Funded by
the European Union

Financing Sustainable Urban Development

CASE STUDY 2

Enhancing the financial position of cities: evidence from Kampala

UN-HABITAT
FOR A BETTER URBAN FUTURE
IGC International Growth Centre
Cities that Work
LSE
UNIVERSITY OF OXFORD

Funded by
the European Union

About this initiative

Supporting the urban dimension of development cooperation: *Enhancing the financial positions of cities in developing countries to achieve sustainable urban development*

This initiative has been requested by the European Parliament. It is implemented by European Commission and UN-Habitat, supported by the International Growth Centre. These partners are working to identify relevant measures to help mobilise financing for urban development at all levels of government. The work has been undertaken through case studies conducted in Dakar (Senegal), Hargeisa (Somaliland, Somalia), Kampala (Uganda), Kisumu (Kenya), Mzuzu (Malawi), meetings with experts and practitioners, and empirical literature. The initiative works with an Advisory Group, chaired by Professor Sir Paul Collier from the University of Oxford, and consisting of representatives from the European Investment Bank, African Development Bank, UN Capital Development Fund, UN Economic Commission for Africa, and United Cities and Local Governments.

CASE STUDY 2

Enhancing the financial position of cities: evidence from Kampala

Authors: Victoria Delbridge, Astrid Haas, Oliver Harman, with Tony Venables

Contents

Acknowledgements

The following city case study has been developed as part of the initiative 'Supporting the Urban Dimension of Development Cooperation: Increasing financial capacities of cities from developing countries to deliver productive and sustainable urban development' requested by the European Parliament as a pilot project and funded by the European Union.

The content is based on both interviews and online research conducted between May 2019 and March 2020. For their contributions, we would like to thank International Growth Centre Uganda; various departments and representatives of the Kampala Capital City Authority; the Capital Markets Authority of Uganda; various departments and representatives of the Ministry of Finance, Planning and Economic Development; the Ministry of Lands and Urban Development; Dero Capital Limited; the World Bank Uganda; UNCDF Uganda; the African Development Bank in Uganda; and the EU Delegation in Uganda.

Summary

The city of Kampala in Uganda provides an illustrative example of how institutional and administrative reform, without widespread policy change, can generate substantial increases in municipal revenues. Through the implementation of more efficient digitalised systems, attracting higher capacity staff, and a focus on the 'citizen as a client', the city has managed to increase own-source revenues three-fold from UGX 30 billion (US$8.2 million) in 2010/11 to UGX 90 billion (US$25 million) in 2018/191, as well as crowd in more central government and donor funds. These reforms were made possible by strong leadership, a political window to act, and strong support from development partners. What was striking was the administration's reflection that its most significant success was not in doing something new, but rather in doing its job as it is meant to be done.

Furthermore, the reforms contributed to achieving an investment-grade credit rating in 2015, creating the potential for increased funding opportunities for large-scale investments in the future. This, coupled with recent regulatory change to remove the previously restrictive 10 per cent cap on borrowing, provides promising new avenues for attracting investments. However, a number of stakeholders noted concerns that, despite overcoming regulatory hurdles, the city is still not equipped with the capacity to develop bankable plans and projects.

For development partners, the example of Kampala highlights the need for collaboration to build capacity, both in reforming systems and in designing implementable strategies and bankable projects worthy of external finance. However, concerns around the way development finance skews prioritisation of projects, as well as the difficulties in providing for ongoing maintenance which are often not accounted for in development partner investments, were also highlighted.

Key messages:

- Strong leadership and a commitment to building internal capacity are key ingredients underpinning organisation-wide and long-term success of reforms.
- The organisational structure matters: splitting the revenue and expenditure departments has enabled the authority to focus on each one as a priority in its own right, as well as better track receipts and communicate their financial position transparently.
- Simply understanding what the city owns (through an up-to-date asset register) results not only in an instant increase in the value of assets, but also in the potential revenue derived from those assets.
- Implementing a City Address Model (CAM) and using GIS to expand property registers has spill over benefits beyond that of revenue collection.
- Digitisation will not yield results unless part of broader reforms. For example, treating the 'citizen as a client' and business process mapping are important steps in building the social contract with communities and associated compliance benefits.
- Even without regulatory limitations, the ability to define and design bankable projects is critical for unlocking additional infrastructure finance in the future.

Urbanisation trends, challenges and financial needs

Uganda has, in recent years, managed to transform itself from a country with a turbulent past to one of relative stability and prosperity. The economy remains heavily reliant on agriculture and processing of agricultural products. Uganda has been experiencing consistent economic growth of around 4 to 5 per cent, with promising discoveries of crude oil and natural gas showing potential to enhance growth in the future. Despite its growth, the country continues to suffer from unemployment, poverty, and ineffective public spending. Uganda's GDP per capita is around US$710, with 20 per cent of the country living in poverty. It also has a relatively low Human Development Index (HDI) of around 0.516 and a life expectancy of around 55 years.

In terms of domestic revenue mobilisation, Uganda has a relatively low tax-to-GDP ratio at around 14.5 per cent. While lower than the regional average of around 17.2 per cent, it is promising to have increased from only 11 per cent in recent years. Uganda was also the first country in the world to benefit from the Heavily Indebted Poor Countries (HIPC) initiative of the IMF and the World Bank, requiring US$700 million in debt relief in 1998. This lack in ability of the national government to raise domestic revenues to finance the infrastructure needs of the country is felt at the local level too, which relies heavily on transfers from the centre.

The majority of the population continue to live in rural areas; only 16 per cent of the total population of 39 million live in urban areas. Kampala being the only major urban centre, is therefore integral to the Ugandan economy. The city accounts for 80 per cent of the country's industrial and commercial activity, and contributes between 55 per cent and 65 per cent to national GDP.[2] There are five urban divisions in the city, namely Central, Kawempe, Makindye, Rubaga and Nakawa, with roughly 1.8 million residents overall. Only 23 per cent of Kampala is characterised as fully urbanised (with associated access to a full range of municipal services), while 60 per cent is semi-urbanised, comprising of 62 informal slums; the rest is considered rural.[3]

Considerable urban population growth in recent years has seen the city of Kampala sprawling to the surrounding districts. This has led to the formation of the Greater Kampala Metropolitan Area (GKMA), incorporating the districts of Mpigi, Mukono, and Wakiso. Each of these districts has its own mayor and local government. However, only the city of Kampala is managed by the Kampala Capital City Authority (KCCA). Significant levels of coordination are therefore required to plan and implement large projects which expand spatially across these different administrations. However, to date, there is no formal metropolitan governance structure, which is often the reason projects become too administratively complex to proceed with.

Daily commutes to Kampala from the surrounding districts for work increase the population in the KCCA's administrative boundaries from 1.8 million at night to around 4 million during the day. This daily jump puts incredible strain on the taxpayer-to-services ratio, as taxes are paid to the municipality one lives in, while citizens utilise services elsewhere. This is particularly noticeable in the high levels of congestion that Kampala faces, with significant need for investments in roads, parking, and public transit. It is expected that the ensuing pressure on service delivery will only continue to increase, with Uganda having an urbanisation rate of 5.2 per cent per annum, making Kampala one of the fastest growing cities on the continent.

Heavy traffic in the center of Kampala, Uganda © Shutterstock

Municipal finance and urban governance structure

Urban governance structure and mandate

In 2010, an Act of Parliament was passed that replaced the Kampala City Council (KCC), which had been suffering from years of maladministration, with the Kampala Capital City Authority (KCCA). The Act, termed the KCCA Act, included several stipulations that improved the enabling environment for reform – most notably, the separation of the political arm of the city from management functions, and converting the city authority into a central government entity. The latter required the creation of the Ministry of Kampala and Metropolitan Affairs, which is the ministry responsible for the KCCA.

The political arm, 'Kampala City', is led by the Lord Mayor and consists of the five divisional mayors, 34 elected councillors representing specific divisions and associated special interest groups. The core mandate of the political arm is to maintain contact with the residents to understand their challenges and needs, as well as monitor the impact of various projects, making recommendations that feed into the KCCA's strategic development plans. In contrast, the management and operations of the city fall under the remit of the KCCA, an organisation led by the President-appointed Executive Director (ED). The latter is the arm responsible for implementing development projects and raising development funds.

Although these reforms have streamlined certain city functions and made it easier to align with national priorities, until late 2019, there had been no clear delineation of the relationship between the various authorities that govern Kampala. The Minister of Kampala and Metropolitan Affairs, the Lord Mayor, and the ED of the KCCA, all hold important and influential positions, but there was uncertainty as to who makes the final decisions. Disagreements between different parties have therefore left many projects on pause.

