



# Improving Municipal Financial position

A presentation during the Cities Conference  
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Together we can transform Kampala city

# KAMPALA- UGANDA'S STRATEGIC LOCATION



## FACTFILE:

- **KAMPALA - UGANDA CAPITAL CITY**
  - **COVERS 192 SQUARE KMS,**
  - **1.57 MILLION NIGHT POPULATION**
  - **DAY POPULATION ESTIMATED AT 4.0 MILLION PEOPLE**
  - **RESIDENT POPULATION PROJECTED TO BE 3.1 MILLION IN 10YRS**
- **ACCORDING TO 2012 KPDP, ONLY 23 % IS FULLY URBANISED, 60% PERI-URBAN AND 17% RURAL**

# Background

Prior to 2011 restructuring of KCC, Financial management was Characterized by;

- a) Huge non current liabilities estimated at over USD 14.544Million as at 30<sup>th</sup> June 2010.
- b) Delayed settlement of suppliers due to cash flow management challenges.
- c) Poor budget performance management system. Contractual and expenditure commitments were entered into without due consideration to work plans and budget.
- d) Huge revenue arrears portfolio (Est at USD 29.4 Million) that was attributed to weak, manual and corrupt revenue collection and enforcement regime.
- e) Poor cash and bank management practices with 151 unreconciled bank accounts.
- f) Low levels of Local revenue collections (approx. USD 9Million in June 2011)
- g) Low levels of Central Government funding(Approx. USD 16 Million as at June 2011)
- h) Absence of clear operating manuals(Financial and accounting policies)
- i) A dysfunctional and un updated asset register USD 13.6 Million was reported in the financial records as at June 2011 without supporting schedules

# Financial management reforms

- KCCA Introduced Fiscal structural reforms in an effort to improve institutional operations and build confidence in the various stakeholders:
  - a) Recruited competent staff in the Treasury Department
  - b) Re-engineered and Automated Revenue business processes.
  - c) Set up Arrears recovery programs.
  - d) Establishment of an asset register
  - e) Robust cash flow planning and budget management.
  - f) Reviewed cash and bank management arrangements
  - g) Putting in place policy and procedure manuals to guide financial operations

# Results of the Financial Structural reforms:

- All inherited non current liabilities have been settled.
- Increased Central Gov't funding to KCCA (GoU grants and Donor support as at June 2015 stood at USD 42.5Million & USD 27 Million respectively)
- Growth in Asset register to USD 173 Million(June2015) from USD 13.6 Million(June 2011).
- Prudent cash management system which resulted into the closure of multiple bank accounts.
- Established City Fiscal policy to guide funds allocation
- Un-qualified audit report

Key Area of Concern: *How can cities improve allocative efficiency in municipal spending to create a favorable municipal fiscal space?*

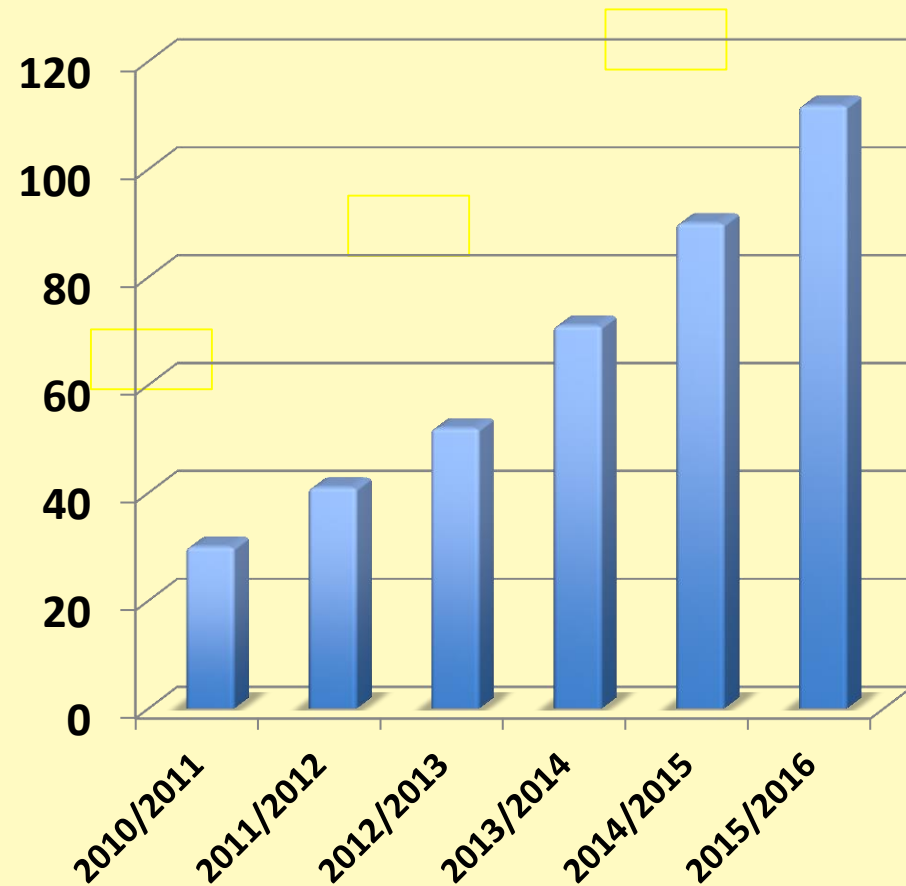
## Achievements cont'd: REVENUE MOBILISATION TREASURY MGT

