Graduate School of Development Studies

# FINANCING LOCAL GOVERNMENTS IN UGANDA:

The Case of Abim District

A Research Paper presented by:

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### *Disclaimer:*

This document represents part of the author's study programme while at the International Institute of Social Studies of Erasmus University Rotterdam. The views stated therein are those of the author and not necessarily those of the Institute.

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## DEDICATION

**I dedicate this research paper to my dear parents Mr. and Mrs Jimmy Charles and Emath Rose Apio Okello respectively. Am who I am because of your resourceful guidance and love.**

**My treasured wife Juliet Achieng Owilli whose support, love and encouragement kept me going; Juliet without reservation I am very grateful.**

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## List of Acronyms

| | |
|---|---|
| ADRA | Adventist Development Relief Agency |
| BDR | Birth and Death Registration |
| CAO | Chief Administrative Officer |
| CAP | Chapter |
| CAR | Community Access Road |
| CDD | Community Driven Development |
| CG | Central Government |
| CGTs | Central Government Transfers |
| DANIDA | Danish International Development Agency |
| DCIA | District Chief Internal Auditor |
| DDHO | District Director of Health Services |
| DDP | District Development Plan |
| DIS | District Inspector of Schools |
| DLG | District Local Government |
| DTS | Development Transfer System |
| FAO | Food and Agricultural Organisation |
| FD | Fiscal Decentralisation |
| FDS | Fiscal Decentralisation Strategy |
| FY | Financial year |
| GoU | Government of Uganda |
| GPT | Graduated personal Tax |
| HC | Health Centre |
| IGR | Internally Generated Revenue |
| IOM | International Organisation for Migration |
| IPF | Indicative Planning Figure |
| JARD | Joint Annual Review of Decentralisation |
| KMs | Kilo Meters |
| LDCs | Low Developing Countries |
| LGA | Local Government Act |
| LGDP | Local Government Development Programme |
| LGFCR | Local Government Finance Commission Report |
| LGMSDP | Local Government Management and Support to Decentralisation Programme |
| LGs | Local Governments |
| LHT | Local Hotel Tax |
| LLG | Lower Local Government |
| LR | Local Revenue |
| LST | Local Service Tax |

| | |
|---|---|
| MoFPED | Ministry of Finance Planning and Economic Development |
| MoLG | Ministry of Local Government |
| MTEF | Medium Term Expenditure Framework |
| NAADS | National Agricultural Advisory Services |
| NADC | Norwegian Agency for Development Co-operation |
| NBFP | National Budget Framework Paper |
| NPA | National Planning Authority |
| NRA | National Resistance Army |
| NRMO | National Resistance Movement Organisation |
| OPM | Office of the Prime Minister |
| PAF | Poverty Alleviation Fund |
| PEAP | Poverty Eradication Action Plan |
| PRDP | Peace Recovery and Development Programme |
| RTS | Recurrent Transfer System |
| SFG | School Facility Grant |
| SSA | Sub-Saharan Africa |
| SWAP | Sector Wide Approach |
| UBoS | Uganda Bureau of Statistics |
| UNDP | United Nations Development Programme |
| UNOCHA | United Nations Office For co-ordination of Humanitarian Affairs |
| UPE | Universal Secondary Education |
| URA | Uganda Revenue Authority |
| USE | Universal Secondary Education |
| USHS | Uganda Shillings |
| VAT | Value added Tax |
| WFP | World Food Programme |

# ABSTRACT

This study is about how local government finance influences implementation of development projects in Uganda. Uganda's decentralisation policy dates back to independence Constitution of 1962. The current decentralisation was launched by his Excellency the President of the Republic of Uganda, Kaguta Museveni in 1992. Since then, Uganda embraced decentralisation as the main engine for transforming the economy and wellbeing of citizens. Under decentralisation, Powers to plan, mobilise resources, make decisions and implement projects have been devolved to LGs. The policy was expected to contribute to development by empowering people and institutions at every level of society. To support powers given to LGs, fiscal decentralisation strategy (FDS) was designed as a means of increasing discretionary powers given to LGs, increase participation in decision making to make LGs more transparent and accountable for their expenditures, providing direct financial incentives to LGs to boost local revenue to ensure that revenue contributes meaningfully to local development.

This paper focuses on financing LGs and argues that, the state of local development service provision in Health, Water, Education and Roads in rural LGs have continued to worsen below decentralisation expectations. This paper has also argued that, only slight improvement has been registered but many planned projects have not been implemented, completed in time, abandoned by contractors due to insufficient finances from CG, declining locally raised revenues, poorly designed fiscal policies and Donor fund inflexible requirements to support decentralisation policy. This paper has also provided fiscal policy reflections and argues that, unless fiscal constraints are addressed, Uganda's decentralisation will continue to be referred to and stay in literatures as a concept rather than a practice given its failure to address service gaps for which it was expected and the poor will continue to be vulnerable to shocks of constrained livelihoods.

## Relevance to Development Studies

This study is relevant to development studies considering the fact that there are many development challenges facing developing countries today. Decentralisation policy adopted by Uganda as the main vehicle for transforming society needs to be guided by strong fiscal and social policies that suits local conditions for effective local governance. To reduce poverty in developing countries attention has to be paid to satisfactory policies, guidelines and strategies with concerted effort from local community who are directly affected by shocks of livelihoods. There should be adequate revenues both raised locally and transferred from CG with clear cut policies, roles and responsibilities for effective implementation of local development projects.

## Keywords:

Decentralisation, Financing, Local governments, Local development projects

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

The world over, there has been growing reference to decentralisation as one of the core strategies many developing countries are adopting to provide local development services (Olum, 2006:2; Smoke, 2003; Bardhan and Mookherjee, 2006:1). Whilst there were indications that centralisation had failed (See World Bank report, 1997:120), Awortwi (2010:620) notes that, countries opted for decentralisation after centralised development planning became unsuccessful in the 1970s.

There has been a lot of discourse and debates surrounding the meaning of decentralisation in academic and practice. Some Scholars referred to it as 'transfer of responsibility for planning, decision-making, or administrative authority from central government (CG) to its field organisations, local administrative units, semi-autonomous and parastatal organisations, local governments or NGOs' (See, Rondinelli and Cheema, 1983). The World Bank (1999:3) notes that decentralisation should be taken to mean the process of devolving political, administrative and fiscal powers to sub-national unit of government. With wide range of use among scholars and practitioners, it's imperative to point out that in the most general term, decentralisation can be referred to as transfer of decision making, management, resource mobilisation and allocation from CG to local units for effective service delivery.

Given this transfer that represents significant decline in the authority of CGs over socio-economic and political authority (Bardhan and Mookherjee, 2006:1), many African countries adopted decentralisation as the main engine for transforming their societies although the forms range from 'a high degree of central control to extensive devolution of power to LGs' (Mutabwire, 2008). Cheema and Rondinelli (1983:18) support that decentralisation forms can be distinguished by the degree to which authority to plan, make decisions and administer is transferred from CG to local units and amount of autonomy and discretion local units attain in carrying out assigned task. Decentralisation proponents identified decentralisation forms to include deconcentration, devolution, delegation and privatisation[1]

[1] **Deconcentration,** occurs when CG redistributes some of its decision- making authority, finance and management of responsibilities to lower levels. **Delegation** is the transfer of responsibility for public functions from the CG to semi-autonomous organizations that are not wholly controlled by CG but are ultimately accountable to its local organization. **Devolution**-CG transfers not only responsibilities but also decision making authority, resources and accountability. **Privatization** is more recent. Authority is given to private sector to perform functions which exclusively were under CG but government remains in force with regulatory function.

The theoretical justification for many countries adopting decentralisation is that, transfer of authority, resources, decision making and tasks to LGs by CG would be an efficient means of service provision (Davey, 2004; Okpaku in Missuraca, 2007:6; Bardhan and Mookherjee 2006). Other reasons were that it would promote sector wide response for economic improvement and overall, fostering democratic governance at grassroots level (Smoke, 2003). Experience around the world indicates that, it's undertaken for various rationales ranging from economic, political and ethnic (Litvack and Seddon, 1998:6-7; Awortwi, 2010:620). With such debates, many countries undertook decentralisation policy as means of empowering local institutions and organisations to embark on more effective self-governance and development suitable to local preference and conditions (See World Bank report, 1997:120).

Like most sub -Saharan African countries (SSA), Uganda embarked on a very ambitious and most robust decentralisation reforms recently, culminating into the growth of LGs from 56 in 2000 to 112 in 2010 under the National Resistance Movement (NRM) government. This reformatory processes, involves devolution of key functions such as administrative, political, financial, legal, institutional, planning and budgeting tasks to LGs at districts, sub counties, division and municipal councils (Francis and James, 2003; Onyach-Olaa, 2003; Olum and kiyaga, 2009:26).

The process of decentralization in Uganda can be understood through events preceding it especially the constitution at independence in 1962 which recognized decentralised system combining federalism with semi-federalism and unitary (Tumushabe et al, 2010:13). As discussed by Mugabi (2004), 1966 post independence Constitution was abrogated and power was centralised. The military dictatorship rule of Amin (1971-1979) witnessed disbanding of districts and urban administration and established regional government led principally by military officials. Dr Milton Obote regime (1980-1985) a sole character in the 1966 predicament (See World Bank, 2003:1 Case of Uganda) did not create considerable attempt to restore decentralised system of governance until 1986 when President Yoweri Kaguta Museveni took over power.

The current decentralisation policy resulting from Professor Mamdani inquiry report of 1986, started in 1987 with establishment of the resistance council statute No: 9 of 1987 which created exclusive prospect for effective system of participatory decision making though they did not have financial and human resource autonomy. In October 1992, the President launched the decentralization policy and after, 13 pilot districts became decentralised. Their performance led to the enactment of the decentralisation Statute of 1993. Since then, the policy has been included in the new Ugandan Constitution (1995) and operationalized through 1997 LGA with several amendments latest being LGA (2008) CAP 243 enacted as the *'operating'* manual for decentralisation policy.

These two lawful instruments have significantly transformed CG institutional framework within which LGs operate. It was expected that LGs under decentralization would have more administrative powers, resources, responsibilities and decision-making autonomy. It was also likely that, their performance would accordingly be pertinent for steering local economic growth, Poverty reduction and sustained rural development prospects. Decentralization policy is therefore envisaged not only as a means to empower people but also as a framework and vehicle for implementing other government policies aimed at improving livelihood quality and welfare of people (Mutabwire, 2008:2)

One of the central issues for successful implementation of decentralisation policy is LG finances. If LGs are to undertake decentralised functions effectively, they must have financial capacity through revenues-raised locally or transferred from CG as well as ability to make expenditure decision, (Litvack and Seddon, 1998:19; Mehrotra, 2006:269). To strengthen decentralisation policy, Uganda adopted fiscal decentralisation strategy as a means of increasing efficiency and effectiveness of transfer systems to LGs. In addition, it was also to increase participation in decision making to make LGs more transparent and accountable for their expenditures, providing direct financial incentives to boost local revenue to ensure that revenue contributes meaningfully to local development (See Republic of Uganda, 2002:6; Okori-MoLG, 2010:2).

LGs in Uganda rely substantially on three sources of revenue to finance local development projects, namely: CGTs, development partners and locally raised revenues. Whilst CGTs remain the main source of revenues for funding decentralized services, local revenue mobilisation remains pertinent for long-term implementation of decentralisation policy (LGFC, 2003). Regrettably, local revenues have been declining in real terms over the past several years (Bahiigwa et al, 2006; LGFC, 2005; Sharma and Nagutta, 2009; Jaramoji, 2010; Wokuri, 2008; Mwijagye, 2008). This trend definitely presents a challenge for implementing local development services.

## 1.2 Statement of the Research Problem

Uganda's fiscal decentralisation strategy (FDs) was designed as a framework for increasing LG financial discretion over implementation of local development projects, giving LGs more service delivery, revenue raising and expenditure mandates. Several questions may arise given this mandates: what services are particularly LGs responsible for? How are these services financed? Has decentralisation policy improved local services provision at grass root level? Could the present state of local development be attributed to fiscal decentralisation design between CG and LGs? To unlock these questions, one needs to examine key fiscal decentralisation functions devolved to LGs.

LGs in Uganda have been assigned service delivery mandates such as provision of primary, secondary and vocational education, health care services (except referral hospitals), feeder roads maintenance, agricultural extension, provision and maintenance of rural water (See LGA CAP 243, 2008:149-163).

Financing LG development projects comes from block grant in form of IGTs. In addition, LGs are mandated under 1995 Constitution Article (191[1]) to mobilise local revenue for development service provision. Development partners such as donors and Non-governments organisation also supplement decentralisation policy financing of projects.

Largely, much as Uganda adopted decentralisation policy with FDs as a model framework intended for financing the policy, the condition of local development projects still remains less than expected. Omar et al (2006:250-251) concluded that there was not as much attestation to quantify services provided by LGs in Uganda. This is too supported by a study report of 10 LGs in Uganda based on 2008/2009 FY performance indicating that the "quality of public services such as health care, education, agricultural services, transport infrastructure and many others have continued to deteriorate, (Tumushabe et al, 2010:34).

Literature reviewed suggest that decentralisation policy success in many developing countries has only made a modest contribution towards infrastructural development but other service provision remains in awful state (See, Smoke, 2001; Litvack and Seddon, 1998:55; Conyers, 2007:21 and Obwona et al, 2000:16). Uganda in this case is not exceptional. Decentralised services especially infrastructural development in key PEAP areas have continued to remain depressing (Njoroge, *The daily monitor* September 16th, 2010). Many reasons have been advance in literatures but the common concern on top of agenda has been fiscal decentralisation design between CG and LGs. LGs in Uganda with meagre CGTs let alone conditionality in the use and declining local revenue in real terms given array of devolved functions, have greatly affected LG project implementation.

In Abim district, a number of projects have been uncompleted or even abandoned by contractors with very little achievement made in terms of completed infrastructural projects. Kato ( August 18th, 2010) reports in a local newspaper that, LGs are wondering if they will be able to implement projects given that only 25% of the funding is allocated for capital development and 75% recurrent costs inclusive wages. This is worse for rural LGs with inadequate internally generated revenue (IGR).

Decentralisation policy having transferred local development to LGs, the present state of local development projects could be attributed to LG financial incapacities resulting from mandates between CG and LGs. This research paper for that reason aims at analysing how LG finance impact on implementation of local development projects with reference to Abim district.

## 1.3 Objectives of the Research Study

The main objective of this research paper was to analyse critically the changing trend in local government financing and how that has influenced implementation of LG projects in Uganda and specifically in Abim DLG.

## 1.4 Main Research Question

The main research question is: How does a Local government finance affect/impact on local development projects?

### The sub-research questions are:

1) Why hasn't the local revenue base of LGs in Uganda been able to improve as a mechanism of empowering LGs to finance their projects?
2) How has this impacted on implementation of local development projects?
3) How has central government fiscal regulation influenced LG projects?
4) What is the current state of local infrastructural development?
5) What should be done to improve revenue base of LGs?

## 1.5 Relevance and Justification

In Uganda and specifically new LGs like Abim, little research has been undertaken on financing local projects. A study report by Nagutta and Sharma (2009) only thought to gain an informal understanding of general citizen's attitudes towards tax and perceive link between taxes and service delivery.