Although disputes over certain aspects of the 2010 KCCA Act left progress in the city gridlocked for a long time, the KCCA Act amendment was finally authenticated in November 2019 and gazetted in January 2020. It now attempts to clarify the hierarchy of decision-making between the various Kampala authorities – strengthening the Lord Mayor's office and streamlining roles and responsibilities. In addition, it removes the cap on borrowing explored below, opening possibilities for new sources of funding for much-needed future infrastructure. The final aspect of the amendment was in dealing with the broader metropolitan governance of the GKMA. While authority for planning across districts has been given to the Ministry of Kampala, it is still unclear how the fiscal relationship between authorities and the burden of revenue to service delivery will change.

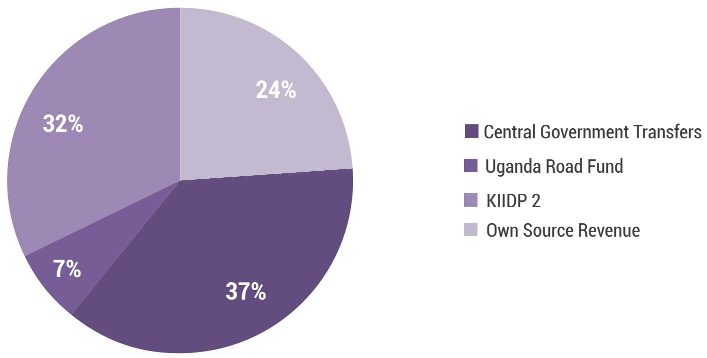
Despite the KCCA effectively becoming a central government entity, it must still abide by the Local Governments Act. In particular, it is still responsible for the same functionalities and can leverage the same revenue sources. The KCCA consists of 10 directorates, each responsible for a different aspect of the city's operations. These include the construction and maintenance of smaller roads, storm drainage, streetlights, and other local transport infrastructure. In addition, they support public schools, hospitals, libraries, museums and public parks, as well as promote and regulate economic activity such as slaughterhouses, markets, street vendors, transport operators, bars, clubs, and lodgings.

Municipal finance overview

The KCCA's total revenues have increased substantially over the last few years, from under UGX 100 billion (US$27 million) in 2011/12, to around UGX 480 billion (US$125 million) in 2018/19.[4] This jump is largely the result of a three-fold increase in own-source revenues, which were matched by increased contributions from the central government and development partners, reflecting their improved trust and confidence in the financial management competency of the KCCA.

Kampala's revenue sources are comprised of central government transfers, own-source revenues, and grants from third-party providers. The split of revenues for 2018/19 is shown in Figure 1 below, with around UGX 170 billion (US$45.6 million) coming from central government grants, an additional UGX 34 billion (US$9.1 million) from the national Uganda Road Fund, and UGX 117 billion (US$31.4 million) from own sources.5 Moreover, UGX 157 billion

Figure 1: 2018/2019 KCCA budget sources



Source: Nywomoya, A (2018)

(US$42.1 million) came from the World Bank's second Kampala Institutional and Infrastructure Development Project (KIIDP 2), the most prominent source of development finance in the city.

Central government transfers are the single most significant contributor to the budget at around 37 per cent of the total when accounting for KIIDP 2, or 54 per cent without it. These grants are all conditional and therefore allocated to pre-identified purposes such as schools and healthcare centres, as well as salaries for KCCA staff. The Uganda Road Fund also contributes a further 7 per cent to total revenues. The Ministry of Finance, Planning and Economic Development (MoFPED) does not provide physical cash directly to the KCCA, but instead provides a platform through which KCCA can access their funding to make payments to suppliers and employees. The intention is to reduce the number of transactions and maintain close oversight on all public sector financial flows. However, it also means that the KCCA is reliant on the national treasury's financial strength and processes.

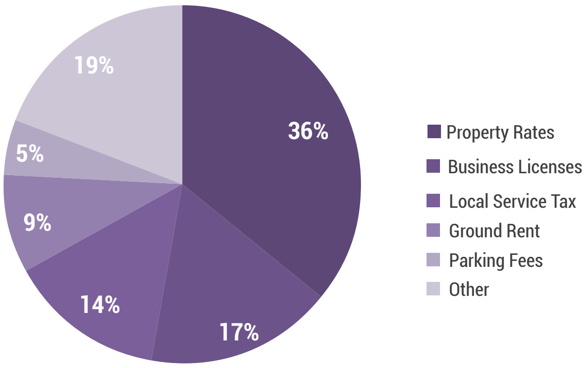
The KCCA has been advocating for a more substantial portion of funding from the national government on the basis that they are responsible for the majority of the country's GDP, as well as the rapid rate of population growth and daily in-migration of workers. Furthermore, the city of Kampala is where the Uganda Revenue Authority collects 72 per cent of their total revenue. However, given national constraints, and priorities to uplift and equalise rural districts, MoFPED does not envisage further increases in its transfers to the city. Instead, it has actually *decreased* its contributions to Kampala's budget for the financial year ahead. This reduction puts more pressure on the KCCA to find alternative sources of funding.

In terms of **own-source revenues**, the KCCA has a total of 24 revenue sources available for collection.6 These include, amongst others: property rates, parking fees (bundled with taxi licences for the 'matatu's', a 14-seater privately owned minibus), ground rents, business licences, local service tax, local hotel tax, land fees, building plan fees, markets fees, refuse collection charges, fines, advertising and billboards, and inspection fees. Water and electricity service providers are not under the authority of the local government, but the KCCA is currently in negotiations with the national water and sewerage corporation on whether they can recover a nominal fee for either each connection or on each bill.

A unique and beneficial change instituted during the inception of the KCCA was the splitting of the revenue and expenditure departments. This split enabled the authority to focus on each one as a priority in its own right, as well as better track receipts and communicate their financial position transparently. However, there are trade-offs associated with such a split, with strong coordination being an essential requirement.

During the fiscal year 2018/19, own-source revenues made up 40 per cent of total revenues when compared with only 44 per cent central government transfers and the Uganda Road Fund, and 24 per cent when including development partner contributions. The key contributors were property rates at 36 per cent, business licenses at 17.5 per cent, local service tax at 14 per cent, ground rent at 9 per cent, parking fees at 4.5 per cent, with all the rest accounting for 19 per cent together as shown in Figure 2 below.[7] The majority of own-source revenues have grown steadily, altogether increasing three-fold from UGX 30 billion (US$8.2 million) in 2010/11 to UGX 90 billion (US$25 million) in 2018/19, primarily due to improved identification of taxpayers, as well as automation of internal operations and municipal finance systems.[8] The objective is that as own-source revenues continue to increase, more and more central government grant funding can be used for investing in capital projects, rather than on meeting ongoing maintenance expenses.

Figure 2: 2018/19 KCCA own-source revenues



Source: Data from KCCA revenue department

However, these local revenue sources are still subject to national politics. For example, in 2005 (before the 2006 election), the Graduation Tax, a form of head tax levied on all men and working women over the age of 18, was simply removed with a presidential letter to the MoFPED overnight. The Graduation Tax was one of the largest sources of revenue for local governments, and unlike most taxes in Uganda, covered a large base at a nominal amount per person.[9] The removal was on the grounds of it being 'backwards' as well as complaints about the 'dehumanising' manner in which it was collected.[10] Although a hotel tax and local service tax were introduced in its place, they did not generate the same amount of revenue.

At the same time, a revision of the Local Government Ratings Act of 2005 exempted owner-occupied properties (which make up almost 40 per cent of the total[11]) from paying property taxes. Estimates show that these exemptions resulted in a loss of 45 per cent of property tax revenues and are causing undesirable distortions in the property market.[12] Furthermore, it complicated the administration of property taxes, as owner-occupied and rental properties are often hard to discern from one another. Similar to the Graduation Tax, the intention was possibly to garner political support from influential property owners in the city.

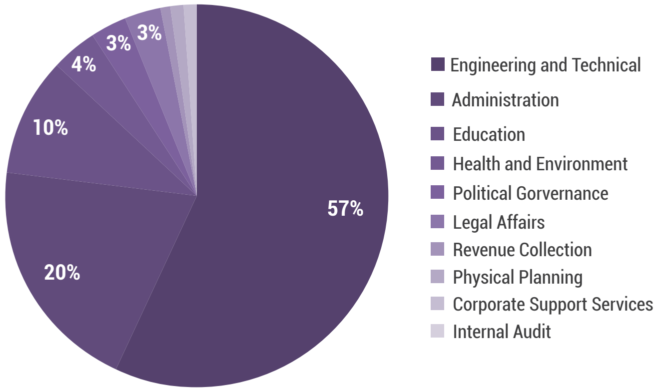
More recently, another directive delivered by the president in October 2018 removed the revenue from fees on Passenger Service Vehicles (PSVs – i.e. taxis and buses). The operators used to pay UGX120,000 (US$33) monthly. These fees made a substantial contribution to 'parking fees' in the budget, constituting the second most significant source of own-source revenue, at around UGX 20 billion (US5.4 million) per year.[13] Given this enormous loss to city revenues, the government has since reinstated the fees to commence in 2021. However, in order to streamline taxes and payments and limit the disruption, unrest and inefficiencies that multiple payments were causing, daily or monthly fees were replaced with an annual fee of UGX 720,000 to UGX 840,000 (US$190 – US$225) for taxis and UGX 2.4 million (US$640) for buses, paid directly to the Ugandan Revenue Authority (URA).[14] This is roughly half of what the previous fees were bringing in. The new arrangement would allow PSVs to operate anywhere, and the revenue generated would then be split between local authorities in agreed-upon ratios. Considering these losses, the own-source revenue achievements of the KCCA becomes even more impressive.

