

**FISCAL DECENTRALISATION AND LOCAL REVENUE GENERATION IN
LOCAL AUTHORITIES: A CASE
OF RUKUNGIRI DISTRICT - UGANDA**

**A DISSERTATION
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OF MASTERS DEGREE IN BUSINESS ADMINISTRATION SPECIALITY
IN FINANCE AND ACCOUNTING**

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DECLARATION

I **Natwijuka Crispus**, declare that this dissertation is my original work and has never been submitted anywhere for the award of a degree or for any academic purpose. Where I have used the work for others, due acknowledgement has been given. I therefore take sole responsibility for the errors and inaccuracies that could be inherited in this research dissertation.

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APPROVAL

This dissertation has been submitted for examination with my approval as the Supervisor.

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Date: _____

DEDICATION

I dedicate this research dissertation to my late father Mr Geoffrey Turyatamba, my Children Crespo and Crescent.

APPROVAL SHEET

This dissertation entitled “Fiscal Decentralization and Local Revenue Generation in Local Government: A Case of Rukungiri District, Uganda” was prepared and submitted by NATWIJUKA CRISPUS in partial fulfillment of the requirement for the award of degree of masters in Business Administration, finance and accounting has been examined and approved by the panel on oral examination.

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LIST OF ABBREVIATIONS

| | |
|--------|--|
| RDLG | Rukungiri District Local Government |
| CAO | Chief Administrative Officer |
| CAP | Caption |
| CSOs | Civil Society Organisations |
| DCAO | Deputy Chief Administrative Officer |
| DPSF | Decentralisation Policy Strategic Framework |
| FD | Fiscal Decentralisation |
| FDS | Fiscal Decentralisation Systems |
| Fig | Figure |
| HLG | Higher Local Government |
| IFMS | Integrated Financial Management System |
| IPFS | Indicative Planning Figures |
| KIU | Kampala Internationals University |
| LA | Local Authority |
| LC | Local Council |
| LG | Local Government |
| LGA | Local Government Act |
| LGDF | Local Government Development Fund |
| LGDP | Local Government Development Programme |
| LGSIP | Local Government Sector Investment Plan |
| LLG | Lower Local Government |
| LST | Local Service Tax |
| MFPDED | Ministry of Finance, Planning and Economic Development |
| MOLG | Ministry of Local Government |
| N | Sample Size |
| NAADS | Nation Agricultural Advisory Services |
| PAF | Poverty Action Fund |
| PDU | Procurement Disposal Unit |
| PEAP | Poverty Eradication Action Plan |
| PMA | Plan for Modernisation of Agriculture |
| PPDA | Public Procurement and Disposal of Public Assets |
| SACCO | Savings and Credit Cooperative Society |
| SNG | Sub National Government |
| UPE | Universal Primary Education |
| USE | Universal Secondary Education |
| GDP | Gross Domestic Product |

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ABSTRACT

The study explores the relationship between fiscal decentralization and revenue generation in selected sub-counties and divisions of Rukungiri District Local Government. The objectives of the study include: To establish the implication of fiscal decentralization, the effect of assignment of appropriate revenue and functions and to establish the effect of appropriate Intergovernmental transfer systems of local revenue generation in Rukungiri District Local Government were analyzed.

The study adopted both qualitative, quantitative approaches and cross sectional design. Data was collected using self-administered questionnaires and face to face interviews. The population was 246 and a sample 106 which was obtained using purposive and stratified sampling methods. 106 respondents were given questioners and 81 (74%) were returned fully answered.

The results reveal that there exists a relationship between fiscal decentralization and local revenue generation in Rukungiri District Local Government. The study also revealed that, although there exists fiscal decentralization, its role in supporting revenue generation is minimal since the system doesn't give absolute powers to lower local governments for instance fiscal decentralization allow local authorities to make bye-laws and ordinances to introduce taxes and rates subject to ministerial approval and if he doesn't approve, such laws and regulations become useless.

Lastly, the central government has effectively decentralized the implementation of services delivery but it's stronghold on priority setting and funding continues. This implies that local governments planning and implementation organs of government have limited discretion over utilization of majority of its funding. Based on the study findings, several recommendations were made which include among the following; Rukungiri District should step up revenue generation projects like market, promote tourism by construction of lodges and hotels, and fight corruption among others.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covers the back ground of the study, the statement of the problem, the purpose, the specific objectives, Research Questions/ hypothesis, significance of the study, the scope of the study, justification of the study, Theoretical, conceptual and contextual framework.

1.1 Background to the Study

The World over, decentralization is increasingly becoming one of the key development strategies in the quest to deliver goods and services efficiently and effectively to the people. In the last decade, there has been increasing reference to the term "decentralization" as a way of managing the public sector in developing and developed countries. In the past few decades, many countries including Uganda have taken formal steps to empower local governments, typically with a mix of stated developmental and governance goals (Smoke, 2015b).

The role of local government is viewed in the context of the overall role of government per se. A particular advantage of local government lies in its ability to arrange for the provision of local public goods in line with local tastes and preferences. A number of arguments suggest that local governments should be assigned adequate powers of local taxation to finance their expenditure responsibilities rather than having to rely on central government grant (Watt, 2006).

Local Government Finance has long been a wide spread concern in most developing economies mainly because of the extreme unsatisfactory financial situation of local Governments and their high level dependency on their central, non-political or state Governments. The Great Recession that began in late 2007 had devastating consequences for the fiscal health of state and local governments, and many remain in a precarious financial position (Kiewiet & Mccubbins, 2014). Its growing importance in recent years has however been spurred by a large scale re-appraisal at the role of local government.).

Hommes (1995) sees decentralization as “essentially a political problem” representing, in Latin America for example, a stark departure from centuries of

centralism. The success of decentralization may depend upon the existence at the local level of a civic cultural tradition—informal civic institutions, such as solidarity, cooperatives, etc. With a lack of local governmental experience and riddled with patronage, local governments in Latin America tend to be captive of the elites and political barons (Atunbas, & Thornton, 2012).

Hommes, (1995) added that it is an irony of fiscal decentralization may be the need for more central government controls to protect against this danger. The concerns raised have been partially addressed by other scholars (McClure, 1995; Oates, 1995). Decentralization done badly says McClure, will cause problems. However, no one proposes full decentralization; rather, what is proposed is decentralization of some functions. Clearly, the central government must retain sufficient revenues (and discretion) to be effective in both their stabilization and distribution roles (Atunbas, & Thornton, 2012)..