This research study is timely because graduated tax was abolished (2005) and a new tax such as local service (LST) and local hotel (LHT) were introduced hence will serve as a measure for revenue performance of the new tax for LGs.

In addition, Local government development programme (LGDP) ended in FY 2008/2009 and a new successor local government management and support to decentralisation programme (LGMSDP) was introduced. Being a one year old programme, this research will act as amid-term evaluation tool for its effectiveness to LGs in service provision

Finding of this particular research is assumed to benefit policy practitioners and implementers at CG and LG level in resource mobilisation, planning, as well as effective implementation of local development projects.

## 1.6 Scope and Limitation of the Study

This paper concentrates on fiscal decentralisation as a driving force behind decentralisation policy implementation and Abim district LG was studied as a case. In terms of limitations, this research was hindered by the following factors;

a) The study was limited by inadequate access to data from Abim district given sensitivity of the topic which relates to finances.
b) In addition, because GPT was abolished in 2005, there was hardly any data except for GPT compensation. The reason being that Abim was created out of Kotido and given district status in 2005 when GPT was already abolished. This made it difficult to track local revenue performance before and after GPT was abolished.
c) The other challenge was failure to meet some respondents or borrow their valuable time especially political leaders and local project beneficiaries given that local council election at party level was being carried at the same time this data was being collected.

## 1.7 Research Methodology and Data Sources

This research paper uses both qualitative and quantitative data collected from field survey conducted in July 2010 and secondary data from literature sources. Its key focus is on fiscal decentralisation especially analysis on how LG finance impact on LG development projects.

### 1.7.1 Area of Study

The field study was carried out in Abim district. Abim is located in North-Eastern Uganda and was created by an Act of parliament in FY 2005/2006. I chose Abim as a case because it was relatively easier for me to access documents and also set appointments to interview respondents given that I have been working there for the last 5years. As one of the newly created districts there are financial challenges the LGs face in the process of implementing LG development services.

### 1.7.2 Sample selection

Purposive sampling were used as the main tool to select respondents targeting chief administrative officer (CAO) ACAO, revenue officials, finance department, planning unit, sector heads of Education, Health, Works and Water and political leaders especially executives of council. This is because they are respondents involved in revenue mobilisation, planning, budgeting and implementation of LG projects. The district executives were chosen as they are top decision makers regarding policy formulation and resource allocation.

In addition, four sub-LGs[2], out of six were chosen to supplement the data namely Abim sub-LG, Lotuke, Nyakwae and Abim town council. The Senior Assistant Secretaries (SAS) of this sub-LGs and Town clerk were interviewed given that sub-LGs are taken to be engine of development and collection points for local revenue and indeed 65% of development funds are utilised at sub-LG level.

### 1.7.3 Data Collection Techniques

The study used various instruments and techniques for both secondary and primary data sources. Primary data was more qualitative and collected through use of interview guide. Secondary data was mainly through desk review of existing literature. Personal observation and field visits were also undertaken to substantiate findings especially on infrastructural projects. This triangulation of methods ensured that high quality information was collected for making resourceful conclusion on the findings.

***Primary Data:***

An interview guide was used to obtain primary data from head of finance, Senior Accountant revenues and expenditure, head of planning Unit based on planning, Budgeting and development plan implementation. For purposes of data reliability, interview guide was also used to obtain data from sampled political leaders especially executives of council (District chairperson, Secretary Finance, Secretary Education and Secretary Works). CAO, principal personnel officer in charge human resources, district Senior Inspector of Schools, Director Health services (DHS), district engineer, district internal auditor and water officer were also interviewed based on programme implementation totalling to **(14)** respondents.

[2] Sub-Local Government (Sub-LGs) in this research refer to Sub-county/Lower Local Government, Division (for cities & Municipalities) and Town Council in Uganda LG context.

In addition, **3** Senior Assistant Secretaries and **1** Town Clerk who are programme implementers at sub-LG level were also interviewed. **1** Principal Inspector Financial Management in the MoLG was also interviewed specifically on CGTs to LGs and effectiveness of fiscal decentralisation strategy as a means of implementing decentralisation policy envisaged as the vehicle for transforming Uganda's economy and improving the social welfare of citizens at local level.

Field visit was also undertaken during this research to 12 primary schools,4 health units,1 hospital,5 borehole water points and personal observation was used to record the nature of local development projects that were implemented given the finances that LGs rely on. The purpose of the field visit was to ensure that response from respondents is confirmed with what was in the field.

### *Secondary Data*

This research study relied mainly on secondary data especially published literature on fiscal decentralisation.

For secondary data, desk review of development plans, budget estimates, revenue abstracts, revenue enhancement plans, tax registers, budget speeches, quarterly project and inspection reports, release advice, audit reports, council minutes and enacted ordinances and project completion reports, were reviewed with the focus on how LG finance influences implementation of local development projects. The period studied was 2006-2010 June.

Government publications from MoLG and MoFPED such as Ministerial policy statements (MoLG, 2002-2010), Financial reports, The Constitution (1995), LGA (Amended as at 15$^{th}$ September 2008), LG financial and accounting regulation (2007) were reviewed to understand financial sector policies and how CG regulates operations of LGs. This publications were also important especially financial reports and ministerial policy statement because it clearly showed the trend of CGTs and local revenue performance of LGs in Uganda overall.

Grey literature such as newspaper articles were also used to get general perspective of people on fiscal decentralisation and service delivery in Uganda.

## 1.8 Structure of the Paper

Following this introduction chapter that gave a universal background to the study, the rest of the paper for instance chapter two provides the conceptual and analytical framework. It spells out and operationalises the main concepts as used in the research amongst which is decentralisation and LG, fiscal decentralisation and describes the origin and structure of decentralisation system of governance in Uganda. This chapter in addition describes the key fiscal decentralisation policies such as local revenue, types of intergovernmental transfers to local governments, expenditure assignment given to LGs and how fiscal policies influences implementation of local development projects.

Chapter three presents analysis of data. It focused mainly on local revenue generation trends in LGs with reference to Abim and how it influences development projects. It concentrated on analysing IGR taxable areas, revenue sources, fiscal efforts and factors influencing IGR. The chapter also describes other revenue mobilisation techniques such as donor support, borrowing, community contribution and its influence on LG projects.

Chapter four concentrates on analysing CGTs and fiscal regulation of LGs and their effect on LG projects. The chapter also analysed other silent factors affecting LG projects.

Chapter five gives summary of findings, conclusion and key theoretical and fiscal policy reflections of the research.

# CHAPTER TWO: DECENTRALISATION OF LOCAL GOVERNMENT FINANCING: CONCEPTUAL AND ANALYTICAL FRAMEWORK.

## 2.1 Introduction

In analysing how LG finance affect development projects, key concepts such as decentralisation, LG, fiscal decentralisation and LG financing will be operationalise and used. Financing LGs has to do with revenues and expenditures. Uganda adopted a fiscal decentralisation strategy as a means of strengthening decentralisation policy with the focus of increasing discretionary powers given to LGs in allocating resources towards development activities. Local revenue is the income collected and received by a LG from sources within its jurisdiction and includes fees, taxes, rent, royalties, stamp duties, licences, permits and any other as defined by existing governing laws.

## 2.2 Decentralisation and Local Government (LG)

### 2.2.1 Concept of Decentralisation

Decentralisation as observed by Prud (2003) is an ambiguous word because it refers to both a system and a process. Nsibambi (2000:6) on the other hand argued that it's a system of governance characterised by transfer of powers from CG to LG giving them jurisdiction and mandate to manage their affairs. This research used Cheema and Rondinelli (1983:18) definition to mean 'transfer of responsibility for planning and decision-making authority from CG to local administrative units, semi-autonomous and parastatal organisations, LGs or NGOs.' I adopted Litvack and Seddon (1998:2) definition to include transfer of authority for public functions to LGs.

Theoretically, proponents of decentralisation suggest that transfer of responsibilities from CG to local units of government can be an efficient way to deal with local service provision, economic development and participation of people in decisions affecting their localities. They note that decentralisation increases level and quality of public services and results to more efficient use of resources (Saasa et al, 1999:8). As stated in Uganda's constitution (1995), decentralisation was adopted to ensure that functions, powers and responsibilities were devolved and transferred from CG to LGs. Decentralisation as a concept in this research examines success of mandates transferred to LGs especially in terms of infrastructural projects.

### 2.2.2 Local Government

LG is the lowest level of multi-tier government. In a system of state management that involves transfer of authority, LGs are expected to undertake functions of planning for local development; governance and administration; service delivery; resource mobilisation; regulation of services and other mandates for which LGs have been empowered.

A LG for purpose of this research will be conceptualised as the lower unit of government other than CG. These include the district, sub-county, Town council and city LGs, LGA (2008:21-22) as in the context of Uganda.

## 2.3 Decentralisation Overview and Local Governance in Uganda

The process of decentralization in Uganda can be understood through events preceding it and traces back to the establishment of the resistance Council System in 1986 that was formalised in 1987 when the National resistance army (NRA) now popularly known as National resistance movement (NRM) under multiparty system of government took over power (Omar, Jeffery and Meagher, 2006:225). In October 1992, the President launched the decentralization policy and 13 pilot districts became decentralised. Their performance led to the enactment of decentralisation Statute of 1993 and since then, the policy has been included in the new Ugandan Constitution (1995) and operationalized through 1997 LGA with several amendments latest being LGA (2008) CAP 243. These two legal instruments have significantly transformed the CG institutional framework within which LGs operate. It was expected that LGs under decentralization would have more administrative powers, resources, responsibilities and decision-making autonomy.

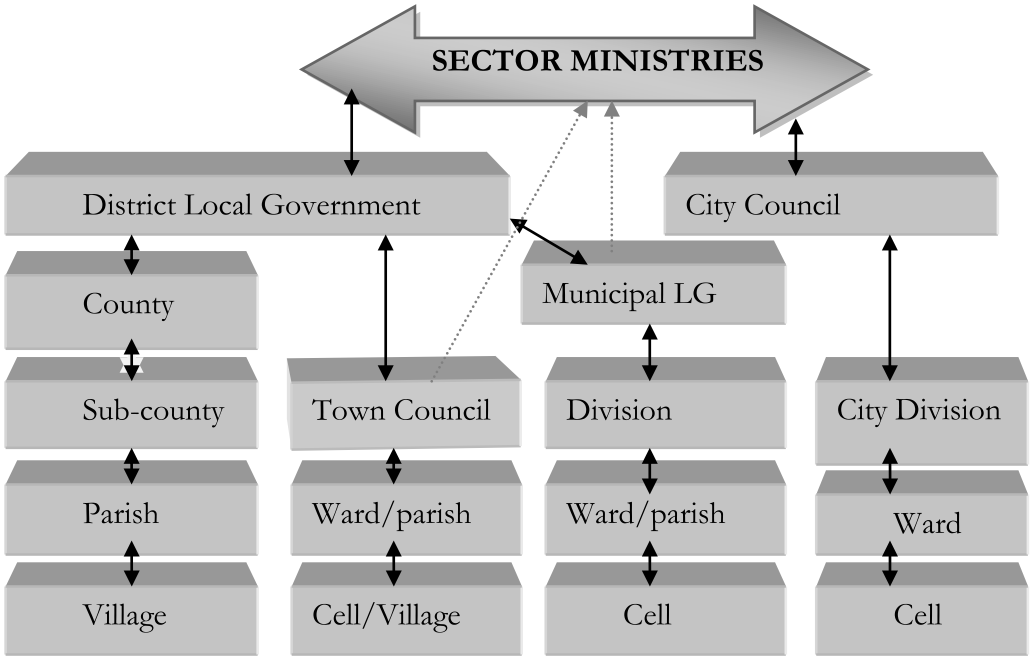
Under decentralisation policy, functions and services of CG and LGs have been listed under second schedule part 1 and 2 respectively (LGA, 2008:148-149) and Constitution (1995), Article 176 (2). The functions and mandates of the LG and line ministries are;

**Table 1.1: Mandates of Central and Local Governments in Uganda**

| MoLG | Other Sector Ministries | LGs (Districts) |
|---|---|---|
| • Sets LG laws & policies<br>• Inspects and provide Technical advice<br>• Advocates for LGs<br>• Co-ordination of LGs | • Set Sector policies and Standards.<br>• Inspect & monitor LGs<br>• Support supervision | Service Delivery Man dates;<br>• Primary, secondary, vocational education<br>• Primary healthcare services<br>• Water and sanitation<br>• Rural Roads<br>• Agriculture services<br>• Municipal services |

***Source*:** Adopted from Francis Okori- MoLG (2005)

**Figure 1: LG Structure and Administrative Unit under Decentralised System in Ugandan.**




***Source***: researcher's personal construction

Figure above indicates information flow and reporting relationship between CG and LG, sub-LGs and smaller units of administration under decentralisation system of governance. FY 2010/2011, Uganda now has 111 Districts,1 city council, 22 municipalities, 56 municipal divisions, 5 city divisions, 144 town councils, 1,116 sub-counties, 7,138 parishes and 66,036 villages (MoLG- 2010:28)

## 2.4 Fiscal Decentralisation

Fiscal decentralisation as a concept is taken to denote the division of fiscal roles and responsibilities between the CG and LGs and the transfer of such responsibilities with associated resources from the former to the latter (World Bank, 1997:120; Bahl, 2001:5; Davey, 2003:1; Mehrotra, 2006:266). To Litvack and Seddon (1998:19), it has to do with financial responsibility and takes the form of self-financing, co-financing, increase of local revenue through direct or indirect taxes, IGT of general revenues and mobilisation of National or LG resources through loan guarantees. Similarly, Bardhan and Mookerjee (2006:13) defined in terms of financial devolution and they asked key questions such as: 'To what degree can LGs raise resources either through local taxes, user fees or borrowing'? 'What is the extent of independence accorded to LGs over decisions'? 'What proportions of the budgets are self financed'? 'Who sets local rates or user fees schedules'? 'How are fiscal transfers from CG determined'? 'Are these transfers subject to political discretion of CG or negotiation between CG and local units'? It's imperative to stress that when such questions are afforded correct answers, decentralisation policy can be implemented effectively and efficiently.

With decentralisation policy being the vehicle for transforming welfare of citizens, fiscal decentralisation remains the sole strategy for its success. The notion is that CGs are finding it unfeasible to meet all the challenging needs of their various constituencies and devolving responsibilities to LGs would assist them on national economic development strategies.

This research reviewed and analysed the concept in relation to the various forms of fiscal decentralization such as assignment of duties, revenue tasks, revenue sharing between CG and LGs and conditionality CG imposes on LGs. The literature review also incorporates other basket fiscal techniques LGs use.

### 2.4.1 Expenditure Assignments to LGs

Expenditure assignment has to do with services to be transferred to LGs and the ones the CG needs to retain. Effective service delivery requires shifting some task for expenditures to LGs. One most central tenet is for LGs to have discretion to determine their priorities (Litvack and Seddon, 1998:19; Davey 2003). For LGs to meet amenable local needs, CG should state expenditure responsibilities clearly.

