



Institute of Social Studies

Graduate School of Development Studies

**DECENTRALIZATION AND POVERTY REDUCTION: PART OF
THE PROBLEM OR PART OF THE SOLUTION? A
COMPARATIVE ANALYSIS OF RWANDA AND UGANDA
DECENTRALIZATION AND POVERTY REDUCTION PROGRAMS**

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DEDICATION

To my late parents, my beloved sister Mukambaraga Flomina, and brother Ssalongo

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ACRONYMS

CDF	Common Development Fund
COMIC	Cooperation, Operational, Maintenance, Information and Coordination
DPI	Decentralization Policy Program
GDP	Gross Domestic Product
GOR	Government of Rwanda
HDI	Human Development Indicator
HIS	House Hold Integrated Survey
IMF	International Monetary Fund
LABSF	Local Authority Budget Supporting Fund
LGDP	Local Government Development Program
MDGs	Millennium Development Goals
MINALOC	Ministry of Local Government, Good Governance, Community Development and Social Affairs
MINECOFIN	Ministry of Finance and Economic Planning
Mon & ACC	Monitoring & Accountability
NGOs	Non-Governmental Organizations
PHC	Primary Health Care
PRSP	Poverty Reduction Strategy Paper
RWF	Rwanda Francs
SFG	Schools Facilitation Grant
UBOS	Uganda Bureau of Statistics
UGS	Uganda Shillings
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNHS	Uganda National House Hold Survey
UPE	Universal Primary Education
VFI	Vertical Fiscal Imbalance

ABSTRACT

The benefits of decentralized service delivery can depend on the point of capture by the elite groups and on the level and nature of population inequality. However, if there is elite capture and the interests of the local political elites are not aligned with those of the poor, decentralization may work against the well-being of the poor. Similarly, in circumstances with pronounced inequality in local relations of power and authority, decentralization, and in particular the decentralization of poverty programs in such context will worsen inequality.

In this paper, we attempt to present a survey of empirical evidence accessible on the link between fiscal decentralization and poverty reduction between Uganda and Rwanda. Through this, the research focuses on the measures of revenues and expenditures in different sectors under decentralization between the two countries. In addition to revenues and expenditures, the paper investigates the poverty profiles between Uganda and Rwanda this is done through analyzing poverty levels before and after these countries adopted decentralization programs. On the other hand, there has been a consequence of having over stretched financial capacity of revenues and expenditures. The expenditures surpassed the revenues leading to the huge gap between revenues and expenditures in Rwanda with high poverty head counts in provinces. On the other side, poverty in Uganda decreased significantly in both urban and rural areas. Poverty head count index declined from 59.7 percent to 41.8 percent in 2002/2003. However, the reduction in poverty has mainly been attributed to the achievements in implementing the pro-poor policies and strong public spending in the country's key social sectors and independence in revenue collections under fiscal decentralization.

Key words: Fiscal decentralization and poverty reduction

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background to the study

Decentralization has recently been accorded a central place in the dialogue on economic development. It is being increasingly argued that without an apt decentralization structure, the developing countries will not be able to generate either sustained economic growth or impetus towards rapid poverty reduction. What are the issues involved in achieving poverty reduction, and what actions need to be taken in order to tackle such issue? Much what has been on paper in the recent past has been devoted largely towards exploring the issues involved in the rapport between good governance and poverty lessening hardly on decentralization policy. Some policy makers and social scientists, influenced by neo-liberal ideas, have viewed decentralization as a means of shifting power away from the center, which has discredited itself in their eyes through rent-seeking. Others aggravated by the poor results of centrally organized interventions to reduce rural poverty have begun to see decentralized mechanisms as possible solutions in general. Most countries on African continent and some proponents of decentralization in third world countries share the view that local government may be a major vehicle for detailed pro-poor policies, such as the sharing of resources as well as increasing participation of population in decision making process.

Additionally, analysts employing public choice begun to see decentralization as an option which offers something resembling to a free market- bringing together “buyers” (citizens) of the state and “sellers” (decentralized authorities) in a setting where the wishes of the former can impinge effectively on latter (Smith, 1985). Specialists in public finance and advocates for the new institutional economics- who, together with the public choice school, pursue institutional analysis approaches to public policy- developed point of view which also lend momentum to the mode for decentralization, more especially of the democratic type. Democratic decentralization is seen as a means of linking political demand for services with a requirement that beneficiaries pay for them. In order to make

public finance work along with decentralization, the degree of efficiency including the tax administration expenditure or strong fiscal administration management systems have to be addressed and acceptable institutions have to be put in place (Tanzi, 1989).

In this essence, Rwanda decentralization policy was stimulated by the overall goal of bringing about good governance and the same time improving community empowerment which had been pursued since 1994. On the other hand, Uganda set out an agenda that devolves decision-making and public service to the practical levels of local government. According to Saito, Uganda is unique compared with other countries in sub-Saharan Africa with decentralization not being “donor driven” but having its aspirations of the local population. Through this process, Uganda has achieved decentralized and stable systems of sub-national governments in the sub-Saharan region.

However, following its independence in 1962, Uganda’s economic growth grew rapidly with agriculture expanding approximately to 6.7 percent per every year. In addition to its economic growth, civil wars and political instabilities more or less destroyed Uganda’s formerly promising economy. GDP declined each year from 1972 to 1976 and registered only slight improvement in 1977 when the world prices of coffee increased. The depressing economic growth resumed, largely because of the government’s expropriation of business assets, foreign investment declined sharply as Amin’s regime destroyed nearly the subsistence sector of the economy. The regime was symbolized by wars and conflicts. However, the conflicts in Uganda were products of regime failure due to predatory and poor provision of public services (www.geographic.org). On the other hand, the conflicts in Rwanda were a product of ethnic divisionism among the Tutsi and the Hutu. The ethnic composition of the population has been a most important concern in Rwanda politics since the time of colonization. When the Belgian came first privileged the Tutsi. The Tutsi were taken to elite schools and given good jobs so this created hunger among the Hutu population (Verwimp, 2000). On the other side, Rwanda is well thought-out as one of the poorest countries in the world. During the 1960s and 1970s, the country experienced high rates of economic growth of 5 percent per annum on average due to political stability, prudent economic growth and fiscal management, high coffee prices and high levels of external donor assistance. However, the economic situation deteriorated in the 1980s as coffee prices fell, arable land continued to turn out to be more

and more scarce due to high population growth and public spending grew less efficient; the authorities responded to the fall of world prices by increasing controls over the economy instead adjusting to the external environment and maintaining the competitiveness of the economy (www.worldbank.org). In 2001, GDP growth rate was US\$220, below the sub Saharan Africa average of US\$ 470 and the US\$ 430 average for low income countries. In 2000 agriculture represented 44 percent of GDP and the overall growth was negative at an annual average of -0.2 percent average from 1999-2000. Due to the killings of 1994 the GDP declined further by 50 percent, but between 1995 and 2001 GDP started growing at 12.5 percent per annum (www.worldbank.org)

1.2 Statement of the problem

Poor provision to essential needs, high illiteracy rates and immense poverty characterizes the inhabitants of both Rwanda and Uganda, with such situation; the people cannot be served as highly anticipated therefore the need for decentralization and poverty reduction. Langseth (1996) provides a constructive reminder of the objective of decentralization in Uganda “... to build a more democratic government that is responsive and accountable to the public, to promote capacity building at the local level, and to introduce local choice into the delivery of public goods, thus fostering the sense of local ownership”. Uganda’s decentralization policy can be seen in the phase of establishing institutions that smooth the progress of good governance under the structure of local councils. These councils offer an apparatus for people to participate in decisions touching their lives, from district up to the sector level. On the other hand, decentralization in Rwanda can merely be achieved if owned and supported by all actors. This can only be achieved when the entire decentralization execution process is consultative and participatory. On the other hand, fiscal decentralization is an essential part for the decentralization agenda if the devolution of responsibilities, power and tasks is to take place. Local government need to be empowered to organize and raise revenue as well as making their own decisions on how their resources should be spent.

Under decentralization both governments should guarantee that countrywide objectives for poverty reduction are pursued and local government spending does not put in danger the national economic stability of these countries. Better financial freedom needs to be accompanied by sufficient revenue for both governments to meet the delivery of basic

needs to the deprived that are typically situated in rural areas and answerability in public finance management. It's on this note that decentralization program was founded on the hypothesis that if economic policies are taken at the lower administrative level where the problems are more rampant; with no hesitation there will be increased effectiveness, and efficiency in service delivery and therefore leading to poverty reduction.

1.3 Objectives of the study

- To identify fiscal decentralization and its likely impact on poverty reduction ,
- To analyze the impact of decentralization in terms of revenues and expenditures at the district level by using empirical data
- Based on the paper, the research will come up with conclusions and summary of the major findings.

1.4 Hypotheses of the study

From the objectives mentioned objectives, the following hypotheses will be tested;

- Poverty reduction and fiscal decentralization have no impact on the local people
- The populations in both countries have no powers to make a decision to the nature of services that ought to be delivered.

1.5 Relevance and justification of the study

First and fore most, the research process is regarded as a contrivance for participating in a field. Nevertheless, this procedure is not only a noteworthy output that benefits the prospect students but also age bracket in the field. In reality, most countries in Africa and some proponents of decentralization in developing countries do contribute to the outlook that local governments may be a most vital vehicle to reduce poverty. So the significance of the study draws from the reality that it should take the length of period in bringing forth important information on poverty and decentralization programs. It shows challenges to the fore of the path of poverty reduction. The information generated by the

study is likely to improve on the implementation process amid poverty reduction as well as decentralization process.

1.6 Scope of the study

The research paper is confined to fiscal decentralization and poverty reduction in Rwanda and Uganda. The paper intends to study fiscal decentralization and poverty reduction amid the two countries. This will be done by analyzing poverty profile of both countries and link it to fiscal decentralization, by taking a look at what happens to poverty subsequent to decentralization.

1.7 Research structure

The rest of this paper is structured as follows:

Chapter one consists of general introduction of the study together with the background of the study, statement of the problem, objectives of the study, research hypotheses, relevance and justification of the study and scope of the study. Chapter two is in depth with the review of the relevant and linked literature on decentralization and poverty reduction. The literature was collected from diverse sources such as text books linked to the topic, reports, journals and electronic sources. Chapter three will focus on decentralization and poverty reduction in relationship with two country case studies. Chapter four will center on analyzing both empirical and theoretical data basing on fiscal decentralization in Uganda and Rwanda. Chapter five is comprised of conclusions and summary of the key findings.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter is in depth with the review of the accessible literature related to the topic under study. The literature is gathered through diverse sources such as books, journals periodicals and internet sources.

2.1 The concept of decentralization

Decentralization is defined as the balanced sharing of competence and resources within a political and administrative system to lower regional or local levels. The limits to central control and implementation have turned out to be evident not only in industrialized countries, but also in developing countries. Decentralization has the intention of partially relieving the central state level of decision-making powers partially to lower levels. The whole political administrative system in the course of action becomes more adaptable and responsive towards local demands and situations (Gaudioso: 1987). Going further, (Litvack, 1999) defined decentralization as a transfer of authority and responsibility for public functions from a central government to subordinate government.

2.2 Literature on decentralization

Until of late development policy debate on decentralization largely focused on governance and efficiency, and scarcely on poverty effects. With the aim of supposedly more effective poverty reduction agendas in mind, local and international organizations are increasingly calling for decentralization. Decentralization can influence poverty directly and indirectly: Direct effects of decentralization and poverty reduction relate, for instance, to regional targeting of transfers. Indirectly, e.g. in-efficiency in local public services and related in a weak position economic growth of sub-optimal decentralization unfavorably impinge on poverty reduction. Decentralization is an instrument, not a target in itself, for well-organized and participatory governance process. It unquestionably not an instrument for a narrowly definable sole goal and it therefore runs the danger of being over-extended and aimed at a range of goals. Still, if decentralization impacts on poverty

reduction, and if the linkages under well defined circumstances are generally positive and enforcing- given countries' institutional circumstances and the social costs arising from building decentralization- correlated capacities- poverty reduction effects would add a measurement to the challenge of optimizing decentralization(Braun and Grote:2000)¹. However, given its various dimensions, measuring decentralization in an aggregate way is not in a straight line forward. One technique of measuring decentralization is by applying governance indicators to different layer of government administrative units. In recent years, there has been a proliferation of indicators linking different aspects of decentralization. Kaufmann et al. (2000) analyzed several of cross country indicators as proxies for various aspects of governance including: voice and accountability; political stability; government effectiveness; regulatory burden; rule of law and control of corruption. In principle, each of these aspects can also be useful to decentralized structures. However, strengthening governance under decentralized institutions by which authority is exercised and public resources are managed in a given state is pertinent because as countries increasingly need to achieve macro economic stability through decentralized reforms, up grade social and legal institutions that support good governance will be required (Treisman, 2000; Humplick et al 1995). A number of countries currently preparing poverty reduction strategy papers (PRSPs) have acknowledged decentralization as an overt policy instrument to advance governance. On the other hand, fiscal decentralization- the assignment of expenditure functions and revenue sources to sub national levels of government has a recognized bearing on governance(ibid) Decentralization can also be seen as an approach to increase accountability of local officials by bringing authority or power nearer to the population. There is some proof that, by making local officials more accountable and placing accountability decision-making and implementation in the hands of local stakeholders, the quality and competence of public services improves (Bardhan, 1997a and b). However, some general surveillance emerged with respect to the decentralization of basic social services. In addition to that, fiscal decentralization also believed to serve the poor has to be part of a larger, more general framework, that is, a framework that helps to produce suitable

¹ For further analysis on the conceptual linkage between decentralization and service delivery see Von Braun and Grote(2000) and Almad et al (2005)

incentives for accountable, decentralized decision making (Ahmad, 1997). Fiscal decentralization however, does not lead routinely to more pro-poor spending. Political and administrative decentralization seem a precondition. Even high public spending on social services may not translate into better services to the poor. Programs for deprived people are too over and over again of low quality and impassive to poor people's needs. Filmer and Pritchett (1999a; b) bring into being that public spending is only weakly linked to outcomes.

