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Property Taxation in Kampala, Uganda: An Analytic Case Study on a Successful Reform

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Property Taxation in Kampala, Uganda:
An Analytic Case Study on a Successful Reform[*]

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ABSTRACT

Kampala's revenue reforms offer lessons that large and powerful cities should not wait for national actions, rather, they can do a lot "in-house" to improve tax administration, coverage, and collection. Against the rather poor performance of the property tax in Uganda, Kampala's reforms have resulted in unprecedented increase of own-source revenues generally and the property tax specifically. Kampala exemplifies that property tax revenues can be not only substantial but the largest own revenues even in Africa's cities. The over fourfold increase of property tax revenues from 2004/5 to 2015/16 is a result of consistent improvement of local tax policies and administration and happened without changes of the national legislation and despite national exemptions of owners-occupied properties. The most critical success factors include: investments in multiyear reform program with substantial funding from donors; built internal capacities by insourcing critical mass of skilled staff with competitive compensation; political support; institutionalized revenue analysis to support policy formation; information technology subordinated to the administration reform; expanded tax base coverages by setting up reliable databases, urban and fiscal cadasters; and tailored and pragmatic communication with taxpayers.

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1 Introduction

Uganda is a densely-populated, land-locked country with a total surface area of approximately 241,038 km^2, and the estimated population is around 39 million (United Nations 2015), of which only about 16 percent lives in urban areas (United Nations 2014). In 2015 the capital city, Kampala, had an estimated population of 1.94 million (World Factbook 2017). Uganda is classified as a low-income country with an estimated *per capita* GDP of only USD 705 in 2015 (World Bank 2016a; 2016b).

The current property tax system in Uganda is under severe strain. The 2005 Local Government Rating Act (LGRA 2005), as amended in 2006, constrains mobilization of property tax since it exempts owner-occupied residential buildings – with a devastating effect on revenue (Franzsen and McCluskey 2017). There is also a clear gap between law and policy on the one hand and the realities most local authorities in Uganda are facing on the other. The general public is largely unaware of their civic duty to pay property tax and political support is absent at the highest level of government. Taxpayers have limited awareness of property tax collection to the extent that some think they should not pay any tax on their properties. In addition, some property owners confuse property tax with ground rent (Seatini-Oxfam 2013). In contrast to the general situation of the country, the case of Kampala summarized below shows good examples and the power of taxpayers' sensitization in enhancing property tax collection.

The law mandates that property tax revenues must be used to provide specific services, such as road construction and maintenance, street lighting, anti-malaria drains, garbage collection, physical planning, and other services required by the taxpayers within their areas. In addition, the law requires that a minimum of 75 percent of the property tax revenue be used for these services to link tax and services (Kelly 2013); this has helped Kampala implement reforms, although it has several negative side-effects.

This paper is organized in two main sections: the first section is an analytic summary of Kampala's persistent revenue and property tax reforms that have been under implementation since the 2005/06 fiscal year with a summary of main plans, reform areas, results, and lessons learnt. The second section includes annexes with details on the various reform phases and programs, because scholars, students, or practitioners often like to see the situation and the specific actions in more detailed analyses.

2 Property taxation in Kampala

Despite the rather poor performance of the property tax in the rest of the country, recent developments and reforms in the capital, Kampala, have had a significant positive impact on own-source revenues (OSRs) generally and the property tax more specifically. Kampala's revenue reforms offer lessons that large and powerful cities should not wait for national actions; rather, they can do a lot "in-house" to improve tax administration, coverage and collection. The over fourfold increase of property tax revenues from 2005/6 to 2015/16 is a result of consistent improvement of local tax policies and administration and happened without changes of the national legislation and despite national exemptions of owners-occupied properties.

2.1 Kampala's situation in the early 2000s

In early 2000s, the situation of Kampala largely reflected the circumstances of other local governments (see details in Annex 1). Kampala City (KCC) was in a dire financial situation–and in fact insolvent–with UGX8bn in accumulated overdue liabilities, stagnant revenues, and deteriorated services when the World Bank began preparation of the Kampala Institutional and Infrastructure Development Project (KIIDIP)[2]. The urban road network was not only short but full of potholes; water services were low and intermittent; solid waste was largely left uncollected, which clogged drains; waste was "treated" by marabou storks that commuted to the city from the lake area. These problems fueled the citizens' perception that the local government was using tax revenues to finance administration and compensation of councilors, instead of services. This created a challenging position for the city administration, and people argued that increased revenue collection would be fair only after the local government managed to demonstrably and substantially improve services. This is a chicken and egg problem.

[2] Kampala Institutional and Infrastructure Development Project (KIIDIP). Preparation started in early 2005, the project was appraised in April 2007, and then approved by the Board in October 2007. The author was a member of the project preparation team and responsible for the revenue reform as well as the design and implementation of the financial recovery action plan (KFRAP).

Table 1: Kampala City Council main own revenues (UGX billion)

YEAR/Sources	03/04	04/05	05/06
Graduated Tax	4.09	3.17	0.00
Licenses & Fees	4.07	3.53	3.57
Car Parks	3.30	3.14	2.95
Property Rates	2.37	1.50	2.65
Markets	1.16	1.09	1.05
Capital Income	1.13	3.48	3.78
Ground Rent	0.93	1.68	2.47
Total	**21.86**	**23.67**	**22.25**

Source: KCC

To make matters worse, in 2003, the central government questioned and attacked the graduated tax (G-tax), and then terminated it in 2005 with no proper compensation to local governments. The abolition of the G-tax was theoretically justified because it was regressive and probably unconstitutional; however, the idea that the cities should fill the revenue gap (about 25% of OSR in Kampala) by overnight improving collection of property taxes was not only overly optimistic, but rather unreasonable. Filling the sudden revenue gap would have required substantial funds, including investments in revenue administration, trained staff, and improved databases and collection capacities; but these were not accessible in the short run.

After 2003, Kampala reacted to the deteriorating situation with two measures: selling land ("capital income" in Table 1) to cover part of the revenue gap, and accumulating unpaid bills. Table 1 clearly shows that the desperate need for money did not encourage or enable the city leaders to collect more OSRs; tax and fee collections remained stagnant or even declined as elections were approaching. These results strongly underscore the findings that the private tax collection system (Annex 2) lacked adaptability; just the opposite, it had "strong built-in incentives to maintain the status quo of the private collection contracts" (Iversen *et al*. 2006: 327). Incentives were to maintain the same incumbent private partners and to change the contracted amounts only marginally year on year.

2.2 KCC revenue administration in early 2000s

The KCC relied extensively on private collection of OSR in the early 2000s. Virtually every own-revenue collection was contracted out. The KCC had a small and weak revenue administration; a small squad of staff dealt with revenues, largely in divisions that did little more than accounting for revenues or reporting the payments made by the private collectors. Private collectors administered the revenues under their own systems and protocols, and reported and paid in some money to the budget without proper KCC control. KCC was satisfied with a symbolic increase in collections each year; but KCC officers had no solid idea about the revenue potential nor did clear intentions to pressure private collectors to collect more, thus the revenues remained fairly stagnant.

The LGRA 2005 stipulates that property tax revenue collection procedure implicitly takes place the following way (explained in the KCC context): a) KCC publishes the approved valuation list in the official Gazette and at least one local newspaper with the payment due dates; b) property owners read the publications and pay the dues voluntarily in one of the KCC offices; c) KCC issues demand notes to request payments from owners who failed to pay the tax on time; d) with the lack of mailing addresses, however, it was impossible to send the demand notes by mail. Thus, the KCC printed the demand notes for defaulters, handed them over in bulk to the private collectors, whose uniformed collection staff visited each property in a zone and handed over the note to the persons found; e) the owners had to visit district revenue-offices with the note in hand to pay the due tax; f) the private collector received a 10 percent commission based on the monthly volume of money that appeared in the accounts of his contractual area. The 10 percent commission was apparently too small to reduce the incentives of the revenue collectors to "lose" a demand-note in exchange for a portion of the taxes due from an owner.

When the central government and the LGFC aimed to incentivize local governments to increase revenue collections under the private collection system, KCC adopted a policy to allocate 20 percent of the year-on-year increase in collected OSR as bonus to council members. This rule became popular, although it failed to boost OSR initially; however, it became a fairness issue under expenditure streamlining in Kampala, when the OSR started to grow by billions of Shillings annually, and the council members rejected the idea to amend this 20 percent bonus rule.

2.3 Development of Kampala's property tax system, administration, and procedures

We can differentiate between four major periods in the development of Kampala's local revenue framework, the actual revenue system, and its implementation. The national legislation set a unified framework for all local governments, and local practices were presumably similar in the early first period. However, after 2005/6, Kampala followed a different reform path and outperformed the other local governments by great margins in the subsequent development periods. The Kampala's reforms were focused on local administration and collection supported by explicit and published local revenue policies. We characterize the four periods as follows, details are summarized in Table 2 and in annexes:

- Emerging local revenue system (prior 2005);
- First generation reforms: Financial Recovery program–KFRAP-KIIDIP reform (2005-2010);
- Second generation reforms: Establishment of professional revenue management (2011-2015); and
- Third generation reforms: Establishment of advanced revenue management with modern technology (2015-2020).

The pre-reform period can be characterized with emerging systems, slow introduction of revenue systems and procedures by cities without guidance from higher government, and stagnant and low own revenues.

The first generation reforms included the first systematic improvement of revenue administration supported by initial simple technology developments and basic training of some staff of a small administration, since the tax farming remained in place. KCC first time started to discuss and set revenue policies, address issues of collecting arrears, setting rates, analyzing and projecting revenues. A national program to value taxable properties in Uganda's large cities helped KCC improve tax base in this time period.

The second generation reform included establishment of a professional local revenue administration, cancellation of private collection, and insourcing skilled staff, followed by complete refurbishment of the revenue administration system and enhancement of local revenue policies, systematic analysis of revenue potentials and effectiveness of actions, and communication of plans and results with public.

The third generation reform focuses on comprehensive revaluation of properties, further reduction of exemptions, and adoption of advanced revenue policy targets.

