Revenue Management II
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Revenue Enhancement in Bank Projects

- IEG report: very positive results on Revenues, but silent on Expenditure control, rationalization
- Urban Indicators?? FM Indicators?
- KPIs => rational, moderate, or miniscule targets
- RE entails high transaction costs for WB teams
- Sustainability of revenue enhancement
  - Robust institutional development => fit to project bgt
  - Capacity building/training => MST Nepal
  - Foreign Advisors => effective or not?, consistency
  - Establishing administration => low hanging fruit
  - Establishing Policy cell/procedure
  - Political support, Champion!!
- Revenue Enh. needs deeper Bank engagement!!
KPI Examples TSCP Tanzania

<table>
<thead>
<tr>
<th>Project Outcome Indicators</th>
<th>Local Governments</th>
<th>Target Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in own-source revenues (%)</td>
<td>Overall</td>
<td>Baseline: FY 09/10</td>
</tr>
<tr>
<td>Arusha</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Tanga</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Kigoma</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Dodoma MC</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>CDA</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Mwanza</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Mbeya</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Mtwara</td>
<td>0%</td>
<td>15%</td>
</tr>
</tbody>
</table>

TSCP Revenue Enhancement Plan - Observations

- With 10% inflation the net real increase is just about 27%
- Commitments made before project implementation
- Cities will prepare Revenue enhancement plans that will be implemented
- Initial FM, revenue management capacities are miniscule, but
- Massive capacity building is underway US$13Mo budget
- Large group of consultants/advisors underway
- Skepticism about value of hiring foreign advisors
- Good donor cooperation WB/DANIDA/GIZ
- Property tax systems will be rolled out by emulating in 5 remaining cities the GIZ mass valuation system just deployed in one participating city (2 yrs work)
- Revenue targets should be revisited by mid-term
Kampala Infrastructure & Institutional Development Project (KIIDP) APL 2007/11

**KIIDP Components**

- Institutional Development (US$6Mo)
  - (A) Support to Organizational Development and Governance
  - (B) Support to Financial Recovery
  - (C) Strengthening Service Delivery
- Infrastructure and service delivery improvement (US$24.4Mo)
- Project management, M&E, NGOs (US$2.6Mo)

Kampala Situation 2005/2006

Kampala, capital of Uganda, hosts 1.7 Mo citizens, 70% informal, private revenue collection

**Situation in 2005-2006**

- Revenues Ush49.7 bn. Expenditures Ush52.6 bn, cumulative deficit Ush7.8bn => unpaid bills 2yrs
- Graduated tax abolished in 2004/05 about Ush4bn loss per year = 13% of OSR
- GoU did not compensate the city, but support WB
- Kampala FRAP to rescue the bankrupt city
Kampala Financial Recovery Program

The financial recovery plan has three major components:

- Cash Flow Projections
- Key assumptions on revenues and expenditures
- The Financial Recovery Action Plan (FRAP) - matrix of key actions (31 page detailed plan)

FRAP Initial Cash Flow Projections

One-line R/E projections and broad R/E % assumption do not help forming a realistic FRAP
Kampala FRAP- Governance issues

- High political support by Mayor and Council
- Task Force for Financial Restructuring (Town Clark, CFO, Dept heads, Accountant – 24 persons, met biweekly)
- Semi-competent but committed CFO, but outstanding Chief Accountant and IT head
- Target teams for main revenue sources or issues (IT)
- Hyper intensive Bank dialogue, guidance for over one year of preparation (Bank team + PCU)
- Home-grown solutions with moderate consultancy support (one good Lawyer from South Africa)
- High ownership: we do actions for the city, not for the Bank
- Estimate and approve budget for completing the FRAP!!