Furthermore, a national role in establishing uniform financial reporting requirements and in clarifying roles and responsibilities is also an important aspect of effective fiscal decentralization (Atunbas, & Thornton, 2012). Perhaps the most important issue raised by opponents is the “local capacity” issue. However, it is not self-evident that national politicians and bureaucracies are superior to or less corrupt than their local counterparts. Political and bureaucratic skills may well flow to “the action.” If political decision making is decentralized to the local level, you may see an increase in the capacities of local governments (Atunbas et al, 2012). One of the major objectives of reform *is* building the capacity of local government and local citizens to actively participate in their governmental decisions.

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In sub-Saharan Africa, Dafflon & Madies (2013) asserts that since the early 1990s many African countries have experimented with decentralization, or the devolution of fiscal and administrative duties to local government authorities (LGAs). As part of this decentralization process, LGAs have increasingly assumed the role of raising own revenues to finance their budgets and providing basic public services to their citizens (Masaki, 2016). . Most sub national governments in Africa, however, lack institutional capacity to collect local taxes and instead rely heavily on grants from the central government to keep themselves afloat (Shah, 2006). Critics argue that while financial transfers from the central government help finance the provision of public service delivery, they can also obviate the need for local revenue generation, which in turn undermines the fiscal autonomy of sub national governments. There is a well-established body of literature in public finance suggesting that intergovernmental transfers have "crowding-out" effects on the generation of revenues at the local level, whereby the inflow of external transfers can sap the incentive for LGAs to collect their own dues (Buettner & Wildasin 2006; Zhuravskaya 2000).

Empirical evidence for the hypothesized negative linkage between intergovernmental grants and local revenues mainly derives from studies in countries where sound fiscal institutions are already in place (Masaki, 2016). In most African countries, the administrative and institutional capacity of local governments to collect taxes and provide public goods is very limited, particularly in rural areas where geographical vastness, poverty, and low population density all make it extremely difficult for LGAs to collect taxes (Fjeldstad et al. 2014). The generation of local revenues requires robust monitoring and enforcement systems and qualified staff, who are costly to employ and maintain (Besley & Persson 2013). Furthermore, fiscal policy is highly centralized and politicized such that political interference with local tax collection is prevalent in the African context (Kasara 2007; Lambright 2014; PMORALG 2013; Fjeldstad 2001).

1.1.1 Theoretical background

In order for the government (public sector) to finance goods and services to be delivered to its citizens, it must establish sources of revenue in form of taxes, donations and grants to fulfil its functions and obligations. And some of the government's obligations and functions include:-

Distribution function According to “Federalism, decentralization and growth theory” this theory is about the distribution of competencies between the different levels of a decentralized system that may have a remarkable effect on economic growth, because mainly the regions of a given country contribute to national economic development. Growth theory has traditionally assumed the existence of an aggregate production function, whose existence and properties are closely tied to the assumption of optimal resource allocation within each economy (Banerjee & Duflo, 2004). Thus, a government's economic policy is reasonably shaped along regional lines. Smart growth is an urban planning and transportation theory that concentrates growth in the centre of a city to avoid urban sprawl; and advocates compact, transit-oriented, walkable, bicycle-friendly land use, including neighbourhood schools, complete streets, mixed-use development with a range of housing choices (Growth, 2011). The theoretical discussion focuses however on the efficiency aspects of decentralized provision and financing of public services, rarely the argument is raised that decentralization or federalism increase growth through a higher ability of the political system to innovate and to carry out reforms.

Allocation function, This is based on the premise that certain goods and services cannot be efficiently provided by the market (private sector). In such circumstances, if we leave provision of all goods and services to the private sector it will lead to market failure. According to Pareto theory of efficiency, it implies that a certain change in the allocation of goods and services may result in some individuals being made “better off” with no individual being made “worse off” and therefore can be made more Pareto efficient through pareto improvement. This theory states that in 1940 Italy's twenty percent of the people owned eighty percent of the country's wealth, (Pareto, 1996). And this led to the creation of the pareto principle of 80/20 rule. This principle is concerned with the system that will lead to equitable allocation

of income and wealth that initially depend on factors endowments because of different factors and earning abilities. Government is always concerned with what constitutes a fair or state of allocation of national resources.

Example if a change in the economic condition is to be efficient to improve the welfare of the people, the improvement of region A should not lead to the worsening of the condition of Regions B and C. If this phenomenon can be achieved, therefore we have pareto improvement. Pareto optimum is theoretical; it is difficult to improve regions. A position without worsening B's position or loses everybody wins. Distributive justice should be as far as possible be used to achieve pareto improvement. Explicit expressions exist for the maximum likelihood estimators of the parameters of the Pareto distribution (Van Zyl, 2015).

The conflict between Pareto optimality and incentive compatibility, that is, the fact that some Pareto optimal (efficient) allocations are not incentive compatible is a fundamental fact in information economics, mechanism design and general equilibrium with asymmetric information (De Castro & Yannelis, 2018).

Revenue generation, Local government system in Uganda needs a moderate amount of financial autonomy to be able to discharge its responsibilities effectively. Public revenue in a decentralized system assumes that there are benefits to be derived from decentralization. Public revenue decentralization occurs when lower local governments have statutory powers to raise taxes and carry out spending activities within specified legal criteria. This is referred to as the overlapping authority model propounded by (Davis, 2001) on intergovernmental relationship. The main reason for fiscal decentralization is anchored on allocation sharing or efficiency grounds so it is possible to advance argument for decentralization in Uganda where there are many decentralized districts.

(Gemmell, Kneller, & Sanz, 2013) examines whether the efficiency gains accompanying fiscal decentralisation generate higher growth in more decentralized economies. They find that spending decentralization has tended to be associated with lower economic growth while revenue decentralization has been associated with

higher growth. The article suggests reducing expenditure decentralization, and simultaneously increasing the fraction financed locally, would be growth-enhancing. (Chopra & Sodhi, 2014) views that the principle of centralization is costly because it leads the government to provide public goods and services that diverge from the preferences of the citizens in a particular area (local governments). He also argues that to protect their supply chains from major disruptions, governments can build resilience by segmenting or regionalizing supply chains, and limit losses in performance by avoiding too much centralization of resources.