Table 2: Key elements of the Kampala local revenue reforms

<table>
<tr><th>Emerging local revenue systems prior 2005</th><th>First Generation Reform in Kampala 2005-2010</th><th>Second Generation Reform in Kampala 2010-2015</th><th>Third Generation Reform in Kampala 2015 -2019</th></tr>
<tr><td>Property tax sole own revenue since colonial period</td><td>Professional valuation of properties in major cities under World Bank program 2005</td><td>KCCA Act 2010, KCCA and the Directorate of Revenue Collection (DRC) established</td><td>No change in legislation; KCCA to join other LG to change legislation and tax owner-occupied property</td></tr>
<tr><td>Transition to decentralization, and military regimes</td><td rowspan="2">Financial recovery action plan (KFRAP 2005-10) improve revenues and control expenditures (130 actions and 62 outputs.
Improve property tax: Invest in revenue administration with donor funds</td><td>New DRC Organization: collection 150, compliance 15, Research and Business Analysis 10 persons</td><td rowspan="3">Revenue Policy
- update registry, revalue’
- Issue revenue byelaws
- Supplementary valuations annually
- Valuate all properties (also those exempt);
- valuation of vacant land analysis;
- Maintain tax rate 6%
- Consider higher rate for commercial and industrial
- Reduce exemptions (owner-occupied should pay, test taxing vacant land even higher rate.</td></tr>
<tr><td>LGA 1997 fiscal and political decentralization with own revenues defined</td><td>Insourcing human capacities (from Revenue Authority and ministries), measuring skills, and perpetual training</td></tr>
<tr><td>Vague regulations and low capacities in revenue administration, corruption, Low revenue collection,</td><td>Adopt local revenue policy first in KCC history
- expand tax coverage,
- work-out tax arrears
- taxpayers’ education
- commit spending 75% of property tax in zones where it was collected,</td><td rowspan="2">Revenue Policy:
- revenue reform is an investment
- five-year action plan with cost and revenue projections
- detailed analyses of results, cost efficiency, revenue audits;
- in-house revenue collection system (private contracts cancelled 2012)
- Council bonus abolished
- Local service tax, road user fee introduced OSR</td></tr>
<tr><td>Abolition of Graduated-tax 2003 “LG should collect more property tax instead”,</td><td rowspan="3">Improve administration:
- Reliable database
- IT development;
- Train staff
- Supplementary valuation
- Improve billing: demand notes to all payers, two reminders, show levy +arrears +penalties in bills.
- Improve collection by new tight contract to and</td><td rowspan="3">Revaluation of properties:
- Urban cadaster with street names and house numbering established
- GIS map layers for tax, urban services, and planning/zoning
- Fiscal Cadaster established,
- Mass valuation in three years by districts: CBD, Nakawa, then the other 3.</td></tr>
<tr><td>OSR below 10% of revenues,</td><td rowspan="2">Billing enhanced w. IT:
Automated generation of:
- bills and reconciliation;
- flags nonpayers;
- management reports;
Tax-payer ID numbers</td></tr>
<tr><td>Private collection of most OSR aimed to “collect more and reduce corruption”</td></tr>
</table>

Cities failed to increase property tax collection to fill the gap caused by G-tax abolition, Kampala nearly bankrupt 2004-05	supervision of collectors. - Taxpayer education: public notice, media, leaflets with bills; - Enforcement: recovery tax from tenants and enable them to reimburse from rental fee, - Incentives: 20% bonus to council members on revenue increase	***Easy payment system***: - bills and reminders SMS - payments by internet or SMS ***Improved communication***: - annual communication plan - eCiitie www site: citizens see bills, status, pay dues, informed about plans, events, actions	***Certificate training***: - mandatory for all staff, - develop curricula with general revenue management subjects and specific course on KCCA bye-laws, rules, procedures; - training classes with national institutions;

Source: Authors from KCC and KCCA information

2.4 First generation reform: Financial recovery program (2005-2010)

Around 2004-2005, the KCC government was under multiple threats, as explained above, including citizens' dissatisfaction, deep financial distress and the threat of open insolvency that could trigger national administrative measures against the (opposition) local government, and low levels of service that made cost-cutting virtually impossible. The dialogue about the KIIDIP project offered substantial technical assistance and money for improvements on several key fronts with positive messages both upward to central government and downward to citizens. The KCC government was aware of the difficulties in structuring and implementing fundamental changes in related institutions, but was very open to work with the World Bank because of the substantial funds for it offered for infrastructure investments and the offered technical support and funds for institutional reforms.

The KCC government approved the KFRAP concept and appointed a Financial Reform Committee (FRC) chaired jointly by the town clerk and the head of the finance department; and the committee included the chief accountant, the head of IT, the heads of service departments, and the heads of Kampala's five divisions (about 25 total members). The FRC met weekly in the beginning, then monthly or as deemed necessary. The mayor and the council provided full political support to the FRC. The FRC also appointed teams to analyze situations in specific revenue areas, identify issues and options for improvement, estimate funding needs, and define expected outputs and outcomes. The teams worked closely with international experts from the Bank or hired specialists.

Table 3: KFRAP actions on revenue and expenditure areas

Improvement areas	Outputs	Actions
Property Tax	10	29
Ground Rent	4	8
Other OSR areas	19	35
OSR Total	33	72
Expenditures	32	58
KFRAP total	***62***	***130***

Source: Authors' compilation of KFRAP

The KFRAP was a moving target for two years and eventually included 62 specific outputs and 130 specific actions aimed at increasing revenues and streamlining expenditures (Table 3). It also included estimates of required resources, responsible entities or persons, deadlines, and remarks about specific issues or challenges. Revenue improvement plans covered the following sources: property tax, ground rent, markets, trading licenses, commercial vehicles, street parking, advertising, and building plans/permits. Expenditure control was planned in the following areas: employee cost, cost of council, committees and boards, administrative costs, property costs, transport and plants costs, operation and maintenance costs (the only area where an increase was planned), KIIDIP costs, and work-out of KCC's overdue debts (see details in Annex 3).

3.4 Second generation reform: Establishment of professional revenue management in KCCA (2011- 2015)

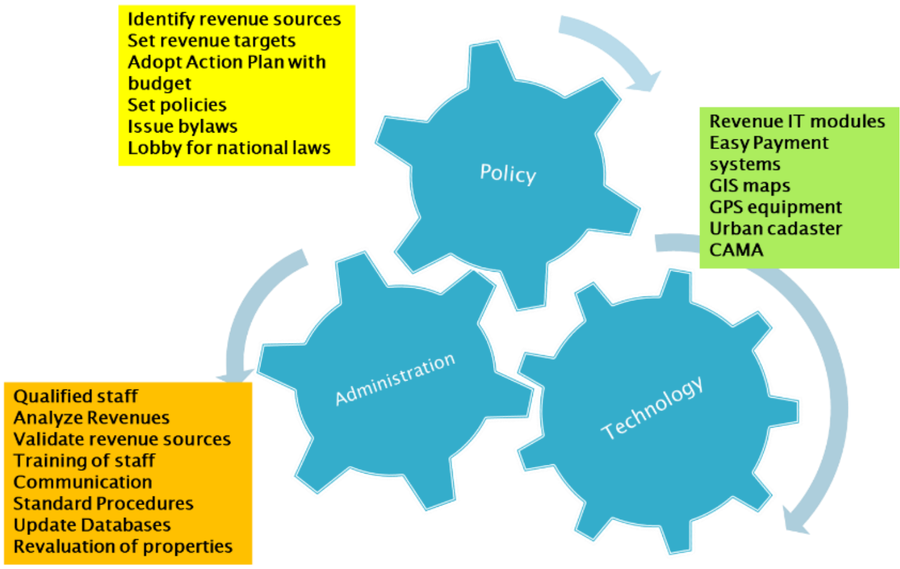
The Government of Uganda dissolved the local government of Kampala in 2011 and established "*the Kampala Capital City Authority as the governing body of the city, an administration of Kampala by the Central* Government" (KCCA Act 2010 preamble). The Act also stipulated establishment of a Directorate of Revenue Collection (DRC), to be monitored by the Finance Standing Committee of the Council, and advised to seek technical guidance from the Uganda Revenue Authority (KCCA Act Fifth Schedule). The DRC was established mid-2011 under the leadership of a very experienced director, a former chief staff for the Uganda Revenue Authority (see details in Annex 4).

The case of the KCCA and the DRC are best-practice examples of improving revenue administration. The DRC has not only selectively and gradually invested in the enhancement of the revenue databases, procedures, administration and collection, but in parallel substantially increased effective revenue collection. This is a sharp contrast to many developing countries, where revenue enhancement reforms not only take a long time, but more often than not show only moderate results against substantial investments.

3.5 Third generation reform: Establishment of advanced revenue management with modern technology – the way forward (2016 – 2020)

The KCCA and DRC have adopted the principle of perpetual reforming the revenue system and instruments, since the revenue is a stream that must be constantly maintained with situation changes; as Heraclitus, a Greek philosopher, states: "we can't step into the same river/water twice." Therefore, by the time the 2nd generation reforms were nearing completion, the DRC already was working on shaping even more ambitious 3rd generation reforms. These efforts were further encouraged and supported financially by the beginning of a new World Bank project called KIIDIP 2, which was approved by the Government in December 2014 and began in mid-2015. The KCCA revenue reforms are a good example of the fact that revenue reforms require balanced and coordinated actions among three fields: policy formation, administration, and technology. (Figure 1 illustrates this concept.)

Figure 1: Revenue mobilization reform in Kampala



Source: Kopanyi 2016

The KCCA adopted a new Corporate Strategy (2013–2018), to lay the foundation for the Kampala City Transformation (Sserunkuuma 2016). The strategy contains the Kampala Recovery and Transformation Program (KARET), which builds on the success of other projects, such as KFRAP and KIIDP 1 (World Bank PAD 2014, pp 18). KIIDIP 2 planned to provide KCCA with USD3.2million (UGX9.6bn) to support the Revenue Directorate's efforts to improve the following specific areas: (i) increasing collection enforcement and expanding tax education; (ii) property revaluation and regular updates of valuation lists; and (iii) SMS mobile phone service delivery platform (PAD 2014, p 54). The development of the GIS mapping system and a street addressing exercise is under the KIIDIP 2 subcomponent that supports the Physical Planning Directorate

3 Reform results–outputs and outcomes

3.1 Main results and achievements

The perpetual and substantial reforms completed in the 2005/6-2015/16 period of fiscal years are truly remarkable and certainly unprecedented in Africa, but most probably in the entire developing world. Table 4 summarizes the salient features of Kampala's achievements, followed by more detailed explanations.

