UNCDF
Unlocking Public and Private Finance for the Poor

The Impact of the COVID-19 on Local Government Fiscal Space and Service Delivery in Uganda

MAY 2020

MINISTRY OF LOCAL GOVERNMENT

LOCAL GOVERNMENT FINANCE COMMISSION

MAKERERE UNIVERSITY

ULGA
UNITY AND EFFICIENCY

Urban Authorities Association of Uganda
Good Governance and Sustainable Urban development.

EUROPEAN UNION

Table of Contents

List of Figures and Tables

Abbreviations

CG	Central Government
GDP	Gross Domestic Product
IMF	International Monetary Fund
HCE	Household Consumption Expenditure
LED	Local Economic Development
LG	Local Government
LGFC	Local Government Finance Commission
LST	Local Service Tax
MDAs	Ministries Departments and Agencies
MoFPED	Ministry of Finance Planning and Economic Development
NGOs	Non-Governmental Organisations
OBEG	Operational Expenditure Block Grants
OPD	Outpatient Department
OSR	Own Source Revenue
PSM	Public Sector Management
SOPs	Standard Operating Procedures
TCs	Town Councils
UBOS	Uganda Bureau of Statistics
UNECA	United Nations Economic Commission for Africa
UVRI	Uganda Virus Research Institute

Acknowledgements

The Report is part of the broader COVID-19 Socio-Economic Impact Assessment undertaken by the United Nations in Uganda and the Government of Uganda. This paper in particular makes a critical contribution of assessing the likely impact of COVID-19 on the capacity of LGs to continue delivering basic services to the population from the perspective of the available fiscal space. The study was designed and conducted by the United Nations Capital Development Fund (UNCDF) and College of Business and Management Science of Makerere University (COBAMS) under the overall guidance and supervision of Dr. Dmitry Pozhidaev of UNCDF and Prof. Hisali Eria of Makerere University. It incorporates a Rapid Assessment of 20 local governments who provided their estimates of the COVID-19 impacts and very useful insights into their reponse strategies and plans.

The research team included: Dr. Jennifer Bukokhe, Joel Mundua, Deus Tirwakunda and Chris Lukolyo (UNCDF); Dr. Fred Muhumuza, Dr. Yusuf Kiwala and Dr. John Oryema (Makerere University). We appreciate the effective support in data collection by the Ministry of Local Government under the guidance of Mr. Ben Kumumanya; the Local Government Finance Commission, under the guidance of Mr. Lawrence Banyoya and the Ministry of Finance, Planning and Economic Development, the Budget directorate and the Local Governments (including Districts LGs of Abim, Amuria, Adjumani, Amolater, Amudat, Kagadi, Kitgum, Lira, Napak, Otuke, Pader, Wakiso, Kole, Moroto, Yumbe, Zombo, Lamwo and Municipal councils of Arua and Moroto) under the guidance of their respective Chief Administrative Officers and Town Clerks as well as Kampala Capital City Authority. We acknowledge support of Ms. Winner Jeannette, Ms. Joy Rachael Kinaawa and Mr. Peter Augen Rwabutomize in data collection and analysis.

This report was drafted by Dr. Fred Muhumuza, Dr. Dmitry Pozhidaev and Joel Mundua.

Executive Summary

The COVID-19 pandemic has disrupted the social and economic structures of service delivery with significant consequences on lives, livelihoods and general economic development. To restrain the spread of COVID-19 pandemic, the Government has instituted several measures including a partial lockdown of movement of people and closure of places that involve close public interactions. This has ensued into disrupting social and economic structures especially the local government systems of service delivery with significant consequences on health, livelihoods and general economic development. This paper makes a critical contribution of assessing the likely impact of COVID-19 on the capacity of LGs to continue delivering basic services to the population. The team adopted a systems approach to service delivery by LGs, largely on account of the many and complex interactions between Ministries, Departments and Agencies (MDAs) of government as well as households and firms in the private sector.

The data collection involved qualitative and quantitative approaches following identification of potential transmission channels of the shock to the service delivery systems and related outcomes. We undertook a Monte Carlo simulation of the COVID-19 impact on the local revenue collection and the impact modelling of the pandemic on service delivery using revenue flow secondary data for 117 LGs over the years. The variable and interactions identified from the literature were corroborated by qualitative information from the survey that was based on the critical case sampling of senior officials from 20 LGs.

The following are the summary of the key findings of the study:

1. **Local Governments are already experiencing observable immediate impacts of the pandemic on their systems and operations.** The immediate impacts according to LG leaders included;
   (i) LGs are unable to hold meetings as they have no facilities and technology to work from home given the lock-down. For instance, the budgets are yet to be passed because of the limitation of the number of people in meetings to five
   (ii) LGs are unable to collect local revenue, which process is manual, because most business sources such as shops and cattle markets are closed. This has affected provision of basic services that were dependent on local resources
   (iii) Work overload for the few staff who are allowed to work and are able to reach the office and (iv) the limited or no technical support from CG and partners (mainly NGOs) for many sectors except health and security.
2. **The LGs are likely to lose about UGX 180 billion in local revenue collections and for the case of urban LGs that rely more on own revenues the total fiscal loss of own revenues is estimated at five to 10 percent.** Modelling of the COVID-19 impact on the local revenue collection in 2020, which assumes a three month period of strong containment measures followed by a gradual relaxation and recovery over thee next three to four months, shows that the most hard-hit sources of revenues include property tax, user fees and other fees, which will be harled. Collectively these sources of revenues account for 82 percent of OSR in districts, 73 percent in municipalities and 78 percent in town councils. On average, own sources revenues account approximately for 4 percent of the total budget of LGs, although this amount varies significantly by regions and types of LGs: Districts, Municipalities, and Town Councils.
3. **Property tax, other fees and user fees are the most affected local revenue sources.** The result of the impact modelling of this drop in own source revenue across different categories of revenues based on the projected LG budget for 2020/21 shows that, the category of “other fees” (which includes property income, sale of goods and services as well as various fees and fines) will be most affected contributing 30% to the overall decline in local revenues for all LGs.

It is followed by property tax and user fees, each contributing about 20 percent. The loss of other fees will be particularly felt in districts where this source of revenue accounts for almost one half of total revenues. The drop-in property tax and user fees will affect mostly urban LGs, which on average rely on this revenue eight to 10 percent more compared to districts.

4. **The analysis shows COVID-19 has had direct impact on LG fiscal space which majorly consists of own source revenues, intergovernmental fiscal transfers (grants), leading to projected fiscal gap of UGX 15.7 trillion.** Based on the modelling of the local governments fiscal space, the total fiscal gap is projected at UGX 15.7 trillion, with district governments being most seriously affected and accounting for 88 percent of the total loss. The difference between rural and urban governments is explained by the fact that rural governments are more reliant on central government grants and receive about 90 percent of total annual transfers. On the other hand, urban governments will be more affected by the loss of own source revenues accounting for 66 percent of the total own source revenue decrease.
5. **However, the total expected impact on LG fiscal space is expected to be limited, on the order of 4 percent of the planned budget but different for different types of local governments**. This is consistent with the expected drop in the national GDP for 2020/21 assuming no other corrective fiscal action is taken. This light impact is explained by the structure of local government budgets. Own source revenue make up a small share of the local government budgets averaging at about 4 percent. However, this share varies significantly between local governments reaching as much as 30 percent for some municipalities and town councils. For these local governments, the expected impact of COVID-19 may be up to 15 percent of their total fiscal space. The second structural factor is prevalence of recurrent wage and non-wage grants, which on average account for 85 to 90 percent of LG budgets (more for districts and less for urban governments). Whereas the government is committed to paying wages in full and the impact on recurrent non-wage grants is likely to be minimal, the future of the development grant is less certain.
6. **There is concern that the fiscal pressure may cause the central government to reduce the share of development grants, which would be an undesirable outcome with serious longer-term implications for local development, service delivery and recovery.** The central government has a limited space for fiscal manoeuvre at the local level, primarily because of the structure of its transfers, 90 percent of which consist of earmarked wage and nonwage recurrent grants to the relevant sectors. Continued release of these transfers is essential for maintaining basic services and utilities. The Central Government has already directed the LGs to only pay salaries, pensions and use the non-wage recurrent budget for critical essential services related to the control and management of the pandemic. Hence, there is a concern that the fiscal pressure may cause the central government to reduce the share of development grants. This would be an undesirable outcome with serious longer-term implications for local development, service delivery and recovery.
7. **Uganda has a well-defined legal and policy environment for disaster risk management and planning, however, their application and implementation most especially at the local government level is still a challenge.** Besides favorable legal provisions in Uganda exists a number of policies which are supposed to coordinate stakeholders. However, these laws and policies have not trickled down to the local governments as a review of about 20 LGs development Plans for the period 2015-2020, showed none of them has incorporated disaster risk management in the plans and budgets. A further review of the 2014 Local Government Planning Guidelines as well as the 2019 draft guidelines also shows that both plans fall short of provisions and guidance to plan for disasters at local level. As a result, the LGs did not have funds that could be easily used funds for COVID-19 response.

The study concluded that COVID-19 has already negatively impacted service delivery in LGs by directly affecting the local fiscal space and constraining systems and operations of LGs staff through the lockdown. The study made a number of recommendations that include:

Creating adequate fiscal space for local governments

- The most urgent task is to create adequate fiscal space for LGs to be able to implement emergency response measures, ensure continued delivery of basic services, support local economies and prepare for recovery. This task requires both financial measures and adequate regulatory systems. Financial measures involve those that aim at ensuring additional finance for the COVID-19 response and recovery and those designed to improve the efficiency of the existing resources.
- Local governments fiscal space needs protection, particularly with respect to own source revenues. As discussed in this study, the expected drop in OSR will hit particularly hard urban governments (municipalities and town councils), for some of which the OSR losses may amount to 15 percent of their total fiscal space. It is suggested that the central government establishes a fund to compensate local governments for the loss of OSR to keep these resources available for the purposes of response and recovery. The fund will play the same role as the funding facilities currently established for private businesses and SACCOs to inject liquidity to resume their operations. The OSR Compensation Fund for local governments is designed to preserve local governments' discretionary fiscal space. It is recommended that the releases from the fund should be subject to approved COVID-19 reponse and recovery plans to ensure appropriate utilization of the funds.
- Additional resources required for the LG response should come from reprioritization of central and local budgets and be beefed up through external financial support given the current drop in CG revenues as well. Additional finance to cover the deficit in local government fiscal space can be mobilized from the new funding received from the international financial institutions, such as the IMF and the World Bank as well as from the grants offered by bilateral and multilateral agencies. Local governments should be represented in discussions about financial support to Uganda's COVID-19 response and their interests should be adequately addressed in funding agreements. International partners should be actively encouraged to support local governments, focusing on activities that would ensure the most efficient response and quickest recovery, aiming at a catalytic local development effect.
- Introducing a flexible financial mechanism, such as the Operational Expenditure Block Grant (OEBG) based on discretionary cross-sectoral allocations in both capital and recurrent categories will be instrumental in allowing a timely and comprehensive response by LGs (Annexes 2 and 3). The government has already moved in this direction by allocating operational funds to the District Task Forces. However, neither the amounts nor the type of eligible expenditures are fit for the challenges faced by the LGs.
- The LGs should engage in preparatory activities that will enable improved revenue collections after the pandemic. These include reviewing taxpayer registers to ascertain status of payment and missing potential taxpayers and make strategies for collection after lockdown. Where possible, the LGs should identify private businesses that are still operating and can pay taxes or fees and encourage them to pay the appropriate dues.