2.2.1. Arguments on reforms and economic decentralization

Economic reform programs across the world in the 1980s and 1990s transitional economies and many poor countries- have been constructed just about two core elements. The first is fiscal restraint, whether planned by conservative macroeconomic policy makers, imposed by structural adjustment or reluctantly acknowledged as the implication of increasingly global financial markets. In current multilateral policy documents the point of view for political and in favor of economic decentralization have turned out to be inextricably entangled. As a result the World Bank justifies 'informal, political' decentralization on economic efficiency grounds: 'public goods and services should be provided by the lowly level of government that can fully capture the costs and benefits' (World Bank, 1997). Decentralized economic institutions come out from pre-existing political and economic accommodations, and their legitimacy is only recognized – if at all- over time. The political and social pressures produce informal behavior, including informal patterns of economic decentralization, which are diverse from planned effects. Particular policy outcomes from particular forms of economic decentralization can only be achieved within well-matched political settlements; some objectives necessitate new settlements.

2.2.2. The positive impact of decentralization

Von Braun and Grote performed a cross- country analysis with a sample of 50 countries and concluded with the intention of decentralization (defined as a combination of political, administrative and fiscal decentralization); provide the need of the poor, as captured by the composite index of human development (HDI). These authors highlight

the need to consider political, administrative and fiscal aspect of decentralization process in order to accurately assess the impact on the poor (Von Braun & Grote, 2000).

Along this line, (Lindaman and Thurmaier, 2002) also employ a cross- section study to observe the impact of decentralization on HDI and discover the proof of positive and significant relationship between different measures of fiscal decentralization and basic needs education and health. (Galasso and Ravallion, 2005), employ the Bangladesh's food-for-Education program data set and come across that pro-poor program benefits increased with decentralization. In a related study, (Bardhan and Mookherjee, 2005) find that decentralized management advanced poverty reduction goals in West Bengal, India.

2.2.3. The negative impact of decentralization

A number of additional studies have concluded that decentralization can negatively impact poverty and pro-poor service delivery. Using cross-section and time series data for the period 1975-2000, on a large number of countries, (Enikopov and Zhuravskaya, 2003) find out that political decentralization, captured by whether or not state executive officials are elected, deteriorate public goods provision (immunization and under- five mortality rate) in the long run in developing countries. These authors also hit upon that the being there of municipal elections significantly hurts the results of decentralization for the long run provision of some public goods. (west and Wong, 1995) find that in rural China; decentralization resulted in lower level of public services in poorer regions and, (Jallan and Ravallon, 1999) finds that decentralization generated substantial disparity in public spending in poor areas in Argentina. Similarly, (Azfar and Livingston, 2002) find no facts of improved efficiency and equity of local public service provision from decentralization in Uganda.

Quite a lot of studies have attempted to observe poverty reduction and decentralization all the way through the efficient provision of basic needs program, accountability and responsiveness of lower level of government. However, most of these works are biased and descriptive, while the findings are not very accurate and diverse. For example, (Rao, 2002) examines a set of conditions for general and specific purpose transfer to effectively influence poverty outcomes. (Crook and Manor, 1998) use case studies for some selected

developing countries to investigate the impact of political decentralization on poverty reduction outcomes.

2.2.4 Decentralization and empowerment for poverty reduction

Literature on decentralization do verify that decentralization is a method to enable civil society to contribute in the policy process and thus to augment transparency and predictability of decision making. Local governments are commonly better informed about, and more responsive to, the needs and preferences of local populations than central governments. It is much easier for local governments to recognize the problems and reach the poor as long as local politics authorize this. Decentralization also has the main advantage that local officials can be more easily monitored and controlled by the local communities than officials in the central government, if the rule of law exists on the ground by the side of the local level, so the further the government officials are closer to people the easier it becomes to monitor them from beginning to the end of information provided by the population.

Whether local participation in governance systems of public goods and services will really have a positive impact on low income groups is not clear. However participation, to be operational, requires first, a minimum level of education, basic capabilities, and equality based on gender and empowerment of people at local level. In addition to that, local elites have often direct access to and influence over local officials, and resist sharing power in new decentralization and participation policies (Narayan et al., 2000). If communities or the state cannot influence or control the actions and corrupt practices and even when bureaucrats are accountable to the local government, benefits can be “captured” by interest groups with implication for efficiency. Tendler asserts that the problem of “elite capture” is particularly serious as donor agencies are enthusiastically rushing to adopt the participatory approach because they need rapid and divisible results to persuade their constituents or sponsors that the new approach works well. He says that if real time is not spend to ensure that the poor obtain real bargaining strength and organizational skills “ownership” of the projects by the beneficiary groups is most probable to remain an elusive objective (Narayan and Ebbe, 1997; Tendler, 1997). Until

the rural poor are sufficiently empowered, the elite capture problem is a bound to seriously hurt the poor programs to achieve their objectives (Ribot, 2000). If no measures are taken to alleviate the elite capture problem, such approaches will fall far short of the high expectations placed on it by the international donor community, and cause a lot of disillusionment in the near future(Hickey and Mohan,2003).

Capture leads to quite a lot of problems in the delivery of local public services, including cost effectiveness and black market problems. By disbursing significant amount of money too easily, aid agencies add also to perverse dynamic effects. For one thing, they facilitate local leaders to gain increasing legitimacy from interactions with the external world rather than their own population (ibid). On top of that, corrupt bureaucrats will tend to exaggerate costs in the budget implementation, divert the public goods to resell it to the non- deprived on the black market or give priority to powerful socio-economic groups (Dethier, 2000). As (Alderman, 1998) states, the increasing complexity of decentralized programs may raise the potential of improved delivery, but also increases the chances for misallocation of funds at diverse nodes of the system. With in the perspective of decentralization, political power of the poor plays an important role in affecting the levels of living. The major power of the poor is participation in the election process. Theoretical models for a private impact of decentralization on poverty reduction can be derived from a simple political economy concept. In case poverty is a regional observable fact and applying the median voter model, the needs of the poor are better served in a decentralized setting, at least when each constituency receives the same per capita amount in fiscal transfers. The median voter is per definition poorer in a decentralized poor district than in a centralized setting. Thus the allocation of public goods and services demanded by that medium voter will be more tailored to the needs of the poor when the relative voting power of the poor is improved by decentralization; this holds also under convinced circumstances in multi-dimensional voting (Gandmont, 1978). Decentralization, however, provides an institutional mechanism for bringing divided groups into a formal, rule-bound bargaining process (Treisman, 1998). Uganda is an example where decentralization has served as a pathway to national harmony and relative economic development. One of the key features of Uganda's economic

performance in the 1990s has been the sharp go down in poverty levels (Appleton, 2001). Political decentralization on the other hand, has been favored for a number of reasons. Some of the important urging is that it enables minorities to avail themselves of government power, it can keep power close to citizens, it can prevent arbitrary central government rule, it can encourage political participation and it ensures further efficient delivery of goods and services (Maass, 1959; Grindle, 2000; Wunch and Olowu, 1990).

The virtues of decentralization such as democracy, popular participation, responsiveness, accountability and equity have led to the belief that decentralization will lead to better responsiveness to the poor. Since the poor have been excluded from politics of decision making process and therefore unreachable to public goods and services, decentralization is seen as offering greater public participation to ordinary citizens whose “voice” is more possible to increase with concomitant relevance and effectiveness of government’s policies and programs, especially in poverty reduction (Crook, 2003; Crook & Sverrisson, 2001). Decentralization is seen by economists as one of the most important and suitable strategies that will reduce the levels of deprivation and vulnerability of the poor. There are three ways in which decentralization is linked to poverty reduction (Bird and Villancourt, 1998). First as with many other public services, effective implementation of poverty reduction strategies often requires comprehensive and specific local knowledge which may be most readily obtainable through a decentralized and locally accountable arrangement of governance. The accurate kind of decentralization will therefore facilitate local government units to have sufficient technical and financial capacity to carry out their assigned functions. On the hypothesis that people should get what they want- than what someone else wants them to want- poverty reduction programs, like other programs, should reflect local and regional variations in preference where appropriate. From this point of view, decentralization is good and its virtue depends upon political accountability and strengthening local delivery capacity (Crook, 2003;² Bird & Rodriquez, 1999, Crook & Sverrisson, 2001, Ayee, 1995),

² The notion according to Kraay, that there is a predictable or general link between decentralization of government and the development of more ‘pro-poor’ or poverty reduction out comes clearly lacks any convincing evidence. Those who advocate decentralization on these grounds, at least, should be more cautious, which is not to say that there are not other important benefits, particularly in the field of participation and empowerments

Second the design and accomplishment of transfer of financial resources is an important influence, for good local spending decisions. Efficient transfer of revenue and expenditure responsibility to different levels of government invariably means that local government units as a group will depend on momentous extent upon transfers from the central government. From this point of view, decentralization does not signify at all that the central government plays no role in poverty reduction. What it means is rather that significant thought, effort; experimentation will be desirable to develop a feasible transfer system. The interaction between decentralization and poverty reduction emphasizes the significance of transfer design and the desirability of providing for periodic assessment of those designs (Bird& Rodriquez, 1999).

Third, the relationship between decentralization and poverty reduction depends on the targeting of poverty. Local government units put into practice the national reducing policy hardly or largely defined. A hardly distinct poverty policy uses transfers of income, in money or kind, to the poor. However, the potential benefits of decentralization can only be achieved and the potential pitfalls can only be avoided if policy design focuses on creating the appropriate institutional understanding in which decentralization can occur. The policy of decentralization has never seen as an end in itself but as a means to achieve strategic guiding principle objectives in the long-run. ³

2.3. Fiscal decentralization and poverty reduction

Fiscal decentralization on other hand is another process of governance which is potentially considered as a powerful spur instrument for poverty reduction. In many developing countries, however, government's expenditure programs have failed to offer poor households with the same access and quality of government services as wealthier households. There has been a mounting consensus among development experts that decentralized local governments can play a role in reducing poverty by ensuring more effective and accountable local infrastructure and service delivery for the poor and by improving the dialogue between the state, citizens and their communities. In this context,

³ How ever greater voice of the poor matters to much in policy making, in this process the poor can express their needs and take them into account in the country's poverty reduction strategy and policies.

there is now a wide belief that improvements in public delivery services, particularly in health, education and sanitation infrastructure through fiscal decentralization are fundamental to make improvement in attaining the goals for poverty reduction. In fact local governments are increasingly becoming the institutions responsible for delivering basic services all over the world, including in the poorest countries; for example, it has become quite common for local governments to be put in charge of delivering public services. Therefore, the capacity of local governments to carry out these responsibilities has become critically important. While the central government evidently must play a vital role in any poverty reduction strategy, the potential impact of local government budgets and the significance of developing policy solutions and tools at the local level often have been overlooked. Even despite the fact that the results of studies on the fiscal decentralization and service delivery, to the poor are still mixed, there exists mounting strong evidence and great promise for improving public service delivery to the poor through decentralization (World Bank, 2001). This means that local governments may have significant role to play, side by side with central government agencies in achieving effective poverty reduction strategies. Nevertheless, the degree to which fiscal decentralization and local governance genuinely increase the incomes of the poor and facilitate them to become productive members of society is a longer-term concern since the positive outcomes of decentralization have a propensity to yield the positive results in the long-run.

2.3.1 The risks of fiscal decentralization for poverty reduction

However, if fiscal decentralization is not prepared in a right way, there is the risk that those potential benefits not only will not become visible but also will tend to aggravate the poverty problem. On the macroeconomic side, a “botched up” decentralization process can easily lead to economic macroeconomic instability, an inefficient allocation of resources, and slower economic growth. On the microeconomic service delivery side, there are three specific ways in which decentralization can fall short to translate into better services for deprived people(see Keefer and Khemani,2003):

- Government may misallocate budgets by spending resources on the wrong groups of people.

- Even when resources are allocated correctly, they may not arrive at their intended destinations if managerial and incentive problems in public agencies lead to misappropriation or theft.

These risks turn out to be more eminent, as the particular decentralization design deviates from the maxims of local discretion, voice, and accountability. On the other hand, the risks are minimized when convinced institutional conditions, such as political freedoms, adequate human and physical capital bases, or free information flows are present. Many empirical studies show that all countries in which decentralization has had a positive impact on poverty can be categorized as “free” following the freedom house index (Jutting et al 2004).

2.3.2 The concept of poverty reduction

On the other hand, poverty reduction can be defined as designing, implementing and targeting suitable methods to guarantee that inadequate resources are allocated to activities that are likely to yield the greatest impact on the underprivileged and to decrease their levels of deprivation and vulnerability (Sen, 1999).

The gains for the deprived can be in current or investment expenditures, thus straightforwardly targeted to the poor as transfers or be allocated to income generating projects. However, one can argue that to reduce poverty in the middle of the poor population in developing countries there is a need to put up some procedures that persuade African leaders to distribute the available resources, a number of government officials have a tendency of posing too much powers on resources hence leading to the mishandling them. This can hardly lead the poor to whirl or hang about in the pools of poverty.

2.3.3 The importance of poverty reduction strategy papers:

Poverty reduction strategy papers (PRSPs) have turned out to be the main approach to the provision of development assistance. A PRSP is a national plan of action to reduce poverty. Rwanda and Uganda implemented decentralization policy through PRSP context. It describes a country’s macro economic, structural and collective policies and

sets out an analysis of poverty, together with a national strategy for how the government is going to encourage broad based growth, decentralization process and poverty reduction. Christiansen and Hovland perceive the upcoming of the PRSP approach as the outcome of changes in accepted wisdom in the development process that occurred in past decades. However, it is also argued that the genesis of the PRSP approach lie partly in the debates and research about international development which took place in the 1990s, a decade that experienced a strong shift towards poverty reduction, participation, aid effectiveness, and a reassessment of the role of IFIs and bilateral donors (Christiansen and Hovland, 2003). However, Uganda and Rwanda implemented PRSPs through which all stakeholders should take part in the formulation, implementation and monitoring the outcomes of poverty. Through PRSPs, these countries are identifying who the poor are and where they live by using both qualitative and quantitative measures and the same time understanding poverty and its causes through the views of the populations. According to the World Bank and IMF, full PRSPs should feature the following elements based on the doctrine listed below (Driscoll and Chritiansen, 2004):

- Country driven-owned and managed by the government of the country concerned;
- Participatory- all stakeholders should participate in the formulation, implementation and monitoring of outcomes;
- Results oriented-focused on targets or outcomes that benefit the poor and can be directly monitored;
- Comprehensive- integrating macro economic, structural, sectoral and social elements;
- Partnership-oriented- providing a basis for the active, coordinated participation of government and development partners(bilateral, multilateral, non governmental);
- Based on medium and long term perspective for poverty reduction, recognizing that sustained results cannot be achieved overnight.