Table 4: Major results of the Kampala local revenue reforms

First Generation Reform in Kampala 2005-2010	Second Generation Reform in Kampala 2010-2015	Third Generation Reform in Kampala 2015 -2019
Increase collection of property tax from UGX2.7bn. per year to UGX9.2bn. per year	Collection of property tax increased to 17.7bn. per year	Increase collection of property tax gradually to UGX40bn. per year (projection)
Recovery of property tax arrears UGX9.5bn. in five years total. (Three and a half times greater income than the 2.7bn. regular annual collection in early 2000s!)	Collection of OSR increased to UGX80bn per year, Cost of reform investments recovered in two years.	Increase collection of OSR gradually to UGX160bn. per year (projection)
Reduce overdue liabilities from UGX8bn. to UGX3bn. in five years	The six main revenue source provides for 80% of OSR	Settle property tax arrears by central government entities (plan)
Increase of OSR from UGX22bn. per year to UGX31bn per year	Property tax share in OSR 22%, but property tax still is the largest OSR	The six main revenue source provides for 80% of OSR
Increase share of property tax in OSR from below 10% to the range of 25%	Substantial improvement in tax collection and cost efficiency, equity/fairness, and transparency.	Property tax share in OSR 25%, but property tax still is the largest OSR

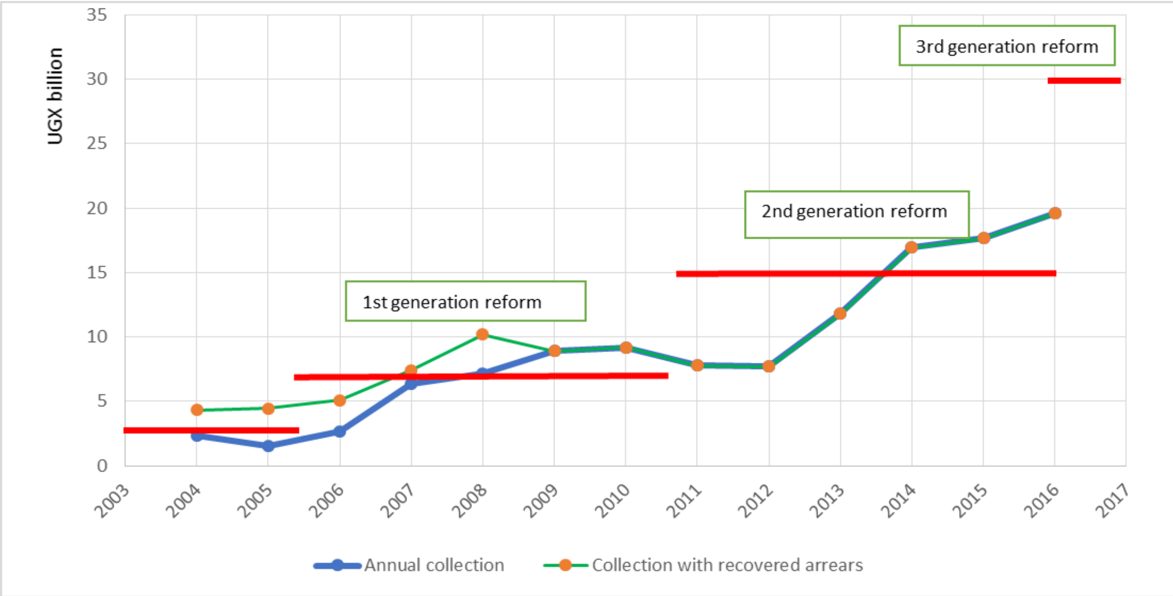
Source: Authors from KCCA information

Kampala, in nutshell, has substantially improved all the basic characteristics of good property tax systems, namely economic efficiency, administrative simplicity, flexibility, transparency and fairness (Bird 2013), as follows:

- The *financial efficiency* of the property tax system increased substantially, since the annual collection of property taxes nearly tripled from 2005/6 to 2010/11 against marginal increase of cost of administration, and the investment in administrative improvements was recovered five times during this period (ISR2012).
- The *buoyancy* was improved by supplementary valuations in 2009 and by the new policy of annual supplementary valuations;
- Administrative *simplicity* was improved by the more streamlined processes, clear operating procedures, and automated billing, easy payments, and automated reminders;
- *Transparency* was greatly improved by the communication framework, instruments, and publications, as well as by the regular submission of demand notes and reminders to taxpayers;
- *Fairness* improved substantially via expansion of the tax base coverage through improved taxpayer identification, improved databases, and the increased collection rate.

Tax collection 2003-2016: Figure 2 shows KCC property tax revenues from 2003 to 2016, with the average revenues in the various reform periods (red lines). These Kampala figures should convince the skeptics who may still promote farming out tax collection, due to "*the complex administration, high costs of in-house collection, and low local capacities.*" Indeed, local capacities are often low, even Kampala had to insource qualified specialists, albeit less than a dozen high level officers, but the results are evident and remarkable (Kopanyi, 2016).

Figure 2: Kampala's property tax revenues UGXbn, 2003-2016



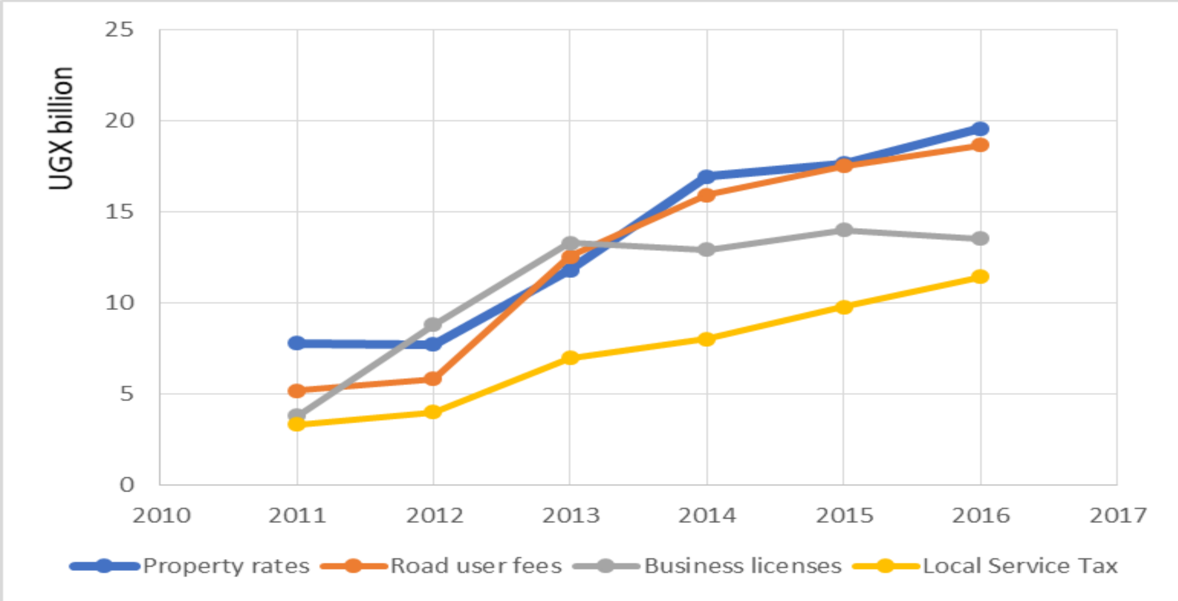
Source: Kopanyi 2016

The figure also shows the impact of the revenue reforms. The 1st generation reform more than doubled the property tax collection from the (low) early 2000s level, meanwhile substantial tax arrears were also collected during the first reform (inspired by the KIIDIP formation and the KFRAP). The 2nd generation reform needed two years of preparation, but then produced unprecedented growth in property tax revenues. The third generation lies ahead, but with the revaluation of properties, and the planned changes to local tax policies, annual tax collection could reach UGX40bn (double the UGX20bn of fiscal year 2015/16). Kampala obtained an "A national" credit rating in 2015 that appreciated the improved administration, substantial increase of revenue collection, and the positive medium to long term outlook of city finances (GCR 2015).

3.2 Tax efficiency and buoyancy

Cost of collection: The DRC analyzed the cost of revenue collection (an uncommon move in Africa) for the period of 2011–2014, by comparing the total costs of the DRC over annual OSR collection, and found that the cost of collection had increased nine-fold (DRC-RBA 2015). This might be seen as a shocking expansion of costs; however, the results deserve clarification. First, the baseline reflects a situation with very limited internal administration capacity, extensive outsourcing to private collectors, and missing fundamental investments. In short, it was a low-cost but not sustainable collection system. Second, the DRC needed (and still needs) more basic investments to establish systems and capacities. Such investments should be compared with the long-term impact on tax collection, and positive results are typically not expected for three to five years in other countries. In contrast, most of DRC's investments were recovered within one or two years each. DRC is aware of the cost challenges and plans to reduce the cost of operation to the tune of 5 percent of OSR in the next planning period.

Figure 3: Kampala's Main OSR, 2011-16, UGXbn



Source: Kopanyi 2016

Buoyancy of the property tax: The property tax revenues show unprecedented growth after two years of stagnation 2011-12 (see Figure 3) (although the property tax revenues as a share of OSR fell from 26 percent to 23 percent from 2011 to 2016, because of the combined effects of other fast-growing taxes). However, the property tax became the largest local revenue source with strong growth potential: the expected revaluation of properties and the policy decision to issue supplementary tax rolls annually in the future could easily double property tax revenues in the coming 3-5 years, while the other revenue sources show no similar growth potential.

3.3 Reform results 2005-2010

KCC managed to complete a very substantial part of the KFRAP actions by 2010; and by the mid-term review of the KIIDIP project, KCC outperformed the three key performance indicators two years before the KIIDIP closure. Surpassing the UGX30bn annual target, the annual OSR reached UGX31bn, largely by collection of more tax revenues, since asset sales had dropped by 2010. The stock of overdue liabilities dropped below UGX3.0bn, well below the UGX4.5bn target, and the expenditure from OSR into service delivery increased to 32 percent, compared with a 30 percent project-end target. Moreover, KCC recovered nearly UGX10bn from property tax arrears, and largely worked out arrears from private taxpayers; the only substantial stock of arrears that remained was the arrears by central government agencies (ISR 2012).

The property tax performance was truly remarkable–annual revenues increased from UGX2.6bn in 2005/6 to approximately UGX9.0bn by 2009/10. Between 2005 and 2010, KCC collected over UGX20.0bn in additional property tax revenues above the 2005 level. The tax reform appeared to be a very good investment too, because KCC spent only about UGX2bn for revenue reforms over four years. In fact, KCC's investment was recovered in less than one year, since the property tax collection jumped by UGX3.7bn from fiscal year 2005/06 to 2006/07. This also indicates the low level of efficiency of the previous tax administration and private collection (KFRAP 2007 and MTR2010).

The above results underscore that the KFRAP reform created a strong basis and sustainable framework for property tax management. By 2010 KCC had created a simple but improved tax administration, adopted revenue policies for both short and medium-term, established basic but improved tax databases, trained staff in basic procedures, improved the IT system for revenue management, and established a functioning GIS unit (which was important for future development). There was a new valuation in 2005 in part of a national program and a supplementary valuation in 2009. Although the goal to complete supplementary valuations annually was not fulfilled, KCC substantially upgraded the billing and collection system with new contracts for private collection, institutionalized a well-established taxpayer communication framework, and improved citizens' perceptions.

3.4 Initial results of third generation reform after 2015

Valuation results in Central Business District (CBD) 2017: The revaluation, the first in over ten years, suggested a very substantial increase in the valuation base and total revenue potential. An independent study based on a large sample of rental values (Business Synergies Consultants 2013) suggested that property values would increase by about 200 percent in four divisions of Kampala, but interestingly, the data suggested no increase in property rental values for the CBD. By contrast, the revaluation results in the CBD in 2017 indicate a nearly

100 percent increase in revenue potential, from UGX11bn to UGX21bn. This is the combined result of two factors: increased rental values, as well as an increased number of taxable properties in the CBD. In addition, revenues from owner-occupied properties would generate UGX4bn in the CBD alone; but, the share of owner-occupied properties is much greater in the other divisions. The first results thus not only robustly outperformed the 2013 estimates, but also clearly show that the investments required for this type of very detailed data-gathering would be recovered in one year from the increased revenues, even without accounting the uncollected revenues from owner-occupied properties.