Reconsidering the roles of local government in crisis response

- The measures to create an adequate fiscal space will fail if there is no clear understanding of, and agreement on, the roles and expected deliverables of local governments. So far, local governments have been involved in COVID-19 response in an auxiliary capacity and their true potential remains underutilized. If local governments are to become the engines of COVID-19 reponse and post-COVID-19 recovery (as they should be), they should be provided with the authority and wherewithal to design and deliver locally customized solutions.
- The current situation perpetuates the existing status quo when nominally local governments have many substantive responsibilities but in practice those responsibilities are delivered at the local level by MDAs. COVID-19 is an opportunity to revise this status quo. Agreement needs to be ensured at the highest level and in consultation with the partners who are ready to support the local government sector about the expected deliverables of local governments to ensure continued delivery and recovery of local economy, utilities, health, education, social protection and other essential services in the context of COVID-19 reponse and recovery. A well designed and realistic local recovery plan will be critical for guiding the relevant activities of local governments and for mobilising necessary finance.
- Local governments have an important legitimate role in post-COVID-19 local economic recovery. Direct support to SMEs will remain critical in the recovery of Ugandan economy, especially at local level as they constitute the bulk of economic activities and employment. Therefore, deliberate policy measures and strategies should be put in place in support of SMEs to assure their sustainability. Such measures could include boosting finances and capacities of local authorities as first responders, short-term bailouts and exemptions for SMEs to limit productivity and employment losses, social protection for those in informal employment while anticipating the potential of labour intensive public work programs for job creation in the medium term. The capacity of local governments to support businesses, protect jobs and revenue bases will largely depend on the policy instruments that central authorities are willing to adopt and deploy. This is why the agreement about the roles and deliverables of local governments is so critical. Their role needs to be clearly reflected at the policy level and at the level of post-recovery plans and activities. Local governments should be assisted in developing and adequately financing their local economic recovery plans that, while focusing on short-term stimulus measures, would also allow local governments to advance their longer-term vision in line with local development plans.
- The planning and budgeting systems should be flexible enough to allow prompt changes in local governments' plans. This gains additional importance as the country is transitioning from the immediate reponse phase to recovery. Given the existing level of technical capacity, local governments should get technical support in the design and implementation of their local recovery plans based on a standardized menu of solutions that can be easily customized to the local circumstances.
- Lastly, the local government response needs to be situated within the local government institutional setup. If the overall responsibility remains with the central government (as is the case now), local governments will miss the opportunity to demonstrate their relevance and fitness for purpose.

Improving resilience of the local government fiscal space

- It is not enough to create adequate fiscal space for the immediate reponse and recovery. Unless the resilience of the local government fiscal space improves, local governments will remain vulnerable to socio-economic, natural and health shocks, such as COVID-19. The longer term response involves improved fiscal sustainability of local governments based on vibrant economies, increased own source revenues and expanded fiscal space. But as COVID-19 demonstrates, own revenue sources also need to be sustainable and diversified to diminish the impact of adverse factors. In the short-term perspective the following is suggested to improve the resilience of the local government fiscal space:
  - Increase the share of discretionary finance in the budget structure of local governments by reducing the share of earmarked funding across all categories of grants. COVID-19 emphasizes the need for flexible discretionary finance to allow a speedy response of local governments to immediate challenges. The existing Development Equalisation Grant is not flexible enough as it does cannot accommodate certain expenses not directly related to development investments.
  - Establish a reserve/emergency account for local governments. A reserve or emergency account allocated on an annual basis should serve as a cushion in case of crises. This account should be subject to strict regulation to ensure its use for the declared purposes.
  - Introduce alternative financing mechanisms for local governments. Subnational pooled financing mechanisms, such as municipal banks and other similar structures, may serve as a source of additional finance in difficult times. Local Development Corporations, Municipal Development Funds and other similar mechanisms with their own dedicated funding can also absorb and mitigate the shock. Another solution is application of innovative financial instruments for financing local development projects that hedge against various risks.
  - Revamp the local revenue administration systems by revising the sources, rates, collection methods, etc. Despite years of multiple efforts by multiple actors, local revenue collection stubbornly remains at a low level. It may be unpopular to speak about local tax and nontax revenues now, at a time of massive relief efforts in response to COVID-19 but this conversation needs to happen sooner rather than later. The present system of revenue administration at the local level suffers from numerous leakages, inefficiencies, multiple exemptions and poor enforcement. The central government should consider revenue sharing schemes that would allow an expanded discretionary fiscal space for local governments as discussed above.
- To improve local governments' readiness for the future, the National Planning Authority, MOLG and OPM should urgently ensure disaster risk preparedness and management is incorporated in the local government planning guidelines and LGs appropriately guided on planning and budgeting for disaster risks, including its financial and nonfinancial aspects.

Application of technologies for business continuity and service delivery

- Local governments should embrace the use of new technologies that enable working from different physical locations including home and field environments. LGs staff should be supported with the required IT equipment and data to enable use of facilities such as video conferencing, Zoom, Skype, WhatsApp and sharing reports through e-mails and Google documents. Going forward, such new modes of operation will make staff more efficient and effective in addition to saving on the use of scarce resources.
- Local government should be supported in expanding e-governance modalities and platforms for the services that can be delivered using digital channels. Delivery of permits, licenses and other documents as well as collection of certain fees and charges can be performed digitally and will enable continuous LG operations from remote locations and will reduce the need for physical contacts.

Introduction

Overview of Uganda's local government sector

This paper starts with a short overview of the Uganda local government sector and its fiscal space. This discussion is necessary to understand the roles of different local governments and their technical and financial capacity to cope with crisis situations, such as COVID-19.

Uganda territorial governance structure recognizes five levels of Local Councils (LCs) below the national level. The lowest level is the Local Council I (LC 1), which corresponds to village (or in the case of towns or cities, a neighbourhood). The highest level is the Local Council V (LC5), which corresponds to an entire district and the City of Kampala. Intermediate subdivisions in rural areas include the Parish (LC2), Sub-County (LC3) and County (LC4). Urban areas have a somewhat different territorial governance structure (including City (LC5), Municipality (LC4) and Town Councils (LC3)) in a structure that generally mirrors the rural system.

In 2019, the government decided to create nine new cities by upgrading some municipalities to this status. This is the first ever creation of cities in Uganda's independent history. To be implemented in a phased manner, the process will see five cities (Arua, Gulu, Jinja, Fort Portal, and Mbarara) becoming effective on 1 July 2020, another two (Hoima and Mbale) on 1 July 2021 and two more (Lira and Entebbe) officially launched at a later date. This development is grounded in a government's long-term development blueprint called Vision 2040, which envisages establishment of four regional cities (Gulu, Mbale, Mbarara and Arua) and five strategic cities Hoima (oil), Nakasongola (industrial), Fort Portal (tourism), Moroto (mining), and Jinja (industrial) identified as part of the urban corridor development.

An important legal distinction should be made between Local Government Councils (corporate bodies empowered by the Local Government Act of 1997 where the council is the highest political authority in its area of jurisdiction) and Administrative Unit Councils (where councils serve as political units to advise on planning and implementation of local services). For instance, in rural areas, only the District Council and the Sub-County are Local Government Councils. In urban areas, only municipalities are Local Government Councils (LC4). Municipalities report to districts in whose territory they are located. The City of Kampala has a special status under Kampala Capital City Act (2010) and is managed directly by the central government through the Kampala Capital City Authority (KCCA) which is the governing body of the Capital City headed by a cabinet minister for Kampala.

Table 1. Uganda local governments

Administrative units		Urban units	
District	134	City	6 (+9 to be operationalized)
Sub-County	1,195	Municipality	41
Parish	7,469	Town council	357

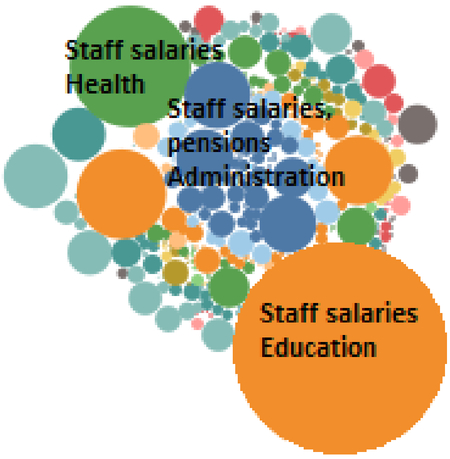
Source: Ministry of Local Government Fact Sheet 2018 and official updates

The Constitution and the Local Governments Act allow Local Governments to collect revenue from a number of specified sources, formulate plans and budgets, allocate expenditure, and make investments in a wide range of services. The development budgets of Local Governments are funded with conditional and equalization (discretionary) grants. Uganda has a relatively low level of total local government expenditure per capita (PPP$57.3) compared to other countries in the region including Kenya (PPP$89.7), Tanzania (PPP$93.7), Rwanda (PPP$107.4) and South Africa (PPP$1,728).

Staff expenditure makes up over one half of the total local government expenditure reflecting the predominance of recurrent finance in the expenditure structure and minimal capital transfers and direct investment. The share of municipal annual expenditure averages 24 percent of the district expenditures but the variation is great between 12 percent and 53 percent, reflecting in part the regional disparities in development and the Government's efforts to direct additional funding for underdeveloped regions.

Subnational expenditure is characterized by a low level of direct investment (investment in nonfinancial assets) at 6.3% of the total. The main area of investment are roads, and this has been the trend for a number of years. There is no borrowing by local governments (because of the borrowing thresholds tied to annual own source revenue collection which is very low for most local governments). There are no regulatory provisions for borrowing from capital markets. Figure 1 gives a general presentation of the relative structure of local government budgets clearly showing the domination of staff expenditure.

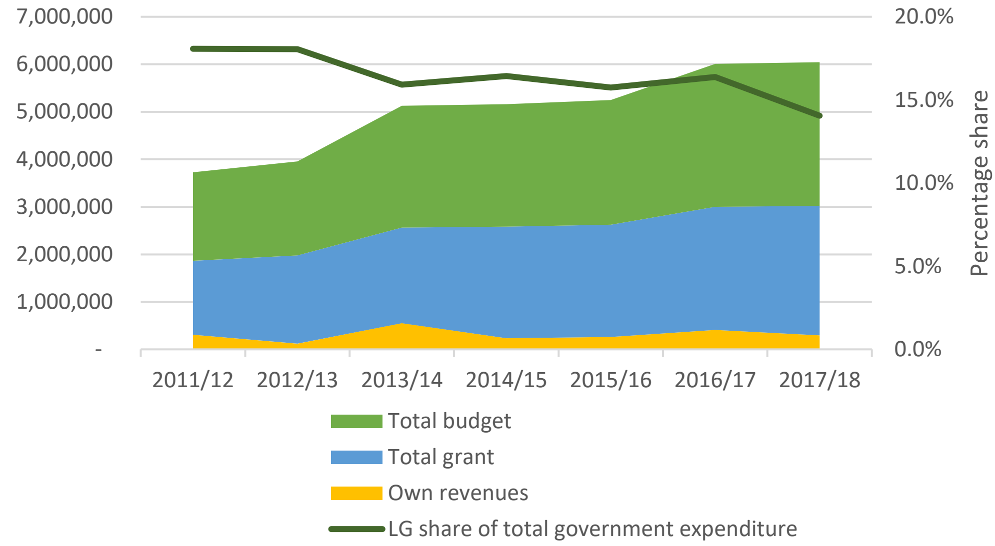
Figure 1. Itemized spending breakdown for local governments, FY 2019/20



Source: MoFPED, https://budget.go.ug/

An overview of the local government fiscal space between FY 2011/12 and FY 2017/18 (districts and municipalities) demonstrates a number of trends (Figure 2). Firstly, the total fiscal space in nominal UGX has increased by 85 percent over this period. This notwithstanding, the total share of local government in public sector expenditure decreased from 18 percent in 2011/12 to 14 percent in 2017/18. Secondly, own source revenues have stagnated and even slightly decreased in nominal terms by 4 percent over the same period. The peak in 2013/14 caused by improved collection of property tax was short-lived and the property tax collection has decreased since then due to numerous exemptions. The result of this was a growing dependence of local governments on central governments transfers, which increased from about 85 percent in 2011/12 to almost 96 percent in 2017/18, seriously undermining fiscal viability of local governments.

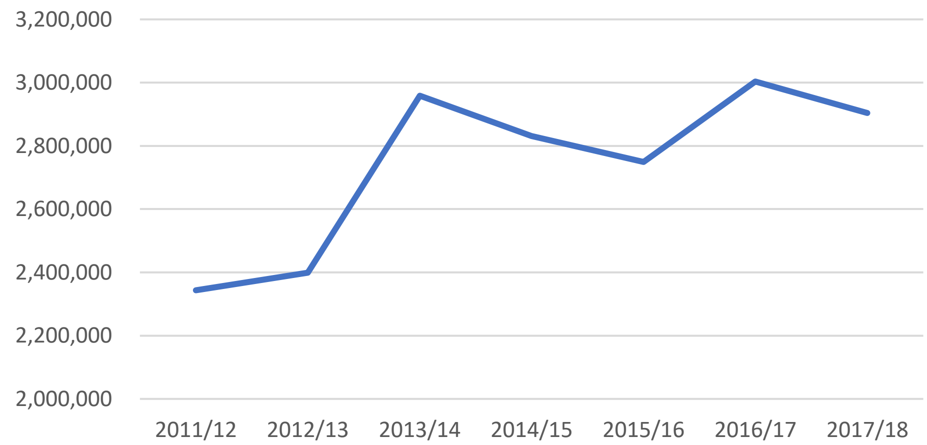
Figure 2. Local government fiscal space, FY 2011/12 – FY 2017/18 (UGX million)



Source: Author's computation based on Uganda Bureau of Statistics Government Finance database

The changes in constant UGX also indicate an increase in the local government space but more modest at 24 percent (Figure 3). Consequently, the drop in local own source revenues has been even more significant, about 6 percent. The dynamic of growth in constant UGX also reveals its nonlinear trend with regular ups and downs. The same is true for the share of local government in the total government expenditure, the relative share of which in the total government expenditure has been declining even more precipitously and lagging behind the overall increase of the public budget.