2.3.4. Importance of poverty reduction:

Poverty connotes a condition of low income and failure to satisfy basic needs. Based on income statistics alone, the global poverty dilemma is staggering: there are 1.1 billion people in the world on less than one dollar per day (UNDP, 2004). However, as many

leading voices in the development debate have noted, poverty is about more than lack of resources: poverty is about risk, uncertainty about the future, vulnerability, powerless, lack of voice, representation and freedom. As such, poverty reduction policies have increasingly been about more than lifting people out of low income levels, and have broadened their focus to improving education levels, life expectancy, economic certainty and satisfaction of basic needs, as well as broader empowerment.

The pressure between the centralist poverty reduction agenda and (fiscal) decentralization reform continues to characterize today's international practice. In the current rapport of decentralization to the poverty reduction strategy paper (PRSP) approach, (Watson, 2002) acknowledged a tendency among practitioners to simply pay no attention to the conflict between the 'top-down' pursuit of poverty-relief goals and the often concurrent policy aim of decentralization; while many PRSPs in the sub-Saharan Africa pay lip- service to the importance of decentralization, there is often little discussion of how central- local relationships dramatize the opposing stances of this issue. While many see poverty as local phenomenon (UNHCR, 1999), and the discourse on poverty reduction often gives short shrift to any possible impact of fiscal decentralization reforms on poverty reduction. While some multilateral donors and financial institutions have made poverty reduction and decentralization policies key themes of their technical assistance and lending programs, often the consideration of these two sets of activities is not prepared in an integrated manner(IMF, 2003).

The persistence of poverty at the high levels and slow rate of poverty reduction in developing countries pose major challenges for world leaders, policy makers and development practitioners. (World Bank, 2003), specify that millennium development goals (MDGs) of halving poverty by 2015. However, many doubts hang about certain regions especially in the sub-Saharan Africa (www.ilo.org). Poverty expressed in terms of hunger today is intense in countries affected by internal wars and violent conflicts especially those positioned in sub Saharan Africa (Wiesmann et al, 2000).

However, decentralization is not a panacea to end poverty. As Murshed says in his paper entitled "From war to peace", says that poverty provides fertile grounds for conflicts entrepreneurs, as potential combatants have less to fear from the prospect of death and destruction on account of their own poverty(see Murshed,2005). So this indicates that

decentralization which does not get to the bottom of or reduce the percentage of the poor population will for all time increase poverty. A broadly defined poverty reduction policy also encompasses policies intended to increase productivity of the poor through the formation and maintenance of human capital- health, education and improved access to markets and productive resources in general.

In addition to that, a general observation is that many developing countries and transitional countries that have experienced sustained economic growth and poverty reduction displays a wide variation across countries. The wrapping up reached from these experiences is that by resolving the poverty challenge may take much more than implementing growth led policies. Policies that try to change relative incomes in the “right” way, or purely redistributive policies that try to reduce inequality, may not always be valuable either to lift people out of poverty.

On the other hand, “Sachs says that inequality is a very big idea, connected to freedom, but an idea that doesn't come for free. If we are serious, we have to be prepared to pay the price. Some people will say we can't afford to do it... I disagree. I think we can't afford not to do it. In a world where distance no longer determining who your neighbor is, paying the price for equality is not just heart, it's smart”(sachs,2005)

The poor countries must take ending poverty seriously, and will have to devote a greater share of national resources to cutting poverty rather than to war, corruption and political infighting. However, a combination of direct and indirect strategies directly focused on the causes of poverty may be needed. In this case, reducing illiteracy rate from side to side, provision of education to the poor including (universal primary and secondary education), putting up more health centers at the district levels can work as indicator in poverty lessening as well. However, many of these considered necessary strategies taken by developing governments are paying attention in investing in human capital infrastructure and creating more access through capital infrastructure and reforming economic institutions (through more competition and access to credit markets etc.). This means that many “regular” government services that traditionally have not been designated as “poverty reduction”- both at the central as well as the local level- can become key factors in the implementation of national poverty reduction strategies.

In addition to that, empowering the poor and the marginalized will enable them to take greater control of their lives. Further, there is a need to guarantee that adequate local economic growth takes place to support poverty reduction initiatives and other human development goals. The relationship between decentralization, economic growth and income poverty Lopez (2004a, 2004b) and Kraay (2004) extensively explored that government policy- predominantly in the formal expenditure policy, such as expenditure in education or infrastructure- can impact poverty in three ways.

Kraay (2004) formally deducts the impact of economic growth on poverty reduction by

defining p_t as a generic additive poverty measures in time period

$$t, \text{ so that } p_t = \int_0^1 f(y_t(p)) - d_p$$

Where $y_t(p)$ denotes the income of the p^{th} percentile of the income distribution and time t . Differentiation with respect to time and rearranging of the terms results in:

$$\frac{dp_t}{dt} = \left(\frac{d\mu_t}{dt} - \frac{1}{\mu_t} \right) \int_0^1 \eta_t(p) - dp + \int_0^1 \eta_t(p) - \left[g_t(p) - \left[\frac{d\mu_t}{dt} - \frac{1}{\mu_t} \right] \right] - dp$$

Where μ_t is average income; $\eta_t(p)$ is defined as the semi- elasticity of the poverty measure with respect to the income of the p^{th} percentile; and $g(p)$ captures the growth rate of incomes at each percentile of the income distribution (Kraay, 2004). The above stated equation mathematically captures three sources of pro-poor population; infact, the first term of the equation captures the first two sources of pro- poor growth. First, economic growth that causes increase in average incomes- across all income groups- reduces poverty. Growth in average incomes is captured by the equation's first expression: $(d\mu_t / dt) / \mu_t$. Second, the pro-poor- ness of growth is enhanced by the sensitivity of the poverty measure to growth in average incomes; this is captured by the remainder of the first term. In other wards, policies that increase the sensitivity of poverty to growth are pro-poor. For instance if the poor lack the formal education to gain employment in the formal sector, this would form an impediment to pro-poor growth: as

such, universal primary education and other strategies that would enhance the sensitivity of poverty to growth would promote sustainable poverty reduction.

The third source of pro- poor growth- changes in relative incomes- is captured by the second term of equation. As such, policies that change relative incomes in the “right” way will improve the poverty measure.

Additionally, Kakwani and Pernia (2000) developed an index of pro-poor growth, which is tailored to specific poverty measure. The index is based on a decomposition of total change in poverty into (1) the impact of growth when the sharing of income does not change, (ii) the impact of income redistribution when total income does not change. Suppose ΔP as the proportional change in poverty when there is a positive growth rate of 1 percent. This can be decomposed into two components ΔP_g and ΔP_i such that

$$\Delta P = \Delta P_g + \Delta P_i$$

Where ΔP_g is the pure growth effect and ΔP_i is inequality effect. ΔP_g is the percentage change in poverty when the distribution of income does not change, where as ΔP_i is the change in poverty when inequality changes in the absence of growth.

ΔP_g Will always be negative because growth always reduces poverty, with distribution remaining constant. ΔP_i can be either negative or positive depending on whether growth is accompanied by improving or worsening inequality. This suggests that the degree of pro-poor growth can be measured by an index $\Phi = \Delta P_i / \Delta P_g$. Φ will be greater than 1 when $\Delta P_i < 0$.

Thus, growth will be pro- poor $\Phi > 1$, meaning that the poor benefit proportionally more than the non poor, (i.e., growth results in a redistribution favor the poor. This would be the first- best out come. When $0 < \Phi < 1$, growth is not strictly pro-poor (i.e., growth results in a redistribution against the poor) even though it still reduces poverty incidence. This situation may be generally characterized as a ‘trickle- down’ growth if $\Phi < 0$ economic growth actually leads to an increase in poverty. This situation may be characterized as ‘immiserizing’ growth If ΔP_i is negative, it means that growth has led to a change in the distribution of income in favor of the poor, thereby reducing poverty. Such a growth may

be characterized as pro-poor. If β is positive, the change in income distribution is pro-rich: the rich benefit proportionally more than the poor.

2.3.5. Expenditure decentralization and income distribution

If poverty reduction is well thought-out to be wholesome redistributive task, then the conventional wisdom of modern public finance asserts that redistribution should be carried out by the higher levels of the government (Musgrave, 1989 and Oates, 1972). However, some economists do emphasize that the redistribution of resources among the poor will create no difference when there is small number of the rich with higher mean incomes among the population. In another perspective, local governments may be even perceived as local clubs that provide “clubs goods”, such as local schools to individuals with the same preferences (Buchanan, 1965 and Tiebout, 1956). In the stylized “Tiebout” world, local residents pay for local government services through user fees or benefits taxes, so that there is no meaningful role for a redistribution purpose at the local level. Thus redistribution by decentralized governments with residential mobility(and more broadly, mobility of economic factors such as labor and capital would lead to suboptimal allocations of resources and economic losses, and also to less than optimal levels of redistribution.

Even if no mobility of factors is present, redistribution policy at the local level concurrently with the central government can become problematic if the two governments have different preferences with respect to income distribution (Tresch,2002). Consequently in addition to decentralization, classical views in public finance literature do put forward that the role of income redistribution should also be assigned to the central government level. However, since redistributive programs such as cash transfers, in-kind transfers, and other proactive poverty programs- by the central governments are often less effective due to indecent targeting, local governments could play a more effective role in poverty reduction, provided that they are closer to the people and they know better conditions of local population. In short, local governments are more likely to be responsive to the concerns of the poor than when the resources are centered to the central government. Furthermore, local governments may be better able to keep an

eye on and control the agencies concerned in program delivery (Boadway and Shah, 2002). The reality is that local governments may have a distinct benefit compared to central authority in identifying the deprived within the communities and understanding the needs due to their proximity to the people. But the central and local governments may have different comparative advantages in fighting different aspects of poverty, so efficiency considerations may necessitate redistribution policies to be a concurrent responsibility with more financing being done at the central level and more implementation at the local government level. This is in essence the consensus view in the most current fiscal federalism literature⁴ (Rao, 2002 and Boadway and Shah, 2002).

2.3.6. Fiscal decentralization and the size of pro- poor expenditures

Fiscal decentralization may have an effect on pro-poor expenditure if it is correct that decentralization brings government decision- making (setting priorities, designing plans and implementing budgets) nearer to the intended beneficiaries or group of people, In that case, decentralization can make the public spending more responsive to the population, and more especially to the poor. While local citizens should be able to exert more effective pressure on government when decision makers are physically accessible, local decision makers should have access to information on local problems and opportunities which allow them to tailor plans and budgets in a way the central government could not (Foster et al, 2002). However, one cannot account or regard decentralization to bring more voice to the poor when there is no transparency in distribution of goods and services among the poor or when the resources are owned by the undersized elites of people in the country's economy. However, some cross country time series panel data like that one carried out by (Fauguet, 2004) finds the countries like Bolivia, decentralization has made responsive to citizens' needs by re-directing public investment to areas where services deficiencies are more pronounced and resources are rebalanced in favor of the poorer districts. The core of decentralization reform in Bolivia consists of the following: the share of all national tax revenues devolved from the central government to the

⁴ However, the most comprehensive attempt to date within the public finance literature to capture the intersection between decentralization and poverty reduction is the volume *Development, Poverty, and Fiscal Policy: Decentralization of institutions* (Rao, 2002).

municipalities was raised from 10 percent to 20 percent. In addition to that, committees (comites de vigilancia) were set up to administer municipal spending of popular participation funds, and recommend new projects. These are composed of representatives from local, grass-root groups with in each municipality, and are legally distinct from municipal governments.

The power lies in the capability to suspend all disbursements from the central government if they so suspect that funds are being misused or stolen. So when suspension occurs, the center undertakes no arbitration, but basically waits for the two sides to resolve their dispute, relying on economic incentives to speed their agreement (www. Worldbank.org). A different learning on budget priority for the poor in Uganda also finds that decentralized budget management supports poverty reduction even if there have been some malpractices like corruption in some governments' institutions(Foster et al, 2002).

2.3.7. How can fiscal decentralization aid in achieving poverty reduction

Linkages between decentralization and poverty reduction:

Although a complete explanation of the root causes of poverty and its solutions(including geographical location, addressing the scarcity of economic resources or the failure of the economic system to combine resources in productive ways fall away from the scope of the current study, fiscal decentralization may affect a country's poverty reduction efforts in a number of ways. Because poverty is best defined as deprivation of various aspects of well-being, it is logical to seek conceptual linkages via the direct and indirect impacts that decentralization may have on these well-being components: private income, basic needs of the population is the area of poverty reduction where most benefits of decentralization are likely to occur. How ever, in an indirect way, decentralization also affects generation and redistribution of income, empowerment and participation of the poor and their vulnerability to external shocks.

Economic opportunities for the poor:

Besides better satisfaction of basic needs of the population and reducing their vulnerability, potentially decentralization can also augment economic opportunities for the poor. There are four ways in which decentralization may affect income of the

population. First, decentralization can augment economic growth through the level and quality of economic infrastructure such as roads and schools. Local governments are critical to providing an enabling environment to ensure local economic growth, both by providing capital infrastructures as well as by promoting human capital development. Economic growth is ultimately the key to sustainable decline of income poverty at the local level. It is unlikely that central government bureaucrats positioned in a distant capital are not able to correctly identify the most productive infrastructure investments in a local community. Therefore, a pro-poor investment strategy may necessitate extensive local involvement.

Second, decentralization may facilitate economic growth through its impact on macro economic stability (Martinez-Vazquez and McNab, 2005; Agenor, 2004). Macro economic recessions decrease the probability of funding new employment. Third, decentralization can support the inclusion of the poor people in the growth process by removing constraints and empowering them to take the charge of their own development and resources (through better education and health) and to take advantage of existing economic opportunities (Stem et al, 2005). Finally, private income can be affected through more efficient redistributive policies via equitable allocation of public resources to the segments of the poor population.

CHAPTER THREE

3.0. Introduction

The chapter tried to analyze Decentralization in relation to poverty reduction between Uganda and Rwanda.