Policy and political challenges: The KCCA published the draft valuation list and invited owners to review and appeal it in April 2017, and subsequently the valuation court commenced hearings in May. The roll was generally well received; only 340 owners, or 2.3 percent of the total 15,000 taxable properties, appealed and questioned the estimated values. (An additional 242 appealed due to technical issues). The revaluations more often than not generate some rumblings regarding the results and procedures, and this happened to the KCCA too. Interestingly, the traditional name of the property tax, called "property rate" in Uganda, caused confusion and tension. A rumor appeared saying that KCCA had increased the *property rates* (A similar situation to what has happened to Jinja city). In fact, KCCA increased only the *tax base* to fairly reflect the increased value of rentals, but left the *tax rate* unchanged. So, the KCCA made a press announcement on May 27 (KCCA 2017) and explained these facts, and reconfirmed that the tax rate remained unchanged 6 percent, and that only the tax base had changed, all in full harmony with the 2005 Rating Act.

4 Lessons learnt

The case of Kampala's revenue reforms offers multiple lessons, which could be valuable to many cities in Africa and elsewhere in the developing world:

a) ***Multi-year administrative reforms***: Very substantial improvements of tax administration and immense increases in tax revenues can be achieved by *developing and implementing multi-year revenue administration reforms*, instead of or without (waiting for) changes in national legislation.

b) ***Collect revenues using internal teams – reverse tax farming***: Large cities, even in the developing world, should have or should build robust revenue administration *and manage major own revenues internally,* rather than relying on private collection. Comparing the results of Kampala to other large cities like Jinja strongly underscore the power of internal revenue collection. Private or other third party collection may remain an effective option for small cities and rural districts, however.

c) ***Insource skilled staff***: Insourcing a critical mass of skilled and experienced staff seems to be inevitable to ensure radical transformation of the internal revenue capacities and the corporate culture. This should be supplemented with substantial, well-targeted, and perpetual training of the incumbent staff.

d) ***Competitive staff compensation***: The compensation of the staff should be high enough to enable revenue administration to complete the vital insourcing–to hire highly qualified staff from the market, since it is impossible simple to build a powerful administration by mere training unqualified incumbent staff.

e) ***Strong political support***: The reform leaders need uninterrupted, strong, and clear political *support by the mayor and council*, because reforming revenue administration and policies inevitably faces enormous policy and political challenges.

f) ***Revenue potential analysis***: The revenue reforms require *institutionalizing revenue analysis* and setting explicit revenue policies; most of these can be published and discussed with key stakeholders.

g) ***Ensure substantial funding***: Building a modern tax administration with supportive information systems may *require multimillion dollar investments*, but these investments can show high rates of return; for example, costs were recovered multiple times in two reform periods in Kampala.

h) ***Policy-Administration-IT triangle***: Information technology with good databases, timely reporting, fluent billing, collection, easy payment systems, and good communication are all vital instruments requiring large investments. However, reforms should be driven by a well-designed revenue administration and clear policies, rather than simply starting the program from the angle of improving information technology or revaluation.

i) ***Urban and Fiscal Cadaster***: An urban cadaster, (maybe build by a street addressing program) to supplement national land cadasters or represent a non-existent /incomplete land cadaster, is an extremely important instrument that supports, inter alia: urban planning, zoning, permitting, infrastructure development, and last but not least, property taxation.

j) ***Timely revaluation of properties***: The KCCA results show the great potential of revaluation of properties every five years (planed), which becomes relatively easy after robust administration established and reliable urban and fiscal cadasters are operational. The annual valuation of new properties and issuing supplementary rolls should be institutionalized. Investments into valuation are expensive and substantial, but recovered from the incremental revenues in one to two-three years.

k) ***Delayed revaluation*** often results in huge increase of estimated tax base and big jump in tax levies that may trigger tensions, taxpayers' resistance, and political pressure from higher government. Cities need to set clear policies to respond to these; the best way is to reduce the tax rate temporarily in order to make the tax-increase acceptable, instead of revising/compromising a fresh revaluation and reducing estimated taxable values.

l) ***Approach the entire revenue administration and policies***: Kampala also shows that revenue administration reform should not be limited to the property tax, but rather important to be comprehensive and focus improving the policies and administration of several main revenue sources together altogether. Kampala's six largest revenues generated 40 percent of total OSR in 2005/06 fiscal year, while the six largest revenues generated 85 percent of a four-fold larger OSR in 2015/16 fiscal year; and more than a quarter of these six totals was gained from property tax.

5 Conclusion

Kampala's revenue reforms offer lessons valuable to many cities in Africa and elsewhere in the developing world; but also underscore the importance to focus on the internal reform opportunities instead of awaiting for changes of national legislation. To start with changing the tax rates without improving administration are neither the best nor an equitable solutions for increasing tax revenues. First reforms should focus on improving information/data bases, strengthening administration and procedures, and increasing collection. Administration and collection driven reform is not only more equitable (since avoid taxing higher those who are in the old net), but seems to be the most feasible solution for developing countries.

Despite the rather poor performance of the property tax in Uganda, Kampala's reforms and recent developments have resulted in unprecedented increase of own-source revenues generally and the property tax specifically. Kampala exemplifies that property tax revenues can be not only substantial but the largest own revenues even in Africa's cities. The over fourfold increase of property tax revenues from 2004/5 to 2015/16 is a result of consistent in-house improvement of tax policies and administration and happened without changes of the national legislation and despite national exemptions of owners-occupied properties. The ongoing revaluation of properties may further double property tax revenues in medium term.

The most critical success factors include: multiyear reform programs approached as investments with substantial funding; replace failed tax farming with internal capacities by insourcing critical mass of skilled staff and competitive compensation; political support; institutionalize revenue analysis to support policies; develop information technology subordinated to the administration reform; expand the tax base by setting up reliable databases, urban and fiscal cadasters and capturing all taxable properties; and pragmatic and steady communication with taxpayers and key stakeholders.

Kampala has started a revaluation process only ten years in reform and with a hybrid computer aided mass valuation (CAMV) methodology supported with an urban cadaster, which appears to be a very valuable instrument for both Kampala and national entities. A profound computer aided mass appraisal (CAMA) system was considered as a pragmatic option, but failed to materialize due to administrative gridlocks. Kampala is doing well with the CAMV, but may fail to complete the remaining revaluations timely by following the current practice. Thus, it would be better to hire a firm for completing the rest of the valuation by using an advanced CAMA system, or rather a *simplified point based method* supported with CAMA analysis.

Annexes:

Annex 1: Uganda's intergovernmental framework and property tax system

There are five types of local councils in Uganda, namely city, municipality, town, district and division. In 2010 the Kampala City Council (KCC) became the Kampala Capital City Authority (KCCA) in terms of the Kampala Capital City Authority Act of 2010. The country is divided into the KCCA and 111 districts spread across four administrative regions (World Factbook 2017). In terms of the Local Government Act of 1997 the districts are further subdivided into sub-districts, counties, sub-counties, parishes and villages. The number of districts increased from 39 in 1999 to 111 in 2013 driven by both urbanization and political forces. Town councils increased from 60 in 2004/2005 to 174 in 2013 and municipalities from 13 to 22 in 2010/2011 (Seatini-Oxfam 2013; Franzsen & McCluskey 2017). Each time a new district is carved out of an old one, it implies the establishment of at least two self-accounting urban councils.

Because urban centers are the venues where most of the property tax, business licenses, permits and markets revenues are collected as own revenue sources, the formation of new districts and towns has induced significant revenue shifts from rural to urban areas (Seatini-Oxfam 2013). In the 2008/2009 financial year districts contributed 78 percent of all local revenues. Town councils and municipalities contributed 11 percent each. In 2009/2010 the contribution from districts drastically fell to 54 percent as the contributions from town councils and municipalities rose to 21 percent and 25 percent respectively. It can be expected that urbanization will further reduce the revenue bases for the rural areas (Seatini-Oxfam 2013).

1.1 Recurrent property taxation in Uganda

The recurrent property tax (called "rates") dates back to 1948, when the first valuation list was prepared for Kampala, later followed by other major towns, such as Entebbe, Jinja, Masaka, and Mbarara (Olima 2010). Its administration was interrupted during the military regime and civil wars. Uganda adopted devolution during the 'bush war' of the early 1980s and the property tax was reinstated during the early stages of this emerging decentralization, to support the functioning and financing of the local authorities that were emerging under the National Resistance Movement (Mugabi 1994). The Local Government (Rating) Decree was legislated in 1979 and remained in place until the Local Governments (Rating) Act of 2005 was enacted. The return of power to the people was deliberated upon by the constituent assembly (between 1993 and 1995). Eventually, democratic principles, which empower and encourage the active participation of citizens at all levels in their own governance, were institutionalized in the 1995 Constitution.

The system under the Local Government (Rating) Decree of 1979 could never be effectively implemented. Until the late 1990s rates were levied only in Kampala, the municipal councils, some town councils, and a few trading centers. A key problem area was the lack of valuation capacity. In 2001, the Chief Government Valuer reported that most towns and trading centers had last been valued in 1960, and that many towns and trading centers had never been rated, that is, had never introduced a property tax (Nsamba-Gayiiya 2001).

The current property tax system is governed by the Local Governments (Rating) Act (LGRA) of 2005, which provides for the valuation, assessment, billing, and collection of rates and applies to the KCCA, municipal councils, town councils, and districts. This law is supplemented by the Local Governments (Rating) Regulations of 2005. The Fifth Schedule of the Local Governments Act of 1997, read with the LGRA, provides that the property tax shall be levied by urban councils as well as district councils. However, coverage is weak. Although the law compels district councils to levy rates, no district has thus far introduced property tax in rural areas. Even within jurisdictions that do levy tax, it is estimated that many properties are not included in the valuation lists.

1.2 The revenue importance of property taxes

In 2008/2009 property taxes generated about 2 percent of total tax revenue in Uganda, but less than 0.5 percent of GDP (Olima 2010). However, as a local tax and as a percentage of total own-source revenue, property taxes are indeed important – as is evident from Table A1. It also seems that, albeit somewhat erratic, there has been significant growth in revenue from the property tax since implementation of the LGRA (Franzsen and McCluskey 2017).