In Uganda's decentralization systems empower local Government to accept revenue for effective financing of their obligation. Chapter 11, Article 176(1) of the Constitution of the Republic of Uganda provides for a decentralised system of local government. In addition, the Local Government Act of 1997 provides for the funding of local councils by the central government, and councils have been empowered by the law since 1980 (Local Administration Act). The local Government in Uganda to execute their function using resources transferred from the centre, mobilized locally and directly from donors. The resources transferred from the centre are conditional grants, unconditional and equalisation grants. Conditional grants constitutes 80% of each local Government in Uganda, unconditional grants 10%, Donor funding 5% and to fulfil local government obligation each individual in local government must collect between 5%-10% from local Revenue; 65% of which must be retained to lower local Government and 35% retained at the District.

Uganda has adopted an elaborate system of decentralization with all aspects enshrined in the legal framework. The responsibility (services and functions) for which each level of government is responsible for as well as the sources of financing are well provided for in the legal framework (Republic of Uganda, 1995) and the local Government Act 1997 (Olum et al., 2015). The Local Government Finance Commission (created under article 194 of the constitution 1995) is mandated to play a crucial in role in the provision of advisory services, the commission is mandated to provide advice to the president (Government) on all matters concerning with transfers of grants from the consolidated fund to local governments as well as provide advice to local governments and the president on local revenues in local governments in Uganda. The sources of revenue for local Governments in Uganda

are constitutionalised under article 191 (2) of the constitution which says that, fees and taxes to be raised, collected and appropriated. Fees on registration, licensing and other taxes and fees that parliament may prescribe.

Therefore, decentralization requires taxing powers to link benefits (goods and services) and costs (taxes). Citizens who pay taxes directly to local Governments are more likely to hold local politicians and bureaucrats accountable. Weak or non-existent local taxing powers thus weaken the voice chain from the citizen's side and act in centres to strengthen the compact relationship. Dependence on National grants meanwhile weakens local Governments in the generation of local revenue and can lead to fiscal mismanagement. Local Government Act CAP 243, 85(2), (3)

In Rukungiri District Local Government, the state of fiscal decentralization remains wanting given the fact that the realized local revenue compared to the budget estimate are still low as shown in the table 1.1.

Table 1: Budget Estimates and Realised Local Revenue for Fiscal Years 2004/05 – 2008/09

| Year | Budget estimates | Actual | Surplus/ Deficit |
|--------------|-------------------------|----------------------|-------------------------|
| 2011/2012 | 1,362,321,476 | 940,440,551 | (421,880,925) |
| 2012/2013 | 1,428,593,690 | 799,124,433 | (629,469,257) |
| 2013/2014 | 609,662,070 | 288,786,876 | (320,875,194) |
| 2014/2015 | 504,838,883 | 317,110,903 | (187,727,980) |
| 2015/2016 | 753,114,490 | 454,471,023 | (298,643,467) |
| Total | 4,658,530,609 | 2,799,933,786 | (1,858,596,823) |

Source: Rukungiri District Finance and Planning Department.

Compared to the central government transfers whom have been growing steadily, the situation is alarming. In relation to this,(Odock,2004) states that the fiscal transfer to local Governments have grown from 31.6 billion in 2011 / 2012 fiscal year to shillings 669.9 billion in 2015/2016.

The above trend in the local Revenue generation implies that Rukungiri District Local Government does not generate adequate funds to finance its budget and provide basic services to its people. Also, studies by (Fjeldstad, 2006; Kloby, 2009; Ssonko, 2015) shows that the existing fiscal capacity of Rukungiri local governments

is weak and the political costs of enforcing tax collection are low. If this situation is not revised, there is a likelihood of local Revenue dropping further to the lowest level, leaving most of the planned development programmes unattended to. This makes one wonders whether the fiscal decentralization has had any significant impact on the amount of local revenue collected annually. The study aimed at establishing the relationship between fiscal decentralization and local Revenue generation in Rukungiri District Local Government.

1.2 Statement of the Problem

Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be substantiated and, in this way, the full potential of decentralisation cannot be realized. The Constitution of the Republic of Uganda provides for a system of decentralisation and Local Governments, which is further consolidated in the Local Governments Act 1997, Cap 243. Similarly, Chapter 11, Article 176(1) of the Constitution of the Republic of Uganda provides for a decentralised system of local government. In addition, the Local Government Act of 1997 provides for the funding of local councils by the central government, and councils have been empowered by the law since 1980 (Local Administration Act) to engage in any business ventures, without restrictions from central authorities. It is in this regard that it is thought and expected that councils should have enough money to finance their projects and programmes adequately. However, in spite of the existence of measures aimed at fostering decentralization in general and fiscal decentralization in particular, local government councils countrywide do not have sufficient financial resources to facilitate the effective performance of their functions.

Despite Uganda having been independent for more five decades now, most if not all of her local councils do not have sufficient capacity, especially finances, to adequately deliver services to local communities (Liu, 2017) . The weak financial muscle of councils in Uganda's local government system has, in turn, resulted into deficient service delivery, underdeveloped localities and poor standards of living of the local people, as evidenced by lack of or poor drainage systems, uncollected garbage, mushrooming of unplanned settlements, lack of water supply and sanitation services in many places, uncontrolled bars (taverns), street vending and many other vices affecting communities negatively countrywide (Van Rompuy, 2016). .

In the pursuit of local governance, Uganda has followed the concepts of decentralization and devolution, a sequence of political, administrative, and fiscal decentralisation - in measuring service delivery performance without much autonomy in revenue generation by the local governments (Basheka, 2013). It has not recognized the role of local revenue generation in facilitating the fiscal decentralisation process, and has not designed a number of transfer programs and laws that facilitate the transparent transfer of funds to local authorities (Local Government Act (243) 1997). The devolution principle has not fostered a participatory approach with communities playing a direct role in identifying their development priorities, in planning and in formulating their programmes (Basheka, 2013).

Similarly, there has been no ideal sequence of decentralisation reforms followed that would have strengthened LGs against unbridled central government (CG) interference (Awortwi, 2010). His article concludes that recentralization and further weakening of LGs are likely to continue in both countries and much of Africa because the initial path that was created benefited CG politicians and bureaucrats and they are committed to staying on that course (Basheka, 2013). In his article, (Ssonko, 2015) also concludes that the decentralization program which was ambitious and politically driven has had mixed results in terms of enhancing services delivery and therefore needs to be seriously reviewed and strengthened if it has to remain a role model in Africa.