In terms of **debt financing**, the KCCA has made significant progress in terms of creditworthiness. However, until very recently, it has been unable to borrow in its own right from local and international markets. This was due to limiting legislation, with the Local Government Act capping borrowing at just 10 per cent of own-source revenues. In late 2019, the Kampala Capital City Act was amended, and the cap removed. However, stakeholders expect that even with the cap's removal, the KCCA continues to lack the capacity to develop the bankable projects necessary to attract debt financing.

Development institutions, on the other hand, continue to play a substantial role in funding Kampala's operational reforms, as well as large infrastructure projects. Most notably, the World Bank has provided extensive funding through two phases of the Kampala Institutional and Infrastructure Development Project (KIIDP). The first phase that ran from 2007 to 2013, focused primarily on improving the institutional efficiency of the KCC through the implementation of the Strategic Framework for Reform. The total value of the project was US$37.1 million, with US$3.5 million provided by the Government of Uganda.[15] KIIDP 2 then started in May 2015 and contributed around US$183.7 million by 2020.[16] This second phase is focusing on citywide infrastructure and institutional systems support. The infrastructure focus has been mainly on transport: the construction of roads, drainage, and associated infrastructure. Meanwhile, the institutional reform is focusing on creating an automated register of all properties and roads in the city, constructing a traffic control centre, and streamlining revenue management systems.

As shown in the figure above, in 2018/19 KIIDP 2's contribution made up 32 per cent of the overall budget – however this and other donor contributions are liable to vary widely from year to year. While the money is provided as a loan to the Ministry of Finance with a low interest rate of 2.11 per cent[17], it is passed through to KCCA to manage and implement.

Figure 3: KCCA 2018/19 budgeted expenditure



Source: Nywomoya, A (2018)

While revenues have been increasing in the city, there has been a commensurate increase in **expenditure**. Figure 3 below shows the breakdown of the budget by directorate, with the engineering and technical services directorate accounting for more than half of the budget. The department is currently focussing on catching up on much-needed repairs and maintenance, as well as designing studies and plans for future investment – particularly on road and drainage infrastructure. Most recently, the focus is on traffic signalisation at junctions as opposed to roundabouts – which research has shown to be very effective in enhancing city connectivity. [18]

Administration is the next largest, which includes civil servant salaries. The staff bill has increased substantially since KCCA's establishment, due both to an increase in the number of staff, and their levels of skill and experience. It is interesting to note that physical planning, which is responsible for surveying and securing all public land and assets, managing and processing building plans, and implementing city addressing, takes up such a small share of the budget as no central government funding can be used for this purpose.

Kikuubo Market, a hub for the trade of whole sale goods, Kampala, Uganda © Shutterstock

Reforms undertaken to enhance the city's financial position

Enhancing the capacity of city financial management

Two critical elements have underpinned the KCCA's approach to enhancing its capacity in financial management. The first stage of reform was around people, both in leadership and the capacity of the workforce. The second stage was then on process, streamlining and digitising systems to maximise efficiency, while keeping the citizens' interests and experience at the heart of all change.

Human capacity

The Executive Director (ED) was appointed directly by the President and was therefore empowered to make decisions. At the time, the person appointed was Jennifer Musisi, whose technocratic approach and zero tolerance for corruption created quick credibility and trust in the institution from external partners. Furthermore, she arrived from the URA, which had already undergone substantial digitisation, integration and capacity reforms to achieve well-running systems for revenue generation and collection. This meant she had existing knowledge of the systems the KCCA needed to improve.

The ED recognised that at the core of strong performance, was a highly capable and motivated team that can deliver results. She brought a group of highly skilled technical staff along with her from the URA, who could instil a new set of skills and work ethic amongst the remaining employees transferred over from the KCC. In order to attract these highly skilled people, the KCCA has much better-paid staff than other local governments and national ministries in Uganda. In fact, the staff expense to income ratio is above the acceptable benchmark of 35 per cent.[19] However, in recent years the ratio has shown a sharp downward trend, indicating that the new people hired (although more expensive) have had a positive economic impact on the KCCA's overall financial position.

To maintain this level of capacity and motivation, the KCCA has created a culture of ongoing learning. For example, organisation-wide training was made available through the Local Economic Acceleration through Partnerships (LEAP) programme, a two-month leadership programme for managers. Another example was, where relevant, making staff training a mandatory component of service provider and consultancy projects and contracts. The aim being to enable similar projects or services to be provided in-house in the future. The consultancy agreement for the automation of various revenue systems was a case in point and is described in more detail below.

However, although the results demonstrate a positive impact of these reforms, the removal of many of KCC's existing employees was highly controversial at the time and resulted in costly lawsuits. In 2018, The Ugandan High Court ordered that KCCA should pay UGX 91 billion (US$24 million) to compensate 679 former KCC employees who were determined as wrongfully dismissed, given that there was no provision for them to be absorbed into other public service sectors.[20] This total is close to a year's worth of own-source revenue collection. This illustrates that financial and political costs of these reforms need to be weighed against long-term efficiency gains of a high-capacity workforce.

System reform

Before 2010, KIIDP 1 had laid some of the groundwork for this by putting the Financial Recovery Action Plan (FRAP) in place, which had the ultimate goal of reducing the level of indebtedness and achieving clean audit reports. In the mid-2000s, overdue liabilities in the form of outstanding payments for goods and services accounted for about 30 per cent of the annual budget.[21] The FRAP stabilised the budget by increasing property tax collection and working out a payment schedule for overdue liabilities over a 5-year period.[22] At the same time, the plan focussed on changing citizen perceptions and creating community buy-in, ensuring that two-thirds of property tax revenue was used in improving services in the same collection zone.

The progress made during the FRAP was then augmented with the inception of the KCCA. The first major reform was to split the revenue and expenditure departments, with the former linked to a commercial bank and the latter to the central bank. Splitting the departments allowed each element of the budget to be focused on exclusively, while also improving financial management and oversight in the city. In addition, previously outsourced revenue collection was brought back within the remit of the Authority. In doing so, the number of bank accounts used for revenue collection could be collapsed from 151 accounts to 8 in 2011.[23] This reduction enabled more efficient and transparent tracking of revenues coming in.

When the new technical staff arrived in the KCCA, there were very few systems in place: limited phones and computers, and no intranet or website. The priority was to create a digitised revenue management system, with the intention of locating payments in real-time, using a system with similar foundations to those in the URA. The digitisation and automation of revenue sources was done in stages and took two years to become fully operational. Public transport and business licenses were targeted first due to their frequent collection, and therefore, substantial potential gains from automation. Following this was the local service tax, local hotel tax, and market fees.

The 'eCitie portal' was then launched in 2014 as Kampala's electronic revenue management system, allowing for online registration and payment of local taxes and fees, as well as automatic billing, payment reminders, and generation of receipts. Instead of travelling to designated banks to make payments, residents could pay via mobile money, reducing the cost both in time and expenses incurred to make the payment. The overall result was that revenue reconciliation dropped from one month to one day, vastly increasing taxpayer satisfaction. The platform also encourages citizens' feedback – to date, there have been around 9 million message exchanges. Figure 4 shows the vision, mission, and core values of the KCCA and the eCitie project.

There were two fundamental elements to the success of the new systems. The first was the initiative to undertake business process mapping. Many city governments implement new systems in the hope of enhancing their efficiency and effectiveness. However, few designers of those systems have taken the time to properly understand the protocols or interactions at each stage. In Kampala, each person involved in the design and running of the new system spent significant time with the user to fully understand their experience and adapted the design accordingly. This was complemented with widespread stakeholder engagement to understand what *could* or *should* be done and analysing the gap between the two to come up with a workplan. The idea was that prioritising user experience would increase compliance.