Bahl (2001:8) observed that, expenditure assignment should come first then revenue responsibility be determined. The reason is that CGs should establish first expenditure needs of each level of LG before undertaking questions of revenue. In developing countries, revenue responsibility as a practice is less stable. This is because CGs does not maintain fiscal decentralisation regulations they make For instance, imposition of unfunded expenditures on LGs, underfunding of transfer programmes, reassignment of expenditures without proportionate revenues and expenditure mandates that have stringent compliance requirements (Bahl, 2001:15-16). Likewise, Bardhan and Mookerjee (2006:48) concluded that, expenditure responsibilities devolved have tended to 'outstrip' revenue mandates yet revenue raising powers have not risen much hence decentralisation are unlikely to achieve economic impact because underfunding of necessary expenditures on local services have tended to persist.

Prakash found in Anwar (2006:171-172) for instance noted that, the 74$^{th}$ Amendment Act 1992 made a tremendous head way for municipal LGs in India to be assigned responsibilities to undertake service provision in areas such as public health, road works, water and other services for which urban India LGs are mandated. While making comparative analysis of five cities in India under devolution of responsibilities, Sekha and Bidarkar (1999) found that much of the expenditure were directed towards infrastructures such as construction of roads, bridges and educational institutions. This trend shows a remarkable discretion over expenditure assignment and determination of priorities.

In Uganda, decentralised functions have not been accompanied with adequate resources, (Steiner, 2006:11). LGs have continued to receive less than 40% of the national budget yet 80% of the people leave in rural area (Okello 2009:31).Therefore expenditure assignment being an avenue of CG enforcing preference on LG budgets, the compliance and enforcement requirements downplays the significant role of LGs to have autonomy to expedite their expenditure assignment affecting service needs.

## 2.4.2 Revenue Assignment

Revenue assignment is the share of various taxes among different levels of government. Decentralisation policy substantially depends on whether revenues match assigned responsibilities. The internally generated revenue (IGR) has the gain of enhancing LG discretion over expenditures and making them more responsible to tax payers (Smoke, 2003:1). LGs can best address their needs when they have broad base IGR and authority to control and fix rates.

Whilst it is argued that successful implementation of decentralisation policy depends on adequate LG fiscal authority and autonomy (Bardhan and Mookerjee, Mehrotra, 2006:269; Bahl, 2001:7), this is not the case in many SSA countries. Litvack and Seddon (1998:19) found that in many developing countries, local authorities enjoy the lawful mandate to enforce taxes but the tax base is so '*weak*' and reliance on CG '*subsidies*' is so embedded that no effort is made to exercise that mandate.

As noted by Smoke (2003:1) "LGs are under increased pressure to provide local development services given financial constraints", effective pre-requisite for successful service delivery needs LGs with strong revenue base accruing from such taxes as; property tax, licences and permits, dues, fees and land rates. Experience around the world indicates that effective fiscal decentralisation needs LGs with responsibility over resources, discretion and incentives. This is a strong case of urban cities in India were their revenue have been growing over time hence much investments where directed towards capital development (Sekhar and Bidarkar, 1999:1206).

In Uganda, LGs were assigned GPT, property tax and other non-tax revenue. CG retained value added tax, pay as you earn, exercise duty, import duty, licence, motor vehicle registration etc (LGFC, 2009:8). However, it's imperative to note that assigned taxes to LGs are low yielding, not easy to collect and many times vulnerable to CG regulation (*for example setting tax rates*) and political influence and interference just like GPT was abolished in 2005.

Both theory and practice solidly suggest that, revenue accruing to each level of government should be clear without interference from one level. Therefore, if LGs are to perform effectively revenue assignment as one of the building blocks should be well defined to match expenditure functions.

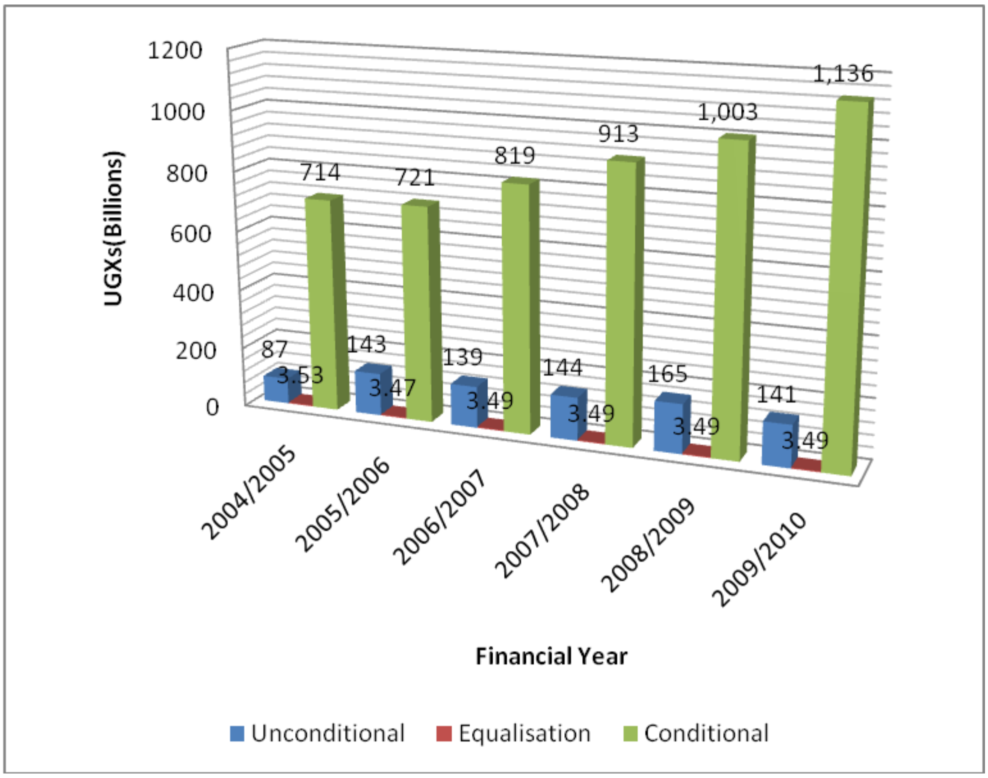
## 2.4.3 Intergovernmental Transfers (IGTs)

IGT have become one of the main revenue sources of LGs in developing countries. Litvack and Seddon (1998:27) note that design of IGT more often influences 'the efficiency and equity of local service provision' of LGs. The rationale is to cover fiscal disparity in order to improve ability of LGs to meet expenditure assignments and also redistribution to address fiscal capacities across LGs. Notably, IGT also enhances local expenditure on specific goods and services that are considered basic needs that should be distributed without exclusion.

The provision of public goods and services is a shared responsibility between CG and LGs (McMaster, 1991:55). While making a comparative analysis of decentralisation in developing countries, Bardhan and Mookerjee (2006:13) for instance observed that, what are the specific decisions devolved to LGs? Do they comprise local infrastructures such as water, sanitation and roads? Can LGs make decision on allocation of fiscal resources? What other expenditure responsibilities are devolved? Answers to above questions have to do with authority and mandate given to LGs whether in practice it's a true reflection of the contemporary implementation of decentralisation policy.

In Uganda, the major source of LG financing is CGTs. Under Fiscal decentralisation, unconditional, conditional and equalisation grants are means through which CG fund LGs. All LGs in Uganda are entitled to receive unconditional and Conditional grants. In addition, some LGs depending on their level of service delivery in relation to national average are entitled to equalisation grant. CG transfer up to 95% to fund LG budgets (MoLG 2010:36). In general, transfer to LGs as a percentage of national budget has increased over time from about 16.6% in 1997/98 FY to 36% in FY 2007/2008, (Mutabwire, 2008). However, the growth has been skewed in support of conditional grants in form of Poverty Action Fund (PAF). Currently; conditional grants constitute over 85% of total transfers to LGs.

**Figure 2: Trends of CGTs to LGs in Uganda in Billions of UGXs ('000) 2004/2005-2009/2010**




***Source*: Ministry of Local government (2010)**

Information above clearly indicates that overall, transfers to LGs have increased over time especially conditional and unconditional grants. Equalisation grant has been increasing with very insignificant margin.

Beside CG transfers, LGs are mandated under Article 80 of the LG Act (LGA, 2008:77-76) to collect local revenue and borrow money or accept use of grants or assistance (LGA 2008:79). A strong local revenue base for LGs is essential for sustainability of decentralization. In this regard local revenue forms a core means of building self-governance and accounting LG system. It is also a secure source of funds to complement service delivery.

Powers of LGs have been undermined by significant growth in conditional grants in form of CG transfers (Okori, 2003). For instance with the delay in receipt of grants, LGs have little overall flexibility in the use of conditional grants. Notably, the inflexible guidelines attached to conditional grant tend to support unattractive venture in projects and 'informal accommodation of needs identified by LGs' (Omar, Jeffrey & Meagher, 2006:227) and yet even the unconditional grant are mainly for wages and salaries which LGs are restricted from transferring to other sectors (World Bank Case of Uganda, 2003:9). More so, the complex allocation formula which is not supported by adequate data further imposes more constraints to local service provision in Uganda.

### 2.4.4 Central Government Regulation (CGR)

CG have a number of ways of regulating fiscal affairs of LGs and this relates to powers of CG to assign public service delivery authority and to implement policy measures which affects local revenue raising capability of LGs (McMaster, 1991:72). He further noted that CG manage revenue raising authority of LGs by controlling the types of local taxes and fees to be collected, taxes and fees to be applied and setting limits on LG borrowings.

In Urban India for instance, Prakash found in Anwar (2006:190) observed that, the State regulate Municipal governments borrowing of loans and set limits on amount to be lent clearly laid down in the Local Authorities Loan Act 1914. This is the same scenario in Indonesia under decentralised system where CG regulate regional governments from accessing capital market loans (Eckhart found in Anwar, 2006:260)

CG also regulates LGs through setting sector conditionality's on central funding. In Tanzania for instance, LGs are considerably regulated since they are highly dependent on central financing, (Watson 2001 in Boex, 2003:383). This regulation affects LG operations in the process of project implementation.

In Uganda, sector conditionalities are so inflexible that LGs are finding themselves implementing CG activities rather than local needs. Omar et al (2006:227) found that, LGs have very minimal '*flexibility*' in the use of CG funds. Assimwe and Nakanyike (2007:18-24) supports that, sector specific policies are very rigid thus no discretion to allocate across needy sectors. Co-funding being a pre-requisite for accessing conditional grant constraints LGs in Uganda yet even, CGTs budget ceiling are not adhered too.

### 2.4.5 Other LG Basket Funding (Donor support, Community Contribution)

Financing decentralisation policy for effective local service delivery is also undertaken through donor support, community contribution and other revenue mobilisation techniques such as voluntary contributions in cash/kind.

The donor community more often play essential roles in supporting decentralisation policy. They assist in closing the fiscal gap LGs are constrained with in the process of service delivery. However, a review by smoke (2001) reveals that, donors normally undertake programmes within specific sectors and failure by CG to oversee them has been a hindrance to decentralisation policy implementation. To him because of their stringent ideal actions, *'donor behaviour in supporting fiscal decentralisation initiatives may sometimes contribute to failure of programmes in meeting set decentralisation policy objectives'*. By implication, LGs find themselves in grim state to cope with donor support towards financing decentralisation policy

Local community contribution towards decentralisation financing is too critical. For instance in Mexico under decentralisation, fund raising and direct users participation to health financing by means of recovery charge and in-kind participation in health infrastructure at local level improved local health unit expansion (Armando and Orozco, 2006:156 ). In many SSA countries, Community contributions is not highly developed inform of financial support or material. Many times, the contribution is made with Donor conditionality where they provide either labour or land say for construction of health unit or school.

## 2.5 Factors influencing LG Revenue Mobilisation

### 2.5.1 Assigned Local Revenue Base

The biggest challenge to LG financing is low revenue base. Smoke (2001:23) notes that LGs usually do poorly given set of functions devolved to them because assigned revenues are certainly not adequate to meet local needs. The taxes to him are 'unproductive because it faces design problems such as static bases and ineffective collection mechanism'. Similarly, Musgrave (1984:151) found that in developing countries, tax structure is so low to attach tax value.

### 2.5.2 CG Conditionality

LGs in developing countries face a lot of CG conditionality in the use of IGTs, mobilisation of IGR and also other techniques such as borrowing of loans and debentures from capital markets. In Tanzania for instance, Boex (2003:383) reports that, LGs are limited by discretion and inflexible CG guideline attached to transfer which affects financing service delivery. The problem about conditionality has also been emphasised by McMaster (1991:73). He found that CG constraint LG IGR by setting the types and charge of taxes to be collected and putting restriction on loan borrowing.

### 2.5.3 Capacity of LGs

With increased decentralization, LGs are assuming more responsibility for decision making, resource mobilisation and implementation of development projects. Subsequently, it's vital to consider their capacity or ability to take on these additional tasks. Capacity in this context refers to ability to execute functions effectively and efficiently, solve problems and set attainable objectives

(Fukuda et al, 2002:8; Grindle and Hildebrand, 1995:445). Assignment of revenue to LGs goes with capacity in terms of skills, honesty and management. The existing institutional frameworks too are imperative in LG revenue mobilisation. Many LGs in SSA, experience the challenge of capacity to mobilise sufficient revenue to finance development projects.

LGs in Uganda are constrained by ability to perform due to inadequate qualified personnel to enforce and successfully implement local development projects. As largely noted, many LGs fail to attract and retain highly qualified personnel because of low incentives and subsequently labour turnover becomes high affecting development of strategies and key competence to maximise opportunities for LG projects to be implemented. Grindle and Hildebrand (1995:449) noted that in Ghana; low salaries led to loss of many paramount public officials and this critically constrained government's capability to train new workforce. The existing institutional frameworks such as laws, regulations and guidelines are too weak to be implemented and enforced. For example the property rating Act more often has been challenged by tax payers affecting mobilisation of revenue.

LGs are also constrained by logistical capacity in terms of equipments and budget for travel by field staff to monitor and evaluate activities to support revenue collection. LGs have also failed to combat corruption tendencies affecting local project implementation. Uganda development partners report (2003:5) revealed that while CGTs have increased, the growing evidence is that corruption has accompanied decentralisation of power and authority from CG to LG. With weak institutional capacity in terms of laws, personnel and means to combat graft this has impacted significantly on LG revenue mobilisation.