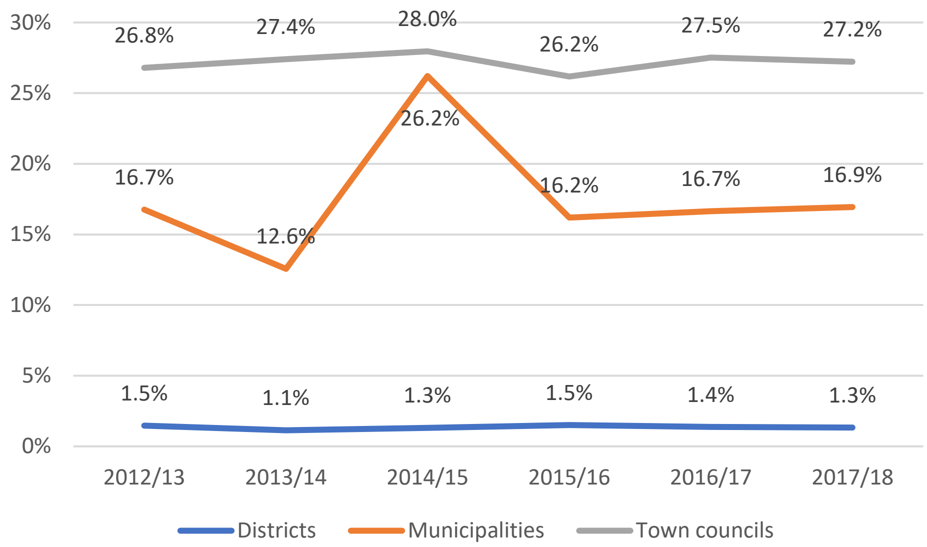
Figure 3. Local government fiscal space in constant 2016/17 UGX



Source: Author's computation based on Uganda Bureau of Statistics Government Finance database

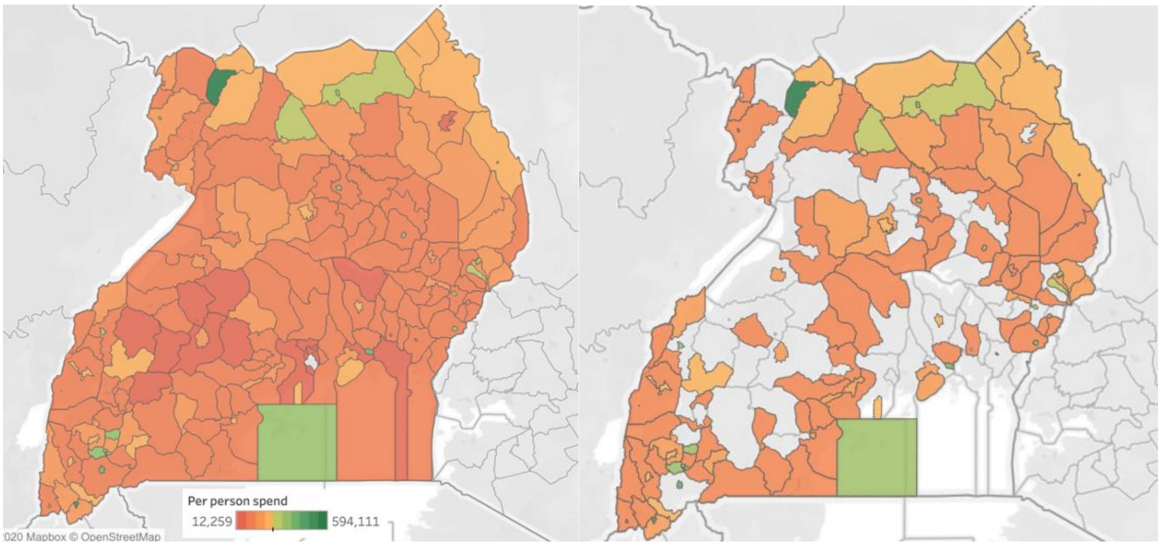
Whereas the average OSR for local governments has stagnated at a low 4 percent, the difference between various types of local governments (urban and rural) is very significant (Figure 3). Districts have been collecting around 1.3 percent of their total revenues in OSR, the rest being central government and sometimes donor grants. This percentage is much higher for municipalities where OSR account for about 17 percent of the total fiscal space, and even higher for town councils, which collect about 27 percent of revenues from own sources. This breakdown is important in estimating the impact of COVID-19 on different types of local governments.

Figure 4. Own source revenue trends by type of local government



Per capita expenditure by local governments is characterized by some regional disparities (Figure 4). Local governments in the Center and in the North spend more per capita reflecting their economic vibrancy (for the Greater Kampala area, for example) and larger transfers from the central government directed towards less developed regions in the North and Northeast. The lowest per capita spending is UGX 12,259 and the highest UGX 594,111. About 40 percent of all local governments spend less than UGX 100,000 per capita (the right panel in Figure 5).

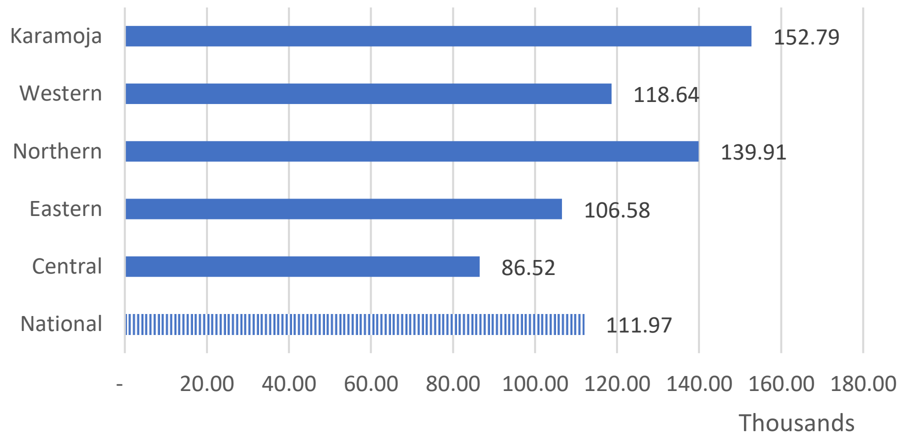
Figure 5. Local government spending per capita, FY 2019/20



Source: MoFPED, https://budget.go.ug/

Detailed regional per capita spending based on the approved budget for 2019/20 provides a slightly more nuanced picture (Figure 6). The Northern Region as a whole has the highest per capita spending of UGX 139,912 followed by the Western Region (UGX 118,641). The Central Region (without Kampala) comes last with UGX 86,515.

Figure 6. Local government per capita spending, FY 2019/20 (UGX)



Source: Author's computations based on MoFPED, https://budget.go.ug/

There are also some per capita expenditure variations between types of local governments as presented in Table 2. The variance is significant across all categories but it gradually narrows down as one progresses from all LGs to districts and then municipalities. Thus, the variance between districts is 6 percent less than between LGs in general whereas the variance between municipalities is 7 percent less. At the same time, the minimum spending for municipalities is below the minimum spending for districts.

Table 2. Annual spending per capita by type of local government, FY 2019/20 (UGX)

	Minimum	Maximum	Variance
All LGs	12,259	594,111	581,852
Districts	47,129	594,111	546,982
Municipalities	28,105	534,818	506,713

Source: MoFPED, https://budget.go.ug/

Local government in the time of COVID-19

The COVID-19 pandemic has disrupted the social and economic structures of service delivery with significant consequences on lives, livelihoods and general economic development. In order to curtail the spread of the disease, the Government has instituted several measures including a partial lockdown of movement of people and closure of places that involve public gatherings such as schools, public transport, factories and business facilities. A small number of service providers considered essential to the population and the functioning of the economy have been allowed to operate within the guideline stipulated in Standard Operating Procedures (SOPs). The services include: health care, security, basic public administration, banking, food distribution, water, energy, transport, and communication. The rest of the population are allowed to make limited movement to access these basic services.

The consequences of these measures have been a drastic disruption of social and economic activities across all sectors of the local and national economy. The closure of education institutions, manufacturing, and the requirement that people stay at home has not only reduced production of goods and services but also curtailed demand and hence trade. Transport and many informal sector services have been shut down leading to massive unemployment, which has increased the number of poor and vulnerable persons in the country.

The Central Government (CG) has taken on the bulk of the responsibility for managing the spread of the disease and provision of other services. While the CG has enhanced its capacity to deliver its increased responsibilities and counter some of the negative consequences, the Local Government (LGs) that include Districts, Municipalities and Town Councils (TCs) have not been given the level of consideration commensurate with their responsibilities. Yet, sustainability in the management of the consequences of the pandemic over the medium to long-term will depend on the capabilities of LGs as the core organs of service delivery. The positive results in terms of control of infections and treatment of the sick in Uganda need to be replicated in the broader development aspects of general service delivery across the country in order to secure lives and livelihoods during and after COVID-19.

There are growing concerns that the centralization of most activities and lack of adequate involvement and support to the LGs will undermine future social economic development at the community level. A number of services, within the decentralized Government system, lie within the mandate of LGs under both the Constitution and the LG Act 1997. The LGs are, among others, responsible for provision of public sector management services, education, health, agricultural production, marketing, water and environmental preservation. Although some of these services are jointly shared with the CG, the LGs still play a critical role as they are mandated to do community level planning and implementation of most of the development initiatives.

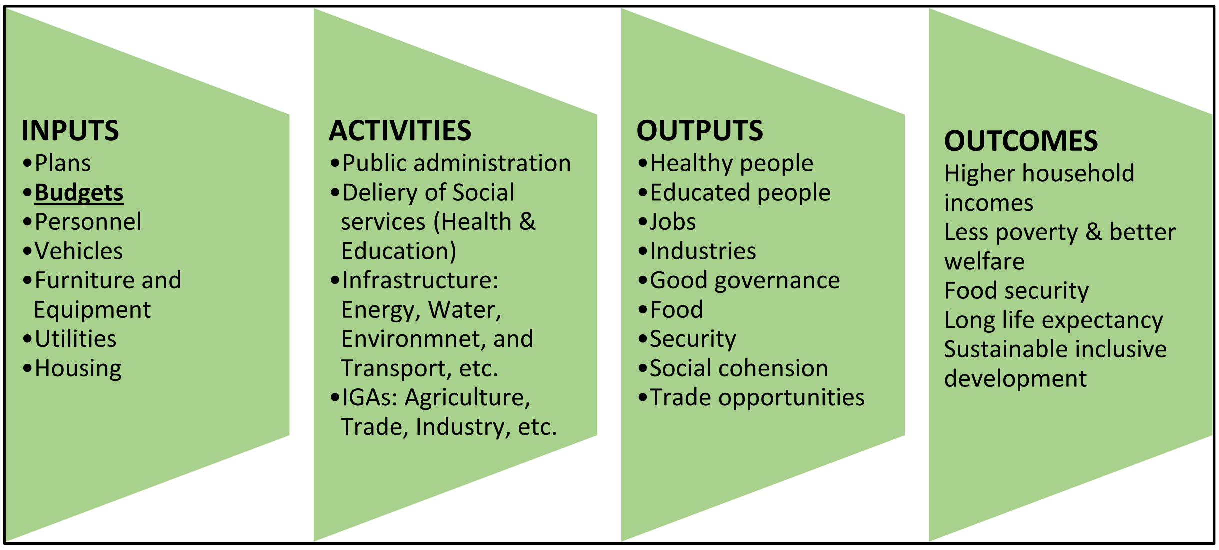
This paper makes a critical contribution of assessing the likely impact of COVID-19 on the capacity of LGs to continue delivering basic services to the population. The capabilities of LGs need to be sustained not only in the short-term but also cover the subsequent years so as to ensure continuity of services that are currently categorised as non-essential. The paper adopts a systems approach to delivery of services with special focus on budgetary resources that are considered a major driver of all other functions and processes. In addition to disrupting the flow of business and other activities, the COVID-19 pandemic is expected to reduce the LG revenue streams that mainly come from local revenues and CG transfers for specified activities. The selection of the revenue channel was largely informed by the fact that inadequate financial resources have often been raised by LGs as the major constraint to service delivery even before COVID-19.

