ENHANCING LOCAL GOVERNMENT SERVICE DELIVERY IN UGANDA: LESSONS FROM JAPAN'S FISCAL DECENTRALIZATION PRACTICES

FINAL REPORT

LOCAL GOVERNANCE IN GLOBAL PERSPECTIVES

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UGANDA

18th JUNE 2025

1. Introduction

Local governments (LGs) in Uganda are critical to delivering services like healthcare, education, and infrastructure among others. However, the declining central government funding and weak local revenue systems have undermined their capacity. This paper therefore examines Uganda's decentralization challenges and draws on lessons from Japan's fiscal model to propose strategies for strengthening LGs in Uganda.

2. Uganda's Local Government System

Uganda's LG system is grounded in the 1995 Constitution[1] and the Local Government Act (CAP 138). These include the Higher and Lower LGs, each led by elected Local Councils (LCs) from LC I to LC V and supported by administrative staff led by the Chief Administrative Officers (CAOs) for the districts, and Town Clerks (TCs) for the cities and municipalities and they are responsible for resource mobilization, provision of services, ensuring citizen participation and accountability among others.

3. The Fiscal Challenge in Uganda's Local Governance

Much as one of Uganda's Decentralization policy objectives is to enhance fiscal transfers, financial accountability, and link tax payment with service provision, fiscal transfers to LGs have steadily declined over time for instance, in FY 2023/24, LGs received UGX 5.39 trillion just 10% of the national budget down from 13% in FY 2015/16 (MoFPED, 2023).

The reduction is mainly due to the recentralization of functions and resources, driven by legal and administrative changes. Biryomumeisho et al. (2024) highlights several factors responsible for recentralization such as poor local financial management, human resource crisis, and central government fears of losing control among others.

This situation is further exacerbated by the low local revenue generation by LGs resulting from the abolition of certain taxes, such as the graduated tax, which was scrapped in 2004 and replaced by the Value Added Tax (VAT) which is now collected by URA[2], leaving LGs without viable alternatives for revenue. Additionally, other potential sources of local revenue such as parking fees, and advertisement fees among others are not being collected by LGs as provided for under the fifth

[1] Article 176, (2b) of the Constitution of the Republic of Uganda (1995 as amended) adopts decentralization as the principle applying to all levels of LG and, in particular, from higher to LLG units to ensure peoples' participation and democratic control in decision making (Uganda Constitution, 1997).

[2] Uganda Revenue Authority (URA) is the central Government tax collection body.

schedule of the LG Act (Local Government Act (CAP 138)) for reasons such as the underdeveloped businesses in many LGs.

4. Government Response and Reform Efforts

The Government of Uganda has implemented a number of reforms such as revising the resource allocation formula, and promoting fiscal autonomy among others to restore fiscal strength and autonomy at the local level.

Also, the Fourth National Development Plan (NDP IV), plans to fully rollout digital platforms such as the **IRAS** and **E-LogRev**[3] for local revenue enhancement (National Development Plan Four (NDPIV) (2025/2026-2029/2030), 2025).

5. Lessons from Japan's Fiscal Decentralization Model

Japan presents strong fiscal autonomy and good service delivery mechanisms where Local governments are financially empowered through a combination of robust local revenue generation and strategic central government transfers as provided for in the constitution (Japan, 1947) and article 223 of the Local Autonomy Act. Fiscal decentralization is implemented through;

- **a. Revenue source guarantees through the local finance plans;** The Local Finance Plan[4], estimates LG income and expenditures annually to guide resource allocations (Council of Local Government Relations, 2022).
- b. **Fiscal Transfers**; on top of the targeted subsidies provided by the central government Ministries that aligns LGs spending with national goals, the Ministry of Internal Affairs and Communications also provides Local Allocation Tax as a way of ensuring equity.
- c. **Revenue Autonomy;** LGs in Japan are given a high level of local autonomy to assess and collect local taxes such as; Municipal inhabitant tax, property tax, light vehicle tax, Special purpose taxes such as business office tax, city planning tax, and bath tax, some impose an extra-legal ordinary tax or extra-legal special purpose tax, spent nuclear fuel tax, environmental cooperation tax etc.) Agata, K., Inatsugu, H., & Shiroyama, H. (2024).
- **d. Innovative tax collection measures;** cities like Kokubunji have designed innovative tax collection measures like sending reminders to the tax-payers and use of a flexible tax

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[3] IRAS and E-logRev are online and mobile application platforms to enable LGs collect revenue through registration, assessment, billing, payment awareness raising for taxpayers, and connecting residents to LGs.

[4] The Local Finance Plan is a system that verifies whether LGs have the financial resources necessary to provide the legally prescribed level of projects and administrative services. It is arrived at by computing all the LG revenues and expenditures, and then estimating their overall budget. If revenue sources are insufficient, the national government will consider amendment of the local finance system or an increase in the local allocation tax rate in order to secure the necessary financial resources for LGs.

payment system to relieve the financial burden of a one-off payment thus enabling them to generate high revenues. For instance, Kokubunji City because of the innovations is able to generate **99.6%** of its revenue (Suzuki, 2025).

e. **Local Economic Development (LED);** Japan's cities like Tachikawa, Kokubunji, and others promote LED to grow their tax base and ensure fiscal sustainability. For example, Tachikawa hosts 300 manufacturing plants generating 31 billion yen annually (Tachikawa City Office, 2025).

6. Recommendations for Uganda

Drawing lessons from Japan, Uganda can enhance its local government performance by;

- **Increased Fiscal Transfers;** MoFPED, in collaboration with the National Planning Authority (NPA), Ministry of Local Government (MoLG), and the LGFC on top of the general LG transfers should review and come up with a clear allocation formula for the DDEG[5] similar to the Local Allocation Tax provided by MIC in Japan, and also enhance the legal and institutional frameworks to minimize policy reversals.
- **Develop and implement Annual Local Government Finance Plans:** NPA, MoLG, and the LGFC should jointly formulate comprehensive annual finance plans to guide the projected revenues and expenditures of LGs nationwide to guide resource allocation.
- **Strengthen Local Revenue Generation:** LGs should be empowered to implement local tax regimes and innovative revenue sources such as LG bonds to diversify revenue sources.
- **Strengthen implementation of LED;** Strengthen the Support towards local enterprises to thrive by creating an enabling environment as a way of expanding the local revenue base.
- **Adopt innovative tax collection measures**; like allowing for flexibility in tax payment and sending reminders to tax-payers.

7. Conclusion

Uganda's LGs hold the potential to drive sustainable development at the grassroots. However, declining fiscal transfers and inadequate local revenue remain a big challenge. Therefore, by adopting key elements of Japan's fiscal decentralization model, Uganda can significantly improve service delivery, increase citizen satisfaction, and strengthen the decentralization process.

[5] The Discretionary Development Equalization Grant (DDEG) is a transfer to LGs designed to address development disparities and support local priorities. The DDEG is allocated in two main streams: one for rural areas (District DDEG) and one for urban areas (Urban DDEG). These grants are intended to help local governments fund projects and activities that improve service delivery, particularly in areas where services are below national average standards (Uganda, 2023).

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