Researchers (Fjeldstad, 2006; Kloby, 2009; Ssonko, 2015) have not focused attention on quality of financial reporting that can assure adequate revenue generation and judicious use of funds at the local level. They have not explored the effect of fiscal decentralization on revenue generation by the local governments. Furthermore, the few studies have not explored Rukungiri district decentralization and revenue generation. Also, these studies indicated that the existing fiscal capacity of Rukungiri local governments is weak and the political costs of enforcing tax collection are low. This leaves a gap as to whether there is any link between effects of fiscal decentralisation on local revenue generation at the local levels of governance. The current study therefore seeks to add to the existing literature on the already explored areas of fiscal decentralisation and also to give more insight to the local revenue generation in the LGs perspective.

1.3 Purpose of the study

The purpose of the study was to assess the of fiscal decentralization in improving local revenue generation in Rukungiri District Uganda..

1.4 Objectives of the study

1. To establish the effects of how enabling environment contribute to local revenue generation in Rukungiri District.
2. To determine the effects of assignment of appropriate revenue and function to lower local Government contributes to Local Revenue generation in Rukungiri District.
3. To establish the relationship between fiscal decentralization and local revenue generation in Rukungiri District.

1.5 Research Questions

The study was guided by the following questions:

1. What effects has an enabling environment contributed to local revenue generation in Rukungiri District Local Government?
2. What effects has assignment of appropriate revenue and functions to Local Governments contributed to Local Revenue generation in Rukungiri District Local Government.
3. What is the relationship between fiscal decentralization and local revenue generation in Rukungiri District?

1.6 Significance of the study

The study is to be used as a referral document for the accountants and financial managers' at all local Government levels to know how far they have gone in managing Local Governments finances and the challenges they are faced with. This will in turn enable them to improve on their performance as vital financial stakeholders.

The findings from the study are likely to empower local Governments officials to evaluate some of the policies governing financial management and see whether they are generating the intended results. This will give them a base on which to modify these policies to suit the demand of the people hence improving service delivery.

The study findings are likely to provide future researchers with relevant literature about the financial issues under decentralization. It is likely to add on the existing body of knowledge as far as financial management and service delivery under local Government are concerned.

1.7 Scope of the Study

1.7.1 Geographical Scope

The study was carried out in Rukungiri District which is located in south western Uganda. The district headquarters are approximately 400 kilometres (250 mi), by road, south-west of Kampala, Uganda's capital city.

The district is bordered by Rubirizi District to the north, Mitooma District to the east, Ntungamo District to the southeast, Kabale District to the south, Kanungu District to the west, and the Democratic Republic of the Congo to the northwest. The District comprises of three divisions of Eastern, Southern, and Westren in Rukungiri Municipality and 9 sub counties. The sub counties included, Bugangari, Buhunga, Buyanja, Bwambara, Kebisoni, Nyakagyeme, Nyakishenyi, Nyarushanje, and Ruhinda. This research mainly targeted the following sub counties, divisions of.

1.7.2 Contents scope

The study examined the relationship between fiscal decentralization and revenue generation in Rukungiri District Local Government. This included but not limited to; examining whether there is adequate enabling environment for Local Revenue generation, extent to which assignment of appropriate function to local Governments has affected local revenue generation, determining the effect of assigning appropriate revenues to Local Government on Local Revenue generation and to establish how appropriate intergovernmental transfer systems affect local revenue generation.

1.7.3 Time Scope

The study focused on a period of 5 years between 2011/12 to 2015/16 financial years. This generated a detailed analysis of the effects of fiscal decentralization has had on the state of revenue generation in Rukungiri District Local Government.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter seeks to find out and review information by different scholars about fiscal decentralization and revenue generation. The chapter is arranged into three parts namely theoretical framework, conceptual framework and actual literature review.

2.1 Theoretical Framework

The study was guided by theory of fiscal decentralization by Faquet (1997). The theory states that, central governments were distrusted and small, democratic governments were seen as the principal hope to preserve the liberties of free men. However, the modern case for decentralized government was articulated by Wolman (as cited in Kee, 2003). Wolman divided the proponents' arguments under two headings: Efficiency Values and Governance Values:

Efficiency Values: Efficiency is an economic value seen as the “maximization” of social welfare. The public sector does not contain the same price signals as the private sector, to regulate supply and demand. Public sector allocation of goods and services are inherently political; however, as nearly as possible tax and service packages should reflect “the aggregate preferences of community members”(Wolman as cited in Kee, 2003). However, within any political jurisdiction, some people will prefer more, some less, public services. As a result there is a “divergence between the preferences of individual community members and the tax and service packages reflecting the aggregate community preferences” (Kee, 2003). Since such divergence reduces social welfare, it is desirable to hold those to a minimum and they will be less in smaller communities (e.g., municipalities) than in larger, more heterogeneous areas (the nation).

Governance Values: Governance values include responsiveness and accountability, diversity, and political participation (Wolman, as cited in Kee, 2003). Decentralization places allocation decision making closer to the people. This fosters greater responsiveness of local officials and greater accountability to citizens. This is because we expect local decision makers to be more knowledgeable about the

problems and needs of their local area than centralized decision makers. Further, to the extent that there is accountability through local elections, those elections are more likely driven by issues of local allocation, whereas national elections are seldom focused on local service delivery.

Diversity in public policy is a second governance argument for fiscal decentralization. It is valued because it offers citizens a greater choice in public service and tax options when they are deciding where to reside (Tiebout, as cited in Kee, 2003). In addition, it helps to create “laboratories” for innovation and experimentation, which sometime serves as models for later implementation by the central government or by example to other local governments. While there is no theoretical reason why a central government could not be diverse in its solutions, there is great pressure on the central government towards uniform policies and procedures.

Finally, fiscal decentralization is thought to enhance political participation at the local level. This has the potential to enhance democratic values and political stability at the local level. It provides a forum for local debate about local priorities, and can be a proving ground for future political leaders. For example, 4 of the last 5 U.S. presidents were state governors.

Fiscal decentralization theory has been criticized by (Hommes, 1996; Tanzi, 1995, Prud’homme, 1995 as cited in Kee, 2003), by raising a number of situations or conditions, especially in developing countries like Uganda, where fiscal decentralization may lead to less than an optimal result: Taxpayers may have insufficient information or no political power to pressure local policymakers to make resource-efficient decisions; Local politicians may be more corrupt than national politicians or at least find themselves in more corrupting situations; The quality of national bureaucracies is likely to be better than local bureaucracies; Technological change and increased mobility may reduce the number of services that are truly “local” in nature; Local governments often lack good public expenditure management systems to assist them in their tax and budget choices; and Fiscal

decentralization may exacerbate a central government's ability to deal with structural fiscal imbalances.

