimates are statistically significant; and the alternative data sources (like target survey or mortgage contracts) that are available as market value proxies are technically unavailable for collection of rental value proxies. Estimating rental values from market values might be an option, but that needs more complicated procedures and legal justification.

54. **Taxing Area Based on Rental Value:** Should the planned rental value CAMA appear to be overly problematic because of severe shortage of reliable data in some zones, then KCCA may explore legal possibilities in moving to a so-to-speak *hybrid area-based system*<sup>18</sup> where the CAMA analysis of the rental values is used to set unit-tax coefficients attached to area based indicators, namely square meter of dwellings, commercial or industrial buildings and area. The valuation would remain based on recorded rental values and CAMA methodology, but the unit-taxes would be estimated for the entire jurisdiction of Kampala. This way the sufficient number of observations would be easily satisfied even from rental transactions. This is indeed the second best option after the direct rental value taxation and maybe the third best after the market value taxation; but this could be the first best if the two others appear to be infeasible.

55. **Hybrid system modelled after Tunisia:** Following the Tunisia system<sup>19</sup>, three unit-tax values would be estimated by CAMA (residential, commercial, and industrial) and service access indicators: solid waste collection, covered road, covered side-walks, street-lightings, access to sewer network, and built drainage system are recorded. Then property tax would be levied with 12% for properties with access to all of these services plus other services or extra quality, 10% if 5-6 services accessed, 8% if 3-4 services accessed, and 6% if only two of these services are accessed, and 3% if none of these services are accessed. The merit of a hybrid system is that it is easy to communicate since even illiterate people are able to understand the size and the service-based rules; but it also creates a clear and direct link between the property taxation and the local services. It might also generate more vocal demand for better services though.

### CAMA Implementation Capacity Shortage

56. **In-house CAMA:** The initial ideas for the KCCA CAM and CAMA exercise seem to be focused on in-house solutions with procurement of various softwares. The mass valuation experiences in other countries suggest, however, that revising this initial plan and aiming at more robust outsourcing of various functions and tasks is vital to ensure timely and successful completion of the planned mass valuation program. There are three options worth considering and comparing: (i) in-house solutions with procurement of a “*system developer*”, that would provide KCCA with adequate software, but leave implementation on the shoulder of KCCA teams; (ii) in-house solution with procured software combined with hiring CAMA advisor who would work initially full-time and then at least 50% part time in guiding designing and implementing the CAMA; and (iii) procuring a specialized CAMA consulting company or two for completing the CAMA with substantial involvement of the KCCA staff. *Selecting the first option is*

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<sup>18</sup> Such hybrid systems have been quite successful in Bangalore India and Tunisia and area based systems are used in many countries in Asia. Some scholars feel this would be a step backward, others question the merits (Rao 2008), but this is undoubtedly a pragmatic solution to mitigate data shortage.

<sup>19</sup> Other hybrid systems define value categories by using a few characteristics, like main-road or off-road and technical and quality indicators of the buildings (Bangalore, Pakistan) and set unit-tax values to each category.

not only challenging, but *may jeopardize the timely completion* of the city addressing and mass valuation program.

57. **Sequenced CAM and CAMA:** The KCCA has developed remarkable expertise and capacities to complete the CAM and CAMA exercises; and these capacities are vital to do a large part of the required tasks like maps, GIS layers, verifying properties for street addressing, and collecting the vast field data; albeit later will require hiring short term data collectors. The plan, as said, is to complete CAM and then implement the CAMA in phases first in the Center and Nakawa Divisions, then the other three divisions. However, the combined CAM and CAMA exercise requires careful design and tailoring the models and procedures to meet the KCCA circumstances. For this reason KCCA may opt for a sequenced implementation approach and start with option (ii) to facilitate the option (iii) and move implementation timely. Hiring one CAMA advisor seems to be among the most urgent actions.

58. **CAMA advisors:** Successful CAMA implementations with no exception included hiring international advisors with robust expertise and experiences of the detailed steps, rules, and procedures to lead the successful completion of CAMA by guiding the local/national teams. Starting with hiring CAMA advisor would allow gradual development and implementation of the CAMA program. The scope of the work for CAMA advisor(s) may include but not limited to the following:

- Advising CAMA teams on international best practices in developing valuation policies, standards, methodology, setting up bodies and effective procedures tailored to the local circumstances;
- Advising the CAMA teams on designing and planning the mass valuation program and drafting a CAMA Action Plan;
- Advising technical specifications for data collection, drafting ToRs for collecting teams or collector company to be hired as may deemed necessary;
- Providing workshop format and on-the-job trainings on the above areas for the local teams;
- Advising management in analyzing the necessity and in procuring specialized firms/teams for completing specific tasks under the CAMA program;
- Advising, monitoring, and quality control of the works of the CAMA teams or hired companies in data analysis, CAMA modelling, selecting the adequate valuation models, and completing the regression analyses and defining the CAMA coefficients, and ratio analyses;
- Advising the completion of the CAMA and preparing the draft valuation rolls.