3.1. Decentralization and poverty reduction: the case of Uganda

Decentralization reforms in Uganda trail a long period in which the institutional links between the center and the locality had weakened to such an extent that either could control or ensure access for the further to its resources. Thus, the collapse of the government to provide social goods and services in 1970s and 1980s has basically been attributed to the inadequate and often fragmented nature of local development (Langseth, 1996). So the trend towards devolution of powers from central government to local authorities which started in the 1980s was aimed at increasing the extent of local participation in the economic issues and provision of goods and services. Faced with devastated economy, the government embarked on a steady process of economic and political liberalization. The most significant current modify in the country's change is the governments' decentralization program (World Bank.1993). It is believed that through this program the population will have an upper hand in debating the issues touching their daily life therefore reducing poverty.

3.2. POLICY AND STRATEGIES FOR LOCAL GOVERNMENT FINANCE

3.2.1. Wide-ranging policies and strategies

The decentralization policy in Uganda evolved over a number of years and involved extensive consultations along with stake holders. The local Government (Resistance Councils) statute, 1993 provided law for decentralization and empowerment of the prevalently elected local leaders to make own decisions, budget, plan and monitor own programs. The 1995 constitution and local Governments Acts, 1997 provided for district to be a unit of decentralization. The suggestion of this policy is to involve people in the way

they are governed, and take part in decision making, monitoring and the same time ensuring improved utilization of resources both financial and human.

The decentralization strategy is enshrined in the Constitution and is guided by the following principles:

- To make sure that functions, powers and responsibilities are devolved and transferred from the central government to local governments in a harmonized manner; decentralization shall be a principle that should be practical to all levels of local government units to ensure people's participation and democratic control in decision making and ensure the complete realization of democratic governance at all confined government levels.
- Appropriate measures shall be taken to enable local government units to plan, initiate and carry out policies in respect of all matters touching the people within the areas of jurisdiction;
- The decentralization policy is designed to achieve the following objectives:

To transfer supremacy to local governments and therefore reduce the workload on the central government official and bring political and administrative control over services delivered, there by improving accountability and effectiveness and promoting people's feeling of possession of programs and projects executed in their areas.

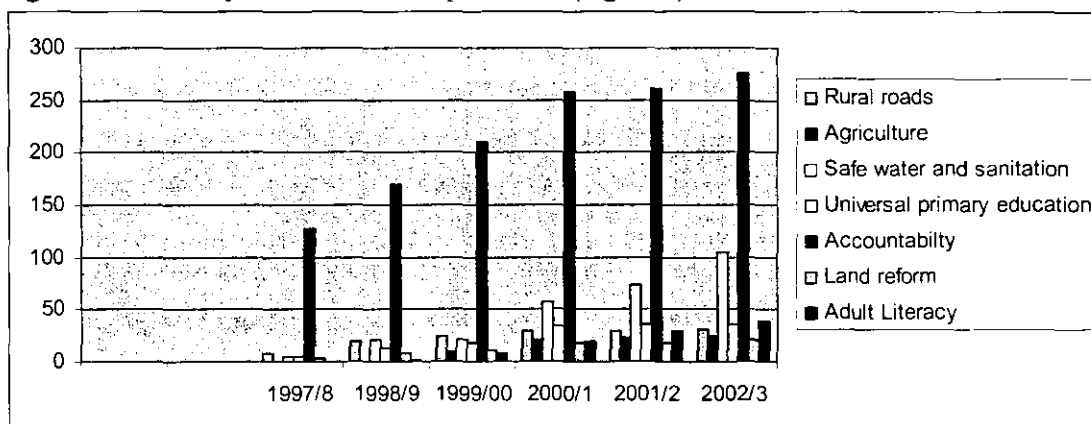
To get better financial accountability by establishing a comprehensible link between the payment of taxes and provision of services they finance, improve the capacities of local councils to plan, finance and handle the delivery of services to their constituents.

3.2.2. Decentralization policy and poverty reduction

It is now generally recognized that decentralization is vital for poverty reduction because it leads to optimal performance of delivery systems and institutions and efficient utilization of resources. Uganda is pursuing poverty reduction by amalgamation these elements in a decentralization setting. Through this process, Uganda has made substantial progress in the areas that are significant in reducing poverty and improving people's well-

being. Most of this has been attributed to improvement in governance at central and local levels. ⁵GDP growth has averaged 6 percent yearly since 1992/93, and annual inflation that had hit triple figures in the mid 1980s has been controlled at about 5 percent.

Figure 2.1: Poverty Action Fund Expenditure (Uganda)



Source: own computations based on data from: Uganda Poverty Action Fund Expenditure

Decentralization of spending in Uganda;

Decentralization is projected to improve services provided to the poor by increasing transparency and accountability in the use of public funds, and the capacity of local communities to mobilize, plan, and manage their resources. Uganda has done extraordinarily well in this process, spending over one-third of total public expenditure through local authorities (Foster and Mijimbi, 2002). However, Uganda continues to struggle with the difficulty of how to bring together national program priorities and the need for accountability, with the purpose of decentralizing resources to local government. However, although decentralization has played a role in resource allocation in Uganda, several problems have been encountered in this policy such as inadequacy of locally generated revenues, inexperience of local officials, under developed system of public accounting, and a poorly informed citizenry therefore leading a low velocity in poverty reduction.

⁵ Ministry of finance planning and economic development, Poverty Eradication Action Plan(2001-2003) volume 1(February, 2001)

On top of all, decentralization would have petite significance if not accompanied by fiscal decentralization. In this case, Uganda implemented a grant system in an intention of allocating resources (unconditional grants according to the line ministries in each district. For example, transparency and accountability as well as local government public accounts committees matter a lot in financial decentralization. However, the flourishing districts, decentralization of services and transfer of responsibilities to the local level give the impression to have had a positive impact on the population. Responses to the local requirements are quicker, whereas financial decentralization has helped to introduce prioritization at the local level. With respect to poverty reduction, Uganda has registered a sharp go down in the figure of its poor in the past decade (Appleton, 1998). The initial reductions in poverty levels were due to the return of peace, which has enabled peasants to carry out their economic activities while there has been an enhancement in local markets for farmers' agricultural products. So these developments have had positive impacts on the governments' capability for service provision. Further reduction of poverty in Uganda as whole, will also depend on the governments' fiscal policies, in particular how the resources from the center are shared by the districts. However, the distant districts have got smaller amount resources and also experience from political destabilization, partly caused by poverty and lack of income generating activities especially areas of northern part of country.

3.2.3. Fiscal decentralization and fiscal transfers;

The country embarked on an extensive decentralization process in 1993 with the objective of shifting the responsibility for development to local authorities so as to improve efficiency, equity, effectiveness and sustainability for the provision of services. Accordingly, the responsibility for the provision of services has been devolved to district and urban authorities in order to increase peoples' participation in the decision making process. The prioritization of spending in the districts is largely set by the conditional grants determined by the central governments. Local government operations are mainly financed by taxes fees, user charges and central government grants. However, local governments are permitted to borrow from the banking system, within the constraints imposed by the local government, with the guidance of the local governments. In addition

to that, local governments have graduated tax as their major source of revenue and accounts for about 80 percent of total revenue, not including grants. The local authorities get three types of transfers from the central government i.e. unconditional, conditional and equalization grants (ibid).

Theory of equalization;

The equalization grant is a subsidy or special provision for the least developed districts and is based on the level at which a local government unit is lagging behind the national average standard for a particular service. Enabling all local governments to make available certain minimum levels of public services to their constituents is the principle behind equalization. Equalization grant would consequently aim at providing extra funds to those local governments whose revenue raising capacities are weak and expenditure needs to be greater, to enable them provide that “minimum” level of service within their areas of jurisdiction.

Differences in the capability of local governments to provide services, at least to an average level pertaining in the country arises from essentially on two factors namely; differences in the expenditure needs of the local governments and differences in tax base. Currently the local government obtains financial resources from the following sources; from the central government via grants, local revenue, donors and NGOs.

Table 2.1 Transfers to local government (Amount in billion shillings)

Item	1997/98	1998/99	1999/2000	2000/2001	Total
Sub national expenditures	729	864	993	1145	3,731
Un conditional transfers	52	65	67	79	263
Conditional transfers (non wage)	51	83	100	114	348

Source: Local Government Finance Commission (Uganda)

The measures of decentralization frequently used are decentralization ratios calculated for government revenues and expenditures respectively. Thus, on expenditure side, decentralization is measured using as a ratio of local government spending to general government spending (Oates, 1972; Zhang and Zou, 1998) Hunter recognized the significant role of the transfer system in determining the level of fiscal dependence or

autonomy of sub national government has control over the resources at their disposal (Hunter, 1977). Based on the presumption that conditional transfers and unconditional transfers provide local governments with increasing levels of fiscal control, Hunter defined a set of two coefficient of vertical fiscal imbalance (VFI). The coefficient is calculated as the share of sub national governments. The difference between the two coefficients is that they apply incrementally narrow definitions of what resources are under the control of sub national governments so those are:

$$VFI_1 = \frac{\text{conditional transfers}}{\text{Sub national expenditures}}$$

Sub national expenditures

$$VFI_2 = \frac{\text{Conditional Transfers} + \text{Unconditional Transfers}}{\text{Sub national Expenditures}}$$

Sub national Expenditures

By construction, the coefficient takes on a value between zero and one, with values closer to one indicating larger fiscal imbalance and values closer to zero representing greater fiscal balance. The narrower the definition of local control that is applied, the greater the resulting fiscal imbalance. In this case transfers from the central government in Uganda can be calculated as:

$$VFI_1 = \frac{348}{3,731} = 0.093$$

3,731

$$VFI_2 = \frac{348+263}{3,731} = 0.16$$

3,731

3.3. Decentralization in Rwandan context

As a consequence of the war and 1994 genocide, there was a total collapse of institutions, systems, structures and human capacity in Rwanda. Since then, the country has gone through a painful challenge of rebuilding the entire governance infrastructure. From the period of emergency, through rehabilitation and reconstruction phase up to the current effort of long- term development, a considerable amount of work has been done in the spheres of re-establishing and strengthening good governance. It on this note that Rwandan government has since 1994 pursued clear goals of establishing a sustainable framework of decentralization policy and prosperity based on equity and participation of

all citizens. A number of political, administrative and economic reforms have been undertaken in the aftermath of war and genocide in this direction.

Decentralization has been adopted as one of the main strategies to attain good governance and sustainable social and economic development (http://pdf.usaid.gov/pdf_docs/PNACR570.pdf). The policy of decentralization is founded on the hypothesis that if decision making is undertaken at the local level where the problems are felt with no doubt service delivery and economic policies will be improved.

The decentralization policy was adopted by the GOR in May 2000, before the PRSP was developed and approved in 2002, to achieve three main goals: (a) good governance, (b) pro-poor service delivery and (c) sustainable development.

The decentralization implementation is being undertaken in three phases:

- (1) Establishment of democratic and community development structures through a process of legislation, institutional, and policy reforms (2000-2005).
- (2) Consolidation of the decentralization process emphasizing service delivery to communities through a well incorporated accountability network (2005-2010)
- (3) Improving and sustaining the achievements of the first two phases.

However, decentralization in Rwanda is pursued under the district level with “Ubudehe mu kurwanya ubukene”, a particular innovation of the PRSP participation process and a separate priority area. It represents a grass roots collective decision making and action at the cell level aimed at poverty reduction more particularly in the rural areas.

However, decentralization governance restructuring policy was undertaken in May 2000 with the following objectives:

- To allow and reactivate local people to participate in initiating, making, implementing, and monitoring decisions and plans that concern them taking into consideration their local needs, priorities, capacities and resources by transferring power, authority and resources from the central to local government and lower levels.
- To make stronger accountability and transparency in Rwanda by making local leaders directly accountable to the communities they serve and by establishing a

clear linkage between the taxes they pay and the services that are financed by these taxes,

- To develop sustainable economic planning and management capability at local levels that will act as the driving force for planning, implementation of social, political and economic development to lessen poverty ,
- Lastly, to augment effectiveness and efficiency in the planning, monitoring and delivery of services by reducing the burden from central government officials who are distanced from the point where needs are needed and where services can be delivered.

3.3.1. Ubudehe under decentralization process

Ubudehe is defined as the traditional Rwanda practice and cultural value of working together to resolve the problems. The government has resurrected this traditional cooperative mechanism as a model for a program designed to alleviate poverty under decentralization process. The purpose of this program is to revive and foster collective action at the community level. It is designed to rebuild trust in communities, to build strong local institutions, and to assist local people act to lessen poverty. The plan is part of a large decentralization effort and this will lead to more resource allocation at the cell level if the process is well implemented.

Rwanda faces a daunting challenge in attempting to overcome both poverty and mistrust of governance institutions. About 85percent of the population lives on less than two dollars a day and 36 percent lives on less than one dollar a day whereas 96 percent of the poor live in rural areas(www.minecofin.gov.rw/poverty_reduction/ubudehe.htm). The population faces not only health problems caused by poverty, but also physical ailments related to war trauma.

Ubudehe also targets the population at the cellule level- the lowest level in the Rwandan government structure. Targeting this level is part and parcel of a broader attempt to decentralize the hierarchical Rwandan governance system, and increase community level participation.

As already stated in the PRSP, Ubudehe has the main objective of reviving and fostering collective action at community level for rural poverty reduction. However, this approach

still foresees the development of bottom-up budgeting and planning systems that articulate communities' needs, and the building upon local government structures of Community Development Committees. The objective of Ubudehe has remained the similar since the launch of the program in 2001. If implemented properly, the Ubudehe (collective action) can lead to augmented faith in local governance institutions to address community needs, and commence to rebuild both social and economic development at a grass root level, and long-term sustainability of decentralization efforts⁶. According to Musahara, *“Ubudehe process as it has recently been designated in Rwanda is to build on the positive aspects of Rwanda history and complement it with modern participatory techniques, which have proven their worth in community development”* Ubudehe is said to use a COMIC 8-4 as modernization engine of a traditional concept (www.minecofin.gov.rw). COMIC is an acronym for cooperation, operational, maintenance, information and coordination. The eight represents the number of principles for a community action system (MINECOFIN, 2003). *“ a well defined framework, striking a balance between benefits and costs, inclusive participation, monitoring and evaluation, gradual sanctions, conflict resolution mechanisms, acknowledgement of the right of free organization and integration of different levels of organization”*.