Prud'homme as cited in Kee (2003) finds other potential flaws in the theory of fiscal decentralization. The economic efficiency argument, he suggests, requires roughly even regional fiscal capacities—a condition not existing in developing countries. For instance East Africa regional cooperation has not extended to decentralization of local governments. Fiscal inequities may actually increase with decentralization. In addition, localities might engage in destructive competition to attract industry. Kee (2003) added that “in many cases the problem is not so much whether a certain service should be provided by a central, regional, or local government, but rather how to organize the joint production of the of the service by the various levels”(p. 3).

Finally, to the extent that local governments are viewed as agents of the central government, fiscal decentralization may limit the ability of the principal (the central government) to influence policy at the local level. Despite these criticisms, fiscal decentralization theory finds application in this study for providing explanation on the need for decentralization of some functions of the central government to the local governments or authorities. Clearly, the central government must retain sufficient revenues (and discretion) to be effective in both their stabilization and distribution roles. But also the local governments must have some powers on revenue generation if they are to provide basic services to their people. In support of this position, Kee (2003) asserted that the success of decentralization may depend upon the existence at the local level of a civic cultural tradition, informal civic institutions, such as solidarity, cooperatives, etc. With a lack of local governmental experience and riddled with patronage, local governments in Uganda tend to be captive of the elites and political barons. This is the strong reason why this study adopted this theory to help bring to the fore the need for fiscal decentralization in Rukubgiri District of Uganda.

2.2 Conceptual review

Fiscal decentralization (FD) is the assignment of expenditure and revenue mobilization functions to sub- national levels of government. The term thus - encompasses two District public sector functions - spending and taxation and FD

reform can vary in the degree to which each of the two is shifted from the central to a local government level.

In order to understand decentralization, Faguet argues, we must understand governance from the ground up. Drawing on his findings, he offers an evaluation of the potential benefits of decentralization and recommendations for structuring successful reform (Faguet, 2012). The objectives of the fiscal Decentralization strategy (FDS) IS: “To strengthen the process of decentralization in Uganda through increasing local governments’ autonomy, widening local participations in decision making and streamlining of fiscal transfer modalities to local governments to strategy is therefore in two areas. The promotion of local government autonomy and the widening of participation in decision making are to help enhance the efficiency in allocation of resources towards the achievement of PEAP Goals in line with local priorities.

The literature on the economics of fiscal decentralization stresses the potential for both positive and negative effects on governance in a country. (Altunbaş & Thornton, 2012) find that countries in which a larger share of fiscal revenues and expenditures are located at the level of subnational governments appear to be less corrupt. The authors also find that the beneficial impact of fiscal decentralization on corruption is mitigated in the presence of mechanisms enforcing vertical administrative decentralization. However, (Zhang & Chen, 2015) contend that, the most important way to improve local governance performance is to substantially enhance the transparency of governmental fiscal behaviours by putting them under the complete budget and supervision of local legislature.

The empirical results show that fiscal decentralization promotes regional convergence, and this effect is boosted in high governance quality settings (Muinelogallo & Miranda, 2014). They urge that fiscal decentralization has the potential to reduce income differences across regions but that this potential may not be realized because of governance problems associated with sub-national authorities.

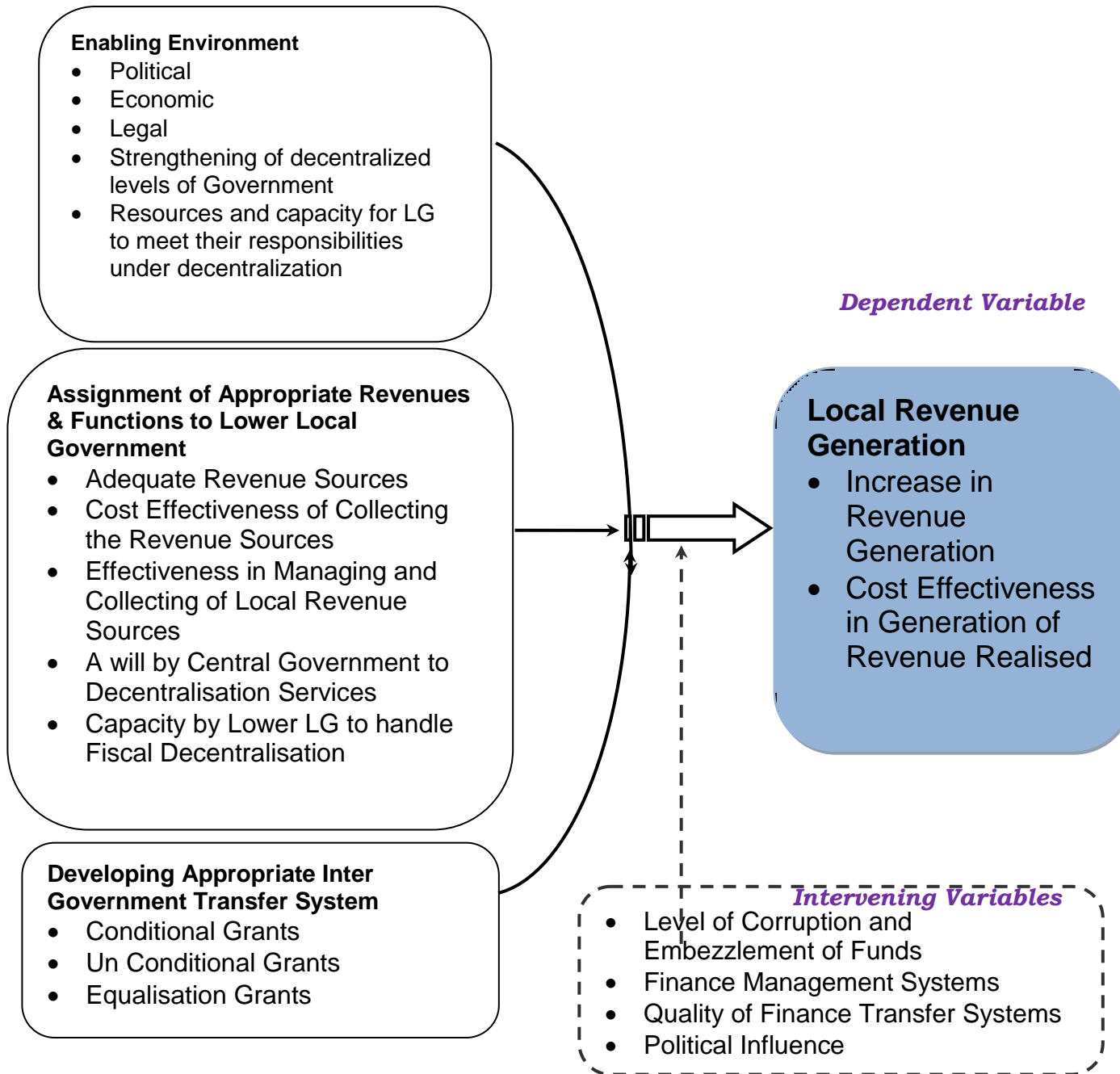
The figure below (Fig.1) shows the concepts related to the two study variable namely fiscal decentralization and local revenue generation. The figure depicts how the two