Key attributes of the FRAP

- Honest and detailed evaluation of the situation
- Assumptions based on evaluation, exploring and comparing alternatives and scenarios
- Cash-flow model with reorganized budget, project trend but notice outstanding +/- items
- Discuss alternatives with key stakeholders incl. private revenue collectors
- Plan time-bound very specific actions with responsible persons and estimated budget
- Approval of FRAP by Task force then by Council
Kampala FRAP Matrix

KAMPALA FINANCIAL RECOVERY ACTION PLAN (FRAP) REVENUE & EXPENDITURE 2006/07 – 2014/2015

<table>
<thead>
<tr>
<th>Goal</th>
<th>Output</th>
<th>Actions/Activities</th>
<th>Resources / Inputs</th>
<th>Responsible</th>
<th>Deadline</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedules for Commercial properties, residential rented properties and non-rented residential properties available.</td>
<td>Divisions to identify residential properties rented out and owner occupied properties</td>
<td>A task force of 490 people (staff and vocational employees)</td>
<td>NAFTCS</td>
<td>31 December 2007</td>
<td>Nakawa and Central Division have identified some residential rented out properties. Alternatively if financing is not forth coming, Council agents could do the work under strict supervision.</td>
<td></td>
</tr>
<tr>
<td>Property rates individual ledgers posted up to date at any one time. Captured all data of rate payers in the City.</td>
<td>All property rates payments for 2006/07 updated. (Rates ledgers) Council Agents to identify, record, and report all the missing valuation data for adjustment.</td>
<td>Division Rates Officer</td>
<td>DFO</td>
<td>August 2007</td>
<td>Demand notes have been printed and distributed</td>
<td></td>
</tr>
<tr>
<td>Update of property tax data base and retrieval system.</td>
<td>Carried out supplementary valuations to capture new properties as well as re-examining the contentious ones.</td>
<td>The activity will be outsourced. Budget Shs 500m</td>
<td>KCC Valuers</td>
<td>Every two years effective 2007/2008</td>
<td>Procurement of valuers to carry out revaluation is on course. Advertisement for expression of interest was made in August 2007. Eight bids have been received and evaluation is ongoing</td>
<td></td>
</tr>
</tbody>
</table>

FRAP Cash Flow Projections/Actual

<table>
<thead>
<tr>
<th>YEAR/Sources</th>
<th>04/05</th>
<th>05/06</th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
</tr>
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<tbody>
<tr>
<td>RECURRENT REVENUE</td>
<td>Actual</td>
<td>Estimate</td>
<td>Actual</td>
<td>Estimate</td>
<td>Actual</td>
</tr>
<tr>
<td>Graduated Tax</td>
<td>3,385</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Property Rates</td>
<td>1,467</td>
<td>10,000</td>
<td>2,654</td>
<td>5,111</td>
<td>6,351</td>
</tr>
<tr>
<td>Ground Rent</td>
<td>1,677</td>
<td>1,466</td>
<td>2,465</td>
<td>1,052</td>
<td>2,555</td>
</tr>
<tr>
<td>Markets</td>
<td>1,091</td>
<td>2,229</td>
<td>1,054</td>
<td>1,564</td>
<td>1,849</td>
</tr>
<tr>
<td>Car Parks</td>
<td>3,144</td>
<td>3,834</td>
<td>2,950</td>
<td>3,493</td>
<td>2,416</td>
</tr>
<tr>
<td>Local Service Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hotel Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Licenses &amp; Fees</td>
<td>3,530</td>
<td>4,619</td>
<td>3,572</td>
<td>4,794</td>
<td>3,798</td>
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<tr>
<td>Street Parking</td>
<td>728</td>
<td>829</td>
<td>883</td>
<td>829</td>
<td>634</td>
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<tr>
<td>Building Plans &amp; Permits</td>
<td>908</td>
<td>1,030</td>
<td>1,057</td>
<td>1,418</td>
<td>1,316</td>
</tr>
<tr>
<td>Others</td>
<td>1,508</td>
<td>2,030</td>
<td>986</td>
<td>1,841</td>
<td>901</td>
</tr>
<tr>
<td>Capital Income</td>
<td>3,478</td>
<td>1,107</td>
<td>3,782</td>
<td>969</td>
<td>3,077</td>
</tr>
<tr>
<td>Debt Recovery - Rates</td>
<td>2,945</td>
<td>4,596</td>
<td>2,442</td>
<td>4,349</td>
<td>1,094</td>
</tr>
<tr>
<td>Debt Recovery - Others</td>
<td>1,670</td>
<td>388</td>
<td>3,037</td>
<td>298</td>
<td>2,077</td>
</tr>
<tr>
<td>TOTAL LOCAL REVENUE</td>
<td>33,713</td>
<td>33,349</td>
<td>22,251</td>
<td>28,483</td>
<td>24,301</td>
</tr>
</tbody>
</table>
FRAP Assumptions for Property tax Revenue Enhancement