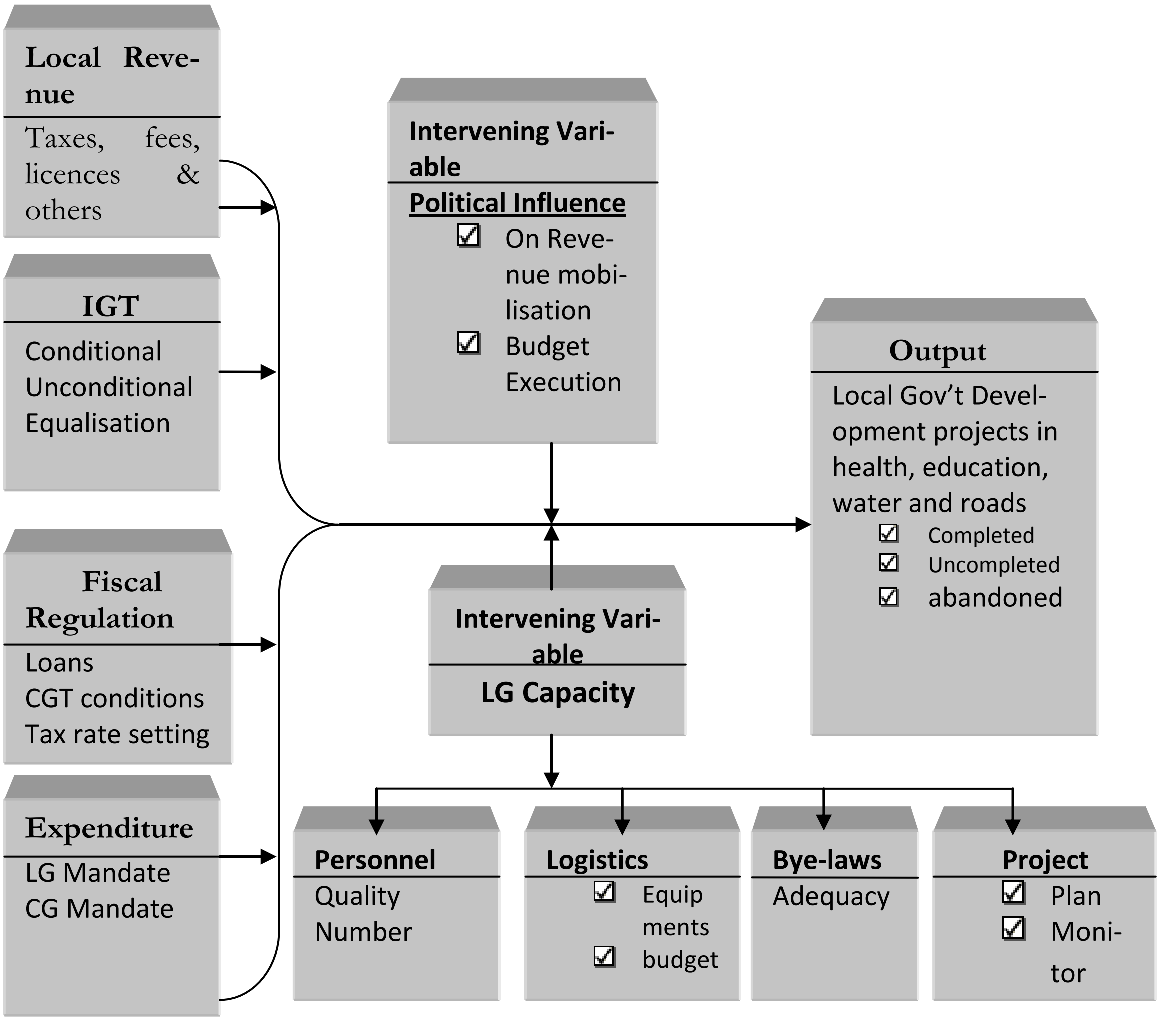
### 2.5.4 Political Influence

The other challenge is the political environment within which LGs operate. Politics grossly affects IGR mobilisation. This is the case in many developing countries. More often local politicians want to please their voters by influencing them not to pay taxes or interfere with collection process of revenue hence enforcement by LGs becomes ineffective. In addition, revenue mobilisation in LGs has not received enough blessing from politicians. Due to lack of political will; many LGs have lost revenue affecting service provision. In assessing LGs in developing countries Jesper found in Anwar (2006:129-130) drew lessons from Uganda that LGs are highly dependent on CG and thus susceptible to CG control. He noted that with no strong top-level political support for local revenue generation, any practical suggestion will almost certainly be futile. On the other hand political interference tends to reduce revenue collection in LGs because largely, revenues are not collected with the necessary political will for fear of losing votes (See World Bank Case of Uganda, 2003:9). AS compared to 1994 where Uganda had only 39 LGs, today a number of LGs have been created in the name of winning votes amounting to 112. Questions writers ask is whether they are sustainable given inadequacy of resources. Study report by Elliot (2008:5) found little evidence that creation of new LGs benefited citizens since new LGs often come with *'logistical and managerial problems'*. In response to government budget 2009/2010, opposition shadow minister reported that, government continued to politically create districts putting more economic burden on tax payers. Budget implementation is another area of political influence peddling that affects financing LG development project. This is in the area of procurement of goods, works, supplies and services and diversion of earmarked funds meant for implementation of projects.

## 2.6 Research Analytical Framework

Based on the literature, analytical framework of the research can be shown as represented in figure 3 below.

**Figure 3: Fiscal Decentralisation and its effect on LG projects**




***Source***: **Researcher's own construction**

Above figure shows fiscal decentralisation mechanics and how LGs are financed. Fiscal decentralisation forms are assumed to be independent variables and development projects as dependent variable. LG finance forms such as local revenue, IGTs, fiscal regulation and expenditure assignment influences the way development projects are implemented. All these are moderated by political influence and LG capacity to mobilise sufficient resources to finance projects.

# CHAPTER THREE: LOCAL REVENUE MOBILISATION – ABIM DISTRICT

## 3.1 Introduction

This research is about financing LGs under decentralised system of governance Uganda adopted. This section analyses locally taxable areas, revenue base, fiscal efforts and influencing factors to IGR in Abim district.

## 3.2 Profile of Abim District

Abim District is located in north-eastern part of Uganda and is one of the districts found in Karamoja region. Abim was created out of Kotido district in 2005 and its full operation begun in July 2006/2007 FY. It is bordered to the North by Kotido district, east by Moroto and Amuria districts; south west by Lira and west by Pader district. It covers an area of **2,337** Sq.Km. It has one county known as Thur formally Labwor; with five sub - counties and one Town council. There is no significant water mass, but the district has seasonal rivers, underground water, springs, wells and wetlands in most parts (Three Year District development plan, 2010-2013:16).

According to National Population and housing census data carried out in 2002 by Uganda bureau of statistics, Abim district has a population of 54,100 representing almost 0.2% of the total National population of 24.4 million people. This is the current data being used for resource allocation. Data obtained from district planning unit indicates that, the district has a projected total population of 89,938 people (males 44,070 and females 45,868) representing 49% and 51% respectively derived from birth and death registration (BDR) exercise, (District development plan, 2010-2013:17).

The highest population live in rural areas of the district especially Lotuke, Morulem and Alerek respectively. Abim rural and Abim urban have lowest population and hitherto considered business centres for goods and services.

**Table 1.2: Abim District Population Distribution by Sub-LGs**

| Lower Local Gov | Males | Females | Total |
|---|---|---|---|
| Abim Rural | 3,242 | 3,375 | 6,667 |
| Abim Town | 4,052 | 4,218 | 8,270 |
| Lotuke | 9,350 | 9,731 | 19,081 |
| Morulem | 8,558 | 8,908 | 17,446 |
| Alerek | 6,531 | 6,798 | 13,329 |
| Nyakwae | 7,361 | 7,662 | 15,023 |
| **Sub-total** | **44,070** | **45,868** | **89,938** |

***Source*: Abim DDP (2010/2011)**

Above table shows current population distribution of the district per sub-LGs. The figure totally differs from official statistics used for resource allocation by MoFPED. This scenario raises pertinent questions whether CGTs to Abim can be able to finance services for uncounted population of 35,382 (39.5%). Abim is one of the district with highest growth rate of (9.5), medium population density of (44 people per Sq km) lowest urbanization rate of (2.3%) high birth rate of 7.2 children per woman of reproductive age (15-45years), high fertility rate at young age (15 – 19 years) and very high in middle of child bearing age, Low incidence of childlessness /infertility high incidence of fertility for female aged 35 years and high maternal mortality (over 500 / 100,000). Source: (Abim- BDR report 2008/09).

### 3.2.1 Economic Activities

The main economic activity in the district is agriculture with people practicing and earning their living through crop and livestock production. Average land area for agriculture is 0.5 and land is over utilized near homesteads and an average household has 5-6 plots on different flat locations around the villages, each plot measures between 0.1 to 2.0 acres. However, analysis of the DDP 2009/2010 indicates that, few people are employed in formal jobs as civil servants and NGO employees. Small scale retail trade also exist especially in rural growth centres of the district. Other activities include black smith and wood workshops, motorcycle transport (‘*bodaboda*’), grain milling, hotels and lodges. The major sources of income is sale of agricultural produce followed by livestock (cows, sheep, goats, pigs, poultry among others) though this is greatly affected by insecurity and unreliable rainfall which damage most food crops.

### 3.2.2 Administrative Structure

The structure of the district and its management is based on model one approved by district council where elected District chairperson is the political head of the LG while chief Administrative officer is the administrative head of civil service appointed by CG. There are basically nine departments headed by sector heads: works and technical services, production and marketing, education, community based services, finance and planning, Health, natural resources, Audit, management and support services all involved in project implementation. LLGs are autonomous and politically headed by sub-county chairpersons and Senior Assistant Secretaries as administrative heads. Abim district consist of 5 sub-counties and 1 Town Council.

## 3.3 Sources of Internally Generated Revenue (IGR)

Under Article 191(1) of the Constitution (1995), LGs are allowed to levy, charge, collect and appropriate fees and taxes. Article 191 (2) of the Constitution stipulates fees and taxes to be levied, charged, collected and appropriated. Article 194 (4), gives LG powers to determine local tax rates and fees with advice of LGFC. The IGR generation is said to be the *'life blood'* for sustainable success of decentralisation policy (LGFC, 2003). Similarly, autonomy of LGs in addressing their priorities is best exercised via IGR. IGR assist LGs to meet costs of administration especially payment of political leaders allowance LGA, (2008:146), promoting local infrastructural improvement, 10% co-funding conditional grants, regulating business and enhancing local accountability to community and notwithstanding reducing burden on CGTs and dependence on donors (Assimwe and Nakanyike, 2007:11).

The main economic activity as reviewed from the DPP (2009/2010) is agriculture. However, analysis of the local revenue enhancement plan (LREP-2010) indicates that, in terms of size, there is no major trade or industrial activity that takes place in the district. The following businesses are carried out on small with meagre incomes to the people. Very small scale seasonal gold mining , Selling and buying of agricultural produce ,Seasonal cattle / livestock trade ,Selling of local brew ,small retail trade ,cottage industries in metal fabrication, carpentry, milling, butcheries/animal slaughter ,eating places in small trading centres ,brick making ,Sale of charcoal ,mining and selling of construction stone aggregates and murrum. The analysis of revenue abstract (2006-2010 June) and LREP (2009/2010) indicates that, Abim district can only raise IGR from the following sources; rent, fees and interest, Licenses, permits, Market dues, taxes on produce, fine, development tax on contractors and local service tax (LST)[3]

[3] **LST**- Levied on wealth and incomes of people in gainful employment. **LHT**-Levied on hotel and lodge accommodation per room per night and it's paid by room occupants, LGA (2008:183-190).

**Table 1.3: Abim IGR performance by Source FY 2007/2008 - 2009/2010 in millions of Uganda Shillings (000')**

| | FY 2007/2008 | | FY 2008/2009 | | FY 2009/2010 | |
|---|---|---|---|---|---|---|
| **TAXES** | Approved | Actual | Approved | Actual | Approved | Actual |
| Local Hotel Tax | - | - | - | - | - | - |
| Local Service Tax. | - | - | - | - | 14,071 | 41,255 |
| Application fees | - | - | 100 | 100 | 100 | - |
| B/ License | - | - | 2,000 | 1,895 | 1,000 | 555, |
| Public health fees | - | - | 500 | - | - | - |
| Other license | 1,500 | - | 5,916 | - | 11,180 | - |
| Dev't Tax | 14,331 | 5,570 | 8,999 | 30,445 | 1,500 | 30,228 |
| Property Income | - | - | - | - | - | - |
| Sale of Gov't Asset. | - | - | 1,100 | - | 10,261 | - |
| Park fees | - | - | 6,000 | 685, | 6,620 | 4,958 |
| Mkts dues | - | - | 12,000 | - | 11,000 | - |
| Bill Board | - | - | 100, | - | 100 | - |
| Registration of Business | - | - | 1,850 | 1,791 | 4,164 | 375 |
| Inspection fees | - | - | 100 | - | 1,200 | - |
| Charges | - | - | 8,790 | 5,550 | 1,488 | - |
| Animal/crop | 9,000 | 6,479 | 19,051 | - | 1,500 | - |
| Agency | 9,000 | 14,811 | 9,900 | 14,800 | 14,197 | - |
| **Total** | 54,873 | 26,860 | 76,406 | 55,226 | 78,381 | 77,371 |
| **Percentage** | | 49% | | 72% | | 98.7% |

***Data source*: Abim Revenue Abstract FY 2007/2008 - 2009/2010- there was no disaggregated IGR data FY 2006/2007**.

The table above shows comparative analysis of IGR per source for three FYs exclusive GPT compensation. Analysis indicates that collection of IGR is generally poor as deduced from property tax, charge on markets, crop related, animal husbandry levies and licence that registered either no collection or under collected. Though collection improved slightly in FY 2009/2010 as compared to 2007/2008, slight improvement was a result of LST deducted directly by MoFPED and remitted to LGs.

Local revenue register analysis also indicates that, there are 716 eligible civil servants, 160 NGO workers, 550 business persons employed in gainful employment that pay LST and this explains why there was slight improvement. Equally, same register reveals that, 9 local hotels exists but were not assessed and taxed hence could explain low IGR performance. Whereas IGR potential within town fall in Town council and since it enjoys financial autonomy as mandated by law under LGA, Article 79 (2008:76), sub-LGs are taken as collection points for IGR where 65% of collection is retained at Sub-LG and only 35% remitted to the district as mandated by law stating that;

*"In rural areas, local revenue shall be collected by the sub-county councils and a sub-county council shall retain 65%,or any other higher percentage as the district council may approve, of revenue collected and pass the remaining percentage over to the district" (LGA 2008:79-80,Article 85[2])*

By implication, the district should strengthen sub-LGs in order to mobilise sufficient IGR. However, analysis of budget estimates, budget speeches (2006-2010 June), LREP obtained from finance department and interview with SAS's showed that, performances in Sub-LGs have not been impressive. The local Councils consistently failed to meet many of their targets and share of IGR to total budget has always been around 2 % in all Sub-LGs (Abim-LREP, 2010). Nyakwae and Morulem sub-LGs for instance contributed 0 % local revenue of 35% to be remitted to the district FY 2008/2009-2009/2010 (Budget speech, 2008 and 2009/2010:5). These presents a challenge for implementation of local development projects for which LGs have direct influence rather than CGTs and donor funds that come with strings attached.

**Table 1.4: Percentage Fiscal Effort of IGR in Abim in Millions of UGXs ('000)**

| Financial Year | Budgeted | Actual | Fiscal Effort (%) |
|---|---|---|---|
| **2006/007** | 11,200 | 6,307 | 56.3 % |
| **2007/008** | 54,873 | 26,860 | 48.9 % |
| **2008/009** | 76,406 | 55,226* | 72 % |
| **2009/010** | 78,381 | 77,371* | 98.7 % |
| **2010/011** | 84,861 | N/A | N/A |

***Source:*** **Abim District revenue Abstract (2006-2010)**

**Key:* Effect of Local Service Tax.**

Analysis of revenue abstract obtained from Abim indicates that, percentage fiscal effort of IGR is still low. In FY 2006/2007 and 2007/2008, Abim recorded lowest revenue collection. FY 2008/2009-2009/2010, the district registered some significant increase because of new taxes introduced such as LST but this increase in real terms contributed less to district budget (See contribution of various revenues to district budget in chapter 4). Data above excludes GPT compensation sent directly by CG though LGs treat it as IGR. Evidently, above table presents alarming situation of financing development projects from local sources. LGs are now unable to meet 10% co-funding obligation and other projects deemed to meet local needs. Abim LG in FY 2007/2008 failed to meet minimum condition and performance measures for accessing conditional grant during National assessment for which IGR and co-funding is one of the areas assessed, (MoLG-MPS 2008/2009:67). This means CG transferred to Abim district funds less 20 % as penalty for poor performance in IGR.