variables affect one another. Fiscal decentralization in the independent variable is related to local revenue generation as the dependent variable.

Fiscal decentralization is reflected in the three dimensions namely enabling environment, assignment of appropriate functions and revenue to local Governments, and appropriate inter-governmental transfers. Under normal circumstances it is assumed that if these dimensions are put in place and well implemented, local revenue Generation can be improved in Rukungiri District Local Government. Therefore, the study will establish how these dimensions work in Rukungiri District Local Government and how they eventually effect local revenue generation.

Figure 1: Conceptual frame work on fiscal decentralization and revenue Generation

Independent Variables



Source: adopted from Smoke, 1998

2.3 Adequate Enabling Environment to Local Revenue Generation in Local Government

A number of elements are critical for establishing a sustainable enabling environment for fiscal decentralization. Canares argues that the use of ICT can make possible more transparent and accountable revenue generation systems to benefit both government and taxpayers (Canares, 2016). He continues to suggest that this rests on on the level of political leadership, the nature of articulation of the demand for ICT use, the ratio of benefit against cost, and the availability of technical skills and resources at the sub-national level.

Provision of facilities and services is sighted as another element that will improve compliance in tax administration. (Kasim, Umar, & Martin, 2016) reason that to improve compliance behavior there is absolute need for adequate delivery of facilities and services alongside community engagement in better property tax revenue generation. This is further corroborated to include adequate funding as another critical element. Local governments should be given adequate funds to enable them carry out their expenditure responsibilities to accelerate grass root development in the economy (Sylvester & Ade, 2017). They further contend that machinery for revenue generation and allocation should be improved upon for efficiency and effectiveness to boost internal revenue for government.

According to (Shah, 2004), a comprehensive package of fiscal system reforms would include: - Clarifying roles of various levels of government in public service delivery. - Reassigning taxing responsibilities to ensure local revenue autonomy, accountability, and efficiency without endangering an internal common market. - Designing fiscal transfers to ensure regional fiscal equity and to create an enabling environment for innovative and competitive service delivery. - Facilitating responsible credit market access to sub national governments. - Designing institutional arrangements for intergovernmental fiscal relations to better coordinate policies. - Aligning operational capacity with the authorizing environment through the "accountability for results" framework of public management.

This is further supported by (Smoke, 2015b) who advocates for adequate political will, as well as administrative / political structures; empowered mechanism to

coordinate decentralization to work against each other; and finally, the central must recognize that effective local government need adequate resources and capacity to meet their responsibilities. This is further supplemented by (Benkovic, Milanovic, & Milosavljevic, 2017) who embrace clear government regulations and laws for Local Government Financing. In their article, they contend that this will furthermore create an environment of stability and predictability with regard to revenue planning when preparing local government entities' budgets, as well as achieving a vertical balance when distributing revenues amongst various state levels.

2.4 Assignment of Appropriate Functions to Sub-National Government

Administrative structure can shape bureaucratic process, performance, and responsiveness and is a particularly important consideration when new bureaucratic functions and programs are being established (Krause, Feiock, & Hawkins, 2016). They further content that, the factors that influence the assignment of these functions to specific government agencies or departments are understudied, particularly at the local level. The absence of empirical evidence regarding bureaucratic assignment in local government limits understanding of institutional design and the organizational choices available, particularly as they relate to specific policy areas.

(Gatchair, 2017) finds that deliberate efforts must be made to manage complexity arising from overlapping networks with unclear boundaries and fluidity in participation and leadership. He concedes that Local governments, like their central government counterparts, must demonstrate increased fiscal responsibility. Although the Jamaican finance ministry has overall responsibility for direction and control of fiscal management at all levels of government, successful implementation cannot be achieved solely by the finance ministry's efforts, but requires the inputs of other actors, including central government, local authorities, the private sector, and civil society groups.

Promoting fiscal responsibility at Sub-national levels calls for implementation of a stable transfer system of transfers, geared to filling any gap between the assigned spending and revenue – raising responsibilities of

lower-level governments (Potrafke & Reischmann, 2015). They postulate that, in the process of fiscal decentralization it is important to be aware of the risks for microeconomic management and fiscal discipline. Mechanisms of fiscal transfers may impose considerable rightly to the central government budget. Therefore, substantial jurisdictions can affect the central government's ability to carry out stabilization and macroeconomic adjustment through the budget. However, (Osiolo, 2017) argues that, with the large discrepancies in fiscal capacity among Local Authorities, it is evident that the intention of the instrument has not been met. These disparities lead to inequity as some LAs receive better services for their tax, while others do not.

Article 191 (1) of the constitution empowers local governments to levy, charge, collect appropriate fees and taxes in accordance with the law enacted by Parliament. These include graduated personal tax, market fees and many others. Revenues that local government raises by themselves are very important in advancing decentralization. This revenue ensures the autonomy and direction of local governments to plan, budget and implement their local priorities and needs (Constitution of the Republic of Uganda, 1995 - LGA 1997 CAP 243).

Broadly, local revenue comes from taxes, administration/user fees and licensees and property income. Article 19(2) of the constitution of the Republic of Uganda stipulates the fees and taxes to be levied, charged, collected and appropriated to include rents, rates, royalties, stamp duties, fees on registration and licensing and any other fees and taxes that parliament may prescribe. A tax by definition is a compulsory levy payable by an economic unit (including persons) to the government without any entitlement to receive a definite and direct quid pro quo from the government. It is not a price paid by the tax payer for any definite service rendered or a commodity supplied to government (Ministry of local government, 2007).