Methodology

The study adopted a systems approach to service delivery largely on account of the many and complex interactions between Ministries, Departments and Agencies (MDAs) of government as well as households and firms in the private sector. The private sector provides certain services on behalf of the Government but is also a major source of revenue through payment of taxes. The disruption of businesses and livelihood strategies of households has multiple effects on the capacity of LGs in the sense that it increases the demand for public sector support while at the same time reducing the revenues from business firms.

The systems approach to service delivery describes the service to be provided within a framework of policy and institutional relations, as well as the required infrastructure and management processes. The processes span the entire spectrum of service delivery from planning and budgeting, implementation and monitoring and evaluation for results. The process involved linking inputs and activities to the long-term outcomes that government seeks to realize through decentralization and the LG system. Figure 7 shows the logical progression of activities along the processes of delivering a specified set of services and the desired result in terms of impacts and outcomes. The resources include personnel, equipment, plans and budgets, cultural and political support.

Figure 7. Logical model of service delivery



Source: Author's conceptualisation

The data collection involved qualitative and quantitative approaches following identification of potential transmission channels of the shock to the service delivery systems and related outcomes. The variable and interactions identified from the literature were corroborated by qualitative information from the survey that was based on the critical case sampling of senior officials from a cross-section of 20 LGs. The information collected ranged from types of services provided by the LGs that were likely to be most affected by the pandemic as well as the nature of the impacts. Information on types of revenues received by the LG was sourced through secondary sources while the assessment on likely impacts on these revenues and general service delivery was informed by correlations between various pieces of data and survey information.

The analysis relied on both descriptive statistics of trends and relationships that were adopted to identify the effects of a systemic shock on revenues of LGs and likely impacts on service delivery. Additional insights on the linkages between budgets and service delivery were derived from interviews with senior staff of select LGs. The selected respondents have a wealth of practical experience on the immediate impact of the COVID-19 as well as a history of shocks in the form of budget cuts (sudden reductions in the releases from CG and shortfalls in LG revenues). The survey information provided numerical insights on expected relative declines in the various types of and sources of revenue as well as impacts of physical disruption on service provision.

The change in the local government fiscal space under the impact of COVID-19 on various revenue streams was modelled based on a Monte Carlo simulation of revenue changes based on their calibration using the impact estimates received from LG respondents. For own source reveue the model assumes a three-month period of strong containment measures followed by a gradual relaxation and recovery over the next three to four months depending the source of revenue. For CG transfers, an econometric model based on the GDP growth is applied, adjusted for the structure of the local governance space which is dominated by a high share of staff expenditure as already discussed.

Findings

The findings begin with descriptions of the immediate impacts of the pandemic on service delivery systems based on evidence from the survey. This is followed by results from the trend and proportionate analysis of budgets of different services as well as the effects on current and future flows of such revenues. The measures instituted by the CG reduced both total and specific transfers to the LGs with significant implications for service delivery.

Survey Results on Implications on Service Delivery

The officials were asked to identify the types of services that are most affected by the pandemic and the immediate effects on the LGs. Information from 20 respondents converged on the following types of services and effects as displayed in Table 3 below.

Table 3. Most affected services and immediate effects on LGs due to COVID-19

Services most affected by COVID-19	Immediate effects on LGs
• Maintenance of basic infrastructure (roads, water, energy, etc.) that support production, trade and access to basic social services. • Basic social services such as health, education and agricultural extension services. • Supporting livelihoods through production and related services. • Official meetings to resolve routine issues such as approval of budgets, procurement and planning as well as other issues that are of an emergency nature. Presently, the LGs cannot meet and online facilities are poor. • Support to the poor and most vulnerable with emergency or regular health care support. • Garbage collection • Revenue collection	• Only key skeleton staff are allowed to work, and there are certain services that require staff to leave their duty stations late, which have been constrained by the curfew that starts at 7 pm. • LGs are unable to hold meetings because of the lock-down. • For instance, the budgets have not yet been passed because of the limitation of the number of people in meetings to five. • LGs are unable to collect local revenue because most business sources such as shops and cattle markets are closed. This has affected provision of basic services that were dependent on local resources. The CG transfers are mainly restricted to capital overheads and wages, which leaves local revenues to complement non-wage recurrent expenditure. • Work overload for the few staff who are allowed to work and are able to reach the office. • Limited or no technical support from CG and partners (mainly NGOs) for many sectors except health and security.

Revenue sources most affected by COVID-19

The respondent officials were requested to identify the impact of COVID-19 on own source revenues and to estimate this impact in percentage terms for 2020. The results are discussed below.

a. Trading licenses and operational permits, which normally reach a peak period during this season are expected to reduce between 15 to 30 percent.
b. Land fees reduced to nil since the offices are closed for this period
c. Market charges reduced by 30 to 60 percent due to reduced number of people in the daily markets and the suspension of open weekly and monthly markets, which support the daily markets.
d. Revenue collection points for the mining of sand and stone quarries reduced to 30 percent since hardware shops are closed and limited movement of builders and property developers.

e. Local hotel tax, which is based on the number of occupants and occupied rooms per night reduced by 90 percent due to suspension of hotels and bars during the lockdown.
f. Application/tender fees reduced to less than 25 percent due to few or no payments because of limited movement of people.
g. Prior to the pandemic the President had suspended collections of property tax implying that LGs had lost 100 percent of this revenue from trading centres. However, the revenue was still being collected by TCs and municipalities and it has reduced by 60 percent. It is largely being paid by factories and industries since the landlords are finding it difficult to collect rent from tenants during the lockdown period.

Response by the LGs

The respondent local government officials also explained the measures that have been taken by their respective councils to deal with the negative effects of COVID-19. The responses demonstrate the limited scope of the intervention focusing primarily on epidemic prevention and health issues through increased monitoring, community outreach and mobilization to curb the infection spread as well as provision of transport for referral patients.

- Support continuity of service delivery at health facilities including providing transport for health workers to and from their duty stations.
- Provision of requirements to meet the SOPs at all offices and for all essential staff.
- The LGs have also reduced staff in compliance with the directives of the President.
- Conduct monitoring and on spot checks on facilities to ensure continuity of service.
- Conduct community social mobilisation and supporting enforcement of COVID-19 preventive measures among the population. This includes surveillance and responding to alerts for contact tracing, collection of samples for onward transmission to UVRI;
- Provision of transport to support referral of patients for non-Covid-19 related essential health care services. Despite this initiative, the LGs have not been able to transport more than 10 percent of the total OPD daily attendance in the health facilities.

Whereas this limited scope could be acceptable during the immediate response phase, it is inadequate to address the longer-term consequences of the pandemic. In particular, there were no reports about actions to provide social support to the population, particularly vulnerable groups, or to support local economies or to retrofit basic services (other than health) in compliance with COVID-19 restrictions to ensure their continued functioning (see Annex 1 with the indicative response activities of local governments).

The limited scope of the reponse reflects two overwhelming realities (partly discussed in the introduction). One is the limited fiscal space at the local level, which determines the availability of financial resources for implementation of additional activities. The other, related factor is local governments' dependency on the central government. The scope of activities reported by local governments reflects only the activities for which they received funding from MoLG as part of a centralized response through the District Task Forces. The responses show no effort to re-prioritize the existing financial resources for response activities or mobilize financial and nonfinancial resources from other sources (e.g., NGOs, development partners, the private sector) or to design activities that may be carried out with the existing resources. Although a few local governments appealed to the international donors for additional funds, these appeals replicate the response plans designed for the District Task Forces

If local governments are to become the engines of COVID-19 reponse and post-COVID-19 recovery (as they should be), this dependency syndrome needs to be discarded in favour of proactive and creative design and implementation of locally customized solutions. On the other hand, the planning and budgeting systems should be flexible enough to allow prompt changes in local governments' plans. This gains additional importance as the country is transitioning from the immediate reponse phase to recovery. Given the existing level of technical capacity, local governments should get technical support in the design and implementation of their local economy recovery plans based on a standardized menu of solutions that can be easily customized to the local circumstances (see Annex 3 for indicative activities of local governments in three phases of the COVID-19 reponse: prevention, rapid response and recovery).

Critical challenges

Enhancement of local revenue

There are very few options to revive local revenues during the lockdown that has affected the businesses and other activities such as consumption, which are the major sources of revenue from hotels, markets, factories and shops. A number of LGs indicated inability to make any strategies to beef up local revenues since the lockdown has affected most of the core planning activities.

Human resource challenges

The TCs were the most affected in terms of administrative staff with significant shortfalls that reached 60 percent in some locations. The service sector was mostly affected in facilities at HC II and HCIII in the case of health and secondary schools in the educations sector. In case of need, the LG officials indicated ability to recruit rapidly using contract provisions but were constrained by lack of people with the required qualifications, limited financial resources and the disruption of processes by the lockdown.

Budget flexibility

The LGs were not able to adjust the budgets because of the rigidities embedded in the conditionality provisions set by the CG. The management of emergencies has not been reflected adequately in most LG plans and budgets and experience shows a tendency of trying to handle them directly from the CG without engaging the local leaders.

Trends in Local Revenue and Impact on Service Delivery

To establish the potential impact on service delivery as a result of revenue shortfalls the variation between planned/budgeted and actual revenues of LGs was established. The span of five years was selected to give a reliable trend and correlation between the key variables as well as capturing events in the country that reflected a shock in economic activity. The selected districts had to have audited accounts, which is the reason for exclusion of the data for 2018/19, and with data covering at least four years. Accordingly, a number of new LGs were excluded from the sample. The results for the 117 LGs are indicated in Table 4 below.

Table 4. Relating local revenue LG performance to selected economic parameters

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18
Variation between planned and actual local revenues for selected LGs (%)	22	12	12	18	29
Constant price GDP growth rate (%)	5.1	5.2	4.8	3.9	6.1
Household consumption expenditure	2.4	11.3	0.1	3.3	4.1
Exchange Rate (UGX/$)	2,538	2,828	3,443	3,530	3,659

Source: Author's analysis of data from the Local Government Finance Commission (LGFC)

The table shows significant variation between planned and actual revenues coincided with years, which had adverse economic conditions reflected in slow growth of the economy and reduction in household consumption expenditure (HCE) that act as the main drivers of local revenues. For example, an increase in household expenditure from 2.4 percent in 2013/14 to 11.3 percent in 2014/15 resulted in favourable performance of local revenues thereby reducing the variation between planned and actual collection from 20 percent to 12 percent over the two years respectively. Slower growth in HCE registered in 2016/17 and 2017/18 resulted in higher variations between planned and actual local revenues of 18 percent and 29 percent respectively.

It is clear from the analysis that an adverse shock to the economy that affects household consumption expenditure is likely to cause a bigger shortfall in projected local revenues and hence result in a negative impact on service delivery by the LGs. A major lesson from this finding is the need to diversify alternative sources of revenues for LGs and strengthening the performance of the private sector through enhancement of Local Economic Development (LED). In the survey, the LGs indicated having drawn significant support from the NGO sector during the ongoing COVID-19 period. The support was in the form of personnel, food supplies, fuel and other non-monetary contributions.

The second aspect involved analysis of the type of local revenues with regard to percentage contribution and likely effects given the current conditions. Table 5 shows the percentage contributions (averages for five years) and the most dominant tax for all LGs is categorised as other, which includes property income, sale of goods and services as well as various fees and fines. The other major categories are: property tax, user fees, local service tax (LST) and business licenses.

Table 5. Average percentage contribution of local tax by type for 2013/2014 to 2017/2018

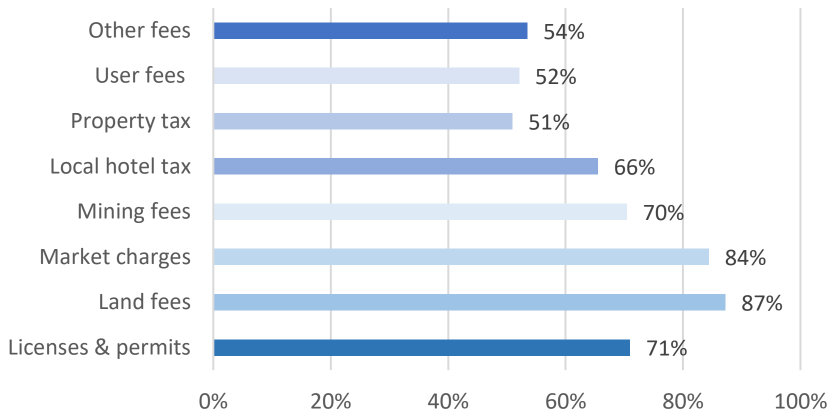
	Districts	Municipalities	Town Councils
Local service tax	12.0	3.8	8.8
Hotel tax	1.0	1.2	1.0
Property tax	17.6	23.9	22.1
User fees	17.0	20.4	21.3
Business licenses	5.1	9.6	12.0
Other fees	47.3	28.4	34.8
Total	100	100	100

Source: Author's analysis of data from LGFC

The impact of the COVID-19 pandemic is most significant across all major sources of revenue through both direct and indirect effects. Components such as business licenses, user fees and LST have been directly impacted while property tax has indirect but immediate impacts due to reduced business opportunities that have negatively affected the financial ability of taxpayers. The conclusion was collaborated by findings from the survey among the senior LG officials.