## 3.4 Revenue Mobilisation Constraints

In Uganda, performance of IGR in rural LGs has been poor, making absolute amount for revenue generated for service delivery generally inadequate (Okori, 2003). The MoLG notes that;

*[T]he inability of LGs to raise meaningful revenue from local sources has remained a significant challenge to their ability to exercise discretion and autonomy in planning, budgeting, management and delivery of services. Owing to low yielding revenue sources, weak collection capacity and contradictory political pronouncements on local revenue issues, LGs have continued to be over-dependent on CG transfers to fund their budget up to 95%"( MoLG policy statement FY 2010/2011:36).*

*Low Tax Base*

In Abim district, IGR collection is constrained by low tax base given that 80% of the population live in rural areas and purely depend on agriculture (Abim DDP, 2009/2010:31). The district still rely on traditional sources of IGR such as trading licence, market dues, fees, fines and sale of bid documents some of which are seasonal in nature, (Abim LREP, 2010). The collection of revenue from trading licenses is very poor in all sub-LGs. This has been attributed to the fact that Sub-LGs lack viable business enterprises to licenses. The number of shops and commercial enterprises is not known with certainly but many sub-Counties have few businesses if not none at all. Revenue from trading licenses will take a long time to be a viable source.

There is hardly any trade and industry activity in the district and this limits LGs capacity to widen their tax base. The introduction of LST and LHT could be a better alternative source unfortunately these taxes tend to benefit urban LGs who are financially autonomous (See LGA 2008:76-78; Article 79 and 83[6]). One official for instance in the sub-LG noted that;

*"Due to lack of vibrant commodity markets in the district, amount collected from market dues is little indeed. Very little is collected from commodity markets to justify the cost and administrative effort", (Interview with Ag.SAS Lotuke S/C, August 3rd 2010)*

As earlier noted, GPT[4] was abolished in FY 2005/2006 and Abim LG begun operation FY 2006/2007. That means other than GPT which use to contribute meaningfully to district budget while under Kotido district, Abim had to collect alternative local taxes in addition to GPT compensation as provided for by legal and regulatory framework in LGs stated above.

[4] GPT- Tax Levied by LG authority on every able-bodied male and assessed by ability to pay.

As graduated tax was the principal source of local revenue, one official interviewed noted that,

*"…. It has been a promising source of local revenue (Gtax) to LGs. The rationale of scrapping was 'humanity factor'. Government did not consider the amount and costs of scrapping. Even Gtax compensation which government has continued to pay with constraints is insufficient" (Interview with Auditor, July 20th 2010)*

The data obtained from Kotido district for which Abim was under (Formerly Labwor County) indicates that, labwor use to collect more IGR from GPT compared to now (Kotido revenue abstract, 2003-2005). For instance it collected GPT in FY 2003/2004 (144,537,500 UGXs), 2004/05(181,769,489 UGXs) and until it was scrapped FY 2005/06 collection declined to (2,739,500 UGXs). At sub-LGs, review of GPT register FY 2004/2005 sampled for Lotuke and Abim indicates that, there were 4,000 (12,000,000 UGXs) and 2,700 (8,100,000[5] UGXs) tax payers respectively. One sub-LG official interviewed stressed that,

*"….Gtax compensation is very deficient, for example our record show that in 2003 there were 4,000 tax payers contributing 12million, now government is sending only 8million as compensation. Above all set criteria for compensation is not based on accurate data yet if government had maintained GPT our population would have increased hence more Gtax collection",( Interview with Ag.SAS Lotuke S/C, August 3rd 2010).*

GPT abolition given what LGs use to collect, the compensation is ideally too insignificant. For instance FY 2009/2010, compensation to Lotuke stood at 8million and Abim 6million. This is a clear sign that LGs use to collect more revenue from GPT which use to be the principal source of IGR for rural districts.

*Inadequate Capacity*

District capacity in terms of enforcement by personnel is one problem affecting IGR. Sub-LGs being collection points for district IGR did not have any substantively appointed administrator. In addition, required numbers of staff to boost IGR were not recruited. All sub-LGs did not have cashiers and revenue clerks as provided for in district ceiling. Evidently, even the Account assistants and finance officials did not have necessary skills to value and monitor collection. This has greatly affected IGR performance.

Logistics in terms of finance and equipments to facilitate few staffs involved in IGR activities are poor and because of low collection, facilitation of revenue collectors is very difficult and this leads to low staff morale (Abim LREP, 2010). In addition, the district and sub-LGs did not have necessary transport and computers to facilitate IGR collection.

[5] Exchange Rate; 1**$** = 2,282, 1**€** = 3,165, 1**£**=3660 UGXs.

*Corruption*

Corruption and embezzlement: Mainly in form of collusion between collectors and tax payers and under declaration of what has been collected at every level of revenue collection value chain is another threat to IGR. One official interviewed noted that;

*"Revenue collectors are not 'password' because when they collect much, they declare little. Utilisation of IGR at source is very common and this creates a big leakage in IGR performance" (interview with CIA July 2oth 2010)*

This scenario as noticed from sub-LGs was a common experience affecting LG IGR. Certainly, Nyakwae FY 2009/2010 declared 0% to the district while Morulem and Nyakwae declared 0% FY 2010/2011 of 35% share mandated for transfer to district, (Abim budget speech, 2010/2011:8).

*Insecurity*

Prevailing insecurity in rural areas of Abim caused by armed Karimojong warriors disrupts economic activities and makes it difficult to collect revenue from many tax payers. Insecurity has adversely affected productive capacity of communities and ability to generate incomes as well as access to social services. This in turn has contributed to poor livelihood for majority of the population. The social indicators are poor compared to national standards (31.1%) and district poverty level is so high (53%). It's very difficult to mobilize revenues for social services from people since their capacity to pay taxes is very limited indeed. The major challenge as of now is to stimulate production, incomes especially taxable incomes and ultimately a saving culture.

*Political Influence*

Political influence and interference in the process of IGR collection was clear during this research. In Abim town, council rejected approval of property rates valuation proposal of 242 house estimated at 24.8million (**$**10,867) which affected IGR collection from property tax. Overall, even abolition of GPT was political in nature which affected rural districts hence impacted on implementation of local projects.

*Inadequate enforcement mechanism*

The district by the time of this research did not have adequate IGR policies that could boost mobilisation. The commodity markets, tax on '*local potent gin'* and strengthening assessment, supervision and collection was proposed by district council as revenue bye-laws. This proposals were not enforced and adhered to given that this would directly affect their voters who are direct consumers of *'local gin'* (Abim Council Minutes, ADLC/NO5/08).

While due to inadequate funding, the district was unable to construct modern commodity markets that would attract traders and private investors (Abim budget speech, 2010/10:8). A review of LREP (2008-2010) indicated that, the district had good revenue strategies but overall performance of IGR was still deficient. The district suggested potential sources as charge of 2% on all private contractors, licenses on local service like black smith and traditional crafts, levies on building plans and inspection fees, fees on registration of land, transfer of land and use of district seal, fees on undeveloped plots on upcoming trading centres but their big problem was political acceptability, (LREP, 2009/2010).

*Other silent IGR Constraint*

Compliance on the side of tax payers is another problem affecting IGR. This is due to silent reasons such as poor mobilization, negative attitudes to payments of taxes due to low levels of education; failure to link tax payment to service delivery by LGs and poor sensitization of tax payers.

Analysis of DDP (2009/2010) indicates that, the district under IGR planned to accomplish development projects from IGR but where constrained by poor performance hence were unable to undertake works and services for which IGR was planned.

**Table 1.5: IGR Planned Projects 2008/2009 (Project-millions of UGXs)**

| Development Project Name | Sector | Develop-ment Project Costs | Status of Project | Remarks |
|---|---|---|---|---|
| Construction of Uniports | Administra-tion | **30,000,000** | Project not undertaken | Low IGR realised |
| Construction of Council Hall | Boards and Commission | **120,000,000** | Project not undertaken | Planned both under IGR & Equalisation |
| Procurement of Cash Boxes | Finance | **15,000,000** | Project com-pleted | Cash boxes distributed for village savings |
| Procurement of Mini Bus | Education | **60,000,000** | Project not undertaken | Low IGR realised |

***Source* Abim DDP (FY 2009/2010):**

In Abim district, IGR mobilization just like any other LG is still a challenge. As evidenced by over reliance on CGTs to finance both recurrent and capital development activities, Political interference, Obsolete laws, lack of initiative from sub-LG staff, meagre finances, lack of revenue enforcement team and above all lack of accurate data to enhance proper record keeping and register up dates, poses a major stumbling block on IGR in the district affecting implementation of planned development projects.

## 3.5 Donors/NGO Financial Support and Projects

Whilst CG funds almost 80 % of Abim district budget and IGR less than 1 %, NGO's and Donors also supplement district budget although amount of support is determined by the resource envelope rather than arrange of local needs. By the time of this research, no NGO was visited to establish amount of disbursement or budget allocated for district activities. However analysis from Abim DDP (2009/2010:66) and United Nations Office for Co-ordination of Humanitarian Affairs-partnership for humanity records (UNOCHA, 2009) indicated that 14 development partners work in Abim engage in activities such as food security and agricultural livelihoods, education, health and nutrition, child protection, water and sanitation, peace and reconciliation. The development partners included UN-Agencies such as UNICEF, UNDP and world food programme (WFP). In addition Goal-Ireland, CUAMM-Doctors with Africa

(Italy), church of Uganda under DANIDA and FAO, world vision, international organisation for migration (I.O.M), war child Holland, Uganda Red Cross society (URCS) and Adventist development relief agency (ADRA), among others.

Analysis of the district budget, speech and DDP (2007-2010 June) indicates that, only UNICEF, World Bank and UNDP supplemented district budget directly with activities such as construction of latrines in schools, provision of borehole water, distribution of scholastic materials to primary schools (UNICEF) whereas UNDP concentrated on dam construction using labour base and peace and reconciliation programmes.

District budget as earlier noted is supplemented by UN-Agencies, NGOs and community based organisations. The challenge however is that, the development partners hardly declare the budget line for district activities except UNICEF, World Bank under Northern Uganda social action fund (NUSAF), FAO and UNDP that directly transfer funding to district account and its reflected in the budget estimates (Abim DDP, 2009/2010:102-122). There is also lack of co-ordination between development partners and district LG activities during planning and implementation of local projects which has led to duplication of services. This was particularly noticed in activities of education and water sector where UNICEF, GOAL, CARITAS and district under LDG were all involved in latrine construction in primary schools and borehole drilling. Analysis of district budget indicates that, percentage contribution of donor support for financing district infrastructural projects grew from 2.8% FY 2007/2008 to 35.6% FY 2008/2009. However in FY 2009/2010, it dropped to 19.7% while this FY 2010/2011, it's expected to increase to 26.8%. World Bank and UNICEF are highest contributors to district budget for activities mainly in the education, health, roads and water sectors. The joint local projects resulting from Donor funding has been analysed in last part of chapter four of this research.

## 3.6 Other Local Revenue Mobilisation and Project Implementation

*Loans and Debenture*

LGs in Uganda are mandated besides CGTs and IGR to borrow loans and debenture to cover the fiscal gap for local project implementation. The LGA (2008:79, amended) states that;

*"For the purpose of article 195 of the Constitution, a LG may borrow money or accept and use a grant or assistance as is provided in the fifth schedule"*

Abim district has not taken advantage of financial markets to borrow loans or debentures for project implementation. The challenge has been poor financial markets in the district and low IGR performance to repay the loan. One finance official interviewed noted that;

*"The district is unable to borrow loans because financial institutions are not well developed. Above all, our IGR performance is generally low", (Interview with DLA, July 20th 2010).*

Consequently, with stringent CG regulation on borrowing loans and debentures, this affects LG fiscal ability to mobilise sufficient revenues, plan and meet local needs.

*Community Contribution*

However given dire need, the district FY 2009/2010 borrowed a loan to procure a vehicle to facilitate district activities but with low performance in IGR to repay the loan, record obtained from finance department indicates that, out of 58million shillings borrowed, the district was able for the last two years to make part repayment of 34million shillings only (34%). The other challenge to loan borrowing is CG regulation as stated in the LGA that;

*" A LG council may from time to time raise loans by way of debentures, issue of bonds, or any other method in amounts not exceeding 25% of IGR provided that a LG demonstrates ability to meet statutory requirements",(LGA, 2008:199, fifth schedule).*

In Uganda, community contribution as a form of revenue mobilisation for development project implementation is not well developed. However, community contribution is specific to projects for instance it's a condition for World Bank projects under NUSAF for community to give contribution inform of land, attendance of meetings and other material contributions. Under LGDP fund access, LGs are encouraged to seek for community contribution. In Abim district, land has been the only contribution made by local community. Under water sector, communities are encouraged to contribute 600,000 UGXs ($263) for borehole drilling while they are also expected to contribute payment of user fees through their elected water user committees for operation and maintenance. But many times, LG project beneficiaries do not take this in to account. They feel its LG obligation to provide all services.

## 3.7 conclusion

The policy of decentralisation was envisaged by many SSA countries to improve service delivery at LG level. However, Financial raising authority given to LGs have faced multiple challenges impacting gravely on local development projects. Abim District LG encounters problems such as CG policy of regulation for instance abolition of GPT, settings rates on certain taxes (valuation rates on property tax). Among the internal constraints are LG capacities to enforce collection due to few personnel and inadequate logistics, corruption and internal politics affecting revenue collection. Donor agencies more often do not declare their budget for local service delivery making it difficult to coordinate LG activities.

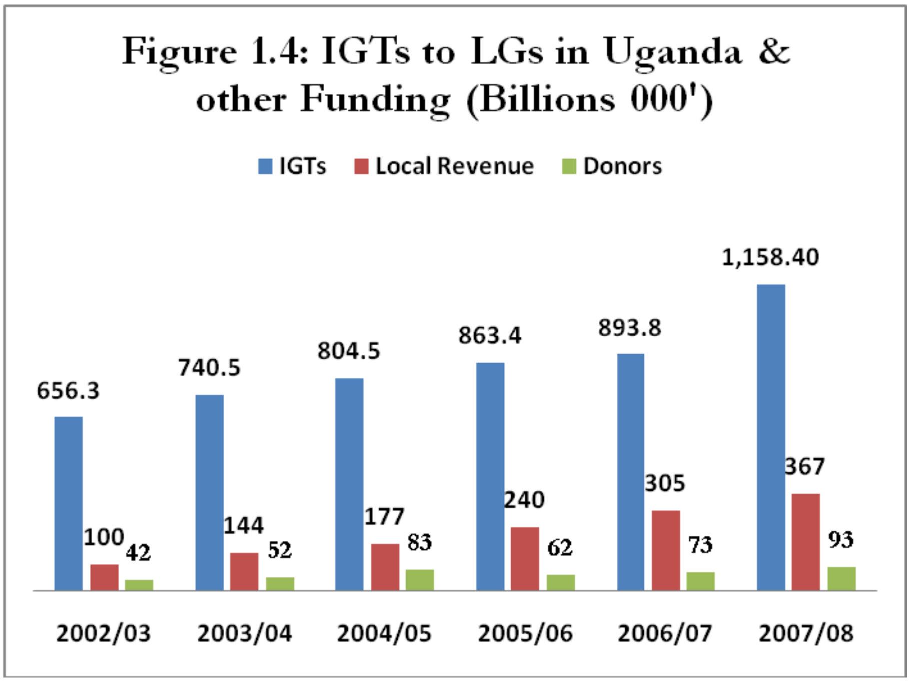
# CHAPTER FOUR: CGT & FISCAL REGULATION AND THEIR EFFECT ON LG DEVELOPMENT PROJECTS.