Local revenue has increased from UGX30bn(US\$10mn) in 2010/11 to UGX82bn(US\$30mn) in 2014/2015 and projected to 111.8bn in 2015/2016.

**Key Concern:**

*How can we estimate the municipal revenue potential and the associated level of tax compliance*

**DOMESTIC REVENUE COLLECTION  
(UGX Bn)**



# Key concerns under Land and Property Tax

- Property rates have continued to perform below the capacity. Because of exemption of owner –occupied premises contributing about 53 % of all eligible properties.
- The National Revenue Agency collects Property tax from the sale or rent of property, Cities collect ground rate, Property rates, lease premiums etc.
- Other cities are introducing Land value capture as another tax source

Key concern:

- *How can we avoid tax proliferation and improve affordability and efficiency?*
- *Which level of Government should generate which type of revenue?*
- *What is the potential for Land value capture as a source of revenue for African cities?*

# Central Government Transfers

- Central Government transfers are mainly in form of Conditional grants that are tied to different vote functions which are usually not in sink with the realities at sub-national level. Limited flexibility has affected allocative efficiency. In Uganda over 84% is allocated to operation ,leaving only 16% for capital development.

Key concern:

*How can Intergovernmental transfers improve the capacity of sub-national to deliver public services and how can the coordination of different government levels be improved?*



# Alternative Financing Mechanisms

- The Low levels of central government transfers and low levels of local revenue have resulted in a significant funding gap. Many cities are looking for other Alternative financing mechanisms to close the Gap.
- Different cities are at different levels in attracting funds from the capital Market with varying experiences;

## Key Concerns:

*When should sub-nationals pursue debt as an alternative form of financing, including borrowing from the capital Markets?*

*What are the costs, risks and prospects of issuing a sub-national bond in developing countries?*

*Is there a role for Business Special Purpose Vehicles owned by sub-national Government in delivering public services?*

# Alternative Financing Mechanisms-PPPs

- The Gov't of Uganda approved the national PPP policy in 2007 and the PPP act has been enacted in 2015, opening the public sector to private capital financing. In KCCA a number of Pipeline Projects have been identified for financing.

Key concerns:

*How can sub-nationals in developing countries ensure that PPPs add value for money? What are the experiences with different PPP models.*

*How can sub-national explore the optimal service delivery options , In Africa the focus is on PPP , in the West there is a strong move towards municipalisation of services? How can we learn from the experiences in the west*

# In conclusion

Increasing Municipal finance resource provision needs to be taken in context.

*The overall concern today is whether Rapid urbanisation in developing countries should influence political or fiscal decentralisation.*

*Given the widening infrastructure deficit and increased demand for services?*

*Is time ripe for a municipal fiscal agency synonymous with the IMF (FAD) specifically for developing countries?*

Thank  
You

and

Welcome  
to  
Kampala