Table A1: Own-source Revenue Performance in UGX million: 2003/2004 to 2010/2011

Source	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Local Service Tax	-	-	-	-	-	3,838	9,195	6,542
Hotel Tax	-	-	-	-	-	985	1,496	5,752
Graduated Tax	36,526	60,0389	10,866	4,429	-	-	0	0
Property Tax	6,788	3,526	26,716	37,817	28,487	24,936	45,598	52,438
User Fees	13,100	10,504	23,096	20,946	64,854	33,153	39,924	12,294
Licenses	5,805	4,091	12,206	11,779	13,479	9,171	13,369	21,080
Others	17,888	12,201	27,781	23,684	9,065	46,626	33,222	66,117
Total	**80,107**	**90,361**	**100,665**	**98,655**	**115,065**	**118,710**	**142,802**	**164,223**
PT as % of total	**8.5**	**3.9**	**26.5**	**38.3**	**24.8**	**21.0**	**31.9**	**31.9**

Source: From the Local Government Finance Commission database as reported in Oxfam 2013

Note: These are aggregated figures for Kampala, as well as all the districts (with their sub-counties), municipalities (with their divisions) and town councils.

The abolition of the graduated personal tax in 2006 necessitated a renewed focus on the property tax (Franzsen & McCluskey 2017). It is also noteworthy that the introduction of the local services tax and the hotel tax did not impede the growth of the property tax.

1.3 Taxpayer, tax base, and exemptions

The owner of the property is liable for payment. The tax base prescribed by law is the annual rental value of property. It extends to all properties in urban areas and also includes commercial and industrial buildings outside urban areas, i.e., properties in rural areas are exempt. Residential properties are only taxed if they are rented. Under the LGRA vacant urban land is excluded from the tax base.

Exemptions in urban areas are generally based on one of four conditions: ownership, the way in which the property is used, the incidence of the tax burden on the taxpayer, and the importance of the property. The general principle of exemption is that property should be exclusively used for the purposes for which the exemption is given. The list of exempted properties in the LGRA includes the following:

- Owner-occupied residential houses in urban areas;
- Official residences of the president, as well as official residences of traditional and cultural leaders;
- Places of public worship and residences of religious leaders;
- Public outdoor sports or recreation facilities or properties designated as public open schemes;
- Cemeteries, burial grounds, and crematoriums;
- Public charitable and educational institutions supported by endowments or voluntary contributions;
- Properties of institutions with which the government has contractual obligations not to levy taxes;
- Properties of organizations that Uganda is obliged to exempt from taxes under international treaties and diplomatic privileges; and
- Properties owned by local councils.

The exemption of owner-occupied residential property not only significantly erodes the potential tax base (Kopanyi 2015; Seatini-Oxfam 2013) but also violates the benefit principle

(Franzsen and McCluskey 2017). Shifting the burden from landlords to tenants significantly advantages ownership over rental. Exempting owner-occupied residential properties forgoes an estimated 45 percent of the tax revenue (Seatini-Oxfam 2013). Exempting the residences of religious, cultural leaders and traditional leaders also violates the benefit principle as these properties receive the same local services for which other property owners have to pay. There are also further relief measures, including rebates for expenditures on renovations and repairs of property, as well as relief based on old age, sickness, or loss of employment of the ratepayer.

1.4 Valuation issues

Valuation and assessment are based on the real or potential annual rental income of the property as determined by a registered valuer appointed by their local government. A registered valuer is a person who holds a practicing certificate under the Surveyors' Registration Act of 1974. With the enactment of the LGRA the valuation monopoly of the Government Chief Valuer was terminated. Local authorities can now appoint their own registered valuers. In 2010, however, the country had only 32 registered valuers (Olima 2010; UN-Habitat 2013); the Ministry of Lands, Housing, and Urban Development employed four valuers, KCC had three in-house valuers, and the remaining twenty-five valuers were in private practice (UN-Habitat 2013). It is therefore extremely difficult, if not impossible, for local authorities to prepare and regularly update valuation rolls (Franzsen 2010; Franzsen & McCluskey 2005a). The law stipulates "five years, or such longer period as a local government may determine," pragmatically acknowledging the shortage of valuers in the country (Franzsen and McCluskey 2017). Not surprisingly, the preferred five-year valuation cycle is rarely adhered to. In 2016 there was only one facility that provides training for valuers or valuation technicians in Uganda. Previously, the last professional valuers were trained in the 1980s, and valuation technicians were last trained at an institution in Entebbe in 1992 (Nsamba-Gayiiya 2001).

Under the LGRA a valuation court must be appointed by a district, city, or municipal council to adjudicate all objections to the draft valuation list. It consists of three persons. The chairperson must be a magistrate or an advocate with at least five years' experience, whereas the other two members may be architects, engineers, "or such other persons as the local government may think fit to appoint." Given the paucity of valuers in the country, this seems a pragmatic response (Franzsen & McCluskey 2017). Once the valuation court has heard all objections and has adjusted the draft valuation list as it deems fit and proper, the chairperson certifies the list so that it becomes the (new) valuation list at the commencement of the next financial year. A person aggrieved by the finding of the valuation court may appeal "the principle upon which any valuation has been made" to the High Court.

The law also stipulates that a local authority may of its own accord, on application by an owner, or at the request of the minister responsible for local government make a supplementary valuation list. Given the scarcity of resources, this does not happen in practice. For example, the KCCA is still using the 2005 valuation list, complemented by a supplementary list from 2009 (Kopanyi 2015).

1.5 Tax rates

A local government may not impose a tax rate that exceeds 12 percent of the ratable value of a property or is less than 1/10th of a currency point. A currency point is UGX 20,000, which implies a minimum of UGX 2,000 per ratable property (UN-Habitat 2013). Because the 2005 regulations are silent on how tax rates are set, there is no systematic approach to rate setting.

Local governments may also take into consideration other factors in setting the rate, such as –

- the desire to have a uniform rate for all sub-counties or divisions within the jurisdiction of a local government;
- the ratepayer's ability to pay;
- the likely reaction from the public to an increase in rates; and
- trends in the general economic performance within the area.

The Entebbe Municipal Council, for example, differentiates between commercial and industrial properties on the one hand and residential properties on the other. In KCC the 10 percent rate on commercial and industrial properties and a 6 percent rate on residential properties, already in place in 2002 (Franzsen and McCluskey 2005b) was still used in 2009 (Franzsen & McCluskey 2017).

1.6 Property tax administration

Tax billing is done annually by local authorities. They are also required to prepare and send demand notices indicating the amounts due for payment only to those taxpayers who have failed to pay by the due date. In the early 2000s, it was rumored, that about 30 percent of tax bills in Kampala were not delivered to taxpayers (Olima 2010). In the 1990s local authorities were typically responsible for collecting their own rates. However, following central government guidance many districts and city councils had contracted private collectors to undertake revenue collection in the early 2000s. The private debt collectors were paid a commission of 10 percent of the amount collected (Kopanyi 2015; Olima 2010). At approximately 50 percent of the projected figures collection rates remained low (Olima 2010, Nsamba-Gayiiya 2001). Although outsourcing may in some instances address the lack of in-house capacity to collect the tax, it is unlikely to address voluntary compliance.

Although several enforcement mechanisms are available under the law (including sending demand notices, charging penalties and interest, recovering property taxes from tenants and occupiers, prohibiting transfer of a property, and imposing a first charge on a property), some of them are politically unacceptable and therefore are not used in practice (Nsamba-Gayiiya 2001). Despite being cumbersome and costly, taking defaulters to civil court seems to be the method most commonly used (Franzsen and McCluskey 2017). Settling cases sometimes take years (Bendana & Mayanja 2012). If political will to enforce payment is absent and taxpayers are aware that these measures are not invoked, an adverse impact on voluntary compliance is inevitable, especially if service delivery is poor (McCluskey, Franzsen and Bahl 2017). Lastly, proper enforcement is possible only if the underlying data are reliable which is seldom the case.

Annex 2: Emerging local revenue systems (1979-2005)

The property tax was apparently the first (and for some time the sole) well-defined, local, own-revenue source until the enactment of the Local Government Act of 1997 (LGA 1997). Before the LGA of 1997, there was a ‘transitional period’ of financial decentralization (Mugabi 1994), during which districts first managed votes, then block grants and gradually some other own revenues.

The LGA empowered local councils to collect various own revenues, but the regulations were vague on key revenue administration issues (Franzsen and McCluskey 2017, Rating Decree 1979). As a result, local revenue systems were inconsistent and collections were low, particularly in rural areas; OSR was 10 percent or less of revenues in most districts, while OSR was roughly 20 percent in Kampala (Seatini-Oxfam 2013). Local councils arranged revenue management and collection internally on a “learning by doing” basis. Furthermore, the collections were severely compromised by corruption; and Kampala was not an exception.

Tax farming: In reaction to the low collection and assumed corruption, international experts, donors, and the national government took the position that collection should no longer be undertaken directly by local government units, but rather by private collectors (tax farming). This position was based on surprisingly distant “best practice examples” some from the 17th 18th centuries. However, the concept of private collection seems to have underestimated principal agent challenges, information asymmetry, as well as the Ugandan culture and spurs for corruption, which soon emerged in a different, but no less powerful, manner (Iversen *et al*. 2006).

Although the private collection initiative was only a suggested approach, it spread quickly and became, and remains today, a mainframe approach in Uganda, because of the strong political support, donors’ promotion, low local capacities, and the said perverse incentives for local officers. The Local Government Finance Commission (LGFC) even issued a guideline to promote private collection, just weeks after its inception in 2003:

> “All Local Governments that have not yet contracted out collection of other sources of revenue should be encouraged to do so as soon as possible. However, contractors must be sensitized to their obligations, both to the LGs and the taxpayers” (LGFC 2003a: 71).

The idea that sensitizing contractors would streamline the private collection was neither theoretically nor practically robust. Iversen *et al*. (2006) carefully studied the performance of private collection and revealed major shortcomings, such as: information asymmetry, corruption, perverse incentives of high officers and collusion with contractors, low capacity to estimate revenue potential, seasonality of revenues, and low net revenue gains in the budgets. Despite these shortcomings, the Iversen team remained supportive of private collection, and proposed solutions by means of strengthening governance and incentives:

> "…move the responsibility for market [revenue potential $_{\text{MK}}$] assessment out of district administrations by establishing an independent [national $_{\text{MK}}$] body responsible for such assessments … consider more fine-tuned incentive mechanisms that link remuneration of local bureaucrats to revenue enhancement goals" (Iversen *et al*. 2006: 10).

Kampala followed the above LGFC guidance and adopted a rule that 20 percent of the year-on-year own-revenue increase should be allocated and used as bonus for Council members. The positive effect of this was an apparent willingness of Council to vote for revenue reform measures. The flipside of this coin, however, was that the annual OSR collection started growing fast and grew by UGX9 billion over 2003-2010 and thus UGX1.8bn was distributed to council members as bonuses who did vote against proposals to reduce the bonus from 20 percent. The dissolution of KCC and establishment of KCCA and DRC included abolition of this bonus after 2011.