59. **Procurement Firm to Complete CAMA:** Hiring specialized firms or one general contractor to complete the CAMA program with some subcontractors is a well justified option for KCCA to consider. There are such firms on the market who work frequently with the international agencies (Lincoln Institute, World Bank, UN, or EU). The CAMA program completed successfully in Cape Town is a good example of this program modality. A general contractor with ample expertise on CAMA would first analyze the Uganda legal and institutional framework and then advise a CAMA program possible with several alternative options for KCCA to select. The Firm would be hired with the condition to assign all actions to the KCCA and local teams that are possible to be completed timely and adequately under the guidance and control of the Firm which should complete all other ctions. The firm would propose hiring subcontractors in some specific areas, for instance a local consulting company for data collection.

60. **Tasks for the Firm:** The Firm would complete most of the tasks listed under the CAMA advisor section above. But the Firm would be responsible to complete the CAMA in the first phase and hand over a working CAMA model for future use. It is very likely that after completion of the CAMA first phase in two KCCA divisions, the KCCA teams can complete the CAMA in the three more divisions by using in-house capacities, contracting data collectors, and hiring a part-time CAMA advisor. Hiring CAMA advisor to guide early actions on CAM and CAMA and support procurement of a CAMA general contractor firm is



strongly advisable. The firm should cover three areas: designing and completing data collection; designing CAMA modeling and completing CAMA with value zones, coefficients, and draft tax roll; and revision of the property tax revenue module to harmonize it with the CAMA results and the new tax policies and tax roll.

61. **Training KCCA staff:** KCCA staff needs substantial training to be able to participate in completion of the CAM and CAMA even if major tasks are contracted out, not to mention if they are requested to complete the CAMA in-house with the guidance and control of international advisors. Good understanding of the CAMA by a large body of KCCA staff is vital for successful and timely completion of the CAMA program. It is strongly advisable for KCCA to put high emphasis on training in the current stage of preparation of the CAMA program. The possible training and capacity building actions include:

- Study tour to Cape Town to learn experiences (has already been decided on);
- Study tour to Vilnius. This could be instrumental, because the CAMA experiences are already over ten years, the size of the country is comparable to Uganda, they use simple, cost-effective, but very modern e-Governance systems and instruments, and their systems are very customer friendly and support extensive city management functions besides serving the property taxation;
- Classroom trainings that could include hiring international entities (ICMA, Lincoln Institute, IAAO) for providing CAMA training in Kampala or sending key KCCA staff to EU or IAAO trainings (one has been announced to be held in Bangkok in January, 2016);
- On-the-job trainings: Providing on-the-job trainings should be substantial tasks of the CAMA advisors and the firms hired to complete some CAMA functions. This is the only way for KCCA staff to acquire long-lasting knowledge and experiences in CAMA that will be particularly important if the KCCA adopts revenue policy to do supplementary valuation annually, complete target CAMA valuation if change of circumstances in some KCCA zones require such actions, and repeat a comprehensive CAMA in five years after completion of the first CAMA.

## E. Conclusion

62. The KCCA revenue reform is on track with skilled and motivated staff. The improvement of revenue bases, data and collection systems, automation, and operation procedures have resulted in unprecedented increase of own revenues by international comparison.

63. The revenue reform is in midway; more procedures need to be adopted, databases improved, and the information technologies enhanced. The most challenging reform steps ahead include commencing a mass valuation of properties, establishing fiscal cadaster, updating the 2005 valuation roll, and installing compatible revenue collection and management module.

64. The reform requires key policy decisions on revenue rates, bases, exemptions, and enforcement areas. It is advisable to approach revenue policy as a focus action area in the years ahead. This can be supported by a small revenue policy unit and adoption and publication of revenue policies regularly.

65. The legal, regulatory, framework may constraint some KCCA actions. Corrective measures include: KCCA initiation of and lobbying for changing the national legislations; KCCA issuing byelaws to fill gaps; and administrative procedures adopted by the Directorate of Revenue Collection.

66. The mass valuation in Kampala circumstances and with rental value tax base is a particularly challenging exercise. Insourcing CAMA advisors and/or a general contractor firm for leading and completing the CAMA with robust involvement of KCCA staff are strongly advisable.

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