Finally, the number 4 represents opportunistic behavior that ubudehe seeks to fight: these are corruption, opportunism, escaping responsibilities and moral corruption. Ubudehe is described as a methodology intervening in poverty at two levels; the community and house hold levels. The community level intervention is described as follows;

The community goes- with the help of facilitators through the following steps;

- Determination the poverty profile as perceived;
- To draw up the social map of the cellule, which includes the names of household needs, their social category(different categories are again by the people themselves), development infrastructure, material of each house's roof;
- Identify and analyze the problems facing the community and determine a priority problem to be addressed;
- Plan the activities and relative means needed for addressing the prioritized problem through a collective action;

⁶ “Ubudehe to fight poverty”, (cited 2003). Available at [www.minecofin .gov.rw/ poverty/_redution/Ubudehe.htm](http://www.minecofin.gov.rw/poverty/_redution/Ubudehe.htm).

- Put in place a system to manage the identified collective action(soft system check list);
- The management committee, elected by the community, local technicians, local authorities and other stakeholders approve the execution of the collective action and engage to safeguard and respect the principles of collective action

After this process, funds are made available to support the identified ubudehe collection action. However, decentralization is one policy well as poverty reduction is a different process. By designing one of the core objectives is poverty reduction and ubudehe was designed to be part of the decentralization process. However, poverty reduction is not only based on many projects in the ministry of local government, still up to day some of these projects do exist but the cardinal problem is that the poor are still poor in their households and the power to contribute their opinion is taken away from them by the educated officials. Leaders at lower level seem to be capable of stereotyping government policies even better than immediate superiors (quoted from Musahara's thesis, University of Western Cape, 2004).

3.3.2. The stylized facts of transfer system autonomy in Rwanda

Autonomy in Rwanda has been a core of implementing and designing the decentralization policy initiative (DPI). Contrary to the three tier government arrangements widespread in fiscal federalism found in Canada, United States and many other countries (Boadway and Hobson, 1993, Shah, 1991), Rwanda adopted a new form. It may be referred to as a one tier arrangement, which assumes three decentralization modes that comprised of de-concentration at the provincial level, delegation and devolution at the district level. This new form has moved the central government closer to the people and gave the sub-national governments more powers in taxation, spending and decision making.

3.3.3. Common development fund (CDF)

In the year 2002 the government of Rwanda established a conditional fund known as common development fund to support the districts to finance development projects. The central government is required to transfer 10 percent of its 10 percent of its domestic

revenue mobilization based on the preview fiscal year revenue realizations to CDF.⁷ At the point, Common Development Fund allocation depends on approved projects submitted by districts for financial support where by CDF applies for the same amount from the MINECOFIN. On top of that, the local authorities' budget support funding (LABSF) was also put in place. CDF was established to facilitate and monitor the flow of fund and management information between the center and the districts. Development budget transfers through CDF augmented on an annual basis from RWF 9.5 billion in 2003/ 2004. In 2005, 8.4 billion was available. Further more, a fiscal transfer to districts through the CDF was implemented. However, the transfers have been lower than anticipated, due to limited planning and absorption capacities at the districts

However, Uganda for instance adopted a form of decentralization that gives full self-sufficiency to the local government. Rwanda in this case adopted a form of decentralization which gives some administrative and fiscal autonomy to local entities in terms of administrative and management responsibilities.

However, comparing the decentralization policies of two countries, Uganda introduced the participatory budgeting to act as instrument for including the population in the budget setting procedure this has acted as a gauge to finance the projects which the people believe may be ready to lend a hand in the process of poverty reduction. However, under poverty reduction pro poor outcomes are achieved predominantly through spending policies, rather than through revenue assignments under fiscal decentralization. So the possible impact of fiscal decentralization on poverty reduction is that the population should be given authority in defining how and in what method expenditures and revenues are organized across different levels of government in the national polity. However, Hofman and Guerra (2004) consider the impact of fiscal decentralization on poverty reduction on the allocation of pro poor interventions between and within villages.

On the other hand, the Rwandan government has tried to conduit some of the money to common development fund to support the district in their development projects particularly in the rural districts. The common development fund has acted as an

⁷ The operation of CDF started officially in September of 2002 but fund disbursement came in the first quarter of 2003

instrument to provide a coordinated planning and execution purposes. On the other side, Uganda participatory budgeting has enabled various stake holder groups to debate, analyze and monitor decisions about pro- poor public expenditure. In addition to that, it has tried to bridge the gap between the poor citizens through the enhancement of cooperation, and improving the leader – population relationship in improving the public expenditure.

3.3.4. Government concern for fiscal decentralization

Fiscal decentralization is very crucial for the success of the whole decentralization process and therefore there is a need for the country to attach great importance to it. This is because if decision making is being devolved to the local authorities, the local authorities will require funds to finance programs that arise from their decisions. This can only be achieved through a taxation system which is decentralized to the local level by giving districts the capability to raise their own resources (GOR, 2000).

The following are key mechanism of Fiscal Decentralization:

- Creating a tax sharing arrangement;
- Empowering Local Authorities to set tax and license rates;
- Empowering local authorities to levy service fees;
- Developing the property tax to local governments;
- Establishing development fund for local governments;
- Strengthening accounting and audit systems for local governments;
- Establishing program based on budgeting for local governments.

The adequacy of resources is a function of the services responsibilities that are devolved to local governments and good efficiency by which services are delivered. However, resources in some districts tend to be insufficient, so resource redistribution can be carried out to ensure equitable development among the endowed and non endowed districts.

Theories on fiscal decentralization do assert that strong fiscal taxation policy empowers Local governments to levy fees and taxes to meet the local demands. In addition to that, fiscal decentralization in Rwanda if well implemented will lead to a widen tax base. This

is because as the authority to levy taxes is devolved to local government, identification of those who should be taxed and their capacity to pay taxes can be done at the lower level since lower officials tend to have more information about incomes of their people. In turn, this can act as an indicator to reduce the number of tax evaders both at district and cell level. A wider tax base will make it possible for the local government to raise more revenue to meet their budget obligations. During 2004, substantial training in financial management skills was provided to local government officials. This has included training on the manual of procedures, and also on financial reporting. In addition to that, low levels of education and literacy continue to slow down capacity building in local governments. District councils in most districts are still weak to effectively analyze plans and budgets and to provide expenditure oversights. These weaknesses are further compounded by logistical difficulties.

However, after having defined both poverty reduction and decentralization, the dilemma arises where to discover the connection between the two. Taking into consideration the explanation of poverty, and being the complex issue, multi-dimensional concept, it is obvious that poverty reduction cannot be achieved by a single solution like decentralization policy. A number of policies intended for specific country have to be designed. In this case, the world development report 2000/2001 (World Bank, 2001), that is dedicated to the theme of elimination of poverty proposes the following strategies:-

- (1) promoting opportunities
- (2) facilitating empowerment
- (3) And enhancing security

First of all, promoting opportunities refers giving the poor people the possibility to improve their material needs, and this may consist of among others materials such as roads, electricity and social services like education, health care and land. Secondly, facilitating empowerment implies the enclosure of society in decision making process in order to attain responsive and accountable public policies. Non discrimination, good governance and rule of law mentioned in the Kauffmann's governance indicators are fundamental key factors in this regard. Thirdly, the enhancing security means minimizing

poor population vulnerability to different threats like, economic shocks, natural disasters and civil conflicts.

CHAPTER FOUR

4.0 Introduction

In this chapter, we will present a survey of empirical evidence accessible on the link between fiscal decentralization and poverty reduction on two case studies. The part will focus on providing empirical data on revenues and expenditures both at provincial and district level.

4.1.1 Empirical analysis and discussion of the results (Rwanda)

Table 4.1 Population and provincial fiscal resources in year 2004

province	population	Tax revenue	expenditure	Government subsidy	Poverty head count index 2002	% change 90/2002	taxcap	expcap	Subsidy
Ruhengeri	894,000.00	359,087,008	627,986,929	271,262,608	74	6.00	0.40	0.70	0.30
Gisenyi	867,000.00	329,027,438	640,037,973	59,465,483	71.80	5.70	0.38	0.74	0.07
Gitarama	865,000.00	405,520,107	698,914,245	241,639,632	64.90	-2.00	0.47	0.81	0.28
Butare	723,000.00	434,901,739	547,532,765	231,292,070	80.10	-0.50	0.60	0.76	0.32
Kigali-Ngari	793,000.00	473,952,650	1,409,346,688	247,413,200	77.50	38.90	0.60	1.78	0.31
Byumba	712,000.00	322,776,972	932,592,073	217,936,208	70.01	9.00	0.45	1.31	0.31
Kibungo	708,000.00	289,251,453	535,718,382	237,862,612	59.30	67.50	0.41	0.76	0.34
Cyangugu	610,000.00	318,946,356	1,429,016,581	172,722,594	75.03	-14.60	0.52	2.34	0.28
Kigali-ville	608,000.00	3,584,834,475	5,042,191,929	148,154,628	-	-	5.90	8.29	0.24
Gikongoro	493,000.00	192,535,729	402,582,540	173,299,660	77.50	-9.40	0.39	0.82	0.35
Kibuye	468,000.00	307,110,021	355,444,023	140,606,358	74.60	-20.10	0.66	0.76	0.30
Umutara	424,000.00	319,383,548	462,866,166	48,832,732	62.70	-	0.75	0.75	0.12

Source: own computations based on MINALOC, 2004 and agricultural household survey (DSA, 1990), EICV (1999-2001)

Notes: The poverty line is defined as 49.575 RWF per adult equivalent per year in 2000 and 13,300 RWF per adult equivalent in 1990. The estimate of food poverty line is defined as 35.000 francs per year in 2000 and 9.400 francs in 1990. The samples are populations weighted: N (1990) is 1248, N is 5218

Definition:

POVERTY HEAD COUNT: Is simply the proportion of population that is poor. In this sense, it is the percentage of the population living below the poverty line (see above the poverty line on Rwanda from 2000).

Despite the fact that our objective is not to assess population trends, the significance of the population increase cannot be avoided since the population size determines the total of expenditures that should be spent in social sectors per each province. In analyzing the population increase, (Musahara, 2004) used Malthusian theory of population to examine poverty trends in Rwanda. In this sense, one method of showing population trends in Rwanda is by applying Malthusian theory. The Malthusian trap, as it is commonly called, has been used in the structural development of the economy of Rwanda. However, by applying Malthusian theory Musahara observed that poverty trends in Rwanda are caused by over population and lack of adequate land for agricultural activities. This is true for the country which cannot be supported by inadequate resources. Ideally there has been evidence of higher population growth in the last four decades with high levels of poverty along with poor fallout of revenues and expenditures. In addition to that, there has been a consequence of having over stretched financial capacity of revenues and expenditures as it can be seen above. The expenditures surpassed the revenues in all cases leading to huge gap between revenues and expenditures. Poverty head count increased in Byumba, Cyangugu, Gisenyi and Kibuye in 2002. This depicts that there was substantial inequality in public spending in provinces with high poverty head counts. However, basing on the findings above, we conclude by saying that there is no significant relationship between government subsidy per capita revenue and expenditures and changes in poverty head count. All provinces more or less obtain the same per capita except Gisenyi which gets extremely small funds. This shows that targeting the deprived at the provincial level is not steadily done. In other words poverty reduction and fiscal decentralization have not had positive impact on the population.

Foster pointed out that fiscal decentralization may have positive impacts on pro-poor expenditures if government decision making, which sets priorities, designing plans and implementation budgets are closer to the intended poor people (see Foster et al, 2002).

4.1.2 Why fiscal decentralization outcomes do not match fiscal resources allocated to provinces

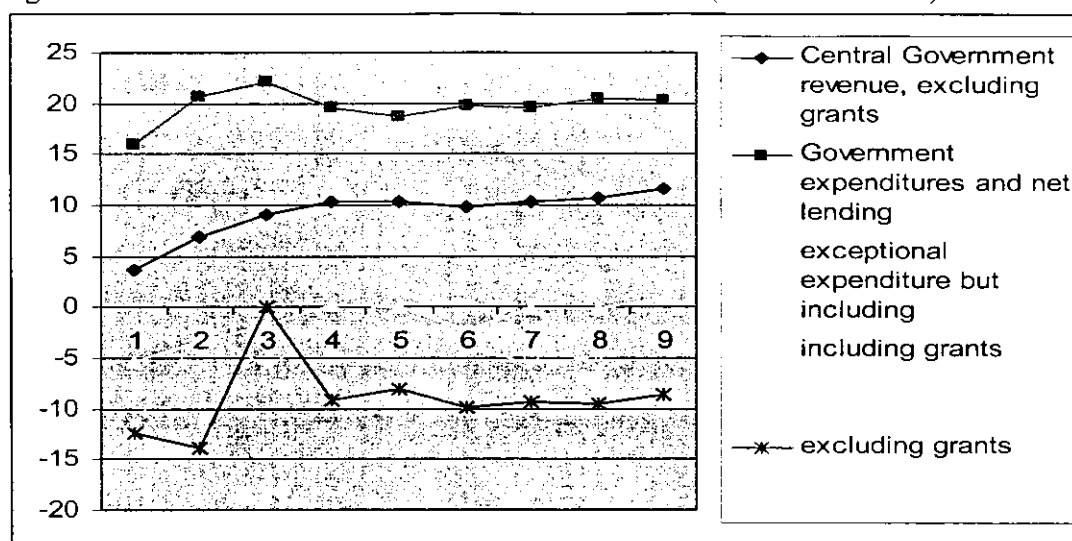
However, one of the prime reasons why fiscal outcomes in the table 4.1 do not have significant relation ship is that poverty head counts are so general. Leaders at provincial level tend to give less attention on poverty related issues that can hardly produce pro-poor growth policies. (Musahara, 2004) asserts that power to contribute to poor people's opinion is taken away from the population by the literate officials. These leaders appear to be capable of stereotyping the benefits of fiscal decentralization even better than their superiors.

In Musgrave approach, the state, and to proper balance of activities that can benefit the poor between different levels of government, the public officials are appointed to carry out the primarily Keynesian function of generating and maintaining high levels of output. These functions may achieve what a society considers a fair distribution of resources among the poor population (Musgrave, 1989).