The COVID-19 impact on the local revenue collection in 2020 was modelled using a Monte Carlo simulation (Figure 8). The model assumes a three-month period of strong containment measures followed by a gradual relaxation and recovery over the next three to four months. The annual collection rates vary from 50 percent of the amount planned for 2020 to 90 percent. The least sensitive sources of revenues are those that are not directly linked to economic activities and that are scheduled to be collected at the end of the year or can be rescheduled for a later period (for example, land fees, licenses and permits).

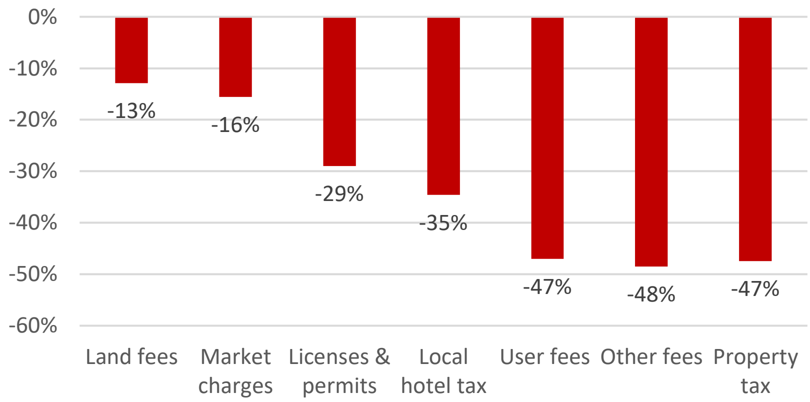
Figure 8. Level of OSR annual collection with COVID-19 stress added



Source: Author's computations based on the survey of select local governments

As can be observed from Figure 9, the hardest-hit sources of revenues include property tax, user fees and other fees, which will be halved. Collectively these sources of revenues account for 82 percent of OSR in districts, 73 percent in municipalities and 78 percent in town councils. On average, own sources revenues account approximately for 4 percent of the total budget of local governments; this amount, however, varies significantly by regions and different types of local governments: districts, municipalities, and townships as discussed in the introduction. In total, LGs are likely to lose about UGX 180 billion. In urban local governments relying more on own source revenues the total fiscal loss of own source revenues is from 5 to 10 percent.

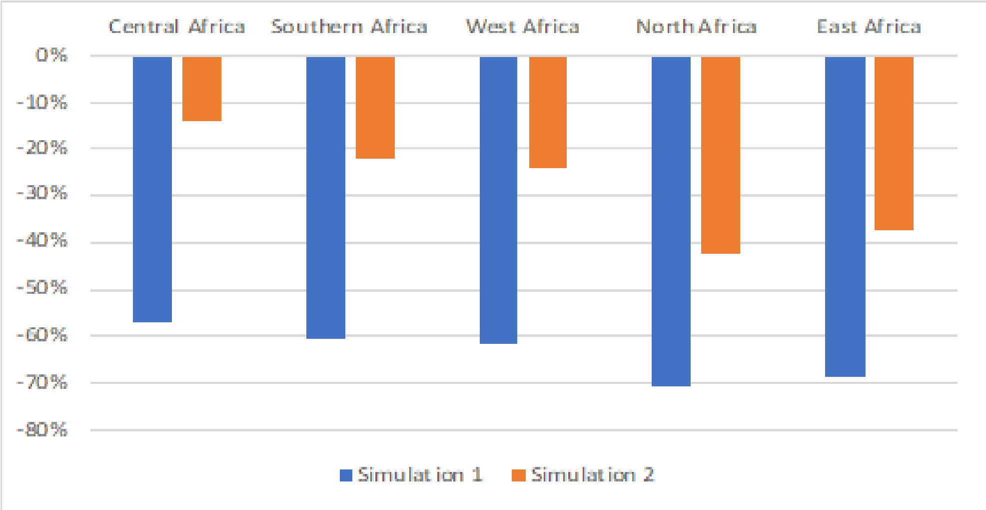
Figure 9. Expected change in own source revenues, percentage



Source: Author's computations based on the UBoS Government Finance Database, https://www.ubos.org/explore-statistics/11/

The weighted average loss in own source revenues is about 50 percent of the planned amount, which is consistent with the regional forecasts by UNECA, estimating the loss in East African local government budgets from 36 to 68 percent depending on the length and severity of the COVID-19 (Figure 10).

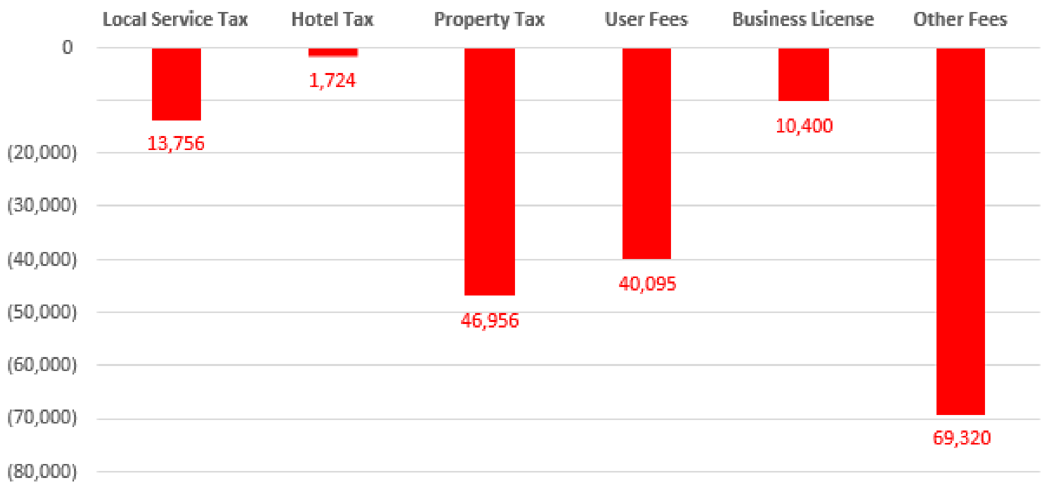
Figure 10. Impact on local and regional governments finances in the five regions of Africa



Source: UNECA 2020. Impacts and Perspectives of COVID-19 Responses in African Cities

The result of the impact modelling of the drop in own source revenues across different categories of revenues based on the projected LG budget for 2020/21 is presented in Figure 11. The category of other fees will be most affected contributing 30 percent to the overall decline in own source revenues for all LGs. This is followed by property tax and user fees, each contributing about 20 percent. The loss of other fees will be particularly felt in districts where this source of revenue accounts for almost 50 percent of total revenues. The drop on property tax and user fees will affect mostly urban LGs which on average rely on this source of revenue 8 to 10 percent more than districts.

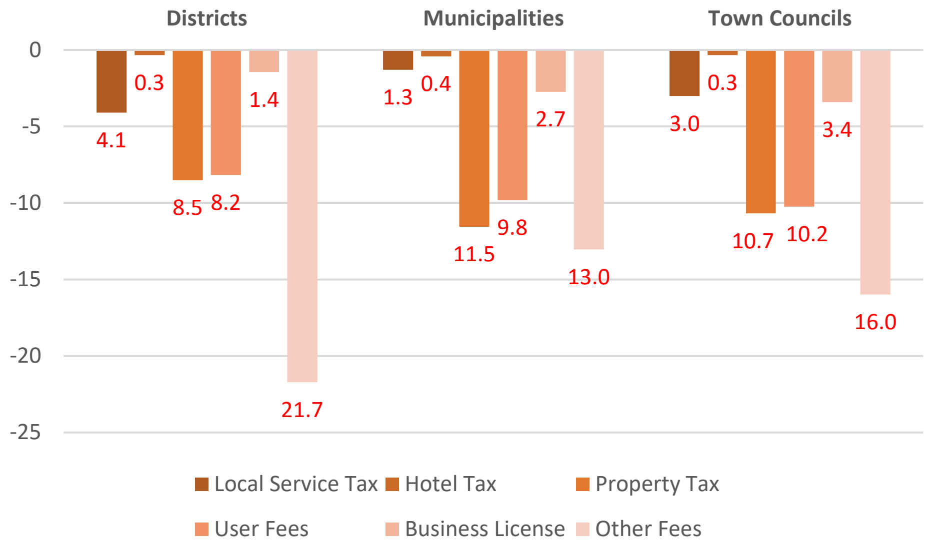
Figure 11. COVID-19 impact on local government own source revenue, UGX millions



Source: Author's computations based on the UBOS Government Finance database and budget projections.

As discussed in the introduction, the impact on OSR differs for different types of local governments. Figure 12 shows the expected percentage change in different own source revenues against their target share in total revenues. Thus, a drop of 47 percent in collection rates for the property tax implies that instead of 20 percent only about 11 percent will be collected, i.e. a decrease of 9 percent.

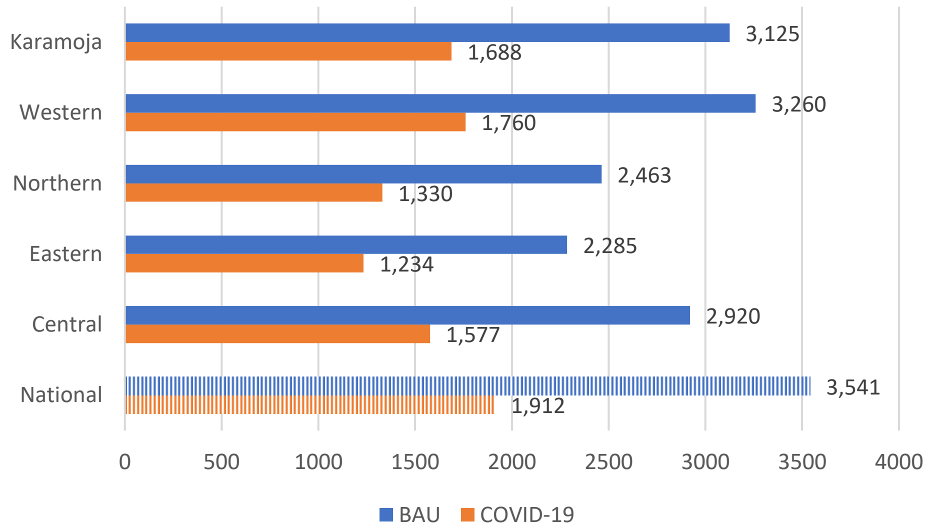
Figure 12. Expected percentage change in OSR against the target



Author's computations based on the UBoS Government Finance Database, https://www.ubos.org/explore-statistics/11/

The modelling of COVID-19 impact on own source revenues by region shows that different regions will see their per capita OSR affected in similar ways with different outcomes (Figure 12). The Eastern Region, already with the lowest per capita OSR, will see further decline to UGX 1,234. The Western Region will keep the highest OSR per capita but at a much lower level, UGX 1,760 instead of the planned UGX 3,260. Other regions demonstrate a similar trend. But the overall order of regions in terms of per capita OSR will not change unless additional fiscal measures are taken.

Figure 13. Impact on annual per capita own source revenues by region



Source: Author's computations based on MoFPED, https://budget.go.ug/

Local governments have already started experiencing the impact of reduced own source revenues. For example, Masindi municipal council reported a loss of UGX 50 million in revenue due to the lockdown over the past two months.[1] The most affected source of revenues are property tax, street parking tax, loading and offloading fees and market dues. Although this is a relatively minor loss of 3 percent of the planned annual revenue of UGX 1.5 billion, this has already affected delivery of some services, especially garbage collection as the municipality does not have enough funds to pay casual labourers who collect garbage.

Central Government Transfers

The major service areas that are covered by LGs include: Public Sector Management (PSM), agriculture, health, education, water and environment and social sector development. The bulk of the financial support, over 80 percent in most cases, is received from the CG and goes to wages (close to 65 percent). Each of the above sectors is critical as PSM includes coordination services that are critical during COVID-19, while health and agriculture are vital for treatment and nutrition. As observed, the bulk of the budget from the CG is comprised of wages, which is followed by non-wage recurrent that accounts for 20 to 25 percent of the resources (see Table 6).