The government has vaguely followed the LGFCs proposals and left the local councils to continue experimenting with private collection. Jinja, the second largest city and economic center in Uganda, still relies extensively on private revenue collection, and its officers still hold the view that switching to in-house collection of some revenues would be overwhelmingly challenging (missing budget, staff, systems); Jinja just started to learn of Kampala's experiences in 2017 (Haas & Kopanyi 2017).

Administration of other OSR sources were different for technical reasons, and often even worse, because other contracts like parking fees, and especially market fee contracts, included clauses that the private collector had a right to retain and use a portion of the collected revenue for repair and maintenance of the area. Many market contracts have gradually reached a situation of paying zero to the KCC budget due to claimed repair and maintenance or improvements. The heart of the problem was that the contracts were extremely short (one or two pages), very poor quality[3], with virtually no protection of KCC's interest, no assurance of recovery of revenue the collector failed to pay to KCC, no incentive to collect in a timely manner.

Inconsistent Legislative Changes**:** Legislative changes in 2005 and 2006 did not support, but rather somewhat undermined, the opportunities for boosting property tax revenues; especially harmful was the radical reduction of the maximum property rate from 20 percent to 12 percent, as was the exempting of owner-occupied residential properties from taxation. The 20 percent tax rate on rental value basis is comparable with a 1 percent rate on a capital value base (Ellis, Kopanyi & Lee 2007). The effective rates were around 6 percent, but the radical 40 percent reduction of the maximum rate sent a strong message that the national policy and political elite did not want property rates increases. The Local Government (Rating) Act was enacted in November 2005. The major new provisions included: the maximum property rate dropped from 20 percent to 12 percent, the minimum rate jumped from UGX20 to UGX2,000, tax could be collected from tenants, mass valuation was a possible alternative to individual valuation, supplementary valuation was regulated, and local governments had to establish a Property Fund to ensure that a minimum of 75 percent of property tax revenues were spent on urban infrastructure. The law remained silent on tax administration and private collection (fortunately).

A new valuation of KCC properties[4] completed after 25 years hiatus by the end of 2005 under a national program, not surprisingly, showed a substantial increase in the tax base and property taxes became a hot election issue. As a result, the Property Rating Act of 2005 was quickly amended in May of 2006 by the Property Rating Amendment Act, and both became effective in July of 2006. The amendment made owner-occupied residential properties exempt from taxation. This caused long lasting and substantial damage for all local governments, and especially for Kampala. Donors' attempts to avoid this amendment had failed. In addition, undeveloped urban land was already excluded from the tax base in both

[3] Interestingly, the designers of the private collection framework did not pay attention to the normative text of the contracts, nor they did provide the local governments with template contracts; instead, they found it sufficient to "empower district officers to set the reservation price or the minimum bids, and all applications had to be vetted by the Technical Evaluation Committee (TEC) which ranked bids and in turn advised the District Tender Board (DTB) to grant the contract" (Iversen *et al*. 2006: 320).

[4] Revaluation was made by external teams in all urban areas under the control of the Uganda Chief Valuer and funded by the Uganda Local Government Service Development Project (LGDP) of the World Bank.

the 1979 and the 2005 laws, by definition of property (i.e., not as an exemption), which states that “properties…does not include vacant sites” (Article 2 definitions).

Annex 3: Salient features of the 1st generation reform

The 1st generation reform was part of the Kampala Financial Recovery Action Plan (KFRAP) adopted under and financially and technically supported by the KIIDIP program of the World Bank. The KIIDIP project was very demanding on the institutional reform front with important, pragmatic and specific measurable targets for the financial improvements that had to be fulfilled for World Bank Board approval of the project (Box 1). The financial recovery action plan (KFRAP) became the pivotal component of the institutional reforms. Based on a detailed situational analysis and interviews with key stakeholders, the Bank team came to the conclusion that the financial recovery of KCC had to be approached as a five-year development project with a detailed design, specific targets, sufficient funding, and high-level approval. The plan finally was structured and named the Kampala Financial Recovery Action Plan (KFRAP).

Box 1: The KIIDIP project

The KIDIP project was an Adaptable Program Loan to the central government and grant to KCC that included ***three components***: Component 1 - Institutional Development to support Organizational Development, Governance, Financial Recovery and Strengthening Service Delivery. Component 2 - City Wide Infrastructure and Services Improvement (investment funds), and Component 3: Project Management.

- *Financial recovery*: establishing a solid institutional and organizational base and capacity for management of KCC's revenues and expenditures; immediately curbing the deficit; and reducing the stock of overdue liabilities. Implementing a detailed Kampala Financial Recovery Action Plan (KFRAP) to be developed and adopted by all layers of KCC, including (i) enhancing revenue management capacity; (ii) enhancing expenditure management capacity, and (iii) establishing a framework for the reduction and control of expenditures.
- *Improving infrastructure and services* in the following areas: (i) drainage system improvement; (ii) traffic management; (iii) road maintenance and upgrading; (iv) solid waste management; and (v) urban markets infrastructure.

Measuring Development objectives. Achievement of the project development objectives was to be measured in terms of the following monitoring indicators: (i) reduce overdue liabilities from UGX 8 Billion to UGX 4 Billion; (ii) increase the share of budget release for service delivery from 10% to 30%; (iii) increase in public satisfaction in service delivery in the following areas: roads from 18% to 50%, drainage from 22% to 30%, and solid waste from 44% to 60%; and (iv) increase in own source revenue from UGX 22 Billion to UGX 30 Billion (PID 2007).

Source: World Bank PID 2017

The implementation of the KFRAP started immediately after the KIIDIP approved it in parallel with the formulation of the final list of actions, because most of the actions required some analysis, discussion of options, assigning responsibilities, arranging funding, and coordination and sequential completion of various actions. The KFRAP became a flagship program and an apparent success that has changed KCC's vision, policies, capacities, and culture on revenue and expenditure management. The KIIDIP set three key performance targets vis-à-vis KFRAP based on the 2005/2006 fiscal year: (i) increase the OSR from UGX22bn to UGX30bn, (ii) Reduce the overdue liabilities from UGX8bn to UGX4.5bn, and (iii) increase maintenance expenditures from 10 percent to 30 percent of OSRs.

The KCC way outperformed these targets by 2010, despite the fact that the KIIDIP project only started in 2007 and was completed in 2013. Thus, the targets were increased at the mid-term review (a rare case in Bank practice) of the project in 2010: the OSR target was increased to UGX31.0bn, debt target tightened to UGX3bn, and maintenance expenditures target increased to 32 percent by the end of 2010. These targets were far outperformed by the end of the KIIDIP project[5], but completion was already a part of the third development phase of Kampala under the new Kampala Capital City Authority (KCCA) (KIIDIP – MTR 2010).

Improving Property Taxation under KFRAP**:** There is a broad and strong consensus among scholars about the characteristics of an effective tax system: it should incorporate economic efficiency, administrative simplicity, flexibility, transparency and fairness (Bahl, Linn & Wetzel 2013, Bird 2013, Stiglitz & Rosengard 2015). However, these unquestionable characteristics are outcomes that do not typically provide metrics to show how far a city can stray from these benchmarks nor do they guide cities in the developing world on how to improve their situation. Fortunately, the KFRAP provided an effective road map for Kampala to improve revenue management and collection, which gradually evolved into a 31-page action plan with ten-year detailed cash-flow analyses and long lists of specific assumptions to support detailed analyses. The key features of this successful reform program are summarized below (with particular focus on the property tax):

- ***Political support*** by the mayor, the council, and top managers was apparent, strong, and stable. The reasons behind this support included: the financial distress, the threat of higher government intervention, confidence in donors' financial and professional support, and perhaps the financial bonus to council members (receiving a 20 percent

[5] The reorganization of the KCC to the KCCA greatly reduced its stock of overdue liability, from UGX 8 billion to 0 billion; this achievement exceeds the original target of reducing KCC's overdue liability to UGX3 billion and the revised target of reducing KCC's overdue liability to UGX0.5 billion. KCC also increased its own source revenue from UGX 22 billion at project start in FY2005/2006 to UGX 55.71 billion by FY2012/13, at the end of the [KIIDIP] project. This revenue amount was much higher than both the originally set target of UGX30 billion and the revised target of UGX33.5 billion. Such an achievement was mainly a result of the successful implementation of project activities including the implementation of the Financial Recovery Action Plan and the improvements in the collection of current property taxes, local service taxes and hotel taxes (ICR page 17).

share from the annual increase of OSR). In practice, the KFRAP actions were easily green-lighted after approval by the FRC.

- ***Donors' funds*** to finance reform actions. Kampala received over USD5 million (UGX9bn) grant for implementation of the institutional reforms (including KFRAP) from the World Bank alone. It would have been not only unfair but impossible to ask a bankrupt city with UGX8bn in unpaid dues to invest an additional UGX9bn in institutions with the hope that this amount would be recovered in two to three years, if things went well. The KFRAP also offers a good example how to use donor funds wisely and strategically, instead of simply eliminating the overdue debts from the funds.
- ***Investment in revenue administration:*** The dialogue between KCC and the Bank made clear that substantial reforms required substantial investments, and that grant-funding was available, if the KCC were to adopt a solid, consistent, and convincing reform program. KCC had low capacity even to identify issues, explore and analyze options without the help of the international specialists, the World Bank mobilized. It was also clear, however, that many reform actions required substantial time to design and implement. Thus, a five-year program was developed with cash flow projections for ten years out.

Adopting revenue policy: KCC had no explicit revenue policy before the KFRAP; many even felt that revenue policy was purely a national matter.[6] Instead of revenue policy, KCC had relied on accounting, reporting, and planning revenues, following the principle of incremental budgeting (i.e. estimating next year's revenues by marginally increasing last year's actual revenues). KCC also sometimes used "wishful planning" revenues, such as plane rapidly escalating property tax revenues from UGX1.5bn (2004/05 actual) to UGX10bn (2005/06 budgeted) "*in order to counterbalance UGX4bn in foregone G-tax revenues and create funds to repay bad debt.*" The actual 2005/2006 revenues appeared to be UGX2.6bn and proved that a big jump in property tax collection was impossible in one year. The KFRAP made clear that the KCC should discuss and adopt explicit city-level policies regarding tax rates and tax bases, as well as regarding billing, collection, and enforcement measures.

The specific policy issues discussed and adopted under KFRAP included the following:

[6] Donors address revenue policy as both national and subnational subject, but focus on national policies extensively in both analysis and assistance (IEG 2017).