TABLE 4.2 ABOVE HERE

As depicted in table 4.2, there has been a tremendous increase in the share of education in government spending as percent of GDP. However, Rwanda does not demonstrate the highest share in pubic health spending to GDP over 1990 through out 1998. Figure 4.2 shows that Rwanda expenditure in education and health has not reached at least 1 percent. However, statistics on health and education indicators lend a support to the conclusion that expenditure trends in Rwanda on education and health social sectors depicts poor results (see Table 4.2 in appendix).

Figure 4.1: Central Government finance from 1994-2000(in billions francs)



Source: Authors' own computation using data from Rwanda poverty reduction paper, 2000

As illustrated in the figure 4.1 above, since 1994 to 2004 government expenditures depicts a depressing image through out the period of 1994- 2004. Grants went into negatives and only augmented in 1996.Despite the small degree of exceptional expenditure, a decline in grants is evident in the figure. In addition to that the central government expenditures remained constant since 1996 up to 2004.

The parameters used to allocate grants to districts

The grant to districts was introduced in 2002. The objective of this process was to support districts in meeting their recurrent expenditures. To allocate grants four parameters are used:

- **District population size**, this one represents 30 percent of grant allocation;
- **District area**, which accounts for 10 percent of the grant allocation;
- **Poverty index**, which is measured on the basis of differences in districts tax revenue whereby districts are divided into three categories according to their level of tax revenue. This accounts for 40 percent of the grant allocation;
- **Performance index**, this is measured on the basis of report capitulation by districts, which accounts for 20 percent.

However, the poverty index is so general in that it assumes all districts within the same category to face the similar recurrent costs and should be given the same allocations. In

addition to that, given the lack of comparable data from 2001, 2002, 2003 and 2005 on revenues and expenditures, we do intend to examine the only available data of 2006.

TABLE 4.3 ABOUT HERE

Table 4.3 shows that in all three districts that make up Kigali city, Gasabo had higher total receipts followed by Nyarugenge and Kicukiro. At the same time, Nyarugenge expenditures increased compared to those of districts of Kicukiro and Gasabo. The explanation for increased social services expenditures has been reviewed adequately by scholars (See Martinez-Vazquez and McNab, 2005; Agenor, 2004 in literature review chapter two). Social services expenditures particularly in health and education sectors are well thought-out to be pro-poor. In this regard, education and health sectors have to be given first priority while allocating grants to the districts budgets.

TABLE 4.4 ABOUT HERE

Table 4.4 shows that in all five districts of the northern region in 2006, Gicumbi had a lead in total receipts with 2,332,248,752 frw followed by Musanze with 2,091,590,674 frw, Bukera with 1,664,933,777 frw well as in Gakenke the total receipts accounted for 956,514,652 frw and Rulindo with 816,595,632 frw. The portrait depicted on expenditures in Table 4.4 shows that more funds are allocated on administrative management tasks other than on pro-poor expenditures such as improved infrastructure, education and health. Under fiscal decentralization, expenditures in some sectors tend to be inadequate as indicated in the table above. So equal distribution of funds will be necessary to ensure equitable distribution of funds at every sector of the district and to achieve this, proper management planning and control systems to ensure fund disbursement need to be put in place for easy operation of poverty reduction related activities. However, in the situation of poverty and inequality in revenues and expenditures especially in post conflict country like Rwanda cannot be able to achieve sustainable economic development. For example it can be argued that the levels of poverty cannot be eased by decentralization of the fiscal type, equal distribution of resources among districts are required for poverty reduction.

TABLE 4.5 ABOUT HERE

Table 4.5 depicts that in eight districts that make up southern region, Huye had total receipts of 2,359,785,211frw followed by Nyamagabe with a total of 1,975,213,506 frw, Muhanga with a total of 1,917,116,184 frw, Nyanza with a total of 1,654,860,576 frw, Kamonyi had a total of 1,286,865,008frw, Gisagara with a total receipts of 1,224,983,841, Ruhango with total receipts of 1,303,663,773 frw and finally Nyaruguru with 898,063,019 frw. However, the variation in receipts depends on the amount of taxes collected to the every activity done in the district. There is a need for the government to allocate more funds to poor district whose revenue base is poor. Furthermore, the picture depicted on expenditures shows that more funds were invested in education and social culture development, good governance and health as compared to other sectors. As pointed in the world bank document, improvement in the public sector services especially in health, education and sanitation infrastructure through fiscal decentralization are vital to make improvement in attaining the goals of poverty reduction (see Chapter two World Bank, 2001).

TABLE 4.6 ABOVE HERE

A small increase in receipts is pronounced in some districts this is evident with some districts like Kirehe. We see that some districts do have small ratios of total receipts received. However, some districts are having larger total receipts such as Ngoma and Nyagatare compared to other districts. The differences in receipts indicate that some districts will remain poor if support given to the districts is not measured depending on the basis of differences in district revenue collections. Receipt raising capacity however at district level is still very limited and transfers from the central government to districts have been fairly low. However, the education, social cultural development and health sectors show the highest shares of expenditures. Expenditures in education and health sectors should remain a central concern under fiscal decentralization if the pro-poor growth policies are to be achieved.

4.1.2. Uganda poverty profile

Uganda's analysis of poverty in the recent past indicated that by 1997, 48.7 percent of the population was not meeting their basic requirement needs. For this reason, government implemented the poverty eradication plan with a view to reducing absolute poverty to no more than 10 percent by 2017. However, as a first step the Uganda participatory poverty assessment consultations, classified the poor as; women especially widows, male youths, households with large families and casual laborers. This is to shade more light on the social- economic characteristics of the poor.

Table 4.8: Changes in rural and urban poverty (Head count ratio- percent)

National	P0	P1	P2	Inequality Gini
HIS(92/93)	55.7	20.3	9.90	0.364
MS-1 (93/94)	51.2	16.9	7.48	0.354
MS-2 (94/95)	50.2	16.3	7.25	0.365
MS-3 (95/96)	49.1	16.4	7.64	0.365
MS-4 (97/98)	44.4	13.7	5.91	0.347
UNHS (99/00)	35.2	10.5	4.50	0.384
UNHS11 (2002/03)	37.6	11.3	4.90	0.451
RURAL				
HIS (92/93)	59.7	22.0	10.81	0.326
MS-1 (93/94)	55.6	18.6	8.27	0.291
MS-2(94/95)	54.3	17.7	7.90	0.321
MS-3 (95/96)	53.7	18.1	8.49	0.326
MS-4 (97/98)	48.7	15.2	6.56	0.311
UNHS (99/00)	39.1	11.8	5.09	0.322
UNHS11 92002/03)	41.8	12.7	5.50	0.379
URBAN				
HIS (92/93)	27.8	8.3	3.48	0.395
MS-1 (93/94)	21.0	5.5	2.02	0.394
MS-2 (94/95)	21.5	6.3	2.69	0.398
MS-3(95/96)	19.8	5.6	2.23	0.375
MS-4 (97/98)	16.7	4.3	1.65	0.347
UNHS (99/00)	10.3	2.2	0.72	0.406
UNHS11 (2002/03)	12.9	3.1	1.17	0.495

SOURCE: Appleton (2001a), for 2002/03: based on UBOS household survey data

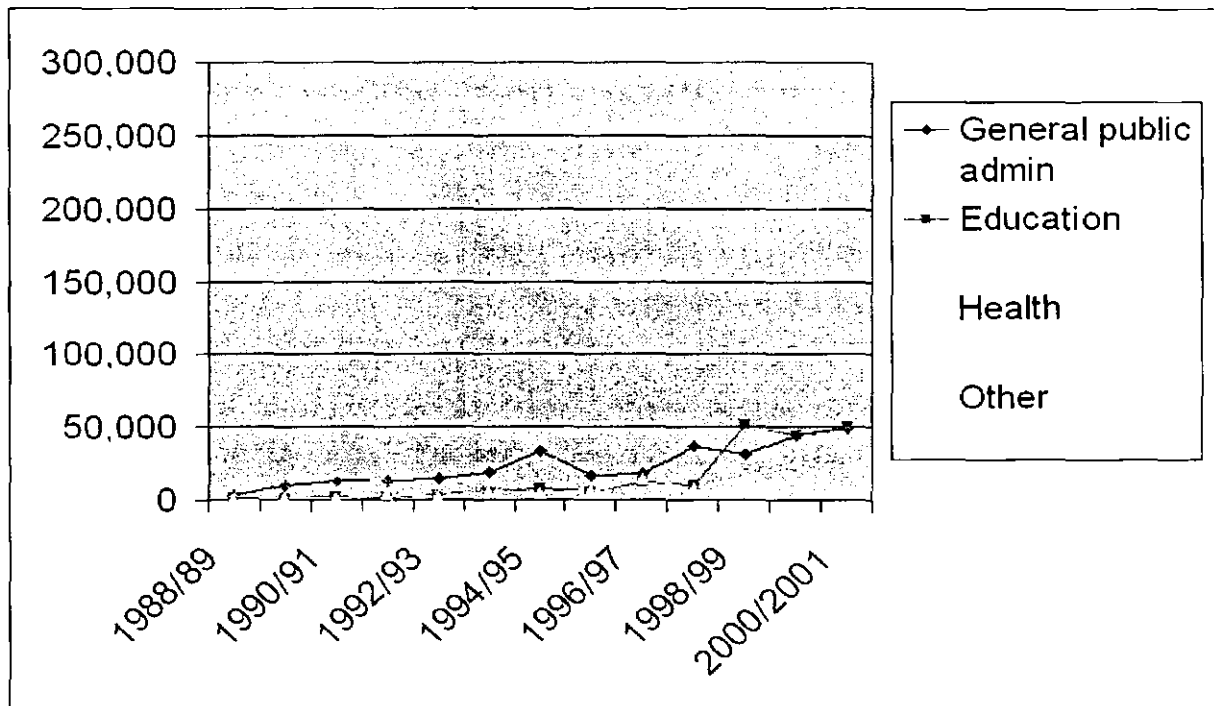
Notes: the poverty line is defined as \$ 34 per month as per census report of 2000 equivalent to 1700 Uganda shillings.

HIS – House hold Integrated Survey

UNHS-Uganda National Household survey

However, improvements in poverty levels can be observed in both rural and urban areas. In rural areas as is depicted in the table 4.8 shows that headcount index declined from 59.7 percent in 1992/93 to 41.8 percent in 2002/2003. Additionally, head count poverty index does not measure when people who are rich today, becomes poor tomorrow if at the same time the same number of poor people shift to above poverty line. It does not specify how many crosses the poverty line upwards compared to those crossing it downwards. However, the reduction in poverty has mainly been attributed to the momentous achievements in implementing the ‘pro-poor’ policies, public spending and independence in revenue collections under decentralization that was implemented in 1993.

Figure 4.2: Central Government expenditures from 1988/89-2000-2001 (development expenditure)



Source: Authors' construction based on UBOS. Figures in millions of 1993 UGS

As illustrated in figure 4.2, since 1988/89 to 1998/99 the expenditures on health and education were below the level. The only augment in expenditures is observed in other areas such as defense. At the same time, the education sector remained flat and augmented slightly in 1998/99 to 2000/2001. A recent World Bank study indicates that out of 75 developing countries and transitional countries with population greater than 5 million, all but 12 claim to be embarked on some form of transfers of political and fiscal power to local units of government(Dillinger,1994).

TABLE 4.8 ABOVE HERE

As indicated in the figure 4.8 above, there is still large revenue gap between Kampala and other districts in central region. Government transfers and revenues augmented in Kampala with 13,274,857.00 shillings compared to other districts in the region. However,

the literature on fiscal decentralization in the central region shows the mixed results although education, health care and school facilitation grants have been granted big lion share. However, figures on agriculture extension shows that expenditures accorded to this sector are still near to the ground yet the country's economy still depends on agriculture. There is a need for the government to support and stimulate this vital sector through fiscal decentralization transfers.

TABLE 4.9 ABOUT HERE

However, the underlying results in table 4.9 above shows that Jinja had a wider base of total revenues compared to districts of Kapchora, Kumi and Soroti. Additionally, Soroti has got larger total expenditures followed by Kumi, Kapchorwa and lastly Jinja with a total of 5,241,179.94 shillings. In this sense, the local governments should foster a climate conducive for revenue collections, the ability to increase revenues in the future should be improved by trying to get maximum tax from the current levels of economic activities. (Weiss, 1969), share the views that revenue share and spending rises with the level of economic development, Musgrave argues that lack of availability of 'tax handles' might limit revenue collection at low levels of income and these limitations should become less severe as the economy develops (Musgrave 1989) .

TABLE 4.10 ABOUT HERE

Considering total revenues of all regions in Uganda, the northern region shows poor results in terms of local revenues and government transfers in general this is largely attributed to the lack of revenue generating activities due to the present protracted conflict in the region. As shown in table, most of the expenditures are too low more especially in the key sectors such as education, primary health care and schools facilitation grants. As argued by Appleton (1998), Uganda's economic performance is a "tale of two economies", with excellent national growth and poverty numbers still masking huge swaths of the economy that have not yet benefited. We observe that there is a still large disparity in revenue collections especially in northern region. A low per capita income

reflects low levels of development that indicate low capacity to pay taxes whose outcome is low revenue collection in the region.

TABLE 4.11 ABOVE HERE

The table 4.10 above indicates that Bushenyi has higher total revenues of 6,700,994.00Ugs followed by Kabarole with total revenues of 4,908,892.00Ugs, Hoima with 4,450,207.00ugs total revenues and Kisoro with a total of 6.832, 106.00Ugs. However, Bushenyi was accorded with higher expenditures followed by Kabarole, Hoima and Kabarole comes last. As Tanzi (2000) asserts, in thinly populated area, administrative costs are expected to be higher in terms of total yields and therefore, less encouraging for revenue collections. Since the western region is densely populated, it tends to have adverse effect on the tax ratio, largely because the higher the density of population the higher will be the use of taxable resources (i.e. rising tax base), and the tax authorities could intensify their efforts to collect taxes at a relatively minimal costs as compared to sparsely populated regions.

5.0 CONCLUSIONS

“Targeting the poor is like trying to replace a blunderbuss scattering buckshot over a wide area by a rifle firing a single bullet at the Bull’s eye, so it is important if ammunition is in short supply. The success of poverty reduction depends however on the target being the right one as well as the bullet actually hitting the bull’s eye”. Saunders (1991). The Hamitic Selectivity and Targeting in income Support.