The second was developing in-house capacity to build the software for these systems. While the upfront capital cost of procuring the system was high at about UGX 9.9 billion (US$2.75 million)[24], the contract required the service provider to train the KCCA staff in the methodologies used, as well as leave them with the source code. External consultants were therefore only hired to automate the first, and most complicated system – public transport. The KCCA staff then adapted the code to automate other systems such as business licenses, market fees, local services tax, and the hotel tax. Having in-house programmers ensured that all the different aspects of automation were able to speak to one another, resulting in the consistency and coordination of both the intra-city and inter-city systems.

Figure 4: Coordinated vision, mission, and values of KCCA

© Oliver Harman, IGC

Capturing land value and unlocking dead capital

Alongside the capacity and operational reforms, Kampala's efforts to identify city-owned land and property assets, update the city property register, as well as implement a more efficient and fit-for-purpose property valuation system have contributed greatly to own source revenue enhancement. Furthermore, activities undertaken in this process including the City Address Model (CAM), improved use of GIS, and widespread data gathering, have improved city planning and created opportunities far beyond that of revenue collection.

Management of land and property assets

One of the first major revenue reforms undertaken after the establishment of the KCCA was the compilation of an accurate asset register. In 2011, KPMG were contracted to conduct the physical verification of the assets and their locations. These assets included school land, public spaces, and productive income-generating assets such as land for infrastructure development and markets.[25] Importantly, it also included reclaiming the numerous lands and properties that belonged to the city but were being used by private entities with no compensation paid to the city. This process of documenting assets that were previously not reported resulted in a tenfold increase in the book value of KCCA's fixed assets from UGX 41.5 billion (US$$ 11 million) to UGX 421 billion (US$113 million) the following year.[26] Fixed asset values continued to increase as new properties were identified and more development took place, reaching UGX 550 billion (US$150 million) in 2018. Understanding this position allows the city to better leverage their assets to maximise the income that they generate, as providing collateral for investment.

Property tax reform

Property taxes are the most crucial source of revenue in the city; however, until recently, its collection has been far below potential due to outdated valuation rolls and widespread exemptions. Property taxes are levied on all commercial, institutional, and rented residential properties. The rate is calculated as a percentage of the actual or estimated annual rental value, and adjusted for various factors depending on the property type.[27] The current rate applied is 6 per cent, which is within the margins set out by the Local Government Ratings Act.

In Uganda, the law requires local governments to update property valuation rolls every five years. However, the last valuation in Kampala (before the current one) was done in 2005, with one supplementary valuation conducted in 2009. This hiatus meant that the KCCA property tax revenues did not capture the increase in property values of over 300 per cent during that period, nor did it capture all new properties built from 2009 onwards.[28]The delay was partly because property valuations are expensive, particularly when they are done manually – as was the case in Kampala. This resulted in a negative spiral, where a lack of revenue collections meant the city could not afford an updated valuation, and therefore could not gather property taxes, resulting in even lower revenues.

In order to break this cycle, in 2016, the KCCA, with assistance through KIIDP 2, undertook a rigorous process of addressing and valuing all properties in Kampala, with the aim of digitising and automating certain processes. These projects were known as the City Address Model (CAM) and Computer Aided Mass Valuation (CAMV). They included all five divisions in Kampala with over 300,000 properties, starting with the Central division of about 15,000 properties where there was potential to gain most revenue. The other divisions followed in phases. The updated roll has seen the potential collection just from the Central and Nakawa divisions, rising from UGX 14 billion (US$3.8 million) in 2013/14 to 38 billion (US$10.3 million) in 2018/19.[29] The steps undertaken for this reform are outlined below.

Sensitisation of the public: Local leaders were included in the property addressing and valuation process to help with consultation of property owners or tenants. The consultations usually took place during regular community meetings, and ensured residents were adequately informed at each stage of the process, including data collection, value publication, and billing. While the involvement of local leaders significantly reduced the number of formally lodged disputes, in some cases residents still refused access to their properties when it came to data collection. In a smaller few, it was alleged that some local leaders encouraged people to avoid these taxes altogether. In these cases, higher levels of leadership, such as mayors, had to be brought in.

Fieldwork: The fieldwork for the street addressing system as well as to update the valuation role were undertaken concurrently. Research assistants collected more than one hundred data points, including information on ownership, location, neighbourhood, and property attributes. While not everything was necessary for the valuation exercise, the KCCA used the opportunity to collect additional information that could be potentially beneficial for future activities as well. The survey form was designed by looking at similar surveys conducted in other countries, as well as meeting with all directorates to determine what relevant information they might need.

Addressing: The City Address Model (CAM) provided all roads with road names, and all the properties with unique property numbers, which were different from the existing plot numbers. Figure 3 shows both numbers. A key feature was the incorporation of GIS mapping to ease identification of properties and to integrate spatial information into digital platforms. There were some challenges faced in terms of the agreement on road names, often due to people having named roads informally and not wanting them to be changed. Theft and damage of signage for scrap metal also caused delays and increased project costs.

Valuation: Instead of contracting a private firm, the valuation was done in-house, which made the valuation much more affordable. The approach also resulted in a change from focussing on large commercial properties which contributed relatively high tax revenues, to looking at each and every property, regardless of whether it was currently taxable. This was done to ensure that the data was ready and available in case of status change. Once the property values are calculated, they are published and available for 30 days so that the public can raise any queries. They are then officially gazetted as part of the valuation roll.

Billing and payment: Bills are issued both via the old system of physical paper-based bills, as well as the new option to register on the online eCitie portal. Payments can also be made through a multitude of methods, including the new mobile money platform, reducing the burden on taxpayers who would earlier have to queue at the bank and waste 2-3 hours of their day just to pay.

Figure 5: Updating the street addresses in KCCA

© Oliver Harman, IGC

Integration with other systems: Land management in Kampala is split between numerous different departments and government agencies. For example, the Ministry of Lands, Housing and Urban Development (MLHUD) processes all land registration. However, the KCCA is responsible for issuing development and demolition permits through the Directorate of Planning, and valuing properties and setting relevant taxes through the Revenue Directorate. The data that each of these separate entities hold is incredibly useful and informative for the work of the others. Therefore, creating an integrated system that can trigger rates billing when households are issued an occupancy certificate, or cancel rates payments when a demolition permit is issued, will significantly enhance the efficiency of all operations. Two developments show progress in this regard:

- Discussions with MLHUD and the URA are already underway on information sharing; the way forward depends on resolving the technical challenge of integrating the two systems.
- There is currently a pilot in some of the GKMA municipalities funded by the World Bank, called the Integrated Revenue System (IRS). It aims to integrate all property information in the region into one system, including the revenue management, land information, and physical planning systems.

Computer Aided Mass Valuation: Computer Aided Mass Valuation (CAMV) is currently being explored with the aim of making property valuation more efficient and cost-effective in the future. The data points on select property characteristics collected during the fieldwork process described above are used as a basis for predicting or extrapolating property values. This replaces the need for market data on each individual property in the future. The International Growth Centre (IGC) has supported the KCCA by analysing different regression-based models of mass valuation.

Although the initial investment to set up a system like this is large (mostly due to the data collection described above), there are minimal ongoing costs once implemented. International experience suggests that it may cost between US$3-6 million and would see recuperation within 3 to 4 years of gradual implementation.[30] In addition to dramatically decreasing the cost of future valuations, it also enables policymakers to cover both formal and informal areas.[31]

Interestingly, Uganda is one of the few African countries with Mass Valuation already provided for in the Local Government (Ratings) Act. However, to apply it city-wide would require a change in the city by-laws to stipulate the practicalities of its implementation as well as substantial sensitisation. There has already been some resistance to the pilot, with stakeholders arguing that the estimated valuation, although cheaper, is not nuanced enough and has the potential to be regressive. Furthermore, it is likely to increase the number of people querying their valuations, given that they are not specific to the individual property.

Ongoing challenges in capturing land value and dead capital

Multiple tenure systems: One of the primary challenges in levying property taxes, and the fundamental reason as to why land taxes in Kampala do not exist, is the complexity of the different tenure systems in the city. In total, there are four tenure systems, each with their own rules of governance and management, resulting in incomplete land registries and widespread confusion over land rights. Property rates and ground rents depend on the tenure system a parcel of land is under, and there are also different forms of proof associated with each one. In some cases, there is no legal document, and the onus is on the local leader to certify ownership. Although this is a long-term issue under the jurisdiction of the national government, it is important to note as a key area for reform to enhance the financial position of Kampala. Figure 4 shows an informal display of ownership.