## 4.1 Introduction

The 1995 Constitution provides in Article 193 (1) that '*CG shall transfer money to LGs in three ways: Conditional, Unconditional and Equalisation grants*'. This chapter provides analysis of IGTs, fiscal regulation and its effect and other factors influencing LG development projects.

## 4.2 Analysis of CGTs to LGs in Uganda

In order to increase efficiency and effectiveness of fiscal transfer system, Fiscal Decentralisation Strategy was approved in 2002/2003**.** This strategy provides a framework that streamlines transfer of resources to LGs and increases flexibility with which LGs can spend their resources within National priorities (Okori, 2010). However, LGs have become strongly dependent on IGTs (Bahiigwa, 2006:317). With narrow discretionary powers; this has consequently presented a challenge for implementing development projects. IGR overall and donor funding have been lower than IGTs.




***Source*****: MoLG Report (2008).**

The graph above shows increasing growth in IGTs compared to IGR and Donor funding. However, it's vital to point out that, the growth in IGTs raises a lot of challenges in planning, budgeting, project implementation and reporting affecting efficiency and effectiveness of service delivery in LGs.

### 4.3.1 Analysis of CGTs to Abim District

Analysis of DDP (2006-2010), financial statements and reports (2006-2010 June 30th ending) and MoLG policy statement (2007-2010) indicates that, since the district started FY 2006/2007, CGTs such as conditional, unconditional and equalisation grants are used for service delivery. The Chief internal auditor (DCIA) was more direct in pointing out finance status of the district;

*"Abim district heavily relies on IGTs. The local sources of revenue are not well taped. The central funding of conditional and equalisation grants being poverty alleviation funds are utilised within sector guidelines provided by ministry". (Interview with district auditor)*

#### ***Conditional Grant***

Conditional grant are mainly used for implementation of projects in sectors of health, education, works and technical services, production and marketing where 85% of funding is channelled to key capital development areas. In addition, 15% is used for monitoring, re-tooling and investment servicing costs (Abim, DDP 2010). Financial guideline from sector ministries at the time of this research was more pronounced under conditional grant sent to LGs.

Under education department for instance that receives capitation and SFG, district inspector of schools (DIS) interviewed highlighted that;

*"…. I need to stress that, conditional finances have clear cut lines which should be completed within a given financial year otherwise the money risk going back to the consolidated government account".(Interview with DIS, July 21st 2010)*

#### ***Equalisation Grant***

The Constitution of Uganda (1995) provides for an equalisation grant system purposely making special provisions for least developed LGs in terms of service delivery standards for which Abim is one.

It's directed to projects agreed upon between LGs and CG. LGs have discretion to utilise this funding within PAF sectors. Abim district directed its equalisation grant by the time of this research to filling budgetary gap of completing water office at the District headquarters and opening 5km road.

#### ***Unconditional Grant***

Unconditional grant as defined by Constitution article 193(2) is the minimum fund given to LGs to run decentralised services. However, since payment of salaries and wages have been centralised for which this funding is meant, the district has been receiving less balance of this grant from MoFPED and use mainly for operational purposes such as payment of travel allowances, operation and maintenance of assets and general office running.

### *Graduated Tax Compensation*

These are funds given to LGs to compensate for loss of revenue arising from abolition of GPT. The GoU has paid compensation to LGs for last three FY's averaging between Shs 34.86bn and Shs 45bn as unconditional grants. Compensation to some extent has mitigated the impact of abolition of the Tax. Okori (2009) in MoLG report noted that;

*"The combined effect of abolition of Gtax and the inability to implement Government decision to fully compensate LGs for loss of revenue has adversely affected the capacity and ability of LGs to finance their decentralised mandates and services".*

By implication, this means LGs are being compensated less what they use to collect from GPT hence affecting LG service needs.

**Table 1.6: CGT to Abim District 2006/2007 - 2009/2010 UGXs in Millions ('000)**

| Grants | 2006/07 | % | 2007/08 | % | 2008/09 | % | 2009/10 | % |
|---|---|---|---|---|---|---|---|---|
| **Conditional** | 3,442,234 | 79 | 3,974,807 | 83 | 4,201,332 | 84 | 6,708,726 | 89 |
| **Unconditional** | 758,761 | 17 | 799,987 | 17 | 732,794 | 15 | 740,742 | 9.8 |
| **Equalisation** | 27,893 | 0.6 | 26,920 | 0.5 | 34,496 | 0.7 | 19,117 | 0.3 |
| **Graduated tax Compensation** | 153,595 | 3.5 | 22,060 | 0.4 | 62,663 | 1.2 | 83,886 | 1% |
| Total | **4,382,483** | | **4,803,774** | | **5,031,285** | | **7,552,471** | **100** |

***Source*: Financial Statement-Abim district as at (1st July 2006-2010 June) and MoLG Ministerial policy statement (2008, 2009 and 2010)**

As earlier indicated and from the interview conducted with revenue officials in Abim, the main source of district funding are CGTs. Budget analysis (2006-2010 June) and budget speech for the same FY's presented by council indicates that CG funds district budget by almost 80% if donor funding and IGR is deducted from total overall budget. These funding are therefore allocated to various sectors given local development needs of the district and taking in to account the guidelines issued by sector ministries on use of funding. From the DDP and budget estimates reviewed, the district gave more priority to health, education, works and technical services and public administration. One official in district planning unit interviewed noted that;

*"We give priority to sectors such as education, health, roads and water because the overall planning framework for the district is still on poverty eradication action plan which sets out government objectives and strategies for reducing poverty. Therefore as a district, we must run a three year rolling development planning system that constitute the link between PEAP and budget allocation for implementation of projects within those sectors".(Interview with district planner).*

This clearly shows how central funding to the district are planned, allocated and expenditure made with clear guidelines. This leaves LGs in Uganda with less autonomy to take decisions on local priority areas.

**Table 1.7: Contribution of Various Revenues to District Budget (2007-2010) in Millions of Ushs ('000)**

| REVENUE | 2007/08 | % | 2008/09 | % | 2009/10 | % | 2010/11 Expected | % |
|---|---|---|---|---|---|---|---|---|
| **Local Revenue** | 26,860 | 0.6% | 51,021 | 0.7% | 70,253 | 0.8% | 84,861 | 0.7% |
| **Gov't Grants** | 4,803,774 | 96% | 5,031,285 | 63.7% | 7,531,564 | 79.5% | 8,670,427 | 72.4% |
| **Donor/NGO** | 138,810 | 2.8% | 2,812,354 | 35.6% | 1,868,636 | 19.7% | 3,208,792 | 26.8 |
| Total | **4,979,444** | **100** | **7,894,660** | **100** | **9,470,453** | **100** | **11,964,080** | **100** |

***Source:*** **Finance and planning department Abim (June 2010)**

The above table indicates that, IGTs forms the highest percentage of district budget. As deduced from table **1.7** above; it's more skewed towards conditional grants and has been increasing over time. For instance in FY 2007/2008 government contributed to Abim budget 96% while in 2008/2009 the contribution dropped to 63.7% because Abim got penalty in National assessment and thus got a reduction of 20% on their conditional grant. While central and donor/NGO funding has been on the increase, IGR in real terms has been on the decline contributing less than 1 % to total district budget. An interview with district officials on IGR generated comments that;

*"….adequate revenue can address rural district priority needs. Districts with low revenue are disadvantaged. Smaller districts like Abim are currently unable to fund all functions given low local revenue base. Take alook.., autonomy is influenced by strings attached to finances from CG even NGOs do not give options which sometimes does not reflect community needs". (Interview with ACAO, July 20th 2010)*

With declining IGR in real terms, such comment evidently presents an indication of how CG imposes strings on finances sent to LGs and how interest of development partners and donors deviate from specific local needs of the community within LG in which they work.

## 4.3 Fiscal Regulation and Its Effect on LG Development Projects.

*Co-funding*

Abim district is constrained by conditionality in the use of CGTs such as co-funding 10 % for all conditional grants disbursed to the district this affects implementation of development projects given declining IGR. Failure to co-fund means sanctions for non-compliance. This explains the reason why, Abim failed National assessment since co-funding is one of the minimum conditions for accessing CG funds hence reduction on her budget by 20% FY 2008/2009.

*Sector guidelines*

In addition, sector guidelines are not flexible and more often do not give room to LGs to allocate funds to local priority areas. For instance under the health sector, the district health officer when interviewed noted that;

*"The policy of CG on use of funds sometimes undermines our priority. Government sends funds with clear guidelines for example in the health sector here 50% of funds allocated is for drugs,40% for lower health units and 10% for director's office running and even the whole process of disbursement is long" (Interview with DHO-Abim).*

Conditional grant being sector grants to finance activities agreed upon between sector ministries and LGs have become *'real problems in accountability and compliance issues'* (LGFC, 2009:11). CG accounting and monitoring procedures more often affects project implementation. MoLG and other line ministries monitor LGs to ensure compliance with guidelines. Outcomes of their reports for each LG will determine amount of finance access from MoFPED. For instance if a LG spends funds outside the guideline, it's sanctioned and penalised from receiving the next quarterly release. Tumushabe et al (2010:1) notes that, fiscal decentralisation is gradually getting back to CG *'through a system of conditional grant'* which has made service delivery expected detrimental.

As for unconditional grant, it's given to LGs without any string attached but from interviews conducted, this funds have indirect conditionality as its meant for pay of salaries and wages of civil servants and as such extremely little is left for service delivery. LGs given their staff model are expected to recruit maximum 65% of personnel's (*Abim current 38.5% - MoLG 2010:70)* but unconditional funds have been described by LG officials as '*Wage grant'* as very insignificant amount is left to spend on development projects.

The equalisation grant is also constrained by the fact that it's utilised only within the PAF sectors. This gives LGs narrow discretion to meet other needs that are not within PAF area.

*Budget Ceiling*

In addition, CG regulates LGs by setting budget ceiling without taking in to account arrange of local needs and the ceiling is not even adhered to. For instance FY 2008/2009 and 2009/2010 CG transferred to Abim funds overall less by 3.6% and 5% respectively. This affects LG planning, budgeting and implementation of projects.

Therefore, with co-funding obligation imposed by CG, strict guidelines on the use of finances and setting budget ceiling not adhered to, this affects financing development projects.

## 4.4 Other Factors

Beside fiscal regulation by CG in Uganda, findings from Abim show that there are other factors that gravely affect service delivery and hitherto taken for granted yet they impact on planning, budgeting, implementation and monitoring of LG projects.

*Delay in Fund Transfer*

Delay in funds transfer from line ministries were noticed as regards CGT. CG more often sends funds to LGs in 3rd and 4th quarter of the FY. This research found that, road sector funds 73million (\$31,989), education 461million (\$202,015) and health 309million (\$135,407) FY 2009/2010 meant for 3rd and 4th quarter project activities were not released by CG by end of first quarter FY 2010/2011 (Planning unit quarterly report, 2010). This affects timely implementation of projects. In addition, delay in transfer has gravely affected LG procurement process for works and services to be undertaken. This was expressed by finance official interviewed in Abim who stated that;

*"… Delay in fund transfer is not new; sometimes it's not clear and specific. At bank level from finance ministry is another bureaucracy. This makes it difficult for LGs to declare funds to sector heads for project implementation. This FY (2009/2010) because of delay, Abim is sending back 1.7billion unspent to CG" (Interview with DIA).*

*Unclear release advice*

CG sometimes sends funding to LGs without clear release advice and subsequently this affects timely planning, budgeting and implementation of development projects. For instance by the time of this research, 37million shillings (\$16,213) was on account without clear-cut information regarding its disbursement for development activities (Abim Audit report, 2010)

*Grant Allocation Formulae*

Grant allocation formulae that are not backed by sufficient data poses great constraint to financing LG projects. Under unconditional grant, wage component is allocated based on staff model structure whereas non-wage on population (85%) and surface area (15%). Gtax compensation based on total collection FY 2003/2004 (50%), population and surface area (50%). Conditional grants are based on population, area and level of development (LGBFP Report, 2010:4-7). Abim current projected population is 89,938. However, 2002 census show 54,100 people used for resource allocation. UBoS did not take post-enumeration even with great concern from district consequently affecting resource allocation. In a LGBFP report (2010), LGs raised pertinent issues concerning financing such as allocation formulae for funds across LGs which does not take in to account peculiarities of different LGs like terrain, boarder areas, conflict zones which have implications on the costs of service delivery.

*Flexibility across Sectors*

While LGs flex their funds as per council's priority and draw budgets accordingly, some line ministries do not honour the recommended flexibility and no explanation is provided for that action. Consequently, this disrupts the operations of LG budgets. In LGBFP, Abim report indicates that, ministry of education and works did not accept flexibility work plans submitted which affected projects for which flexibility funds were planed.

## 4.5 LG Finance and its Effect on Local Development Projects: A Case of Education, Health, Water and Road Sectors.

LG mandates are to deliver decentralised services to the citizens as per decentralisation policy Uganda adopted (LGA [part 2]2008:149-150). This research particularly chose these departments given that they are direct implementers of PEAP programmes geared towards achieving millennium development goal (MDG). The findings show projects implemented using various sources of LG financing discussed in the preceding chapters.

### 4.5.1 Education Sector

Abim district has 46 primary and 3 secondary government aided schools. Education sector is tasked with responsibility of increasing levels of basic quality education through improvement of school infrastructure to promote child friendly learning environment, adequate sanitation and hygiene facilities, mobilisation for school enrolment, retention and monitoring completion rates. This functions calls for adequate financing of various activities. From interview conducted and desk review of reports, UPE and USE conditional grants is what the department depends on. CG condition is that, 35% be spent on curriculum activities, 20% management at school level and 15% administration at district. School facility grant (SFG) in addition is used for infrastructural development such construction of teacher's house, classroom, latrines and supply of furniture. Development partners such as DANIDA also give special support to carter for children with specific needs like persons with disability.

With such financing, the department managed to implement some activities with slight improvement in infrastructural development (0.6% for classroom blocks) and enrolment in schools stood at 50% for boys and girls respectively in primary while 44% girls and 56% boys in secondary school (Abim school inspection report 2010:3). As observed largely, a lot of gaps still exist given inadequate funding where 194 classrooms are still lacking, 56 latrines, 62 office structures, 46 libraries, 291 teachers houses, 55 dormitories and 45 schools still needs fencing (Abim DDP, 2009/2010:36).