“Transfers programs by the governments for able bodied poor discourage work and encourage illegitimacy and family dissolution. They provide too little help to prevent families from falling into destitution but too few incentives to spur breadwinners to become self- Sufficient. The complicated array is expensive to administer and an inequitable in allocating resources across families in similar circumstances”
Burtless (1990). The Economist’s Lament.

There are number of possible ways in which decentralization may affect basic needs of the population through the provision of services in areas such as primary education, basic health and social services. Essentially, these positive impacts can take place at the various stages of government action intended toward satisfaction of these basic needs. Indeed, decentralization policies can have an effect on the level of public resources that are allocated to these expenditure areas; it can affect how these expenditures translate into country’s programs and how these programs are implemented.

Additionally, decentralization can bring an improvement at each of the stages by promote good governance. Good governance has been found to progress a variety of outcomes, such as school achievement, quality of life indicators even GDP growth (Kauffmann et al, 2000). Decentralization and good governance are in many ways symbiotic and reinforcing processes, more especially when political decentralization (with local elections and participation) is present.

To the degree that decentralization and better good governance improve local services and outcomes that are related to the wellbeing of the poor, reductions in absolute poverty should follow. Relative poverty may be reduced if the improvements in the equality of services are in those areas that are more proportionally consumed by the poor (Martinez-Vazquez & McNab, 2005).

However, this paper has attempted to offer insights into the issues of decentralization and poverty reduction in two case studies. The fact is that fiscal decentralization more particularly in Rwanda has not basically lifted the poor people out of poverty. Understanding the incidence of government revenues and expenditure programs is important because not all revenues and expenditures benefit the poor of different levels to the same extent even if some types of government expenditures, such as education, health and public infrastructure are largely considered as pro-poor. The state of affairs basing on two case studies, we see that revenues and expenditures are not the same in all districts. We discover that at least performance improved in some sectors in each district as a result of fiscal decentralization. Nevertheless, the correlation between fiscal decentralization and its performance in the districts is not strong enough. However, fiscal decentralization is vital for the achievement of the entire decentralization process therefore the need for both two countries to attach great importance to it. Therefore, its important to point out that fiscal decentralization by it self is not enough to empower local people and to achieve pro-poor outcomes between Uganda and Rwanda. To summarize, we find that poverty increased in some provinces especially in Byumba, Gisenyi, Cyangugu and Kibuye in 2002. Revenues and expenditures do not hold any significant positive impact under fiscal decentralization, for this reason it does not yield any pro-poor growth policies among the provinces that are considered to be poor. However, there is a need for the government to make available more funds and resources to the poor provinces. In addition to this, there is now a wide belief that improvements in public service expenditures, especially in health, education, and water and sanitation infrastructure are extremely significant to bring improvement in attaining the goals of poverty reduction.

On the other hand, poverty head counts in Uganda declined from 59.7 percent in 1992/93 to 41.8 percent in 2002 to 2003. With a regard to the role of decentralization, we establish that augmented financial autonomy at least to the districts under decentralization has played a role in achieving the pro- poor policies mainly in the key social sectors. The assignment of expenditures to lower levels of government is fundamental in designing of a sound decentralized system of government. (Martinez-Vazquez, 2004) asserts that with

out a specific and clear assignment of expenditure responsibilities it will not be possible to assess the adequacy of the revenues to different levels of government.

However, there have been some encouraging signs of advancement in improving service delivery under fiscal decentralization in Uganda. Fiscal transfers to the districts have led to a dramatic improvement in the road of funds to the intended destinations under the local government development program (LGDP). On the other hand, fiscal decentralization in Rwanda has been centered on increasing the flow of funds from the center to decentralized government entities. To do this, common development fund (CDF) has been put in place to identify and play a fundamental role in allocating funds according to relative population, poverty and existing projects that every district has. The CDF approvals of funds take into account PRSP priority needs.

Appendices

Table 4.2 public expenditure trends on social sectors (in frw)

year	Education expenditure as % national budget	Education expenditure as % of GDP	Health expenditure as % national budget	Health expenditure as % of GDP
1990	20	2.9	3.2	0.5
1991	11.1	1.8	3.9	0.6
1992	15.5	2.7	4	0.7
1993	16.5	2.6	4.4	0.7
1994	-	-	9.5	1.37
1995	12.1	1.5	4.1	0.5
1996	12.1	1.6	2.5	0.3
1997	17	1.9	2.6	0.3
1998	21.2	2.5	3	0.5
1999	20.2	2	3.4	0.7
2000	30.2	3.5	3.1	0.6

SOURCE: Rwanda Development Indicators 2001 pg 278 and pg 314

Table 4.3: Annual summary of budget previsions of districts of Kigali city, 2006 in Rwanda francs

Receipts	KICUKIRO	NYARUGENGE	GASABO
Imports and taxes	631,933,215	830,300,481	1,136,476,586
Support to the districts	23,007,416	36,063,688	49,417,751
3 percent of transfers	69,022,247	108,191,065	148,253,252
Other transfers(specific funds)	584,137,155	1,342,389,961	1,670,795,575
Total	1,308,100,033	2,316,945,195	3,004,943,164
expenditures			
Local administration	34,945,131	227,254,224	265,577,924
Strategic planning and economic development	40,157,160	66,667,479	61,502,211
Mobilization and revenue collection	14,594,805	38,755,223	24,657,600
Community health sanitation and family protection	104,823,334	242,330,500	128,172,339
Education and social cultural development	334,152,766	50,468,793	207,664,174
Local government, good governance, and specific program coordination	145,761,944	642,498,465	121,363,152
Internal resource management and public relations(budget department)	701,399,275	288,134,044	547,925,692
Coordination of technical services	164,750,391	19,314,859	50,931,740
Coordination of district organs(district committees and councils)	241,135,709	166,907,215	84,083,951
Total	1,781,720,516	1,742,330,802	1,491,878,783

Source: Ministry of finance and economic planning, 2006

Table 4.4: Annual Summary of budget previsions of Districts of the (Northern Region, 2006 in Rwanda francs)

Receipts	GICUMBI	MUSANZE	GAKENKE	BUKERA	RULINDO	TOTAL
Imports and taxes	152,622,940	157,916,398	126,675,549	110,675,699	146,070,602	693,961,188
Support to the districts	81,618,565	65,578,810	79,543,702	68,449,764	66,106,492	361,297,333
3 percent of transfers	244,855,695	196,736,429	238,631,106	205,349,023	198,319,477	1,083,891,998
Other transfers (specific funds)	1,853,151,552	1,671,359,037	511,664,295	1,280,459,023	406,099,061	5,722,732,968
Total	2,332,248,752	2,091,590,674	956,514,652	1,664,933,777	816,595,632	7,861,883,487
expenditures						
Administrative management and coordination of service	42,705,334	72,455,334	309,894,781	968,374,916	120,541,084	1,513,971,449
Planning and coordination of projects	16,167,616	17,257,616	30,282,616	30,282,616	30,282,616	124,273,080
Development of economic infrastructure and environmental protection	42,246,008	30,216,008	50,136,008	50,136,008	50,666,008	223,400,040
Development of services and agricultural livestock	90,861,684	41,671,684	95,386,684	93,861,684	93,861,684	415,643,420
Education and social cultural development	1,518,933,411	246,212,355	114,240,188	259,371,464	252,212,850	2,390,970,268
Good governance and social welfare	207,000,420	176,111,123,	16,261,990	100,055,990	100,055,990	599,485,513
Health and family planning	390,651,095	289,011,362	313,997,300	141,203,934	152,823,968	1,287,651,659
Finance and resource mobilization	22,936,984	17,121,984	15,736,984	12,503,984	12,043,984	80,343,920
Total expenditures	2,331,466,552	890,057,466	945,936,551	1,655,790,596	812,488,184	6,635,739,349

Source: Ministry of finance and economic planning, 2006

Table 4.5: Annual summary of budget previsions of districts Southern Region, 2006 in Rwanda francs

Receipts	HUYE	GISAGARA	NYAMAGABE	RUHANGO	MUHANGA	NYANZA	NYARUGURU	KAMONYI	TOTAL
Imports and taxes	228,428,413	94,633,998	140,051,707	101,608,895	120,669,808	135,853,902	58,554,869	159,606,829	1,039,408,422
Support to the districts	62,482,108	62,273,923	81,980,364	51,830,871	52,123,641	55,633,116	55,663,620	49,488,644	471,476,286
3 percent of transfers	187,446,323	186,821,769	245,941,091	155,492,613	156,370,924	166,899,349	166,990,861	148,465,932	1,414,428,862
Other transfers(specific funds)	1,881,428,367	881,254,151	1,507,240,344	994,731,394	1,587,951,811	1,296,474,209	616,853,669	929,303,603	9,695,237,548
Total of receipts	2,359,785,211	1,224,983,841	1,975,213,506	1,303,663,773	1,917,116,184	1,654,860,576	898,063,019	1,286,865,008	12,620,551,118
expenditures									
Administrative management and coordination of service	120,538,931	43,310,542	37,524,542	37,415,542	34,775,657	29,501,565	38,227,792	35,660,892	376,955,463
Planning and coordination of projects	31,282,616	15,641,308	12,738,808	9,121,308	8,641,308	8,073,808	10,573,808	9,970,308	106,043,272
Development of economic infrastructure and environmental protection	57,064,123	22,623,004	19,885,638	15,633,004	14,493,004	15,360,504	21,825,504	18,854,904	185,739,685
Development of services and agricultural livestock	90,873,010	45,430,842	39,213,342	30,347,342	25,459,842	21,265,342	38,674,842	31,380,842	322,645,404
Education and social cultural development	859,743,284	763,133,893	1,123,523,294	861,869,155	986,198,702	730,008,362	460,622,782	763,590,285	6,548,689,757
Good governance and social welfare	865,851,079	81,240,126	338,920,026	62,263,684	435,464,849	477,483,583	72,775,192	75,132,270	2,409,130,809
Health and family planning	197,811,025	216,548,366	356,668,386	228,846,185	377,888,489	273,802,978	226,584,171	250,874,846	2,129,024,443
Finance and resource mobilization	23,621,984	15,193,268	11,810,992	8,530,992	8,410,992	8,960,992	9,220,992	8,570,992	94,321,204
Total	2,246,786,052	1,203,121,348	1,940,285,027	1,254,027,212	1,891,332,843	1,564,457,134	878,505,083	1,194,035,339	12,172,550,036

Source: Ministry of finance and economic planning, 2006 58

Table 4.6: Annual summary of budget previsions of districts (Eastern Region, 2006 in Rwanda francs)

Receipts	KAYONZA	BUGESERA	NGOMA	NYAGATARE	RWAMAGANA	KIRIHE	GATSIBO	TOTAL
Imports and taxes	88,901,851	115,158,521	95,860,454	173,561,531	109,704,765	78,295,920	217,537,951	879,020,993
Support to the districts	63,739,247	57,733,556	61,588,523	84,687,942	42,478,403	54,514,961	73,863,669	438,606,301
3 percent of transfers	191,217,742	173,200,669	184,765,568	254,063,827	127,435,209	163,544,883	221,591,007	1,315,818,905
Other transfers (specific funds)	690,052,004	1,153,355,818	1,576,662,225	1,216,968,988	1,306,640,448	310,578,149	906,631,424	7,160,889,056
Total of receipts	1,033,910,844	1,499,448,564	1,918,876,770	1,729,283,288	1,586,258,825	606,933,913	1,419,624,051	9,794,335,255
expenditures								
Administrative management and coordination of service	42,638,834	30,500,748	34,856,084	32,658,522	16,354,835	41,688,690	43,143,006	241,840,719
Planning and coordination of projects	9,966,288	18,223,442	17,139,897	11,993,789	3,279,817	11,302,015	11,080,407	82,985,655
Development of economic infrastructure and environmental protection	21,821,008	16,062,667	20,264,302	21,115,393	4,100,148	26,632,163	25,783,564	135,779,245
Development of services and agricultural livestock	30,834,684	28,270,782	18,830,309	21,115,393	4,100,148	26,632,163	25,783,564	135,779,245
Education and social cultural development	567,802,664	660,532,087	1,173,639,542	1,095,667,911	784,599,516	203,459,452	742,811,191	5,228,512,364
Good governance and social welfare	90,923,168	371,748,135	266,040,945	155,517,300	458,462,722	75,184,077	121,309,287	1,539,185,633
Health and family planning	206,866,065	312,199,891	316,620,570	286,798,735	248,141,508	187,478,880	370,159,685	1,928,265,334
Finance and resource mobilization	16,843,984	17,791,734	17,854,816	15,551,410	8,103,682	15,485,963	15,618,224	107,249,813
Total	987,696,695	1,455,429,486	1,865,246,465	1,640,429,013	1,536,838,024	582,799,634	1,351,336,065	9,419,775,381

Source: Ministry of finance and economic planning, 2006

Table 4.7: Annual summary of budget previsions of districts (Western Region, 2006 in Rwanda francs)

Receipts	RUSTIRO	NYAMASHEKE	RISIZI	KARONGI	RUBAVU	NYABIHU	NGORORERO	TOTAL
Imports and taxes	61,930,294	133,025,600	196,512,442	105,649,360	171,445,588	81,723,240	65,931,851	816,218,375
Support to the districts	54,847,245	66,977,057	67,859,110	60,381,857	55,777,618	54,835,357	59,452,969	420,131,213
3 percent of transfers	164,541,763	200,931,172	203,577,331	181,145,570	167,332,855	164,506,072	178,358,907	1,260,393,670
Other transfers (specific funds)	1,034,656,849	1,425,529,585	1,215,409,209	1,765,538,084	1,343,517,111	711,998,405	901,708,524	8,398,357,767
Total of receipts	1,315,976,151	1,826,463,414	1,683,358,092	2,112,714,871	1,738,073,172	1,013,063,074	1,205,452,251	10,895,101,025
expenditures								
Administrative management and coordination of service	20,358,274	23,747,667	19,751,667	32,828,317	22,229,399	22,827,667	29,490,542	171,233,533
Planning and coordination of projects	7,113,046	8,896,308	8,371,308	9,091,308	9,043,808	8,378,303	7,936,308	58,830,894
Development of economic infrastructure and environmental protection	12,978,403	14,718,004	14,273,004	17,373,004	16,150,504	16,073,004	21,173,004	110,738,927
Development of services and agricultural livestock	21,035,874	20,690,842	20,800,842	30,200,842	32,745,842	22,585,842	20,478,342	168,538,426
Education and social cultural development	925,993,966	1,349,722,991	1,129,902,343	1,257,376,768	944,054,317	671,242,477	736,426,520	7,014,719,382
Good governance and social welfare	34,501,670	82,663,105	348,440,485	239,933,158	210,350,857	64,385,943	71,313,021	1,051,588,239
Health and family planning	235,530,615	274,403,622	312,620,772	408,113,574	356,932,228	178,195,058	229,589,826	1,995,385,692
Finance and resource mobilization	13,373,184	8,838,492	8,420,992	10,810,992	8,560,992	8,710,992	8,410,992	67,126,636
Total	1,270,885,031	1,783,681,031	1,862,581,413	2,003,727,963	1,600,067,947	992,399,791	1,124,818,555	10,638,161,728