Informal land transfers: In addition to the complexity surrounding the tenure system, around 75 per cent of land in Kampala is not formally registered and therefore cannot be taxed. As previously mentioned, for unregistered land, there is no formal documentation showing its value, and is therefore likely to be misrepresented by the owner. This distorted market is particularly difficult in informal settlements, where high levels of density, multiple owners, and high rates of property exchange compound the other issues experienced. In an attempt to remedy this, the MLHUD is looking into how blockchain could be used in the management of land transactions. This is primarily to ensure that in the future, transactions of properties are at the market rate. It also helps with reporting since people cannot under or over-report these figures. However, tackling land governance challenges should be a prerequisite to implementing blockchain solutions.[32]

Flat, standardised property rates: While the central government sets the ceiling for how much local governments are allowed to charge for property taxes, local governments can decide within that where to set it with Council approval. Currently, local governments are allowed to charge up to 12 per cent of net income from the property, and Kampala has set

Figure 6: Land right issues in Kampala

© Oliver Harman, IGC

their property rate at 6 per cent. This rate is mirrored in the fellow Ugandan municipality of Tororo, although it is 5 per cent in Gulu, and was recently reduced from 6 per cent to 4 per cent in Kabale.[33] These ceilings need revisions, and might also benefit from being made more progressive.

Tax exemptions: Even though Kampala has made substantial progress in increasing revenues generated from property taxes, the actual collection continues to be far below its potential. While this is primarily due to issues with compliance as discussed below, it is also a result of the numerous property tax exemptions legislated in the Local Government (Ratings) Act. For example, while taxes can be levied on rental and commercial properties, owner-occupied properties, which make up 40 per cent of the total, have been exempt from paying property taxes since 2005.

Enhancing tax compliance

Compliance is one of the most significant barriers to increasing all local revenue; many people do not see why they should pay, while others do not have the necessary information. Often enforcement can become very politically and financially challenging. For example, even though the property tax base has been expanded and tax potential has increased, actual collection has not increased as anticipated as property tax compliance remains low. In the 2019/20 financial year, only 12 per cent of properties paid their taxes on time, and only 34 per cent of potential revenues have been raised.[34] While this may be particularly affected because of COVID-19, it remains a chronic challenge due to weak means of enforcement and low tax morale.

The KCCA have made increasing the social contract with residents one of their top priorities – including the 'Citizen as a Client' campaign, matching service delivery to tax payments, and widening the tax base to reduce the burden on existing taxpayers.

'Citizen as a Client': This approach has transformed the way the KCCA deals with tax collection and service delivery. The city is trying to build their relationship with communities around a shared understanding of their respective responsibilities; i.e. the city tasked with delivering high-quality services, and citizens for their part, paying their taxes. The goal is to provide citizens more information and make applications and payments much more convenient in the hope that this will better incentivise taxpayers to comply. Given the high enforcement costs, encouraging voluntary compliance is a far more sustainable solution, and has been enshrined in the development of the KCCA citizen charter.[35]

Some of the strategies used include:

- Decentralising revenue collection centres to make payment more accessible;
- Automation and diversification of payment methods and making services available online through the e-Citie portal;
- Creating a 'one-stop-shop' where people can get all their required services attended to and processed in one visit;
- As highlighted above, involving the people responsible for providing citizens with information in the design and implementation of new systems and processes, so that they can provide advice from first-hand experience;
- Establishing a Large Taxpayer Office for the people responsible for the majority of fees and taxes, providing special services to encourage compliance.

Figure 7: Citizen as a Client in KCCA and Building the social contract

© Oliver Harman, IGC

However, there is still much progress that needs to be made, particularly on the two fundamental challenges of meeting residents' expectations in the delivery of public services, as well as widening the tax base to limit feelings of injustice by those who pay.

Matching service delivery to tax payments

One of the major impediments to increasing compliance is that citizens do not yet see the link between the taxes they pay, and services received. While generally better communication on what the city is doing with taxpayer money is essential to enhancing buy-in, the practical demonstration of projects sends a far more impactful message. However, some of the negative perceptions around service delivery is also the result of failure to provide from other jurisdictions or at the national level. Residents are mostly not discerning about which services each government entity is responsible for delivering, nor where the taxes they are paying are going. Government is seen as a single entity, and therefore what the national government does affects the social contract with KCCA and vice versa.

One of the primary ways in which the KCCA aims to tackle this is through investing in highly visible projects such as small-scale waste removal in dense residential areas. While investment in large city-wide infrastructure, such as water processing plants, may have a significant impact on the city overall, it is not visible or personalised to the average citizen. Investing in social infrastructure at the micro level empowers citizens and disrupts the negative cycle of people refusing to pay their taxes based on lack of service delivery. The KCCA sees investment in visible city-branded service delivery projects as an essential way that development partners can help contribute to increasing compliance in the future.

In addition, as mentioned above, the Large Taxpayer Office is currently making good inroads in the prioritisation of service delivery to taxpayers who are responsible for paying a larger share of taxes. Although this does not have the same pro-poor benefits of the strategy above, it does increase compliance of the most important contributors to the revenue base, allowing for higher service provision overall. In fact, property tax compliance of the highest valued properties are four times higher than the lowest valued ones.[36]

Building the tax base to reduce pressure on taxpayers

Both the KCCA and the URA face the challenge of a very narrow tax base, often choosing to increase revenue by putting more pressure on the larger taxpayers, rather than taking on the challenge of expanding the base. As a short-term strategy, the KCCA is ensuring that all potential taxpayers are captured on their registers by sharing and exchanging taxpayer databases with the URA and the National Social Security Fund (NSSF) to identify those who are missing. However, in the long run, high levels of informality, low incomes and unemployment, as well as the numerous tax exemptions, make it both ethically and politically challenging to tax large portions of the population.

To combat this, the KCCA is employing initiatives that focus on *building* the tax base and creating an enabling environment for businesses to thrive. They are currently looking to do more research on why and where firms are emerging and why others are dropping off the register and closing. As a senior member of the KCCA put it, "we cannot continue to milk the cow without feeding it".

Improving the regulatory environment for access to finance

Since the KCCA's establishment, it has not used any form of direct borrowing to finance its projects or operations. Instead, all borrowing (such as the KIIDP loan) is done through the MoFPED and is provided to the KCCA as a grant. However, much of the focus around the revenue system and administration reforms, as well as targeted increases in specific own-source revenues, was centred on achieving the goal of the KCCA being creditworthy in its own right. A major breakthrough was the recent removal of legislation requiring borrowing to be capped at 10 per cent of own-source revenues, which has opened up the possibilities for multiple new financing mechanisms. However, despite this, concerns remain over the ability of the KCCA to develop bankable projects that meet investor requirements.

Creditworthiness initiatives

Active creditworthiness reforms started in 2012, building on the progress made through FRAP with support from the World Bank's PPIAF's Sub-National Technical Assistance (SNTA) programme. In line with the KIIDP programme, they have been working with the KCCA on enhancing own-source revenues, along with improving financial management, accounting policies and procedures, and debt management practices. In 2012, the Auditor General gave the first unqualified audit opinion, which KCCA has now maintained over several consecutive years.

In 2015/16, the KCCA undertook its first official credit rating assessment. It achieved a national scale rating of A- in the short term, and A in the long term, by The Global Credit Rating Co.[37] However, the fact that this is a national scale rating means it only represents the position of Kampala relative to other borrowing entities in the region. Putting the rating in context, Uganda's international credit rating has consistently stood at around B+ (Fitch), B2 (Moody's), and B (Standard & Poor's), which are all below investment grade.[38] This tempers the extent to which people see the KCCA as investment-worthy on an international scale. However, it does bode well for the KCCA's progress within its given context.

The ultimate goal of establishing creditworthiness was to increase overall investment confidence in Kampala, as well as to take concrete steps towards issuing a sub-national bond. Following the establishment of creditworthiness, the procedure for floating a municipal bond in Kampala would include: packaging a bankable project, going through the relevant national government reviews and approvals with MoFPED (who are ultimately the liable party if KCCA were to default), doing a roadshow to attract investors, and then working with the Bank of Uganda to issue the bonds on behalf of MoFPED. However, legal obstacles to borrowing, as well as limited capacity to develop bankable projects made issuing a bond, or taking sub-national loans more broadly, an unlikely prospect.

Legal obstacles to borrowing

The Local Government Act of 1997 stipulates that local governments can only borrow up to 10 per cent of the previous year's own-source revenues. At current collection rates, this would be about UGX 900 million (US$240,000). By comparison, this would cover just 14 metres of a Bus Rapid Transit (BRT) line in the city according to a recent feasibility study.[39] The inclusion of the clause was a way to ensure that local governments could not over-burden themselves (and thereby MoFPED) with debt. In Uganda, caution over debt is particularly prevalent, given their history of being the first country to be declared a 'Heavily Indebted Poor Country' (HIPC), requiring US$700 million in debt relief in 1998.[40]

While well-intended as a measure for protection, the cap on municipal borrowing has inhibited the use of this mechanism as an alternative source of financing entirely. The KCCA is not willing to expend the effort of taking a loan when they can instead focus on increasing own-source revenues by the same 10 per cent. Stakeholders felt that even if the cap was a higher percentage of own-source revenue, it would not be sufficient. Instead, the base requirement to float a municipal bond should be on the ability of the project to recover its costs from user fees and other revenues.