Field visit to sampled schools indicated that FY 2006/2007 and 2007/2008, 4 classroom structures were abandoned by contractors given low contract sum and this was evidenced in Rachkoko, Obolokome, oporoth and Gulonger primary schools. Project report obtained from planning unit indicates that FY 2009/2010, 4 projects (Oreta, Lotuke, otalabar and Morulem primary schools) were abandoned by contractors given policy change by education ministry, delay in CGTs, late tender, bad roads to contract sites and increased prices of building materials. In addition, construction of 9 staff houses in primary schools, 2dormitory blocks, 6 five stance latrines and supply of desk to 5 primary schools was ongoing FY 2009/2010 (Abim project monitoring report, 30th June 2010).

**Abandoned 2 classroom block FY 2006/2007**

**Figure 5: Field visit to Rachkoko Primary School-Abim**

**Table 1.8: State of Infrastructural Development in Primary Schools - Abim District**

| INFRASTRUCTURE | DISTRICT NEEDS | AVAILABLE | GAP-NEEDED | ACHIEVED (%) |
|---|---|---|---|---|
| Classroom Blocks | 436 | 242 | 194 | **55.5 %** |
| Borehole water source | 48 | 46 | 2 | **95 %** |
| Teachers houses | 391 | 70 Blocks | 321 | **18 %** |
| Desk | 8,113 | 2,073 | 5,440 | **33 %** |
| Latrine stances | 608 | 383 | 225 | **63 %** |
| Staff rooms | 44 | 01 | 43 | **2.2 %** |
| Dormitories | 68 | 13 blocks in 21 schools | 55 | **19 %** |
| School fencing | 44 | 2 schools | 42 | **4.5 %** |
| Office block | 44 | 30 | 14 | **31 %** |
| Libraries | 44 | 01 | 43 | **2.2 %** |
| Stores | 44 | 05 | 39 | **11.3 %** |

***Source:*** **(Adopted from Abim District School Inspection Report 2009/2010)**

Out of a total of 436 classrooms needed in primary school despite universal primary education programme, only 242 blocks are available, 82% of teachers do not have good accommodation, desk to pupil ratio is 9:1 (33%), while pupil to latrine stance ratio is 64:1 which is too high. Classrooms have been diverted to staff rooms, poor boarding facilities of just 19% and lack of fence which creates insecurity in schools. Some schools more often use classrooms as office and given inadequate CGTs and declining IGR in real terms, this has affected education infrastructural development and quality of education as well in Abim district. Water source coverage in primary schools improved given the presence of development partners such as UNICEF.

Other factors observed affecting education sector other than finance was manpower problem. This research found that, the department did not have the required number of teachers. While district ceiling is 537 teachers, there were only 391 teachers with 48 untrained against enrolment of 24,339 pupils. Thus pupil to teacher ratio stood at 62:1 in primary schools slightly higher than National average of 54:1 (Abim Inspection report FY 2009/2010).

### 4.5.2 Health Sector

Abim district from conditional development grant has been able to maintain one hospital,4 health centre III's (HC) and 13 HC II's providing curative, promotive and preventive health services (Abim DDP 2009/2010).

However, Health services are not evenly distributed within 22 parishes of Abim since only 13 parishes (59%) have access to health service facilities (*GoU recommends each parish to have HC* II). National average distance of 8 km community access to health services in Abim is estimated at 10% (National 49%).

Analysis of district health reports, DDP FY 2009/2010 and interview with DHO indicates that, in terms of infrastructure, the main hospital has necessary structures recommended by government save for lower HCs with problems of accommodation and manpower. She stated that;

*"Abim Hospital comprises health facility that can accommodate 80% of staff except health centres with problems of accommodation where we can accommodate only 50% of staff. Kanu health unit has no accommodation completely" (Interview with DHO)*

A review of Abim project monitoring report FY 2009/2010 under health sector and field visit undertaken to Kiru, Katabok and Orwamuge HUs indicates that, the district had constructed staff house grade 1B in 3 HCII'S while maternity ward in Orwamuge HCIII under the PHC conditional development grant. In addition, 5 stance latrines were also constructed in 3 HC's i.e. Morulem, wilela and Katabok this was with support from UNICEF (Budget speech, 2010/2011:12).

**Table 1.9: Health Centre Infrastructural Development in Abim District**

| HEALTH CENTRE | LOCATION | DISTRICT NEEDS | AVAILABLE | GAP-NEEDED | ACHIEVED (%) |
|---|---|---|---|---|---|
| **Katabok HCII** | Morulem S/C | 06 | 01 | 05 | 16 % |
| **Nyakwae HCIII** | Nyakwae S/C | 11 | 01 | 10 | 9 % |
| **Orwamuge HCIII** | Lotuke S/C | 08 | 01 | 07 | 12.5 % |
| **Alerek HCIII** | Alerek S/C | 12 | 02 | 10 | 16.6 % |
| **Kiru HCII** | Abim Town | 09 | 02 | 07 | 22 % |
| **Opopongo HCII** | Nyakwae S/C | 06 | 01 | 05 | 16.6 % |
| **Pupu HCII** | Nyakwae S/C | 06 | 01 | 05 | 16.6 % |
| **Awach HCII** | Lotuke S/C | 06 | 01 | 05 | 16.6 % |
| **Koya HCII** | Alerek S/C | 06 | 01 | 05 | 16.6 % |
| **Obolokome HCII** | Morulem S/C | 06 | 01 | 05 | 16.6 % |

***Source*: (Abim District planning Unit, 2009/2010)**

The above data clearly shows that lower health units' staff houses are generally inadequate. However this research put little emphasis on facilities at the health units since it majorly concentrated on infrastructural development projects. Staff houses according to planning unit Abim, was assessed based on existing staff per health unit. The manpower was also sighted beside funds as affecting health department. A review of budget speech 2010/2011 shows that staffing position in the health department declined from 61% in FY 2008/2009 to 56% in FY 2010/2011 which greatly affected quality of health service delivery in the district.

Review of Abim DPP FY 2009/2010 revealed that the district still lags behind in terms of health service provision compared to National standard. This was attributed to inadequacy of funds to strengthen lower health units, manpower shortage and equipments required for facilitating health service delivery.

## 4.5.3 Water Sector

Abim LG depends solely on underground water which is motorized drilled, hand dug, augured wells and some protected springs. Some household's harvest rain water too. However, surface water bodies are usually contaminated by faecal matter because of poor waste disposal. Also during the rainy season, when surface water is in abundance, some indigenous people use the unprotected water for domestic use, thus exposing them to water borne diseases (Abim DDP FY 2009/2010).

Analysis of the DDP indicates that few water tanks for rain harvesting were installed in schools under 2001-2005 GoU-UNICEF Country Programme. The district through conditional funding from directorate of water development (DWD) under ministry of water and UNICEF country programme managed to implement water project activities and achieved 69.2% water coverage in FY 2009/2010 compared to FY 2008/2009 which was 50.3% this is slightly above National average estimated at 43% (Abim DDP 2010/2011).

The water coverage in the district varies by Sub County with Nyakwae having lowest coverage and Morulem having the highest. At the time of this research, DWD with support from DANIDA had constructed 3 dams in the district as part of water for production programme, (Kawomeri, Kailong and Kulodwong dams). In FY 2009/2010, the district also through rural growth development centre scheme received funding from DWD to install pipe water system in 2 growing rural centres and work was ongoing.

**Table 2.1: Abim District Water Source by Operational Status**

| Location | Population | Functional | Non-Functional | Total | Achieved % |
|---|---|---|---|---|---|
| Abim S/C | **14,937** | **34** | **10** | **44** | **77.2 %** |
| Alerek S/C | **13,329** | **11** | **05** | **16** | **68.7 %** |
| Lotuke S/C | **19,081** | **13** | **06** | **19** | **68.4 %** |
| Morulem S/C | **17,446** | **24** | **06** | **30** | **80 %** |
| Nyakwae S/C | **15,023** | **08** | **13** | **21** | **38 %** |
| **Total** | **89,938** | **90** | **40** | **130** | **69.2 %** |

***Source:*** **(Adopted from Abim water Department Report, 2010)**

The table shows status of water coverage in Abim per sub-county. This data is analysed inclusive water sources in institutions such as schools and hospitals specifically borehole water source. Abim sub-county data is inclusive boreholes within Town council. The improvement in district water coverage has been attributed to support from partners such as UNICEF and GOAL-Ireland. In addition, government conditional grant for rural water funding and support from DWD through DANIDA has greatly improved water service delivery for local community. However, Nyakwae sub-county (38%) still stands disadvantage given low water coverage.

### 4.5.4 Rural Roads Sector

Rural road improvement in Uganda under decentralisation is regarded as means of increasing access and opportunities to markets in order to boost rural poor incomes. Government of Uganda (GoU) created Uganda roads fund (URF) within PAF basket to increase access through opening community roads and maintaining existing feeder roads. An examination of National Budget speech (FY 2010/2010:13) indicates that, under National road authority (NRA), routine maintenance of 29,000 kms of road length was undertaken, 1,200km rehabilitated and 87 bridges maintained in FY 2009/2010. While at district LG, the report goes ahead to point that, 31,700 kms of feeder roads and 5,000kms of community access roads were maintained under routine and periodic road maintenance. This only presents overall National status of both central, district and community roads status. Whereas National road network registered some substantial progress, status of feeder and community access roads in rural districts are in dire state.

In Abim district, the total road length at present is 217.3 km of which 47.5 kms of feeder road is in bad condition, 12 kms length in poor condition, 56 kms fair while only 101.8 km are in good condition (Abim DDP, 2010/2011:27). With this sector being one of the most sensitive and since road infrastructure impacts directly on performance of other sectors and instrumental in facilitating movement of goods and services to markets, Abim district took the initiative to maintain few roads but because of limited funding, some roads have remained unattended to.

In FY 2007/2008, Abim experienced elnino rains that almost cut off the district from other neighbouring districts like Kotido, pader, lira, Amuria and Moroto. The floods affected feeder roads washing all pavements and making them inaccessible but this did not draw any attention from sector ministries for an emergency and supplementary funding though government declared state of emergency in 30 affected districts Abim inclusive (UN-OCHA report, 2007:4). The conditions of bridges are still poor and are generally dilapidated which need repairs and construction with no intervention by district or any Donor. A total of 4 bridges within the district need urgent attention especially in 3 sub-LGs of Nyakwae, Lotuke and Alerek. Due to limited funding the district was unable to do periodic or spot improvement on any of the roads and some roads according to district records may soon become impassable (Abim budget speech, 2009/2010:12). However the district slightly maintained some 108 km using the labour based routine[6] method from the URF budget (Abim budget, 2010/2011:15).

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[6] **Routine Maintenance**: Involves small operations with limited resources and done once a year with activities such as filling potholes, cleaning culverts and bush clearing. **Periodic Maintenance**: require a lot of resources for re-gravelling, re-grading, re-shaping and off- shoot provision for road maintenance. Labour base is where local community are used to do routine maintenance on contract basis.

**Table2.2: Status of Rural feeder Roads in Abim District**

| Feeder-Road Name | Length (KM) | Network Condition | | | | |
|---|---|---|---|---|---|---|
| | | Class | Good | Fair | Poor | Bad |
| Kiru –Nyakwae-Turtugo – Moroto Border | 56 km | III | | ✘ | | |
| Abuk-Awach-Pader border | 17.1 (KM) | III | ✘ | | | |
| Alerek-Katabok-Otukei | 42 (KM) | III | ✘ | | | |
| Oreta-Rogom-Kopua | 27.1(KM) | III | | | | ✘ |
| Kopua-Kotido border | 20.4 (KM) | III | | | | ✘ |
| Orwamuge – Gangming-Lira border | 15.0 (KM) | III | ✘ | | | |
| Adea-Tyen Opok-Gulopono | 9.0 (KM) | III | ✘ | | | |
| Bar Otukei-Awach-Gotapwou | 12 (KM) | III | | | ✘ | |
| Oreta-Katakwi border | 18.7 (KM) | III | ✘ | | | |
| **Total** | **217.3(KM)** | | **101.8KM** | **56KM** | **12KM** | **47.5KM** |
| **%** | **100 %** | | **46.8 %** | **25.7%** | **5.5 %** | **21.8%** |

✘ ***Key*: Feeder road condition**

***Source*: (Adopted from Abim District planning Unit, 2010)**

The table above indicates that, of the 217.3 Km of feeder roads, only 46.8% are in good condition, 25.7% fair while 5.5% and 21.8% are in poor and bad state respectively. This scenario presents a challenge for the district given inadequate funding from CG and declining IGR in real terms. During this research, review of 4th quarter project report obtained from planning unit show that, a total of 15km road planned for periodic maintenance, 138km routine maintenance FY 2009/2010 had not been completed by 3rd quarter because funds were not released amounting to 152million ($66,839) and opening 71km road was too not completed amounting to 697million ($350,543). In addition, FY 2008/2009, 5KM road grading leading to district headquarter office amounting to 53million shillings ($23,225) was abandoned by the contractor due to late release of funds and low contract sum.

### *Community Access Roads*

The community access road links the district to sub-LGs and parishes but district records and field visit show that, access roads are in grim condition. Instead of maintaining existing roads, Abim under peace recovery and development programme (PRDP) continued to open new security roads with condition from office of the Prime Minister (OPM) undermining district autonomy to channel funds to already existing community roads that are in bad shape. These newly opened roads under PRDP are;

1) Maklathin-Adwal-8 km
2) Abuk-Pupukamuya 30 km
3) Atunga – Koya – Nuthu 25 km

This as a result leaves a total of 39.0 km community access road unattended to given limited finance from CG and IGR (Abim DDP, 2010/2011)

**Table 2.3: Abim District Community Access Roads**

| Road Name: | Length (km) |
|---|---|
| **Aremo-Obolokome** | **4** |
| **Atunga –Koya** | **8** |
| **Aninata – Ating** | **4** |
| **Oringowelo - Ating** | **5** |
| **Rachkoko - Akwangagwel** | **5** |
| **Alerek -Kulodwong** | **6** |
| **Abuk – Rachkoko** | **7** |
| **Total** | **39.0 kms** |

***Source:*** ***(*****adopted from Abim District Planning Unit 2010)**

## 4.6 Conclusion

LG service delivery performance in Uganda given the above findings presents an evaluation of what decentralisation policy registered. The IGT system to LGs, the fiscal regulation of LGs by CG and other intervening silent factors such as delay in transfers, complicated grant allocation formulae and the declining IGR discussed in the earlier chapter poses great challenge for local project implementation. This is evidence in the findings from Abim especially the existing gaps in the sectors of health, education, roads and water.

# CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION, THEORETICAL & POLICY REFLECTIONS.

## 5.1 Introduction

Uganda in SSA, adopted one of the most robust policy of decentralisation in a bid to deliver effective service. The debate on Uganda's decentralisation has been the extent to which it has achieved set objectives. This research paper provided analysis of financing decentralisation policy and how it affects service delivery. The chapter herein provides summary of findings, conclusion, theoretical and policy reflections.

## 5.2 Summary of Findings

The policy of decentralisation adopted by GoU ushered in the question of financing LGs. In order to increase effectiveness of fiscal transfer system to LGs in Uganda, government approved the fiscal decentralisation Strategy in FY 2002/2003. This strategy provided a framework for streamlining transfer of resources to LGs and increased flexibility with which LGs can spend their resources within National priorities. LGs have also been given taxing powers in order to supplement their budget. However, this research study found that, much as CGTs have grown over time, the LGs attempt to allocate this resources given arrange of community needs in rural districts have led to poor service delivery.