Table 6. Approved budget percentage share for each category

Category	2013/14	2014/15	2015/16	2016/17	2017/18
GoU Development	17.57	11.75	11.07	11.22	10.62
Non-Wage Recurrent	19.40	19.71	24.87	21.57	23.43
Wage Recurrent	63.04	65.87	60.96	62.93	62.45
Donor	-	2.67	3.10	4.28	3.50

Source: MoFPED, www.finance.go.ug

Following the COVID-19 pandemic, the CG has directed the LGs to only pay salaries, pensions and use the non-wage recurrent budget for critical essential services related to the control and management of the pandemic. It is therefore likely that the LGs will see a significant reduction in the non-wage recurrent budget from the CG, and yet this is supposed to complement the wage budget for effective service delivery.

In terms of allocations by sector (Table 7), the education and health budgets account for almost 70 percent of the transfers from the CG, with the bulk of the budget (over 85 percent) ring-fenced for the payment of salaries.

The public sector management budget, which is crucial for coordination, supervision and monitoring of programmes as well as covering political oversight and accountability, is dominated by wages and pension as seen in Figure 13 for a selected sample of LGs.

[1] Gucwaki, Y. 2020. Masindi municipal council loses Shs 50m in revenue due to lockdown. https://thecooperator.news/masindi-municipal-council-loses-shs-50m-in-revenue-due-to-lockdown/.

Table 7. Sectoral percentage share based on approved budget

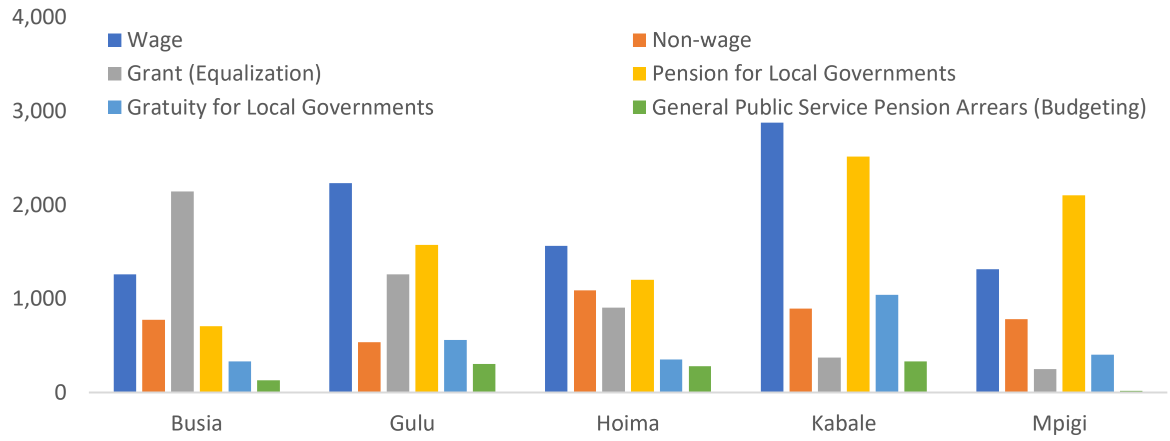
Sector	2013/14	2014/15	2015/16	Average for 3 years
Agriculture	7.50	2.67	1.29	3.82
Works and Transport	1.30	1.11	1.51	1.31
Education	54.54	59.02	54.72	56.09
Health	14.93	13.95	13.52	14.13
Water and Environment	3.32	2.89	2.89	3.03
Social Development	0.36	0.30	0.30	0.32
Public Sector Management	2.52	2.50	8.08	4.37
District Discretionary	12.79	12.55	12.54	12.63
Urban Discretionary	2.56	4.85	4.99	4.13
District Equalization	0.15	0.13	0.13	0.14
Urban Equalization	0.02	0.03	0.03	0.03

Source: MoFPED www.finance.go.ug

The structure of the budget shows that CG is likely to continue transferring a significant portion of the budget, estimated at over 80 percent given the nature of activities that the transfers are meant to finance.

This is in line with findings from the survey where several LG officials indicated confidence that they expect a substantial portion of the resources from the CG to be released.

Figure 14. Decomposition of the public sector management budget for 2016/17 (UGX millions)



Source: MoFPED www.finance.go.ug

However, the reduction in the non-wage recurrent budget and that in local revenues, both of which were already small components, is likely to impact service delivery greatly given its complementary role to the development and wage budgets. Besides, this is the only budget where the LGs have room for flexibility that would allow them to address both the unique and regular challenges posed by COVID-19. Thus, apart from the negative effects on service delivery arising from the direct effects of disruptions from the lockdown and closure of business activity, the pandemic is likely to affect service delivery through effects on the volume and composition of the budget.

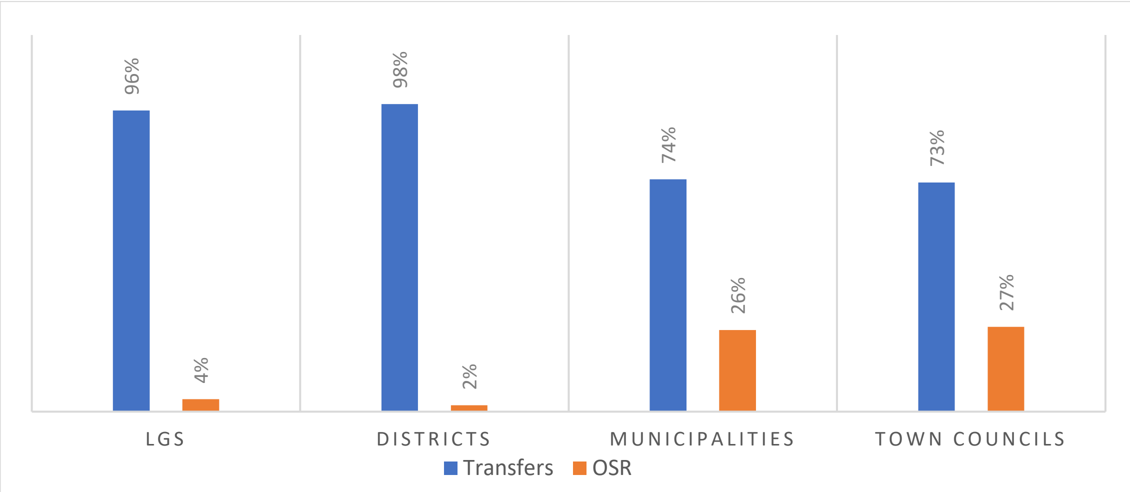
COVID-19 impact on local government fiscal space

As discussed in the introduction, local government fiscal space consists of three main components, own source revenues, intergovernmental fiscal transfers (grants) and borrowing. Considering that the share of borrowing in local government fiscal space in Uganda is negligible, it can be ignored for the purposes of the subsequent analysis. The same is true for additional funds from development partners and other extra-budgetary sources (e.g., gifts and philanthropic finance), which average at about 3 percent of local government budgets.

Total fiscal space of local governments can be represented as $TFS = \sum_{i=1}^{n} OSR_i + \sum_{j=1}^{n} IGFT_j$ where $\sum_{i=1}^{n} OSR_i$ is the sum of all own source revenues and $\sum_{j=1}^{n} IGFT_j$ is the sum of all intergovernmental fiscal transfers (grants).

The fiscal space of LGs displays a clear urban-rural dichotomy with rural governments (districts) being much more dependable on transfers than urban local governments (Municipalities and Town Councils) (Figure 14). The average share of central government transfers in the total fiscal space of rural LGs is 98 percent but drops to about 74 percent for urban LGs. This is a reflection of a higher revenue generating potential of urban governments and their greater financial viability.

Figure 15. Composition of local government fiscal space, percentage



Source: Author's computation based on Uganda Bureau of Statistics Government Finance database

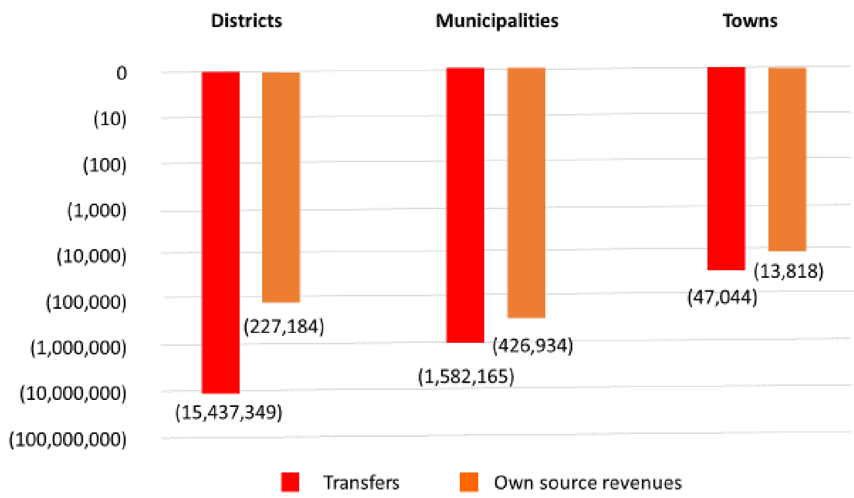
Both components of LG fiscal space are dependent on the overall state of national economy. Assuming that the central government intends to keep the grant share of local governments in the total government budget at about the same level, a change in the national GDP automatically implies a change in the local government grant allocation. On the other hand, own source revenues depend on how vibrant local economies are, which is closely correlated with the overall state of national economy and changes in the GDP in particular.

Unsurprisingly, a regression analysis of Ugandan local government fiscal space over a period between 2008/09 and 2017/18 shows a strong positive and statistically significant correlation between the GDP and transfers (R^2 = 0.94) as well as between the GDP and own source revenue collection (R^2 = 0.73). In particular, the transfer of grants is sensitive to changes in the GDP with an elasticity of 1.22. The latest International Monetary Fund (IMF) Regional Economic Outlook for Africa projects a drop in Ugandan

GDP by 2.3 percent, from 6.2 percent to 3.5 percent.[2] United Nations Economic Commission for Africa (UNECA) projects an average drop of 3.1 percent for its middle-case scenario.[3] Applying the results of the regression analysis to the projected LG budget for 2020/21 allows making estimates of the effect on inter-governmental fiscal transfers. The resulting total fiscal gap for three categories of local governments (districts, municipalities and towns) is presented in Figure 15.

The total fiscal gap is projected at UGX 15.7 trillion, with district governments being most seriously affected and accounting for 88 percent of the total loss. The difference between rural and urban governments is explained by the fact that the former are more reliant on central government grants and receive about 90 percent of total annual transfers. On the other hand, urban governments will be more affected by the loss of own source revenues accounting for 66 percent of the total own source revenue decrease under COVID-19.

Figure 16. Local government fiscal gap under COVID-19 (UGX millions)



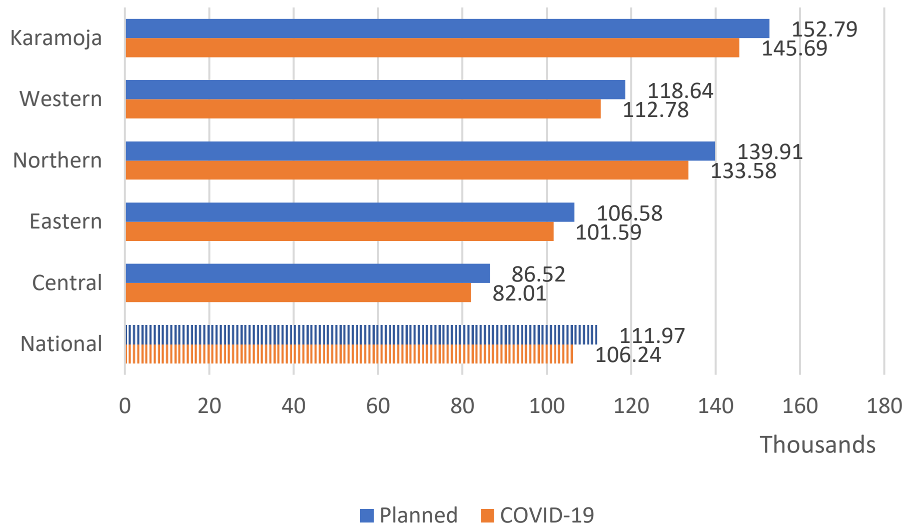
Source: Author's computations based on the UBOS Government Finance database

By region, the impact of the contracting fiscal space on per capita annual expenditure is shown in Figure 15. As is the case for the per capita OSR (considered above), the impact on different regions will not change their relative order. The Northern and the Western Regions will continue to lead albeit at a low level, UGX 133,580 and UGX 112,778. On the one hand, this is an encouraging finding because it does not suggest any deterioration in the relative status of the regions (again, if no other fiscal adjustment is applied). On the other hand, because the lion's share of the local government fiscal space is ringfenced for wages and salaries, this finding indicates less funding available for nonwage recurrent expenditures and capital investments, a trend clearly unconducive to longer-term development.