- Enhancing local revenues by focusing on internal improvement of the tax administration, without targeting changes in national tax legislation or revaluation;
- Expanding the tax base coverage (i.e. increasing the number of properties captured in the tax net);
- Institutionalizing analysis of tax collection efficiency to set baselines and targets, and forecast revenues based on detailed cash-flow analysis;
- Maintaining the tax rate at 6 percent (this was accepted as a policy target, because KCC officers felt that the 2005 revaluation of properties had already increased the tax burden for those who were in the tax net);
- The exemptions were discussed and most of the regular exemptions listed in the Second Schedule of PRA 2005 were accepted; but KCC hoped that the donors would be able to get the exemption for owner-occupied residential properties annulled, but it was neither possible nor part of the KFRAP actions. The exemption of the vacant urban land did not get attention, in part because it was not listed among the exemptions, but rather was a part of the definition of properties (Article 2); thus, KFRAP did not address this issue either;
- Maintaining private tax collection was questioned, but was nonetheless approved as a medium-term policy target, because KCC officers felt that building in-house capacity was not a realistic short-term option. In addition, they felt that improving other elements of tax administration and improving contracts would already substantially increase revenues;
- Defining a policy and a program for work-out of the property tax arrears became an important objective, because rough estimates suggested that property tax arrears were greater than one year of total OSR. Issues that required policy decisions included: writing off arrears older than six years and penalties, clarifying if past arrears of owner-occupied properties that just became tax exempt could or could not be collected, and if substantial rebates would incentivize owners to pay the arrears;
- Institutionalizing taxpayer awareness and communication; and
- Committing that property tax revenues (not all OSR) would be set aside to a special account in which 75 percent of funds would be used for improving infrastructure in the same revenue zone to reverse negative citizens' perceptions to link tax and services (Kelly 2013). This policy decision was meant to be a temporary arrangement until the end of the financial recovery program. Taxpayers were pleased with this policy and it helped changing negative perceptions; however, this rule (coincidentally

and beyond the control of the KCC) was elevated to the 2005 PRA, with some negative consequences, namely increased disparities across divisions and parishes.

Improving property tax administration: Improving property tax administration was a focus of the KFRAP and included 29 specific actions, which are briefly explained below (KFRAP 2007):

- Establish reliable tax databases, including revision of the rate ledgers to identify all taxable properties and revise and update the payment information by divisions; 490 persons were assigned to complete this in two years (2005-2007);
- Establish a GIS unit to develop digitized topographical and cadastral maps for Kampala and record GPS coordinates for each property in the tax net (three years);
- Improve IT capacities: fill the major gaps in the IT system, improve databases, adopt procedures for timely recordkeeping, and expand printing capacity;
- Training of staff: The KFRAP did not include a large or comprehensive training program; instead workshops and on-the-job training were completed on an as-needed basis. This was in part because there were no plans to hire noticeable numbers of new staff.
- Valuation: Commence supplementary valuations by KCC valuers or by insourcing private valuers annually – this did not happen except in 2009;
- Billing: Radically change billing policy and procedures; instead of assuming that taxpayers pay based on the published tax roll according to Article 27, 30 and 31 of the PRA 2005, it was decided that demand notes should be printed and distributed to every taxpayer each year. However, there was not an adequate IT system or technology to manage the databases and to print hundreds of thousands of demand-notes yearly. Agreed actions went beyond improving IT capacity and included: (i) print and distribute all demand notes for all taxable properties; (ii) include the arrears and penalties in the demand note; (iii) print and send reminders for taxpayers that failed timely payments. The contractors were to distribute all the demand notes at the beginning of the fiscal year, and then reminders twice a year as the tax installments become overdue.
- Collection: Improve tax collection by developing new collection contracts and instituting strong control over contractors. Agreed actions included: (i) develop

contract templates7 with increased and measurable performance indicators; (ii) renegotiate terms with current contractors; (iii) procure new contractors with improved contracts to replace expired contracts in competitive bidding; and (iv) introduce effective supervision and control over contractors. Discussions with contractors revealed that most of them were well aware of the shortcomings of the old contracts and were willing to accept the new contracts.

- Taxpayer education: Improve taxpayer awareness about the importance and use of property taxes in order to change negative perceptions. Specific actions included: (i) Run public notices in the print media on local revenue enhancement; (ii) utilize radio, television and newspapers to disseminate information about tax obligation to the public; (iii) conduct workshops about the new strategies of revenue collection with local officials, revenue collection contractors, RDC, and opinion leaders; (iv) post comprehensive information about local revenue on the KCC website; and (v) prepare and distribute together with the demand notes information leaflets explaining the use of revenues. The two-page leaflets summarized the local revenues and emphasized increasing expenditures on infrastructure investment and maintenance
- Enforcement: The PRA 2005 includes general provisions for enforcement such as recovery by warrant (a cumbersome court procedure); recovery by local authority action within six years (collection of arrears), and recovery from tenants (Article 31). These new provisions were very vital and KCC institutionalized collection from tenants immediately.

Incentives: The KFRAP did not include specific KCC staff incentive schemes, such as planned specific performance bonuses, nor did it fund significant, general one-time increases in staff compensation. The KFRAP did not plan for hiring significant number of new staff either. In fact, the KCC staff working in various parts of the revenue system, especially property tax, had some experiences and were keen to learn modern instruments and procedures for tax management and collection. The only specific incentive that presumably supported the design and implementation of the KFRAP was the rule inherited from the early 2000s, namely that the council members received bonuses from 20 percent of the increased revenues. Donors questioned this rule in light of the KFRAP because they expected

[7] A lawyer with experience in municipal assignment contracting was mobilized with KIIDIP funding from South Africa, and he revised 35 KCC revenue collection contacts and developed new model contracts (five to ten pages each as opposed to the old contracts, which were one or two pages).

substantial revenue increases, and donors tried convincing the council to reduce this share without success.

Annex 4: Salient features of the 2nd generation reform

The development of the modern revenue directorate has been a gradual process, focused initially on establishing the main pillars of the new system in the first two years, then the modernization evolved into a permanent process that started generating a substantial volume of additional revenues in the third year. The DRC plan was based on clear ideas about the design of a good revenue administration system, included consistent steps, required substantial funding, and benefitted from high-level political support. The salient features of this second-generation reform include the following:

Adequate organization: The director soon reorganized the former revenue department and established a modern revenue administration directorate with three departments: Collection (150 persons), Compliance (15 persons), and Research and Business Analysis (RBA) (10 persons). The most noticeable characteristics of the organization included: separation of the collection and compliance units, with a special team for managing arrears under compliance (in line with international best practices – Kelly 2013), and establishment of a dedicated research and business analysis unit (rare in Africa) with responsibilities for business analysis, training, and communication (Box 2 shows examples of analytic reports).

Box 2: Sample of analytic reports by the Research and Business Analysis Section
➢ Annual Performance Report for FY 2013/14, August, 2014
➢ Break-down for the Revenue Targets for FY 2015/16, June 2015
➢ Clients' Satisfaction Survey Report, 2013/14, June 2014
➢ Complaints Management Guidelines, September 2014
➢ Cost of Revenue Collection 2011/12-2013/14, December 2014
➢ Performance by Source of Revenues 2010/11-2014/15, September 2015

Source: DRC

Establishment of strong human capacity: The DRC was soon filled with key, high-level staff, experienced in revenue administration, collection, and enforcement, to create a critical mass of high cadre. Many new staff members were hired from various government agencies, the Ministry of Finance and the Uganda Revenue Authority. Other staff members were recruited from a number of technical directorates in other ministries, departments and agencies (Adema & Haas 2017). The staff compensation was established based on a competitive salary scale to ensure quality hiring, staff stability, and motivation. These enabled the director to change both the capacity and the management culture of the DRC "overnight." The special central government status of the KCCA facilitated both the substantial insourcing and the radical increase in salaries.

Measuring capacities and training: The DRC put a high emphasis on continued measurement of the capacity, skill-mix, and performance of the staff. A detailed analysis of the qualifications, skills, and experience of the incumbent staff was completed by 2013. These results provided vital information for further insourcing of required skilled specialists, most of them on a contractual basis though. All the Directorate's staff have been receiving some sort of monthly training and refresher courses on tax and operational guidelines (Adema & Haas 2017). This structural re-alignment and insourcing of a cadre of competent and skilled staff thus provided the groundwork to introduce further reforms in the municipal tax administration.

Continuing the KFRAP implementation: 2nd generation revenue reform was built on the results of the 1st generation reform; and implementation of the KFRAP was still ongoing. The KFRAP and the KIIDIP[8] provided both the professional underpinnings for reform, and access to grant funds for further institutional reforms, until December 2012. But more than that, the best practices tested under KFRAP were adopted and continued, including the (i) institutionalizing detailed analysis of results, such as cost efficiency of revenue collection or collection efficiency, to feed informed decisions; for instance, 37 revenue audits were conducted in 2013/14, and the research department completed dozens of analytic reports to feed reform proposals (Kopanyi 2015); (ii) approaching the next reforms in the context of a five-year investment plan; (iii) developing, adopting, and implementing action plans with solid cost and revenue projections that resembled the KFRAP (without naming them as such); and implementing some of the unfinished KFRAP actions, e.g. IT development.

Revenue collection by the DRC: The DRC adopted a plan to rapidly develop in-house capacities for collection of the main tax revenues, including the property tax; the said insourcing of skilled staff helped build this capacity in just two years. The DRC assigned dedicated revenue officers to each major revenue source, in order to strengthen responsibility

[8] The initial KIIDIP was successfully completed and then followed by the KIIDIP 2 from 2015 onward.

and revenue control. The internal collection of main revenues was a radical departure from the KFRAP, based on the understanding that the size of Kampala and the magnitude of revenues clearly justified establishing internal capacities to collect the main own revenues. This approach also aided in the radical improvement of the collection of the property tax, which does not require effective collection per se, but instead systems, procedures, and incentives for the taxpayers to pay tax timely and virtually voluntarily. The DRC cancelled most of private collection contracts by end 2012. The internal revenue collection appeared to be a great success, since the property tax revenues increased a further two-and-a-half fold from 2010/11 to 2015/16 (KCCA DRC).

Improving databases and IT solutions: The DRC adopted a policy to permanently analyze and improve tax databases and steadily widen the tax base, by identifying gaps and capturing properties that were missing from the databases (e.g., using cross references with Uganda Revenue Authority and utilities). The DRC completed a program of database improvement and IT system refurbishment, supported largely via the KIIDIP 2 program, at an UGX8bn (about USD3 million) total investment cost (Adena & Haas 2017). Components include (i) automatic billing, reconciliation, and generation of receipts; (ii) automatic generation of reminders to taxpayers when they needed to pay their bills; (iii) automatic flags to revenue administrators with lists of delinquent taxpayers; (iv) automatically-generated management reports for the Directorate; and (v) KCCA's own taxpayer identification numbers.[9] These numbers are not only vital for KCCA, but also give the taxpayers access to their accounts, show what payments they need to make over internet and when these are due.

Easy payment options: An easy-to-use payment system for taxpayers is a very basic instrument in modern, efficient revenue administration, but one that plays a particularly substantial role in supporting the collection of property taxes (Freire & Garzon 2014, Kelly 2013, McCluskey & Franzsen 2013). The KCC embraced modern technology and launched the eCitie program, an online and mobile based system which provides a broad range of services to citizens, including an internet-based revenue help center. Citizens can view their accounts and pay their bills online, read news about the KCCA programs and revenues, and even make payments via SMS.