Source: Ministry of finance and economic planning, 2006

Table 4.8: Central region revenues and expenditures 2001/2002 in 000's UGS

Revenues	Kampala	Luwero	Mubende	Rakai
Local revenues(taxes and dues)	10,698,409.00	5,639,200,.00	5,678,600.00	4,455,245.00
Government transfers	2,576,448.00	1,013,345.00	1,319,367.00	966,320.00
Total	13,274,857.00	6,652,545.00	6,997,967.00	5,421,565.00
Expenditures				
Urban water	928,964.50	-	36,000.00	29,000.00
District unconditional grants	2,378,950.27	1,465,379.28	1,913,819.17	1,724,383.15
UPE	758,867.33	991,816.99	1,175,102.83	830,656.83
Salaries and wages	737,786.62	652,923.55	727,468.26	429,935.73
PHC Non wage	978,197.00	317,046.00	407,526.00	283,137.00
Urban unconditional	-	145,513.13	132,839.56	98,519.51
Secondary capitation	929,354.37	185,689.78	184,781.80	145,647.42
Agric extension	8,072.00	65,404.85	65,246.96	96,279.00
Equalization	-	13,724.00	22,834.00	73,226.00
Mon & acc	204,963.00	205,546.87	142,013.49	193,755.50
Infrastructure	-	-	-	-
Rural water	-	518,001.33	573,275.33	632,458.45
PHC development	982,336.00	403,832.00	162,813.42	272,402.98
LGDP	2,865,881.50	805,577.33	1,167,510.42	-
SFG	781,592.17	868,665.30	621,535.19	844,608.17
Total	11,554,964.76	6,638,920.41	7,582,795.19	5,654,010.55

Source: Author's calculations based on data sources from Ministry of Finance planning and Economic Development

UPE-Universal primary Education

PHC- primary health care

Mon and ACC- Monitoring and Accountability

R/Water- Rural water

LGDP-Local Government Development program

SFG- Schools Facilitation Grant

Table 4.9: Eastern region revenues and expenditures 2001/2002 in 000's UGS

Revenues	Jinja	Kapchorwa	Kumi	Soroti
Local revenue(taxes and dues)	6,567,800.00	3,543,000.00	3,645,767.00	5,767,791.00
Government transfers	1,172,936.00	476,106.00	726,316.00	878,131.00
Total	7,740,736.00	4,019,106.00	4,372,083.00	6,645,922.00
Expenditures				
Urban water	-	32,000.00	136,000.00	120,000.00
District conditional	1,189,923.46	574,634.79	984,679.12	1,191,526.23
UPE	490,346.21	443,494.48	745,250.18	576,471.60
Salaries and wages	737,786.62	270,720.98	289,662.62	473,126.66
PHC-Non wage	978,197.00	149,810.00	209,882.00	463,897.00
Urban conditional	-	38,939.27	59,397.55	-
Secondary capitation	489,522.49	290,486.60	192,338.93	140,310.41
Agric extension	252,027.75	54,322.67	98,526.83	65,309.80
Equalization	-	-	163,921.00	289,661.00
Mon& Acc	153,500.57	341,759.29	168,748.60	374,165.17
Infrastructure	1,683,515.15	-	-	-
R/water	369,639.67	252,283.67	522,504.67	950,549.61
PHC development	168,283.67	480,531.33	204,989.93	269,623.68
LGDP	-	59,104.00	-	-
SFG	781,592.17	574,331.25	758,679.10	867,324.38
Total	5,241,179.94	7,581,524.33	8,906,662.93	12,457,887.24

Source: Author's calculations based on data sources from Ministry of Finance planning and Economic Development

Table 4.10: Northern region revenues and expenditures 2001/2002 in 000's UGS

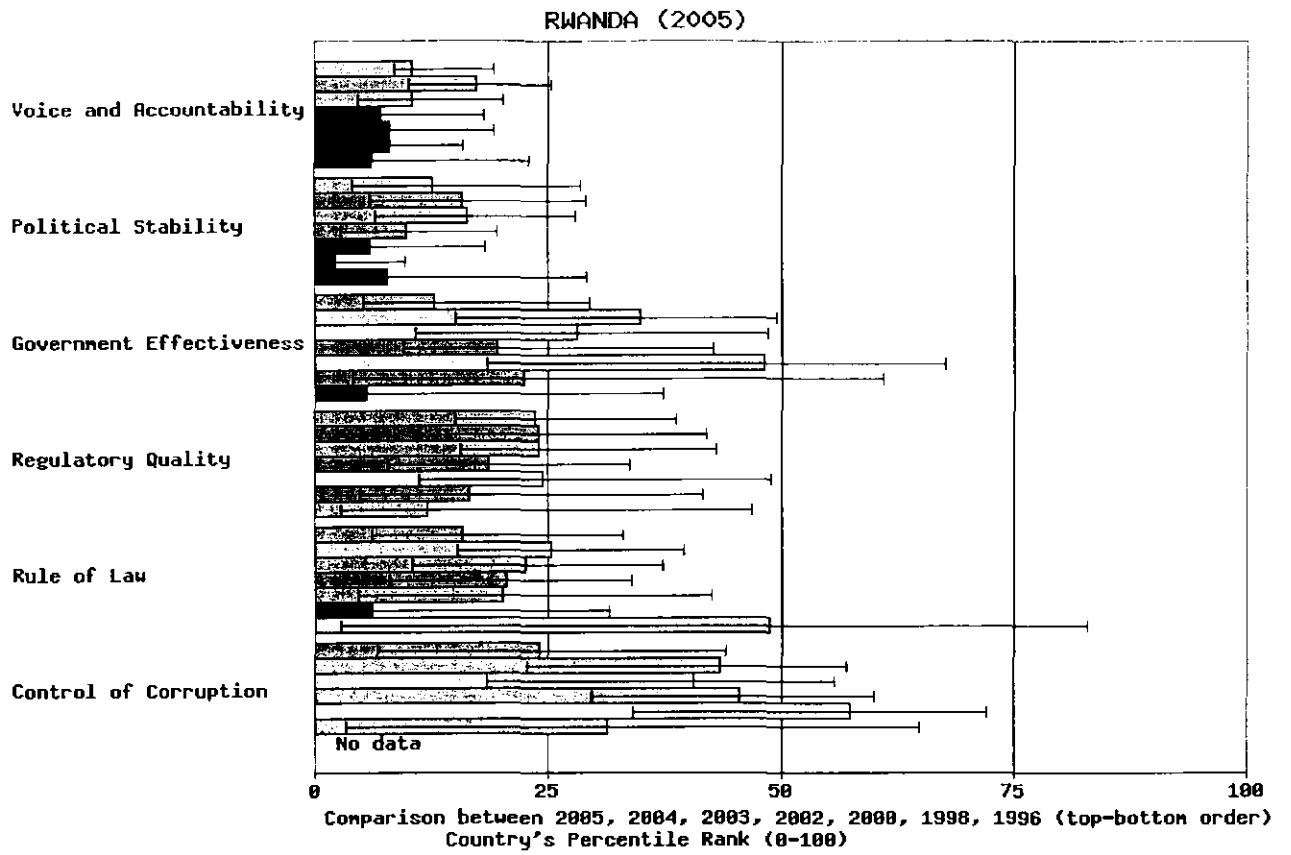
Revenues	Apac	Kotido	Lira	Nebbi
Local revenues(taxes and dues)	4,794,500.00	3,900,297.00	3,997,655.00	5,201,233.00
Government transfers	2,036,229.00	467,070.00	1,788,712.00	1,230,685.00
Total	6,830,729.00	4,367,367.00	5,786,367.00	6,431,918.00
Expenditures				
Urban water	-	42,000.00	6,999.00	-
District conditional	1,708,770.23	1,312,994.17	1,950,975.50	1,194,051.58
UPE	1,509,258.34	330,799.00	1,201,466.60	737,578.06
Salaries and wages	407,205.22	291,257.70	356,230.00	574,964.96
PHC Non-wage	356,186.00	188,727.00	461,562.00	439,663.00
Urban unconditional	47,170.33	29,645.06	-	134,078.47
Sec capitation	119,611.60	18,516.90	204,694.41	60,795.47
Agric extension	57,471.10	30,930.30	64,386.77	47,583.48
Equalization	229,454.00	166,445.00	169,035.00	261,220.00
Mon&Acc	236,131.52	154,136.00	208,855.33	551,230.47
Infrastructure	-	-	-	-
R/water	699,999.67	308,766.67	695,188.00	456,797.00
PHC development	195,208.00	820,839.96	287,599.92	562,294.31
LGDP	581,039.00	-	-	788,595.00
SFG	1,017,495.25	736,266.00	668,032.17	997,226.94
Total	1,017,495.25	736,266.00	6,275,024.70	5612027.16

Source: Author's calculations based on data sources from Ministry of Finance planning and Economic Development

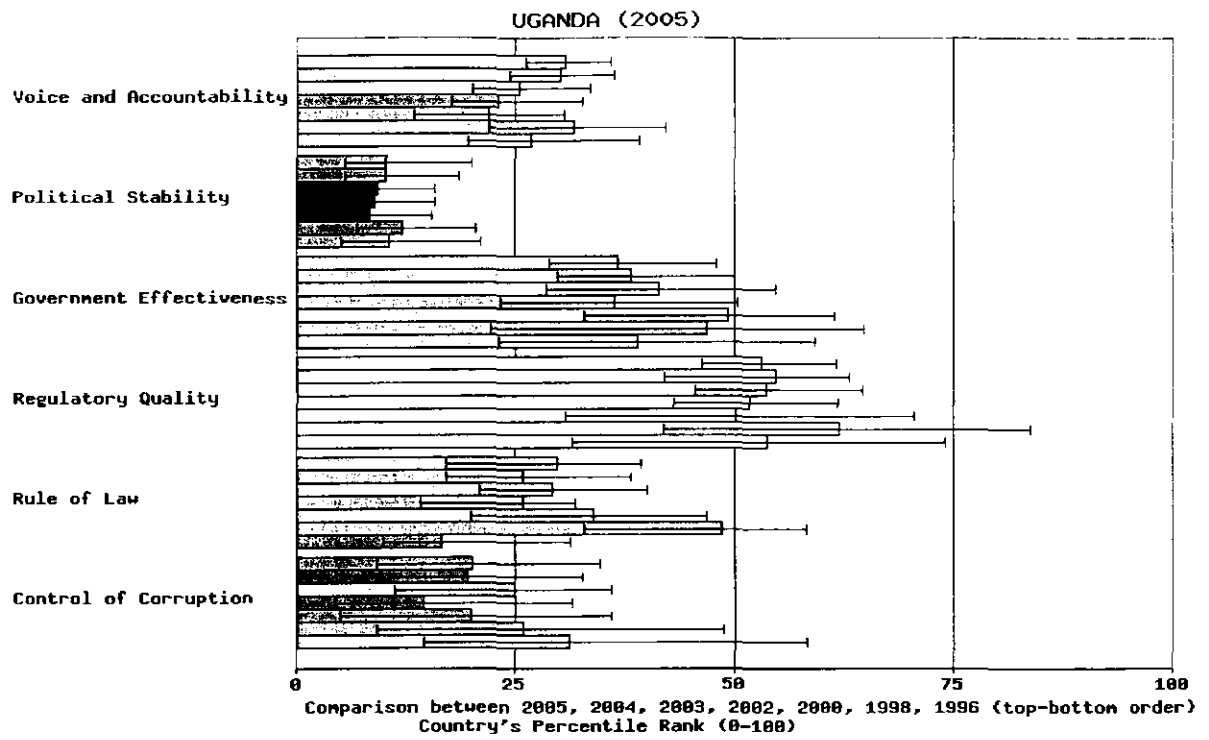
Table 4.11: Western region revenues and expenditures 2001/2002 in 000's UGS

Revenues	Kabarole	Kisoro	Hoima	Bushenyi
Local revenues(taxes and dues)	4,017,727.00	3,309,751.00	3,568,903.00	4,543,224.00
Government transfers	891,165.00	370,416.00	881,304.00	2,157,770.00
Total	4,908,892.00	3,680,167.00	4,450,207.00	6,700,994.00
Expenditures				
Urban water	-	48,000.00	-	192,358.00
District conditional	1,150,751.37	732,076.00	938,993.26	2,081,915.00
UPE	492,396.90	385,238.00	495,735.94	1,440,394.00
Salaries and wages	143,637.00	312,154.00	526,542.72	688,414.00
PHC Non -wage	249,822.00	170,685.00	298,182.00	598,468.00
Urban unconditional	-	43,561.00	75,281.64	307,783.00
Sec capitacion	114,519.09	58,466.00	91,896.23	250,358.00
Agric extension	39,391.74	33,377.00	31,841.98	82,150.00
Equalization	135,226.00	95,135.00	123,097.00	17,544.00
Mon&Acc	155,123.87	152,417.00	160,911.14	244,246.00
Infrastructure	-	-	-	-
R/water	501,328.30	468,297.00	421,839.67	772,360.00
PHC development	278,013.52	135,097.00	643,680.67	555,911.00
LGDP	515,449.43	-	-	1,438,723.00
SFG	1,019,989.02	829,590.00	842,190.17	975,104.00
Total	9,704,540.24	6,832,106.00	9,100,399.42	9,645,728.00

Source: Author's calculations based on data sources from Ministry of Finance planning and Economic Development



Source: Kaufmann D., A Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005



Source: Kaufmann D., A Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005.

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