After numerous cabinet discussions, there was agreement that the KCCA should be exempt from the borrowing restriction clause in The Local Government Act. The fact that the KCCA is a central government agency, and that Kampala is the hub of economic activity in the country with extensive revenue generation potential, were strong arguments in their favour. However, legislating the KCCA's exemption required an amendment to the KCCA Act, which was stalled for several years, with numerous other contentious amendments required. Finally, early 2020 saw the Kampala Capital City (Amendment) Act gazetted, removing (amongst other issues as highlighted above) this legal obstacle to borrowing.

An additional legal challenge is that there is currently no single law that governs how to account for and manage municipal bonds. The Companies Act and Capital Markets Act, which would have oversight on this, have conflicting approaches. The Credit Markets Authority (CMA) is in charge of the regulation and promotion of capital markets in Uganda, and therefore municipal bonds would fall under its domain. The CMA is therefore currently developing a set of 'bond issuance guidelines' to fill the gap in the legal framework. These guidelines are following both acts as closely as possible to ensure that the guidelines are enforceable.

Limited ability to develop bankable projects

Even more than the legislative challenges, the KCCA does not have the capacity to develop bankable projects and the associated documentation, a sentiment held with many stakeholders. Therefore, even with the removal of the 10 per cent cap, they would still not be ready to launch a successful municipal bond. The capacity gaps highlighted include a lack of continuity and foresight in strategic plans, inability to develop (trustworthy) feasibility studies, lack of expertise and experience in preparing financial models, and immaturity of internal controls and financial management systems.

There is, therefore, substantial scope for other government entities and development partners to assist in preparing bankable projects. MoFPED has a whole unit dedicated to assisting with bankable projects. This 'Integrated Bank of Projects' (IBP) acts as a tool for registration, tracking, and most critically, strengthening project preparation, implementation, and evaluation.[41] The IBP hopes to improve capacity in designing these projects, with an aim of doubling the investment absorption rate from its current level of US$0.8 per dollar.[42]

Although it is not directly part of their remit, the CMA also offers guidance in developing bankable projects in line with their requirements. The CMA focus on the contingent liability side, which involves looking at the financials and assessing whether it aligns with the public interest and the national development plan. In addition, as part of making the assessments easier to comply with, the CMA is moving from a merit-based method to a disclosure-based method of assessment. Disclosure-based ensures all information is available to investors, instead of the regulator making a judgement-based decision on the merits of the investment in an attempt to shield public investors. The hope is that this will result in a reduction of differences in information available and confidence in the investment.

Finally, development partners are well placed to assist with structuring and developing feasibility studies underpinning bankability. In fact, it was the area most highlighted by the KCCA for development partner assistance. However, as is the case of all external assistance to the KCCA, stakeholders believe that the key to this assistance being successful long term is in taking a collaborative approach. This is to ensure that the capacity to do it going forward is developed internally. Furthermore, a key ongoing debate across all development organisations is how to define what makes a project bankable, and whether we should be looking at projects in isolation or investing in broader city systems that generate value and productivity as a whole. The definition adopted will have far-reaching implications for how investments are targeted in the future.

Realising the potential of investment in improving infrastructure

Given the progress made to date, the KCCA is in a good position to start exploring different options for infrastructure investment in the city. Key focus areas need to be identifying measures to further reduce the risk of investment, tightening up guidelines and processes with relevant authorities, and building capacity to develop and manage bankable projects. In the meantime, continuing to leverage the strong relationships built with development partners will be vital.

Investor demand for municipal bonds

Whether municipal bonds in particular, or other vehicles, investors in Uganda highlighted that there is more capital than there is supply of credible assets to invest in, along with an appetite to leverage this capital. The Ugandan pension market is mostly in government bonds, sitting in banks and not being fully utilised for productive assets. However, project returns on investment underpin a fundamental restriction in realising this demand. Ugandan treasury bills are relatively low risk and offer a one-year return of 13.5 per cent.[43] Therefore, relatively riskier projects at the KCCA level must provide a higher return on investment than government bonds. Over the last 10 years, the average bank lending rate in Uganda has exceeded 20 per cent which are high in both nominal and real terms when compared with regional peers and had a high rate of spread.[44] Borrowing at this rate is simply too expensive to maintain bankability of infrastructure projects. Prudent macro policy, improving competition and regulation in the banking sector, as well as other measures to reduce the risk of these investments at the local level, will be important in creating an investment environment conducive to all stakeholders.

Designing future municipal bonds

The *type* of bond a city undertakes can directly determine its level of risk as well as its probability for success. Going forward, the KCCA is not interested in taking on a general-purpose bond, as this puts out a fast call for repayment, requiring a level of stability in revenues not yet present in Kampala. The KCCA cannot risk draining existing revenue sources and tying them all up in large infrastructure projects, as there is still a need for those revenues to cover ongoing expenses such as road maintenance and waste collection.

Instead, the KCCA should favour a project-specific bond, in which the management of borrowed funds occurs in a separate account, and income-flows from that investment (user fees) would be used to repay the bond. In this way, short-term revenues match short-term expenditures and vice versa. Achieving this repayment could occur using a Special Purpose Vehicle (SPV) that is self-financing and lifts the accountability from KCCA. However, this would also require further legislative reform, as at present there is no law governing SPVs. As an interim solution, the CMA bond issuance guidelines will include a section on SPVs and how to account for them. Another concern is that user fees might exclude certain parts of the population who cannot afford to pay them. There is also a need for extensive sensitisation and behaviour change, given the resistance towards payment of user fees from communities.

Partnering with development institutions

The creditworthiness of a city also determines the extent to which development partners and international finance institutions are willing to get involved in providing the capital for infrastructure investment. In Kampala, the human capacity and administrative reforms undertaken have renewed the trust of development partners, and a number of projects were either initiated or expanded. Key development partners working with the city include, amongst others, the World Bank

Farmer's market in Kampala, Uganda © Shutterstock (through KIIDP 2), the UK's Department for International Development (DfID) (through their Cities, Infrastructure and Growth programme), the Netherlands Embassy, the European Union delegation, Japan International Cooperation Agency (JICA), United Nations Capital Development Fund (UNCDF), African Development Bank (AfDB) and the French Agence française de Développement (AFD).

There are three primary ways in which development partners assist with finance: grants, loans, or some combination of the two – otherwise known as blended finance. Finance from development partners and IFI's usually has far more favourable terms when compared to what can be provided by local banks or bonds – their model being making low margins on a large number of projects, and raising money at low rates on the international market. For the most part, grants and loans are arranged at the national level, as the fiduciary risk at the sub-national level is too high. In Uganda, the counterpart is usually MoFPED.

External guarantees and blended finance mechanisms are proposed as a solution to offset the risk involved with municipal bonds, as it reduces the burden on the central government. While this was indicated by most stakeholders as a promising way forward, some asserted that the involvement of development partners could make processes more bureaucratic – enhancing accountability but slowing down delivery. Development partners at the national level also means that they have neither the incentives to ensure that projects are designed with the city's priorities in mind, nor that the KCCA will have the revenue to repay the bond and cover ongoing operations and maintenance costs.

Public private partnerships

The Public Private Partnerships (PPP) Act was recently passed in 2015, opening up new opportunities to leverage private sector investment. However, lack of experience on the part of contracting authorities, weak intergovernmental cooperation, and little knowledge of best practices continue to impede implementation.[45] Currently, no projects in Uganda have gone through the process outlined in the act, but were rather negotiated and concluded under prior guidelines and frameworks.[46] To remedy this, the national government set up a specific PPP unit, which helps build capacity, particularly in structuring partnerships and contracts.

However, sound project development is still a preliminary issue that needs to be overcome before PPP mechanisms are explored. PPPs require a strong authorising environment with the ability to coordinate, and research shows that they are typically only feasible for large-value projects over US$50 million, given the high transaction costs incurred in structuring the deal.[47] Similar to other investment structures, they require capacity to build bankable projects, as well as face issues surrounding the affordability of user fees and resistance from the community to pay these.