[9] Although there was already a system of national tax identification numbers in Uganda, there was a very low registration rate. The KCCA realized that if they relied on that system, they would restrict widening tax bases.

Improved taxpayer communication–viewing taxpayers as clients: The DRC established a program for enhanced taxpayer education and communication. A dedicated team was appointed under the BRA department to develop plans and instruments for systematic communication with taxpayers; actions included annual communication plans, informative events with taxpayers, and announcements in radio and press. These shifted the KCCA culture towards the principle that successful revenue reforms require an organizational focus towards viewing taxpayers as clients (Bahl 2009, Bird 2010). Another key step was assigning a dedicated team to large taxpayers to maintain communication, informing them about changes in a timely manner, and seeking their feedback–which has become a standard business procedure in the DRC, with substantial positive revenue effects.

Annex 5: Salient features of the 3rd generation reform

The 3rd generation reform focuses on the further development of the revenue management system with a number of very ambitious targets; many of the respective actions have been under preparation for implementation for some time. The KIIDIP 2 project provides both a general direction for reforms, and defines measurable performance indicators–like the truly ambitious goal of a 15 percent increase[10] in OSR annually, to reach UGX129bn by 2019 (vs. UGX55.7bn in 2012/13, at the closure of KIIDIP 1). The DRC received not only political and professional support, but also some flexibility to define how to reach this target. The DRC reacted to these reform opportunities very positively by launching a detailed analysis of revenue potential, outlining options for further improvement, and by defining specific policies and actions in 2015 (Kopanyi 2015, Logan 2016); these are briefly explained below.

Revenue policy for 2015-2019: The DRC has adopted the following policies: (i) commence a comprehensive registry and revaluation of properties[11] with in-house teams; (ii) run supplementary valuations annually; (iii) valuate not only the rented, but also owner-occupied properties, to estimate foregone revenues and support policy dialogue to resume taxing these properties; (iv) exclude vacant land revaluation; instead, RDC commenced an independent analysis to estimate the revenue potential of vacant land based on the results of the new valuation of taxable properties in line with the 2013 National Land Policy; (v) keep the tax rate at 6 percent of taxable values, unless revision is needed based on the revaluation results; and (vi) differentiation of tax rates between residential, commercial and industrial properties remains a source of untapped revenue potential. The policies are subject to annual revision and the DRC may adopt additional policies to respond to emerging challenges and support plans.

Comprehensive registry and valuation program 2016-2019: The KCCA has adopted a comprehensive registry and valuation program that combines developing a City Street Addressing Module (CAM) and a mass valuation program (CAMV) that requires about 3 years to complete. It was a smart decision to launch the CAM first, and attach names to the

[10] The revenue target assumes a 3% real increase in Kampala's economy, while real national projected GDP growth is only 1-2% (6-7% less 5% inflation); so, in effect Kampala had to commit to perform much better than the overall economy. The target also aims for a real increase of OSR of 10% (above inflation) annually until 2019. Very few, if any, Bank projects set such demanding targets.

[11] The 2005 revaluation was completed by external specialists under the World Bank Local Government Development Program (LGDP 1) for all Ugandan cities, including Kampala.

streets and house numbers to the properties, for the first time in Kampala's history (Figure 4). This is more than a symbolic step to elevate the identity of the city and the citizens, because it is also vital to establish a solid information base for the CAMV mass valuation. The CAMV is being developed by integrating GIS mapping into the CAM module by imposing various GIS map layers onto a digitalized city map. The program evolved into the establishment of an urban cadaster.

Establishment of an urban cadaster: The KCCA commenced a street addressing program under the Physical Planning Directorate, but the DRC joined this endeavor to establish an urban cadaster and improve the fiscal cadaster. The reasons behind this include: (i) the national land cadaster is still incomplete; (ii) the urban cadaster includes more detailed data important for urban planning, construction permits, zoning, and for property valuation; (iii) GIS technology has made the formation of the cadaster cost-efficient and very operational with digitalized maps and various GIS functional layers. The formation of the urban cadaster starts with high resolution GIS maps that show the land-contour of the buildings and structures, records the GIS coordinates, and provides metrics for measuring land plots and objects. Figure 4 shows a detailed map with the contours of the buildings and house numbers; the other map shows the land-use types. The property tax teams verify the buildings/structures in field visits with detailed technical characteristics that are linked to the maps. Other map layers can show the land-use forms and various social or urban infrastructure[12] like the form of sanitation.

Figure 4: Sample of GIS Maps

GIS Map with Popup Windows	**Map with House Number and House Contour**

[12] The Ministry of Land, Housing, and Urban Development first had questioned the rationale of an urban cadaster, but eventually supported it based on KCCA's explanation and a background study (Kopanyi 2015). Now even other ministries and departments plan using the urban cadaster, such as the health or water departments for analysis.

Source: KCCA GIS Unit

Establishment of a fiscal cadaster: The DRC has established a fiscal cadaster based on the currently available taxation information, and has completed it for the Central Business Division (CBD); gradual upgrading and updating is ongoing for the other four divisions. The urban cadaster is linked and subordinated to the national land cadaster (LIS), thus any changes in the land cadaster (ownership, subdivision, etc.) trigger changes in the urban cadaster, but the changes in the urban cadaster do not affect the land cadaster. Likewise, the fiscal cadaster is subordinated to the urban cadaster, but focuses on information relevant to taxation (e.g., established value, rate, payments, arrears, owners' or tenants' information, address and even phone numbers for easy communication and SMS reminders).

Property revaluation 2016-2017: The DRC decided to complete the property revaluation in phases, beginning in the central business district (CBD), followed by the Nakawa division, and then the other three divisions in the coming years. It has been a major policy decision, namely to complete, publish, and enact the valuation list by divisions; and rather than waiting for full completion of the revaluation in all 5 divisions before making changes effective. The CBD revaluation started in March 2016 and was completed in twelve months. The valuation utilized the urban cadaster maps for identification of the properties, and field data was recorded via electronic questionnaires that included 150 questions in 10 categories covering detailed information for property taxation[13]. Five valuation teams were formed, led by 5 certified chief valuers, and included about 40 junior valuers. The valuation teams visited each property to record data on owners and tenants, location, GPS coordinates, size, technical data,

[13] The specific sections of the questionnaire are as follows: a) Property Owner Details; b) Property Particulars; c) Property Type; d) Building Details; e) Construction Details; f) Accommodation; g) Site works; h) Condition of the building; J) Measurement of construction or Area in m2; k) Site works.

and infrastructure. The field data was uploaded to a central database on a daily basis, and then verified by back office teams.

Mass valuation CAMV: Chief valuers completed valuations by using a sort of mass valuation methodology, like defining value zones (parishes), computing average unit values (per square meter) by three major quality groups in four property categories: residential, commercial office, commercial retail, and industry (latter not present in CBD). The unit rental value was attached to each property based on the valuation zone average values by property categories and quality clusters (Q1, Q2, Q3 for all, but also a Q4 for residential). This is in line with the description of the mass valuation in the LGRA 2005 (Article 12(2)), since valuers define the quality attributes, calculate average unit-values (m^2) based on samples, arrange all properties (also exempted) into clusters, and attach a ratable value to each property by clusters and value zones.

CAMV versus CAMA: The computerized database and search tools were used make the CAMV procedure a sort of mass valuation. A major difference between CAMV and CAMA is that in CAMV, the expert opinion of the chief valuers substitutes for the sampling and various econometric or statistical instruments and procedures in defining value zones and key factors and estimating coefficients that determine the reference unit values in various property clusters and categories. It worth mentioning, however, that the central database and the very detailed data collected enables DRC to revise the valuation lists using a full-fledged CAMA mass valuation in the future. CAMA was considered and initiated in 2015, but conceptualization of CAMA and the procurement of a CAMA valuation firm ran into a bureaucratic logjam in the approval process. The DRC plans on using CAMA for the other divisions in Kampala.

Tax-rate and/or tax-base policy: Revaluation of the tax base often challenges the tax rate policy (Ellis, Kopanyi & Lee 2007). The case of Jinja City offers a valuable lesson, where an independent firm completed revaluation of properties in 2016-2017 and the taxable values grew by about 200 percent. To reduce the apparent political tensions, the Jinja council made three quick, albeit questionable, decisions: (i) withdrew the draft roll; (ii) declared to maintain the 2005 roll valid for the coming fiscal year, and (iii) requested the valuation firm to revise valuations and reduce estimated values (Haas & Kopanyi 2017). With these, the council planted the seeds of long lasting damages, including: (i) undermined the credibility of the valuation procedure, (ii) established an artificially low base for any future valuation, and

(iii) lost substantial revenue. Reducing the tax rate and maybe doing so as a temporary measure would be a wiser decision, as the case of Bogota city illustrates (Freire & Garzon 2014). This might be an important lesson for KCCA too, if the value bases increase by 200 percent in the other divisions, as the 2003 study projected. It is too early to speculate, but cancelling a freshly announced valuation result is apparently among the worst options to consider.

Reducing exemptions: The DRC considered and discussed with international experts various options for reducing exemptions (Kopanyi 2015), including: (i) declaring that only the primary residence of an owner, whether in Kampala or outside, would be exempted, and the other properties of the same person would be subject to property tax, this could be introduced with a KCCA bylaw without changing the LCRA 2005; (ii) lobbying with other cities and the LGFC to abolish the owner-occupied exemption entirely, because it is regressive; and (iii) making vacant urban land taxable. The establishment of taxable values of the owner-occupied properties was a major step towards supporting *evidence based dialogue and decisions*; now the KCCA can argue that UGX4bn is lost annually, just in the CBD division. Likewise, in harmony with Section 3.4 of the 2013 National Land Policy, the DRC contacted the IGC to complete an analysis of the conditions and modalities of a system for taxing vacant urban land, and estimating the magnitude of the foregone revenues based on international experiences (Haas & Kopanyi 2017). The analysis uses the results of the just completed revaluation in CBD and will estimate the revenue potential of taxing vacant urban land in various ways, including based on best possible use, market transactions, or structured averages.

Certificate training: The DRC has commenced several analyses about the professional capacities of the Directorate’s staff, their skill mix, and any knowledge gaps. It also institutionalized a perpetual capacity building process, and organizes target workshops and training events frequently to ensure the staff are aware of the rules and procedures. However, the recent plans aim at a radical improvement of knowledge and professional capacity with the support of the KIIDIP 2 World Bank project. The DRC appointed a team, as well as sought the advice of international experts, to develop the curricula for a detailed *certificate training program*. This detailed program is under preparation and will be made mandatory for each permanent and contractual staff of the Department and the division revenue offices–over 300 person total. Development of the training materials and provision of the courses will be completed as a joint venture with one of the reputable Ugandan training centers. Needless to say, these training materials could–and should–be offered to other cities too.

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