[2] International Monetary Fund (2020). Regional Economic Outlook sub-Saharan Africa. COVID-19: An Unprecedented Threat to Development

[3] UN Economic Commission for Africa (2020). COVID-19 in Africa: Protecting Lives and Economies.

Figure 17. Impact on local government per capita expenditure by region



Source: Author's computations based on MoFPED, https://budget.go.ug/

The central government has a limited space for fiscal manoeuvre at the local level, primarily because of the structure of its transfers, 90 percent of which consist of earmarked wage and non-wage grants to the relevant sectors. Continued release of these transfers is essential for maintaining basic services and utilities. Hence, there is a concern that the fiscal pressure may cause the CG to reduce the share of development grants to the LGs. This would be an undesirable outcome with serious long-term implications for local development and recovery. All efforts should be made to not only maintain the current level of development grants to local governments but also to increase the transfers so as to maintain the development fiscal space and accelerate post COVID-19 local economic recovery.

Conclusion

This study was designed to provide an immediate broad-brush picture of the impact of COVID-19 on local governments and identify the most critical issues that affect the capacity of local governments to deliver an effective response and ensure quick recovery. The practical objective of the study was to provide evidence for the ongoing policy debates about the COVID-19 response to ensure that local governments are not ignored and their potential is fully utilized. The survey data used to flesh out some aspects of the COVID-19 data came from a rapid assessment on a small sample of local governments and cannot be considered representative. The sense of urgency did not allow the team to properly investigate other aspects of the COVID-19 response including impacts on LG service delivery capacities, changes in essential services at the local level, institutional mechanisms and structures, etc. We hope that there will be an opportunity in the future for a more comprehensive study with a more representative survey to deep dive into various impacts of the crisis. Imperfect as it is, this study however offers a few valuable insights.

COVID-19 has set a number of challenges in front of local governments but also highlighted their indispensable role in delivering an effective response to the pandemic when provided with adequate means and responsibilities. Yet, their potential has not been fully utilized. An institutional structure currently responsible for the COVID-19 response at the local level, the District Task Force, operates with the direct involvement of local governments but outside their institutional scope led by the Resident District Commissioner who represents the President. Local governments have not fully assumed the responsibility for addressing the crisis, chiefly acting as the conduits for the central government directives rather than leading the response at the local level by customizing the activities and interventions to the local conditions. A number of local governments have displayed commendable initiative trying to engage other partners, mobilise additional finance and expand the scope of their activities beyond what was established by the centre. But these governments are few, and their initiative has attracted inadequate finance and institutional support.

COVID-19 offers an opportunity to rethink the role of local governments and test new solutions. It is an opportunity to advance Uganda's decentralization and enhance the role of local governments focusing on their improved effectiveness and efficiency, a need clearly emphasized by COVID-19.

1. **Local Governments are already experiencing observable immediate impacts of the pandemic on their systems and operations.** The immediate impacts according to LG leaders included:
   - (i) LGs are unable to hold meetings as they have no facilities and technology to work from home given the lock-down. For instance, the budgets are yet to be passed because of the limitation of the number of people in meetings to five
   - (ii) LGs are unable to collect local revenue, which process is manual, because most business sources such as shops and cattle markets are closed. This has affected provision of basic services that were dependent on local resources
   - (iii) Work overload for the few staff who are allowed to work and are able to reach the office and (iv) the limited or no technical support from CG and partners (mainly NGOs) for many sectors except health and security.
2. **The LGs are likely to lose about UGX 180 billion in local revenue collections and for the case of urban LGs that rely more on own revenues the total fiscal loss of own revenues is estimated at five to 10 percent.** Modelling of the COVID-19 impact on the local revenue collection in 2020, which assumes a three month period of strong containment measures followed by a gradual relaxation and recovery over the next three to four months, shows that the most hard-hit sources of revenues include property tax, user fees and other fees, which will be harled.

Collectively these sources of revenues account for 82 percent of OSR in districts, 73 percent in municipalities and 78 percent in town councils. On average, own sources revenues account approximately for 4 percent of the total budget of LGs, although this amount varies significantly by regions and types of LGs: Districts, Municipalities, and Town Councils.

3. **Property tax, other fees and user fees are the most affected local revenue sources.** The result of the impact modelling of this drop in own source revenue across different categories of revenues based on the projected LG budget for 2020/21 shows that, the category of "other fees" (which includes property income, sale of goods and services as well as various fees and fines) will be most affected contributing 30% to the overall decline in local revenues for all LGs. It is followed by property tax and user fees, each contributing about 20 percent. The loss of other fees will be particularly felt in districts where this source of revenue accounts for almost one half of total revenues. The drop-in property tax and user fees will affect mostly urban LGs, which on average rely on this revenue eight to 10 percent more compared to districts.
4. **The analysis shows COVID-19 has had direct impact on LG fiscal space which majorly consists of own source revenues, intergovernmental fiscal transfers (grants), leading to projected fiscal gap of UGX 15.7 trillion.** Based on the modelling of the local governments fiscal space, the total fiscal gap is projected at UGX 15.7 trillion, with district governments being most seriously affected and accounting for 88 percent of the total loss. The difference between rural and urban governments is explained by the fact that rural governments are more reliant on central government grants and receive about 90 percent of total annual transfers. On the other hand, urban governments will be more affected by the loss of own source revenues accounting for 66 percent of the total own source revenue decrease.
5. **However, the total expected impact on LG fiscal space is expected to be limited, on the order of 4 percent of the planned budget but different for different types of local governments**. This is consistent with the expected drop in the national GDP for 2020/21 assuming no other corrective fiscal action is taken. This light impact is explained by the structure of local government budgets. Own source revenue make up a small share of the local government budgets averaging at about 4 percent. However, this share varies significantly between local governments reaching as much as 30 percent for some municipalities and town councils. For these local governments, the expected impact of COVID-19 may be about 40 percent of their total fiscal space. The second structural factor is prevalence of recurrent wage and non-wage grants, which on average account for 85 to 90 percent of LG budgets (more for districts and less for urban governments). Whereas the government is committed to paying wages in full and the impact on recurrent non-wage grants is likely to be minimal, the future of the development grant is less certain.
6. **There is concern that the fiscal pressure may cause the central government to reduce the share of development grants, which would be an undesirable outcome with serious longer-term implications for local development, service delivery and recovery.** The central government has a limited space for fiscal manoeuvre at the local level, primarily because of the structure of its transfers, 90 percent of which consist of earmarked wage and nonwage recurrent grants to the relevant sectors. Continued release of these transfers is essential for maintaining basic services and utilities. The Central Government has already directed the LGs to only pay salaries, pensions and use the non-wage recurrent budget for critical essential services related to the control and management of the pandemic. Hence, there is a concern that the fiscal pressure may cause the central government to reduce the share of development grants. This would be an undesirable outcome with serious longer-term implications for local development, service delivery and recovery.

7. **Uganda has a well-defined legal and policy environment for disaster risk management and planning, however, their application and implementation most especially at the local government level is still a challenge.** Besides favorable legal provisions in Uganda exists a number of policies which are supposed to coordinate stakeholders. However, these laws and policies have not trickled down to the local governments as a review of about 20 LGs development Plans for the period 2015-2020, showed none of them has incorporated disaster risk management in the plans and budgets. A further review of the 2014 Local Government Planning Guidelines as well as the 2019 draft guidelines also shows that both plans fall short of provisions and guidance to plan for disasters at local level. As a result, the LGs did not have funds that could be easily used funds for COVID-19 response.

Recommendations

Creating adequate fiscal space for local governments

- The most urgent task is to create adequate fiscal space for LGs to be able to implement emergency response measures, ensure continued delivery of basic services, support local economies and prepare for recovery. This task requires both financial measures and adequate regulatory systems. Financial measures involve those that aim at ensuring additional finance for the COVID-19 response and recovery and those designed to improve the efficiency of the existing resources.
- Local governments fiscal space needs protection, particularly with respect to own source revenues. As discussed in this study, the expected drop in OSR will hit particularly hard urban governments (municipalities and town councils), for some of which the OSR losses may amount to 15 percent of their total fiscal space. It is suggested that the central government establishes a fund to compensate local governments for the loss of OSR to keep these resources available for the purposes of response and recovery. The fund will play the same role as the funding facilities currently established for private businesses and SACCOs to inject liquidity to resume their operations. The OSR Compensation Fund for local governments is designed to preserve local governments' discretionary fiscal space. It is recommended that the releases from the fund should be subject to approved COVID-19 reponse and recovery plans to ensure appropriate utilization of the funds.
- Additional resources required for the LG response should come from reprioritization of central and local budgets and be beefed up through external financial support given the current drop in CG revenues as well. Additional finance to cover the deficit in local government fiscal space can be mobilized from the new funding received from the international financial institutions, such as the IMF and the World Bank as well as from the grants offered by bilateral and multilateral agencies. Local governments should be represented in discussions about financial support to Uganda's COVID-19 response and their interests should be adequately addressed in funding agreements. International partners should be actively encouraged to support local governments, focusing on activities that would ensure the most efficient response and quickest recovery, aiming at a catalytic local development effect.
- Introducing a flexible financial mechanism, such as the Operational Expenditure Block Grant (OEBG) based on discretionary cross-sectoral allocations in both capital and recurrent categories will be instrumental in allowing a timely and comprehensive response by LGs (Annexes 2 and 3). The government has already moved in this direction by allocating operational funds to the District Task Forces. However, neither the amounts nor the type of eligible expenditures are fit for the challenges faced by the LGs.
- The LGs should engage in preparatory activities that will enable improved revenue collections after the pandemic. These include reviewing taxpayer registers to ascertain status of payment and missing potential taxpayers and make strategies for collection after lockdown. Where possible, the LGs should identify private businesses that are still operating and can pay taxes or fees and encourage them to pay the appropriate dues.

Reconsidering the roles of local government in crisis response

- The measures to create an adequate fiscal space will fail if there is no clear understanding of, and agreement on, the roles and expected deliverables of local governments. So far, local governments have been involved in COVID-19 response in an auxiliary capacity and their true potential remains underutilized. If local governments are to become the engines of COVID-19 reponse and post-COVID-19 recovery (as they should be), they should be provided with the authority and wherewithal to design and deliver locally customized solutions.
- The current situation perpetuates the existing status quo when nominally local governments have many substantive responsibilities but in practice those responsibilities are delivered at the local level by MDAs. COVID-19 is an opportunity to revise this status quo. Agreement needs to be ensured at the highest level and in consultation with the partners who are ready to support the local government sector about the expected deliverables of local governments to ensure continued delivery and recovery of local economy, utilities, health, education, social protection and other essential services in the context of COVID-19 reponse and recovery. A well designed and realistic local recovery plan will be critical for guiding the relevant activities of local governments and for mobilising necessary finance.
- Local governments have an important legitimate role in post-COVID-19 local economic recovery. Direct support to SMEs will remain critical in the recovery of Ugandan economy, especially at local level as they constitute the bulk of economic activities and employment. Therefore, deliberate policy measures and strategies should be put in place in support of SMEs to assure their sustainability. Such measures could include boosting finances and capacities of local authorities as first responders, short-term bailouts and exemptions for SMEs to limit productivity and employment losses, social protection for those in informal employment while anticipating the potential of labour intensive public work programs for job creation in the medium term. The capacity of local governments to support businesses, protect jobs and revenue bases will largely depend on the policy instruments that central authorities are willing to adopt and deploy. This is why the agreement about the roles and deliverables of local governments is so critical. Their role needs to be clearly reflected at the policy level and at the level of post-recovery plans and activities. Local governments should be assisted in developing and adequately financing their local economic recovery plans that, while focusing on short-term stimulus measures, would also allow local governments to advance their longer-term vision in line with local development plans.
- The planning and budgeting systems should be flexible enough to allow prompt changes in local governments' plans. This gains additional importance as the country is transitioning from the immediate reponse phase to recovery. Given the existing level of technical capacity, local governments should get technical support in the design and implementation of their local recovery plans based on a standardized menu of solutions that can be easily customized to the local circumstances.
- Lastly, the local government response needs to be situated within the local government institutional setup. If the overall responsibility remains with the central government (as is the case now), local governments will miss the opportunity to demonstrate their relevance and fitness for purpose.