1. Timely serving of demand notes (before end of September of every year) ⇒ needed IT incl. Printer!
2. Public Awareness campaign (leaflet to payers w Provision that 75% of Ptax revenue will be used to improve service delivery at source zones)
3. Enforcement
   - Timely Reminders
   - Publicize enforcement procedures.
   - Take legal action against defaulters
4. The collection efficiency +10% every year.
5. After the 2009/10 revaluation the efficiency drops to 65% (some resistance expected in first year.)
6. Revaluation to be done in 2009/10 resulting in 30% increase of rates revenue.

(Quotation from the FRAP projections and assumptions)

FRAP Assumptions on Collection of Property Tax Arrears

1. The recovery is 40% in YR 1, 30% in YR 2, 20% in YR 3, 15% in YR 4 and 10% in YR 5.
2. The rest of debt uncollectible in 5 years is written off.
3. Assumptions are effective both old and new rates figures.
4. An incentive package will be proposed for recovery of arrears.
5. Increase the awareness.
6. RISK: The old debt may be waived by Central Govt. because of the existing resistance from rate payers.

(Quotation from the FRAP projections and assumptions)
Kampala city Main Revenues 2004/5-2008/9

FRAP Assumptions Asset proceeds

1. In 2005/2006 A high amount of capital receipts was from Lease of Land of formerly Taxi Park and part of Nakivubo (Shauri Yako) Market.
2. The improved KCC land register expected to be produced in 2006/07 will help improve the Capital Receipts from expired leases.
3. KCC expects the leased land to appreciate by 10% every three years.
4. The Land Premium increase will largely be as result of retendering expired leases.

(Quotation from the FRAP projections and assumptions)
Kampala FRAP Actions 2010/13


**LICENSES** Timely assessment and effective billing. Grading of business area to allow uniformity in billing. Harmonizing business rates

**Local Service Tax** Database management and maintenance of registers

**Hotel Tax** Contracting out collection Local Hotel Tax, Database management and maintenance of registers for Local hotel Tax. Prepare regulation Rates (current). Effective billing, periodic advertisement and weekly radio program conducted and supplementary and main valuation.

**Taxi-park** Conduct census for taxis. Revised contract sum after expiry of the current contract.

**Markets** Prepare a paper for the Council consumption on relocation of markets from the City Center to Periurban centers. Degazzeting the said markets.

**Ground rent** Effective data management. Reviewing the Land Act and interpreting the law relating to free hold Advertisement Reviewing the current contract and revising the contract in line with the standing financial and accounting regulation.

**Street parking** Carry out a census of parking spaces. Regulate other fees being charged by multiplex that is not covered by the Local Government Act 1997 as amended

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**Kampala FRAP - Lessons Learned**

- Tangible result: cultural shift in Municipal Finance & Revenue Management
- Vital buy-in of Politicians, Council, Staff
- Plans were substantially implemented despite political turbulence at city and national level
- Detailed assessment and projections mainstreamed
- Bank guidance was instrumental initially;
- Towards the end of KIIDP, the plans and revised projections blurred a bit, in part due to reduced Bank attention and involvement in MF
- KIIDP #2 project were considered, not yet progressed (would be wise at least to write a case study)
Revenue Enhancement Lessons

- Shall WB foster R enhancement?
- Do we have skills, templates, capacities?
- Does the WB provide consistent policy advices on R enhancement?
- Are adequate project money allocated for institutional development/R enhancement?
- Are the set R targets realistic, ambitious, or miniscule?
- Can we do these!

- R enhancements in urban/MD projects are bold opportunities
- No unified templates, but good examples.
- Not really, advices, interventions seem to depend on teams and consultants.
- Real results need substantial work and budget assigned to these subcomponents.
- Moderately realistic targets, 'cause teams, clients fear of problem project.
- YES, WE CAN!!!