Lessons, success factors, and priorities for future reform

The reforms achieved by the KCCA since its inception in 2012 illustrate how institutional and administrative reform, without widespread policy change, can generate substantial increases in municipal revenues, even within economically constrained contexts. Striking was the administration's reflection that their most significant success was not in doing something new, but rather, doing their job as it is meant to be done. Furthermore, efforts to reform regulation and expand opportunities for enhancing the city's financial position have been passed, including the removal of the cap on borrowing, and clarity on the hierarchy of decision-making in the city's governance structure. We are yet to see whether this will bring the catalytic change envisioned. Development partners now have an important role to play in building capacity and de-risking municipal investments. However, caution also needs to be taken to ensure development funding does not skew strategic prioritisation of projects, and adequately accounts for operation and maintenance costs.

Lessons and success factors

Strong leadership*:* When asking about the most fundamental factor behind Kampala's recent success in financial reform, there was resounding agreement across multiple stakeholders that it all boiled down to leadership. Jennifer Musisi, appointed as the first Executive Director of the KCCA, had a dynamic and technocratic approach to getting the job done. This created credibility and trust in the institution from external partners, which has carried forward in the leadership that followed.

Window of opportunity for streamlined decision-making: In addition to the ED being a strong leader with vision, the new governance structure of the KCCA along with a window of political alignment, also enabled the team to enact this vision. Although the hierarchy of decision-making between the Minister, the ED, and the Lord Mayor was unclear, shortly after Jennifer Musisi started her term as ED, the Lord Mayor (from an opposition party to the president) was impeached and only came back to office after the 2016 election. This meant that together with Ministerial and Presidential support, there was a window of fast and effective decision-making, with little political opposition.

Following a successful national model: The fact that many of the key decision-makers in the KCCA came from the URA meant they had a collective understanding and model for the necessary financial reforms. Being able to draw on the experience of a more established institution in a similar context that had successfully implemented similar systems was very helpful in circumnavigating potential challenges and transferring best practice.

Motivated and high-capacity employees: One of the most notable challenges in conducting these reforms was managing change. The replacement of the KCC with the KCCA meant a substantial turnover in staff, bringing in new and highly qualified people, and integrating them with the pre-existing staff. Continuous organisation-wide training programmes, including capacity building as part of projects and contracts, was one way in which to steer this shift in organisational culture to that of motivated problem-solving teams. The relatively higher salaries paid by the KCCA to attract and retain talented people also aided this cultural shift. However, this shift was ultimately very costly to the KCCA, given the court order to compensate ex-employees whose dismissal was deemed unconstitutional.

Focussing on improved administration: As has been mentioned previously, the KCCA achieved many of these reforms within their existing mandate and legal framework simply by improving administration. This included digitisation and automation of various systems, as well as improving the governance structure; for example, by splitting the revenue and expenditure departments. Although in the long run, several policy changes need to be unlocked to make further progress, ensuring that the current reforms were strictly within legal limits was very important for maintaining compliance and enforceability. It also built trust with external parties. This approach limited resistance from other government entities as well as from the citizens themselves.

Business process mapping: For each new system implemented in the KCCA, staff were required to spend time understanding how the citizen experienced existing systems. This mapping was conducted for each and every aspect of the improved service. It allowed them to fully understand all the protocols, interactions, steps and procedures that citizens and officials had to go through to complete a task. At the same time, KCCA engaged with a variety of stakeholders to understand what could or should be done to improve the service, enabling targets to be set. Analysing the gap between the existing process, and future potential, enabled a detailed plan of action to be drawn up and executed. The goal was to make the user experience as convenient as possible, with the hope that by enhancing convenience, they would increase compliance.

Development partner support: Large and consistent development partner support has been integral to the progress that the KCCA has made. In particular, the World Bank's KIIDP programmes have increased revenues by almost a third. However, this has been a two-way street, with efforts of the KCCA to improve their operational capacity and fully partake in all aspects of project design, implementation, and monitoring. This collaborative and pro-active approach has given international financial institutions and development partners greater confidence to invest and partner with the city. The example of Kampala has highlighted the importance of a true partnership (a give-and-take relationship) between development partners and local governments, rather than a donor-recipient relationship.

Priorities for current and future reform

Computer-Aided Mass Valuation (CAMV): The CAMV project was piloted with the aim of introducing it throughout the city as a more efficient and cost-effective way to value properties in the future. Values can be attributed using data on select characteristics and running regression models, rather than needing detailed market data for each individual property. These values are then accessibly stored in KCCAs digital eCitie platform. While the initial investment to set up a system like this is costly, there are minimal ongoing costs once implemented, and it dramatically decreases the cost of future valuations. Interestingly, Uganda is one of the few African countries with mass valuation already provided for in the Local Government (Ratings) Act. However, to apply it citywide would require a change in the current by-laws, such as the phases of the rollout, time validity of changes, and regulations on implementation.[48]

Several future opportunities for **enhancing own-source revenues** in Kampala were also highlighted, including:

- **Advertising fees**: Many individuals in the KCCA Directorate of Revenue saw advertising as a critical future opportunity for enhancing Kampala's financial position. In order to mainstream this as one of the key revenues, a robust database of all advertising locations would need to be developed and automated.
- **Parking fees:** Currently, parking management is outsourced to a private company which pays the KCCA a nominal fee for the right. However, it has been estimated that this would be much more lucrative to do in-house and will be one of the key areas that the KCCA pursues after the existing contract expires. Furthermore, the assertion was that the KCCA currently has some land that could be used to develop larger parking terminals to ease the burden of on-street parking in the city and associated traffic congestion.
- **Trading licences:** Updating the levying of trading licences in a way that works with the informal sector rather than against it is a priority for enhancing the city's financial position. However, this is challenging, as those in the informal sector do not usually have one permanent place of work. Additionally, many do not want to formalise their businesses to avoid accountability for additional fees.
- **Compliance with property rates:** Compliance with property tax is relatively low. Building voluntary compliance with property rates through better service delivery and communication with communities is a considerable opportunity to achieve higher revenues without legislative change. However, enabling punitive mechanisms for enforcement will also be essential.
- **Urban oil and gas taxes:** Recent oil and gas discovery in Uganda has caused KCCA to pursue the potential of increasing fees on petrol stations, with the aim of ensuring that the city also benefits from the discovery. In addition, the current Local Government (Rating) Act does allow for oil pipelines to be rateable; however, parties are lobbying for an exemption to improve industry competitiveness, thereby removing a potentially lucrative revenue source.

- **Water and electricity rates:** Water and electricity service provision are not under the authority of the local government, but are instead run by the national water and sewerage corporation. Given the potential of revenue generation from these sources, the KCCA is currently negotiating with the national water and sewerage corporation to collect a nominal fee for either each connection or on each bill.

- **Vacant land tax**: 8-10 per cent of Kampala's land could be classified as 'vacant', and is not subject to property tax under the Local Government (Ratings) Act. A study has shown that between UGX 245 million and UGX 1.8 billion (US$65,000 to US$478,000) could be generated in revenue, depending on the model applied, in addition to the benefits of reduced speculation and improved land-use planning.[49]

Investment in visible service delivery: Currently, local tax compliance is estimated by KCCA as slightly above 50 per cent. Although higher than many other developing cities, this still represents significant lost revenue and subsequent expenditure. One of the primary ways to increase compliance in Kampala is by explicitly demonstrating the connection between fees or taxes and increased service provision. However, this is a reinforcing cycle, as local governments need revenue to fund service delivery, while citizens will not pay until they see the services being delivered. The KCCA therefore sees investments in visible city-branded service delivery projects as an essential way that development partners can help increase compliance in the future.

Legislation surrounding SPVs and bonds: Currently, there is no single law governing how to account for and manage municipal bonds or SPVs. The Companies Act and Capital Markets Act, which would have oversight on this, have conflicting approaches. The CMA is therefore currently developing a set of 'bond issuance guidelines', which includes a section on SPVs to fill the gap in the legal framework. These guidelines are following both acts as closely as possible to ensure that the guidelines are enforceable. However, the laws need to be amended for long-term clarity.

Building capacity to define and develop bankable projects: Even more than the legislative challenges, there was a sentiment amongst many stakeholders that the KCCA does not have the capacity to develop bankable projects and the associated documentation. The capacity gaps highlighted include a lack of continuity and foresight in strategic plans, inability to develop (trustworthy) feasibility studies, lack of expertise and experience in preparing financial models, and immaturity of internal controls and financial management systems. In addition to government efforts, this was highlighted as a key area for development partner support.

Urban land rights: Although this is a long-term issue under the jurisdiction of the national government, it is important to note as a key area for reform to enhance the financial position of Kampala. Kampala's highly complex land tenure systems and high degrees of informality have resulted in incomplete land registers and associated widespread confusion over land rights. This creates room for multiple claims on land, and by extension, multiple claims for compensation. Not only does this become incredibly costly, but it also causes severe delays to project implementation. To date, this has made levying any pure land taxes impossible, causing the KCCA to lose a significant source of revenue. In addition, acquiring the necessary land for large-scale infrastructure investment projects is incredibly difficult.