Improving resilience of the local government fiscal space

- It is not enough to create adequate fiscal space for the immediate reponse and recovery. Unless the resilience of the local government fiscal space improves, local governments will remain vulnerable to socio-economic, natural and health shocks, such as COVID-19. The longer term response involves improved fiscal sustainability of local governments based on vibrant economies, increased own source revenues and expanded fiscal space. But as COVID-19 demonstrates, own revenue sources also need to be sustainable and diversified to diminish the impact of adverse factors. In the short-term perspective the following is suggested to improve the resilience of the local government fiscal space:
  - Increase the share of discretionary finance in the budget structure of local governments by reducing the share of earmarked funding across all categories of grants. COVID-19 emphasizes the need for flexible discretionary finance to allow a speedy response of local governments to immediate challenges. The existing Development Equalisation Grant is not flexible enough as it does cannot accommodate certain expenses not directly related to development investments.
  - Establish a reserve/emergency account for local governments. A reserve or emergency account allocated on an annual basis should serve as a cushion in case of crises. This account should be subject to strict regulation to ensure its use for the declared purposes.
  - Introduce alternative financing mechanisms for local governments. Subnational pooled financing mechanisms, such as municipal banks and other similar structures, may serve as a source of additional finance in difficult times. Local Development Corporations, Municipal Development Funds and other similar mechanisms with their own dedicated funding can also absorb and mitigate the shock. Another solution is application of innovative financial instruments for financing local development projects that hedge against various risks.
  - Revamp the local revenue administration systems by revising the sources, rates, collection methods, etc. Despite years of multiple efforts by multiple actors, local revenue collection stubbornly remains at a low level. It may be unpopular to speak about local tax and nontax revenues now, at a time of massive relief efforts in response to COVID-19 but this conversation needs to happen sooner rather than later. The present system of revenue administration at the local level suffers from numerous leakages, inefficiencies, multiple exemptions and poor enforcement. The central government should consider revenue sharing schemes that would allow an expanded discretionary fiscal space for local governments as discussed above.
- To improve local governments' readiness for the future, the National Planning Authority, MOLG and OPM should urgently ensure disaster risk preparedness and management is incorporated in the local government planning guidelines and LGs appropriately guided on planning and budgeting for disaster risks, including its financial and nonfinancial aspects**.**

Application of technologies for business continuity and service delivery

- Local governments should embrace the use of new technologies that enable working from different physical locations including home and field environments. LGs staff should be supported with the required IT equipment and data to enable use of facilities such as video conferencing, Zoom, Skype, WhatsApp and sharing reports through e-mails and Google documents. Going forward, such new modes of operation will make staff more efficient and effective in addition to saving on the use of scarce resources.

- Local government should be supported in expanding e-governance modalities and platforms for the services that can be delivered using digital channels. Delivery of permits, licenses and other documents as well as collection of certain fees and charges can be performed digitally and will enable continuous LG operations from remote locations and will reduce the need for physical contacts.

Annex 1. Indicative response activities of local governments

Increasing the capacity of the local healthcare system	• Hiring additional medical staff • Procurement of medical equipment, personal protective equipment • Retrofitting existing facilities/building new ones • Provision of transportation for medical staff
Community awareness and mobilization	• Production and dissemination of information and awareness materials online and offline • Setting up local call centres to provide information and other mechanisms for public mobilization
Social protection (including migrants and refugees)	• Establishing/operating food and non-food (particularly medicine) delivery systems for elderly and disabled • Support to providers of safe accommodation to victims of sexual/domestic abuse and their children • Establishing and operating meal centres and distribution points • Retrofitting public facilities to provide temporary shelter to homeless and other vulnerable populations • Food stamps to poor households (if not provided centrally)
Enforcement of public order and regulations	• Conducting checks and inspections and introducing electronic recording and tracking systems
Continued provision of essential services	• Rearranging/retrofitting service arrangements (additional staff and protective measures) • Expanding/retrofitting services delivery facilities
Relief and recovery measures for local economies	• Retrofitting public spaces to facilitate business operation • Continuous provision of utility services to local businesses (depending on the provision modality) • Direct and indirect financial support to local businesses (deferral of payments, grants and loans) • Technical support and provision of equipment for businesses to comply with COVID-19 health regulations • Production and dissemination of information and advice to SMEs on adjusting business processes

Annex 2. Operational Expenditure Block Grant

An OEBG is a specific type of intergovernmental fiscal transfer that can be a useful and effective vehicle for governments to implement their COVID-19 response strategies. The beauty of an OEBG is that it combines the most effective elements of the discretionary capital grant and the discretionary recurrent grant. The transfer mechanism of the OEBG is similar to that of a capital grant. The resources are not drawn from the recurrent budget for human resources and basic operating expenditures; instead, they are drawn from other funds and use the modality of the development (or capital budget) as appropriate.

This method has four advantages:

- Depending on the severity of the lockdown and its economic impact, expenditure on many development or capital projects is slowing down, meaning there may be immediate liquidity under those budget lines.
- Expenditure under the development/capital budget is usually reassessed annually and does not assume long-term commitments (e.g. to human resources).
- The development budget is usually more open to receive contributions from international development aid, philanthropic aid, and public and other sources. Existing development accounts with transparent reporting can be repurposed.
- The development budget can be assigned to the discretion of the mayor or the governing body of the local authority, and does not need to be pre-allocated to any particular department or sector.

Once available to local governments, the OEBG can immediately be applied to implement COVID-19 response protocols. In this respect, the OEBG differs from the regular development or capital budget. It has specific criteria and rules. For example, it cannot be used for any expenditure which creates long-term obligations such as new permanent payroll staff or new large infrastructure requiring operation and maintenance. However, it can be used for (temporary) staff costs, goods and services, and small-scale capital items (e.g. medical equipment or motorcycles).

The OEBG thus covers the full range of budget headings and expenditure codes, enabling a critical flexibility that can:

- **Top up and co-finance interventions** by departments using centrally allotted conditional funds (e.g. to make an ongoing initiative by a local hospital funded from the ministry of health more effective).
- **Combine interventions by different departments** (e.g. complement an ongoing initiative by a local hospital with a follow-up activity by the social services or public works department, such as re-fitting installations to promote social distancing).
- **Deploy funds to practically all legal expenditure categories** (e.g. hire temporary staff or consultants, purchase fuel or personal protective equipment, or purchase motorcycles for a team of quarantine enforcement officers).
- **Be managed either by the respective departments or by a specific COVID-19 response unit** under the mayor or council, or a combination of both.

COVID-19 OEBG disbursement is characterized by transparency and frequency of reporting. Existing reporting features for the development budget can be adapted in this regard. An OEBG is best managed by a locally developed pre-defined plan, which is regularly adjusted in line with the development of the epidemic in the locality. The plan can be endorsed by the relevant COVID-19 response entities. OEBG transfers can be made more frequently than regular development transfers – for example, every three months given attainment of the performance measures or targets in the plan. Three characteristics pertain: (i) n that the local government is responsible for the design, management and implementation of the plan; (ii) that the performance measures are sufficiently broad to allow rapid and frequent (no cost) budget revisions and changes in the distribution of expenditure between activities; and (iii) that the OEBG system enables the local government to dynamically “ride the curve” and adapt its response and activities in line with the epidemic’s progress.

The appropriate amount of the OEBG will depend on available resources, the stage of the spread of the epidemic, the degree to which local government is part of the national response and the absorption capacity of the local government. UNCDF has developed a rapid scoping tool, building on the scoping methodology applied in its other work in local government finance, which can quickly produce a design proposal for OEBGs in partnership with interested central or local governments. UNCDF can also make its e-municipal grant architecture available to process and report quickly on external contributions to an OEBG system from international development partners.

Annex 3. OEBG Indicative Menu

1	Prevention	Menu (Short Description)	Long Description
		Event Training	Community training / information pandemics such as COVID
		Emergency management training	Administration and public service sector training
		Emergency coordination unit (ECU)	Public administration coordination office establishment
		Emergency coordination maintenance	Maintenance of facility
		Media Campaign	Prints outs and newspapers
		Out Reach Meetings	Capacity development - hygiene (WASH)
		Community Radio	Public health announcements / guidance
		Information Cards	Household guides
		Hand Sanitizers	Household / Markets / Administration / PHCs
		PPE stock	Household / Markets / Administration / PHCs
		Household Mapping	Administration Survey(s)
		Primary Health Centre test kits	Basic test equipment
		Primary Health Centre - training of staff	Training for PHC staffs (test / treatment / protection)
		Primary Health Centre - basic stock	Test kits and medicines
		Primary Health Centre - Accessibility	Staff availability (salary top-up)
		Primary Health Centre - Water	Clean water supply / bottled water
		Community Hygiene	Disinfection of eligible public facilities
		Community Transport	Disinfection of eligible public transports (including private sector)
2	Rapid Response	Menu (Short Description)	Long Description
		PHC mobilization	Outreach services made available
		Non deferrable medical treatment	Free medical service delivery through PHC

		Referral	No cost referrals to hospitals including transport
		Surge Testing	Surge testing established to cover community
		Temporary medical facilities analysis	Survey and analysis of available PHC beds and supplies
		Temporary medical facilities	Construction of temporary facilities including repurposing municipal assets
		Quarantine centres establishment	Set up of quarantine centres including use of hotels / tourist infrastructure
		Specialist medical equipment	Procurement of specialist medical equipment
		Medical waste disposal	Systems construction / maintenance / use
		Emergency medical transport	Transport for community to and from PHC and referral hospitals
		Food and water supplies	Delivered food and water
		Household energy supplies	Cooking and heating fuels
		Market access digital solutions	Establishment of on-line public ordering systems for public markets
		Market price control	Monitoring and inspection of basic food costs and quality
		Emergency storage facilities	Strategic storage of essential items including food and energy (cold storage including)
		Sheltering - stay at home policy	Public awareness for implementation of stay at home
		Situation monitoring and reporting	Public administration ECU
		Community PPE Programme	PPE for community members (masks / hand sanitizers)
		Additional security costs	Additional security services costs
		Border management and control	Additional international border facilities and services
		Business premises watch	Additional security for retailers and retail parks
		Community tracking	Digital tracking services
		Community services	Payment facilities for cash / vouchers
		Additional public service salary costs	Payments for first responders and essential staffs (overtime and supplementary)
		Citizen psychological support services	Psychological support to reduce gender based violence

		Search and rescue	Community care old and vulnerable
3	Recovery	Menu (Short Description)	Long Description
		Small business grants	to cover payroll and maintenance of production capacity
		Temporary employment	to provide households with payments for pubic works
		Social Protection -	enhanced Mother & Early Childhood Grant payments
			school meals
			state severance top up for SMEs
			enhanced disability payment
			agricultural support payments
			direct grants for vulnerable groups
		Economic Recovery -	Asset repurpose
			Establishment of municipal business development units
			Establishment of MSME municipal start up funds
			Development of recovery plan and budget
			Tax credits for local companies and businesses
			Land registration / land usage licence support
			Municipal and LG rents

About UNCDF

UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF pursues innovative financing solutions through: (1) financial inclusion, which expands the opportunities for individuals, households, and small and medium-sized enterprises to participate in the local economy, while also providing differentiated products for women and men so they can climb out of poverty and manage their financial lives; (2) local development finance, which shows how fiscal decentralization, innovative municipal finance, and structured project finance can drive public and private funding that underpins local economic expansion, women's economic empowerment, climate adaptation, and sustainable development; and (3) a least developed countries investment platform that deploys a tailored set of financial instruments to a growing pipeline of impactful projects in the "missing middle".

About Ministry of Local Government

Ministry of Local Government is a Government Ministry responsible for guidance and overall vision of Government in local Governments. The Ministry oversees the Government structures and operations at local levels in Uganda such that they are harmonized and supported to bring about socio-economic transformation of the whole country. The Ministry composed of two Directorates of Local Government Administration and Inspection works towards sustainable, efficient and effective service delivery in the decentralized system of governance.

About Makerere University (College of Business and Management Sciences [CoBAMs])

The College of Business and Management Sciences (CoBAMS) of Makerere University aspires to be a leading institution of academic excellence and innovations in Africa in its area of expertise. Its mission is to produce high calibre professionals and promote research and knowledge transfer in Economics, Statistics, Business Management and Population Sciences, for informed policy and sustainable development. CoBAMS is mandated to teach and undertake research in the following areas: Actuarial Sciences, Business, Economics, Management, Statistics and Population Studies.

About Local Government Finance Commission

The Local Government Finance Commission (LGFC) is an autonomous arm of government responsible for advising central and local governments on issues of fiscal decentralisation. The Commission is established under Article 194 of the 1995 Constitution. The Commission is constituted by seven members appointed by the President; four of which are nominated by the District Councils (3) and Urban Councils (1). The other three are nominated by the Minister responsible for Local Governments in consultation with the Minister responsible for Finance, Planning and Economic Development. The Commission is established to advise the President on all matters concerning the distribution of revenue between the Government and local governments and the allocation to each local government of moneys out of the Consolidated Fund; consider and recommend, in consultation with the National Planning Authority, to the President the amount to be allocated as equalisation and conditional grants and their allocation to each local government and fulfil other responsibilities as per the Constitutions and the Local Government Act.