Taxes that local governments collects include but not limited to trading license fees, liquor license fees, property rates, fishing licenses, local service,

hotel tax etc. generally, taxation in the context of developing countries and investment; remove poverty and inequalities; and the finance the setting up and maintenance of social overheads, defence, law and order etc. therefore, the rationale for collecting local revenues are used to co-finance, maintain and sustain investments; services loans, facilitate council operations and finance many other priority areas that are specific to the local governments, including promoting autonomy. Local taxes also regulate and control the proliferation of certain businesses and also reduce reliance on central government and donor groups. They promote accountability to the community resulting into guaranteed and improve quality of service and sustainability of service delivery (Ministry of local government, 2007).

Decentralization is expected to improve efficiency in resource use because residents in each SNG could choose the mix of public services and revenues that best meets residents' preferences. Thus many services except those that can only be efficiently provided at a large scale should be SNG functions many countries generally follow this logic broadly. But implementation is a challenge because central agencies often resist losing powers and resources and SNG may not have the capacity to assume new functions. In terms of good practice, many countries are clear about general SNG functions including Brazil, and Indonesia. South Africa is also refining constitutionally assigned municipal functions, particularly for basic services (Smoke, 2015a).

When governments devolve functions according to Fjeldstad, et al, (2014) they transfer authority for decision making, finance and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions (Fjeldstad, et al, 2014). A good sub-national tax system is critical to an effective and sustainable system of intergovernmental fiscal relations a need what has become increasingly important around the world as more and more public services are being delivered through sub-national governments.

In most developing countries potentially sound and productive taxes exist and are suitable for regional and local governments. Potentially sound and productive taxes exist and are suitable for regional income taxes, payroll taxes and even in some cases, regional value added taxes and properly designed local taxes (Bird, 2015). He exerts that, improving tax administration has long been a matter of concern to those concerned with developing countries. Since all countries need revenues, all countries have revenue administrations. Money alone is not enough; but it is necessary for any state to function, and the most reliable way to get it is with an effective tax administration (Bird, 2015). Tax administration may thus play a critical role not only in shaping economic development but in developing an effective state.

Article 191 (1) of then constitution empowers local governments to levy, charge collect and appropriate fees and taxes in accordance with laws enacted by parliament to that effect. The taxes and fees local governments Act. These include graduated personal tax, property tax, market fees and many others. Revenues that local governments raise by themselves are very important in advancing decentralization. These revenues ensure the autonomy and discretion of local governments plan, budget and implement their local priorities and needs (Local Government Act, 1997, CAP 243).

Collection of own revenue in municipalities is a legislative requirement. Collection of own revenue is a critical determinant of the financial viability of municipalities. That is, the abilities of municipalities to collect revenue from own sources is, often times than not, highlighted as an important determinant of the financial viabilities of such municipalities (Manyaka, 2014). Manyaka explains that, it is worth noting that despite this essential policy pronouncement, most municipalities, particularly those in predominantly rural settings, still struggle to generate their own revenue. This creates vertical imbalances between the functional responsibilities of these municipalities and the financial resources required to finance such responsibilities.

In many countries, local governments seem to raise whatever taxes, fees, and charges they are capable of rising. Often without worrying excessively about the economic distortions and non-transparent local governments revenue system is costly to administer and it facilitates corruption and mismanagement (Bardhan, 2011).

Moreover, many local taxes have a distorting effect on resource allocation decisions and thus an inhibiting effect on the start-up of new enterprises and the achievement of economic growth (Devas & Kelly, 2001). These effects occur when license fees are set too high for start – up small – scale enterprises to survive. Exceptions are reforms in East-Africa, which have led to the abolishment of some of the most unpopular taxes, including poll (head) taxes in Tanzania and Uganda, and simplification of the local government tax legislation and administrative practices. Generally, however, fiscal decentralization reforms in Sub- Saharan Africa are limited to addressing the inter-governmental fiscal transfer system (Fjeldstad, Chambas, & Brun, 2014).

The revenue system was costly to administer and it facilitated corruption and mismanagement. Moreover, many local revenue instruments, including the business licensing system, distorted market decisions and inhibited the start – up of new enterprises. In June 2003, a comprehensive reform of the local government revenue system was carried out. A large number of so-called nuisance taxes which were costly to administrate and generate limited revenues were rationalized. Thereafter, in June 2004, local business license were abolished based on the argument that they provided disincentives for the development of local enterprises. The Tanzanian reform demonstrates that radical changes of the level revenue system are possible.

However, it is too early to assess the longer-term impacts of the reform. For instance, the rationalization implied that local governments have to be compensated for the resulting revenue shortfalls by the central government, at least in the short run. Ongoing work initiated by the ministry responsible for local authorities focuses on reforming the current local revenue system and to identifying new revenue options. Among the proposals discussed are reforms of the property tax system of a unified business tax and reintroduction and streaming of the business license system (Fjeldstad, et al, 2014).

Moreover, many councils have started to explore methods to reduce the financial gap caused by the rationalization by; Outsourcing revenue collection to private collectors to increase revenues from existing sources; reducing costs (for example, by limiting the number of meeting and workshops and by retrenching surplus staff) and imposing more cost-effective spending (for example, on electivity and stationery).

Current attempts for economic diversification may also help to expand the local revenue based in the longer term (Fjeldstad et al., 2014).

2.5 Intergovernmental Transfer Systems

Intergovernmental transfer programmes serve multiple often interrelated purposes. This is supported by Muñoz, Radics, & Bone, (2016) who suggested that the introduction of equalization transfers can contribute to tackle more effectively the subnational fiscal disparities and hence improve regional equity. Bahl (2013) adds that, most transfer systems are intended at least officially to meet these objectives and they use a variety of types of mechanism to do so. They help to cover sub-national government fiscal imbalances, supplementing inadequate local owner source revenues to improve the ability of sub-national re-distributional objectives, helping to offset capacity differences among sub-national governments, third, they can be used to encourage local expenditure on particular goods and services that exhibit positive externalities to pay for them.