Clarifying roles in the GKMA: As a result of rapid urbanisation, the city of Kampala has outgrown its administrative boundary, spilling over into neighbouring districts. This has caused great difficulty in cohesive decision-making, project implementation, and a geographical imbalance between the source of revenue generation and where services eventually need to be delivered. Although much progress has been made in overcoming other legislative obstacles, the challenge of revenue sharing and project implementation in the GKMA remains. While the 2010 KCCA Act allows for a Metropolitan Physical Planning Authority, the idea was still meeting resistance from authorities neighbouring KCCA in late 2018.[50] New legislative amendments see authority in this regard resting with the Minister of Kampala.[51] However, it is still unclear how the fiscal relationship between authorities and the burden of revenue to service delivery will change.

References

1. Kampala Capital City Authority (2020). Kampala City Strategic Plan 2020/21-2024/25.
2. Global Credit Rating Co (2015). Kampala Capital City Authority.
3. Ibid.
4. Nywomoya, A. (2019). Uganda: KCCA unveils city plans for next six months. All Africa. Online available at https://allafrica.com/stories/201901080157.html.
5. Nywomoya, A. (2018). Kampala's proposed 2018/19 budget at a glance. Daily Monitor. Online available at https://www.monitor.co.ug/News/National/Kampala-s-proposed-2018-19-budget-at-a-glance/688334-4390780-7xl4hi/index.html.
6. Kampala Capital City Authority (2018). Kampala Capital City Authority – Revenue Collection Instrument. KCCA. Online available at https://kcca.go.ug/media/docs/Revenue%20collection%20instruments%202018.pdf
7. Delbridge, V. and O. Harman (2019). Figures from KCCA revenue directorate. KCCA.
8. Kampala Capital City Authority (2020). Kampala City Strategic Plan 2020/21-2024/25.
9. Byaruhanga, J. (2011). Impact of Graduated Tax Suspension to Local Level Service Delivery in Uganda, Uganda Christian University.
10. Otto, C. (2012). Abolition of graduated tax in Uganda: the impacts of the abolition of graduated tax in Uganda, Lambert Academic Publishing, Germany.
11. Manwaring, P. and T. Regan (2019) "Property taxes in Kampala: Some background information." IGC Policy Note.
12. Bakibinga, D. and D. Ngabirano (2019). "Enhancing Property Rates Administration, Collection and Enforcement in Uganda: The Case of Kampala Capital City Authority (KCCA) and four other Municipalities."
13. The Independent (2020). Government reinstates road user fees for taxis, commercial vehicles. The Independent. Online available at https://www.independent.co.ug/government-reinstates-road-user-fees-for-taxis-commercial-vehicles/.
14. The Independent (2018). Govt cancels daily levies on all Public Service Vehicles The Independent Online available at https://www.independent.co.ug/govt-cancels-daily-levies-on-all-public-service-vehicles/.
15. World Bank (2014). Implementation completion and results report (ida-43670). W. Bank. Online available at http://documents.worldbank.org/curated/en/545191468349818537/pdf/ICR29160P078380IC0disclosed07020140.pdf.
16. Kampala Capital City Authority. (2019). "Kampala Institutional and Infrastructure Development Projects (KIIDP)."
17. World Bank Projects and Operations (n.d.). Second Kampala Institutional and Infrastructure Development Project. W. Bank. Online available at https://projects.worldbank.org/en/projects-operations/project-detail/P133590
18. Otunola, B., S. Kriticos and O. Harman (2019). "The BRT and the danfo: a case study of Lagos' transport reforms from 1999-2019."
19. Global Credit Rating Co (2015). Kampala Capital City Authority.
20. Mugala, M. (2018). Judge orders KCA to pay ex-KCC workers Shs 91bn. The Observer. Online available at https://observer.ug/news/headlines/57750-judge-orders-kcca-to-pay-ex-kcc-workers-shs-91bn.
21. World Bank (2006). Uganda at a Glance. W. Bank. Washington DC.
22. Ibid.
23. Musisi, J. (2018). "Full Resignation Letter." from https://chimpreports.com/jennifer-musisis-full-resignation-letter/.
24. Andema, F. and A. Haas (2017) "Efficient and effective municipal tax administration: A case study of the Kampala Capital City Authority."
25. Musisi, J. (2018). "Full Resignation Letter." from https://chimpreports.com/jennifer-musisis-full-resignation-letter/.
26. Global Credit Rating Co (2015). Kampala Capital City Authority.
27. Manwaring, P. and T. Regan (2019) "Property taxes in Kampala: Some background information." IGC Policy Note.
28. Bakibinga, D. and D. Ngabirano (2019). "Enhancing Property Rates Administration, Collection and Enforcement in Uganda: The Case of Kampala Capital City Authority (KCCA) and four other Municipalities."
29. Manwaring, P. and T. Regan (2019) "Property taxes in Kampala: Some background information." IGC Policy Note.
30. Kopanyi, M. (2015). "Local Revenue Reform of Kampala Capital City Authority." London: International Growth Centre.
31. Ibid.
32. Kriticos, S. (2019). "Keep it clean: can blockchain change the nature of land registry in developing countries?" International Growth Centre Blog.
33. Bakibinga, D. and D. Ngabirano (2019). "Enhancing Property Rates Administration, Collection and Enforcement in Uganda: The Case of Kampala Capital City Authority (KCCA) and four other Municipalities."
34. Ahabwe, J., H. Kikonyogo, P. Manwaring, R. R. Mugangaizi, J. Mutebi, D. M. Nuweabine and T. Regan (2020). Property tax compliance in Kampala: Preliminary evidence from taxpayer feedback and administrative data. IGC Final Report, International Growth Centre. C-19147-UGA-1.
35. Humphreys, M., C. Bosancianu, A. Garcia-Hernandez and I. Silver (2019). Developing Kampala's citizen charter: Citizen deliberation and bureaucratic responsiveness in service provision. IGC Project Report, International Growth Centre.
36. Manwaring, P. and T. Regan (2019) "Property taxes in Kampala: Some background information." IGC Policy Note.
37. Global Credit Rating Co (2015). Kampala Capital City Authority.
38. Trading Economics. (n.d.). "Uganda – Credit Rating."
39. Collier, P., E. Glaeser, T. Venables, P. Manwaring and M. and Blake (2018) "Accessing opportunities: Policy decisions for enhancing urban mobility." IGC Cities that Work Policy Framing Paper.
40. International Monetary Fund. (1999). "Heavily Indebted Poor Countries (HIPC) Initiative."
41. Ministry of Finance, P. a. E. D. (2019). AG. Permanent Secretary/Secretary to Treasury Launches the Integrated Bank of Projects. Online available at https://www.finance.go.ug/press/ag-permanent-secretarysecreatary-treasury-launches-integrated-bank-projects, Ministry of Finance, Planning and Economic Development, Uganda.
42. Oketch, M. L. (2019). Government returns to grow to $1.7 for every invested dollar. Daily Monitor. Online available at https://www.monitor.co.ug/Business/Markets/Government-returns-to-grow-to--1-7-every-invested-dollar/688606-5088308-ip1lvbz/index.html
43. Bank of Uganda. (2020). "T Bills Auction and Yield Curve."
44. Jefferis, K. R., E. Kasekende, D. K. Rubatsimbira and N. Ntungire (2020). Exploring the Determinants of Interest Rate Spreads in the Uganda Banking System, Bank of Uganda.
45. Vallée, M. (2018). "PPP laws in Africa: confusing or clarifying?" World Bank Group Infrastructure and Public-Private Partnerships Blog.
46. World Bank. (n.d.). "Private Participation in Infrastructure (PPI)."
47. Siemiatycki, M. (2019) "Strategies for effective procurement and public-private partnerships in the transport sector." IGC Policy Paper.
48. Kopanyi, M. (2015). "Local Revenue Reform of Kampala Capital City Authority." London: International Growth Centre.
49. Kopanyi, M. and A. Haas (2018) "Considerations for a tax on urban vacant land in Kampala " IGC Policy Brief 43407.
50. Nakatudde, O. (2018). Ministers, Legislators Meet Over Metropolitan Physical Planning Authority. Uganda Radio Network. Online available at https://ugandaradionetwork.net/story/ministers-legislators-meet-over-metropolitan-physical-planning-authority.
51. Government of Uganda (2019). Kampala Capital City (Amendment) Act. Online available at https://www.parliament.go.ug/documents/3345/acts-2019.

UN-HABITAT
FOR A BETTER URBAN FUTURE

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME
P.O. Box 30030, Nairobi 00100, Kenya
unhabitat-info@un.org
www.unhabitat.org

@unhabitat