*LG finance and effect on Infrastructure*

Analysis has shown that, the state of infrastructures still needs urgent attention. In the sector of education, 82% of teachers still lack accommodation, 67% of pupils in primary schools do not have seats and 45% of classroom block gap still exist. In the road sector, analysis also indicates that, over 47.5km of feeder road is in bad shape, 56km fair and only 101.8km in good condition. The structures at all lower health units need urgent attention with below 20% achievement save for water sector that registered some significant achievement with support from development partners.

*CG conditionality and effect on LG projects*

This research also found that conditionality set by sector ministries against the use of CGTs and the inadequacy of funding from government has significantly affected LG effort in implementation of local development projects.

*Delay in fund transfer*

Finding also revealed that, delay in release of funding and unstable indicative planning figure have affected LG planning, budgeting and implementation of plans. This explains why the procurement process is not adhered to hence funds remitted back to CG account because LGs are unable to absorb within a short period of time given its delay by CG to transfer to LGs.

*Declining IGR*

The declining IGR in real terms is another key challenge noticed. For instance, Abim IGR contributed less than 1% to total budget. Government in FY 2005/2006 abolished GPT which was the principal source of revenue for bulk of LGs, especially rural districts. GPT was abolished because it was a burden to the poor and unemployed as claimed by government. At the time Gtax was abolished LGs were collecting Shs 45bn. However, GPT had the potential of generating Shs 80 billion every year (MoLG, 2009) and yet the introduction of new taxes like LHT and LST has greatly been critised by policy makers, making its collection difficult for LGs.

*GPT Compensation*

This research found out that, compensation which government has continued to pay with constrained is too inadequate coupled with conditionality. Consequently, this has undermined LG autonomy to concentrate on peculiar local needs of the community thus LGs have continued to implement sectoral ministry programmes rather than local needs and priorities.

*Donor funding*

The Donors/NGO funding as observed largely comes with strings attached and given findings from this particular research, partners more often have interest in specific areas yet it might not be precise needs of LGs.

## 5.3 Conclusion

Uganda adopted decentralization with milestones to transfer real power, decision making, resources and service delivery mandates from CG to LGs. Argument that decentralization is one best way of providing local development services is widely held in literatures. This notion has continued to draw significant attention of decentralization analyst. The robust decentralization policy adopted by Uganda has been described as '*one of the most ambitious*' in SSA (See Francis and James, 2003:325; Republic of Uganda, 2002:5; Assimwe and Nakanyike, 2007). Almost 18 years of implementation, this research reveals that minimal progress has been achieved in terms of local infrastructural development. With limited impact and current proliferation of districts, what is the future of decentralization policy without sufficient finance? Are LGs lazy to mobilize IGR? Have LGs become mere agents of CG priorities given narrow discretion in the use of CGTs?

This paper has argued that, LGs will continue performing poorly in service delivery mandates with projects not being implemented, abandoned and uncompleted due to multiple constraints of fiscal decentralization design between CG and LGs. Experience from this research has shown that IGR is on the decline in rural LGs and the share to total budget is extremely low. The growth in CGTs with fiscal regulation has made LGs to become mere agents of National priorities. There is ideally minimal evidence found to show that LGs have discretion in use of CGTs. This has impacted seriously on projects given less opportunity to meet urgent priorities.

With such constraints, Uganda's decentralization policy of transforming society and the economy can be said to be failing to improve the livelihood quality and welfare of the people for which it was envisaged given the dire state of rural roads, schools, health services and water for life. Therefore, there is need to re-engineer policies that can enhance LG capacity to deliver decentralized functions.

## 5.4 Theoretical and Policy Reflections

For LGs in Uganda to perform decentralised functions effectively, there is need to address fiscal challenges affecting them now.

*IGR Base Drive*

The design of fiscal policies such as improvement in revenue base of LGs needs to be undertaken through broadening tax base to ensure that IGR contributes meaningfully to development budgets. As too supported by smoke (2003) and Davey (2004), successful and efficient element of fiscal decentralisation ideally require LGs with discretion to raise adequate IGR and freedom to determine tax rates. The LGs on their part should identify alternative sources of IGR like property tax; rents, fees, LST and LHT. On the other hand, LGs ought to construct more commodity markets to attract business and broaden their revenue base rather than reliance on traditional sources that are seasonal in nature.

*Compensation of LGs for loss of tax*

The Gtax compensation initially pledged for three years should continue until LGs stabilise in mobilising revenue from LHT and LST. Ultimately, this will enable LGs to close the fiscal gap given assigned functions.

*Political will and Support*

Political pronouncements: Some political leaders make political pronouncements which affects tax collection. Local politics seldom affects revenue mobilisation in LG. Studies on IGR by Jesper in Anwar (2006:109) confirms that, political meddling from the centre in the name of pleasing electorates contributes to the decline of IGR in LGs. Literatures reviewed too points that without political acceptability, it's a myth for LGs to collect meaningful resources to fund decentralised services (Smoke, 2001:23; Jesper in Anwar, 2006:111). Kato (*Monitor* 2nd October 2010) quotes Kampala major that, '*The tax base will remain low as long as politics is party to tax issues*'. Top political leaders at all levels should support and champion tax collection for effective service provision.

*Adequate CGTs*

CGT being the major sources of revenue have continued to grow over time but in real terms, the increase is marginal given arrange of LG functions, (MoLG, 2010:37). Whereas empirical research show that, IGTs improves the fiscal balance of LGs to meet their expenditure assignment (Smoke, 2001; Santosh, 2006:269), this transfers however does not matched devolved functions in many SSA countries. Therefore CGs should give adequate funds to LGs inform of conditional, equalisation and unconditional grant to address the service delivery fiscal gap.

*Streamline Grant Allocation Formulae*

The allocation formulae for funds should be based on existing data and take in to account the peculiarities of different LGs in Uganda. Bahl (2001:16) notes that IGTs are always made complicated if the existing information does not support the grant allocation formulae being used. Therefore CGTs formulae need to be designed with consistent information base on reliable and up to date data.

*Grant Flexibility*

The CG fiscal regulation more often affects effective local service delivery. LGs should be given full discretion to channel resources to their key priority areas. CG conditionality in the use of funds should be made flexible to allow transfer a cross needy sectors such as environment, community based services etc. The regulation on taxes is another area that needs streamlining. Royalties in Uganda especially VAT collected by URA is not transparent to LGs. CG should establish LG due share for proper planning and budgeting.

*Enforce Anti-corruption policy*

Government needs to put in place and enforce strong policy framework to fight the current graft and financial mismanagement in LGs such as corruption. This will address the value chain of own-source revenue collection and management of CGTs.

*Build LG Capacity*

Capacity of LGs also needs to be enhanced in the areas of financial management, procurement, monitoring, planning and budgeting for local development projects.

*Donors vs. LG co-ordination*

The Donors need to change and streamline their approach to service delivery when dealing with LG activities. There is need for proper co-ordination in planning, resource allocation and implementation of LG projects between Donors and LGs. This will address the issue of stringent donor policies and service duplication. It's pertinent to note that, strict policies without flexibility more often tend to address general issues rather than specific needs of the poor. The change in behaviour of Donors at this point is very paramount for service delivery improvement in LGs in Uganda.

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# Appendices

**Appendix 1**

**INTERVIEW GUIDE FOR RESEARCH ON LOCAL GOVERNMENT FINANCING IN UGANDA: CASE STUDY OF ABIM DISTRICT LOCAL GOVERNMENT.**

**Questions for District Administrative Staff**

**Theme 1: fiscal Decentralisation**

1. What does fiscal decentralisation mean to you?

2. How good or disadvantageous is Fiscal decentralisation to you in terms of;

a) Decision making?

b) Service delivery?

3 a) How does your district finance its Local development Projects?

b) How would you rate your District in terms of financial autonomy?

4 a) what in your judgement has been the experience of the District in the management of Central government Transfers?

b) Given central Transfers, what are some of the Local development projects implemented by the District and the Central Government respectively in your District?

c) What is the role of the district in the project being implemented by central government directly? How was the project identified?

5 a) what sources of Local revenue does your district have authority to levy?

b) What challenges does your district encounter in the Mobilisation of Local revenue? And how are the challenges being addressed?

c) How has the District Utilised loan borrowing as a source of revenue?

d) By looking at the Challenges, how has it influence/affected implementation of Local development projects of the District?

e) Looking at your current Budget, what percentage of the budget is the District Funding under Local revenue and what percentage is being funded by central transfers?

6. Government in Financial Year 2005/2006 abolished graduated Tax.

a) In what way has it affected the implementation of local development projects in your district?

b) In your own words, how would you describe the experience in terms of local project implementation as it was before the abolition in comparison with the situation now?
c) Do you think the district has a financial gap now?
d) How sufficient is the graduated tax compensation as compared to what the district use to collect from graduated tax?

**Theme 2: Local Development Project Implementation**

7 Looking at your Budget and development plan financial year 2006-2010, what are some of the local development projects;

a) That your District completed successfully? What are the reasons for its success?
b) Were incomplete, what are the reasons for its failure?
c) Were abandoned, what are the reasons for it being abandoned?

8 a) in your opinion, how do you relate with District politicians in the process of implementation of local development projects?

b) Are there instances where earmarked funds were recommended by politicians to be diverted for unplanned projects?

c) If yes, which projects are these?

## Appendix 2

## INTERVIEW GUIDE FOR RESEARCH ON LOCAL GOVERNMENT FINANCING IN UGANDA: CASE STUDY OF ABIM DISTRICT LOCAL GOVERNMENT.

**Questions for Political Leaders**

1 In your understanding, give your view about fiscal decentralisation?

2 Of what importance is Fiscal decentralisation to your District?

3 what are the disadvantages of Fiscal Decentralisation to your District?

4 How are you using your power as a District leader to ensure proper implementation of fiscal decentralisation in your District?

5 How do you view central government funding to your District in Terms of Conditional, Unconditional and equalisation grant?

6 a) as a leader, how do you view local revenue source of the District in terms of mobilisation to fund local development projects?

b) What are some of the bye-laws council has enacted to enhance local revenue mobilisation in your District?

c) How effective are this bye-laws enacted?

d) How do you think revenue can be improved in your District?

7 a) in your opinion, what do you think about abolition of Graduated tax as a source of revenue to your District?

b) Do you think it has affected local development project implementation in your District? How and what makes you say like that?

8 a) Being Budget allocators, which sectors do you give top priority?

b) How do you relate with Technical staff in the process of local project implementation?

9 what are some of the local development projects that you ensured it was implemented successfully?

10 what are some of the projects that you are disappointed with as having failed and in what way do you think it was a failure?

## Appendix 3

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CHIEF ADMINISTRATIVE OFFICER ABIM DISTRICT

19/07/10

**TO WHOM IT MAY CONCERN**

**June 22, 2010**

**Subject: Field work Robert Abia Owilli**

Dear Madam, Sir

This is to introduce Mr. Robert Abia Owilli who is a student at the International Institute of Social Studies (ISS) in The Hague, The Netherlands, under a World Bank Scholarship. He is successfully pursuing his MA in Development Studies, where he is specialising in Public Policy and Management (PMM). As part of the requirement for obtaining the Masters Programme in Development Studies, students are expected to write a Dissertation on development related issues.

Mr. Robert Abia Owilli is currently starting the process of writing his MA dissertation on Financing Local Governments in Uganda (Case Study of Abim District), His focus will be on fiscal decentralisation policies envisioned as a strategy for providing pro-poor services. He will be travelling from The Netherlands to Uganda to collect primary data relating to his research topic and research questions, which will form the basis of his MA Dissertation.

In view of this, the Institute kindly request your resourceful co-operation to enable him access to oral and written information related to his topic. He will be carrying out his fieldwork during the month of July 2010.

Should you have any questions regarding the above, do not hesitate to contact me for any other information regarding the work and research of Mr. Robert Owilli.

With sincere regards

Dr. Joop de Wit
Convenor of the PPM Program
Senior Lecturer of Public Policy and Management
dewit@iss.nl
+ 31-70- 42 60 466

(11) All ~~staff~~ finance to cooperate when called upon from time to time

19/6

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## Appendix 4: Methodology Table

| Research Question | Factors/ what to Assess | Data Indicators Needed | Source of Data | Technique of Data collection | Respondents Number | Data processing |
|---|---|---|---|---|---|---|
| How does LGs finance impacts on LDPs? | **Local revenue**<br>**Conditional grant**<br>**Unconditional grant**<br>**Equalisation grant** | **Local revenue performance trend**<br>**Amount of central transfers to LGs in general and also Abim in specific** | **Abim District**<br>**Ministry of LG and Ministry of finance** | **Interview**<br>**Literature review** | **District staff especially chief administrative officer, finance officer and planner**<br>**Executive of council** | **Qualitative and quantitative** |
| Why hasn't the local base of LGs in Uganda been able to improve? | **Property tax**<br>**Fees**<br>**License**<br>**Other taxes** | **Amount collected annually for each revenue source** | **Abim**<br>**MoLG**<br>**MoFPED**<br>**LGFC** | **Interview**<br>**Literature review** | **(3) Finance staff** | **Qualitative**<br>**Quantitative** |
| Has this affected LDPs? | **Low Revenue base**<br>**Low incentives**<br>**Political influence** | **<u>Revenue base</u>**<br>**Working popn**<br>**Economic activity**<br>**<u>Low incentives</u>**<br>**Salary for collectors**<br>**Commissions**<br>**<u>Political influence</u>**<br>**Enacted revenue byelaws**<br>**Denouncements on revenue** | **Abim** | **Interview** | **(3) Finance staff**<br>**(6) Tax collectors** | **Qualitative** |
| How have CG regulation influence implementations of LDPs? What is the current state of LDPs? | **Local development projects in**<br>**Education**<br>**Health**<br>**Works**<br>**Water** | **Completed projects**<br>**Uncompleted projects**<br>**Abandoned projects** | **Abim** | **Interview**<br>**Personal observation** | **Sector heads in finance, health, education, works and water** | **Qualitative** |
| Do LGs have the capacity and policy to improve revenue mo- | **Capacity of LGs in terms of personnel, logistics.** | **<u>Personnel</u>**<br>**Number**<br>**Quality**<br>**<u>Logistics</u>** | **Abim** | **Interview**<br>**Literature re-** | **Administrative staff**<br>**Executive of Council** | **Qualitative** |

| | | | | | | |
|---|---|---|---|---|---|---|
| bilisation? | **Policy, existing laws and ordinances that supports revenue mobilisation** | **Equipments**<br>**Revenue budget**<br>**Policy framework**<br>**Adequacy, compliance** | | **view** | | |

**Appendix 5: Time Schedule and Budget**

| Activity | Time | Budget |
|---|---|---|
| Submission of RP design | **10 June 2010** | |
| Literature review | **10th June- 01 July 2010** | |
| Data collection | **08th July-August 20th 2010** | **Air fare & other expenses=1200 Euros** |
| Analysis of data and writing | **20th August-1 September 2010** | |
| Writing conclusions | **2nd September- 14 September 2010** | |
| Submission of Research Paper first draft | **20th September 2010** *12:00hrs.* | |
| Research Paper Seminar | **27th September-8th October 2010** | |
| Final editing | **8th October-16th November 2010** | |
| Submission of Research Paper final version | **17th November 2010** *12:00 hrs* | |