There are several typical issues and problems involved in designing transfer programmes. First, on one type of transfer meets all desired objectives Unconditional grants, for example are best for income redistribution purposes, while conditional grants are efficient way of encouraging expenditures on particular types to target services. Second, fiscal equalization grants are often considered.

In Uganda the ministry of finance directly transfer funds to the districts, city and municipal councils in the form of conditional, unconditional and equalization grants in accordance with article 193 of the constitution of the republic of Uganda and section 83 (c) of local government act cap.243.

Unconditional grants are paid to local governments to run decentralized services. Conditional grants consists of monies given to local governments to finance programmes agreed upon between the central government and local government; and are expanded only for the purposes for which they were made and in accordance with the conditional agreed upon.

Equalization grants is the money that is paid to local governments for giving subsidies or making special provision for the least developed or the disaster stricken districts basing on the degree to which a local government is lagging behind the average standard for a particular service.

In final analysis, it is difficult to make general stable prescriptions about the appropriate structure of an intergovernmental transfers system which should be expected to vary across country depending on national objectives, the extent of service and revenue functions assigned to sub-national governments the fiscal capacity of sub-national governments and the political programmes to balance key objectives moving towards considerate programmes with more transparent allocation mechanisms, building incentive for good fiscal behaviour into the access critical and distribution formulae and starting new programmes incrementally, increasing available manner. In spite of the challenges involved, transfer programmes can generally be designed to improve on the status quo (Pittl, Mach, & Schikuta, 2015).

There has been growth in the number and diversity of transfer mechanisms from central government and donors and this has been a matter of growing concern in both central and local government. Many of these mechanisms are not well adapted to the decentralized framework, with local governments given little real power over the allocation resources and little involvement of lower level local governments in the decision-making. Problems with management and financial accountability have arisen from the profusion of different transfers systems and bank accounts (MFPED, 2003).

Line ministries are faced with major problems in dealing with quarterly reporting from a growing number of conditional grants and a growing number of districts. In addition, there is concern about the different design types of conditionality's under the ministry of local government's (MoLG) Local Government Development Programme (LGDP) and PAF conditional grant regulations and the bureaucratic load of multiple procedures bank accounts and lines of reporting. It is against this background that the Government of Uganda (GoU) commissioned the Fiscal Decentralization studies to examine how to streamline and harmonize the present

systems and processes of transferring resources to local Governments (MFPED, 2003).

Some element of central transfers will need to provide a direct incentive for a local government to increase local revenues. Therefore funds will be made available to local governments each year in order to reward those which improve tax administration and tax collection over time. Each government has improved its tax administration and collection over time the greater proportion of available funds will be allocated to it. These funds could either be transferred as part of the non - wage element of the unconditional grants or as a separate grant. Whichever option is chosen, it is important that the incentive is substantial enough to ensure local governments make additional efforts to raise local revenue (MFPED, 2003).

2.6 Summary of the Literature Review

The above information presented by different scholars indicated that fiscal decentralisation is still a new strategy in many countries and thus is bound to meet a number of challenges in the course of its implementation. The gaps identified in the literature are those relating to how fiscal decentralisation through its pillars has affected the researcher wondering whether the current fiscal decentralisation is a viable strategy in increasing local revenue generation in local government.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter discussed the research methods and procedures that have been employed in this study. It discussed the research design especially with respect to the choice of design and the research approach. It has also discuss the population of the study, sample and sampling techniques, data collection methods, validation and reliability of instruments as well as data analysis methods that have been employed in the study and highlight the sources of information for the research and data validation so that the kinds of errors could be identified and eliminated during the analysis and interpretation.

3.1 Research design

This study used descriptive survey design because of its considerable ability to generate answers to the question what and how? as well as why questions. Survey is a method of collecting information by interviewing or administering a questionnaire to sample of individuals. survey is used during collection of information about people's attitudes, opinions, or feelings or any of the variety of education or social issues (Kombo & Tromp, 2006). This study used survey design due to its suitability in social research that can be done in the subjects natural setting like Rukungiri Distric where data needs to be collected from the locals on fiscal decentralization and revenue generation (Kothari, 2010). This design was preferred because of its strengths and interpreting conditions, practices, beliefs, views, perceptions and effects that exist in the real world (Silverman, 2010). In addition the design suits both qualitative and quantitative approach.

3.3 Research Approach

This study used mixed methods approach because of the need to explore both quantitative or numerical and qualitative data to provide more valid and reliable insight into the problem being investigated (Amin, & Mohamadi, 2018; Amin, 2015). Mixed Method Research (Triangulation) tries to discover answers to the questions who, what, when, where, and sometimes how by collecting numerical data

about the problem (Cooper & Schinder, 2000). Quantitative and qualitative data were explored to provide more detail insight into the problem of fiscal decentralization and local revenue generation in local authorities: a case of Rukungiri District, Uganda. The justification for the adoption and use of mixed method lies in its perceived benefits and ability to help in determining the attitudes, behaviours, perspectives of the research subjects, and in understanding the environment of the study.

3.4 Area of the study

Rukungiri District is a district in the Western Region of Uganda. The town of Rukungiri is the site of the district headquarters. The district is bordered by Rubirizi District to the north, Mitooma District to the east, Ntungamo District to the southeast, it is approximately 68 kilometres (42 mi), by road, north of Kabale, the largest town in the Kigezi sub-region. This is approximately 400 kilometres (250 mi), by road, southwest of Kampala, the capital and largest city of Uganda, and the Democratic Republic of the Congo to the northwest. The district headquarters are approximately 400 kilometres (250 mi), by road, south-west of Kampala, Uganda's capital city. The coordinates of the town are 0°47'24.0"S, 29°55'30.0"E, Latitude:-0.7900; and Longitude: 29.9250 (Uganda Bureau of Statistics, 2017).

In 1991, the population of the district was estimated at 230,100. The 2002 national census estimated the population at 275,200. The district annual population growth rate was calculated at 1.6 percent. In 2012, the population was estimated at 321,300. According to the 2002 national population census, Rukungiri town had 12,765 inhabitants. In 2010, the Uganda Bureau of Statistics (UBOS) estimated the population at 14,400. In 2011, UBOS estimated the mid-year population at 14,700. In 2014, the national population census put the population at 36,509.

Rukungiri is a two-street town surrounded by numerous hills and valleys. Most of the surrounding hills, however, have lost their natural shapes because of human activity, most notably agriculture. The town itself is located on a hilltop. In some places, the agricultural terraces on the hills cover them from the foot to peak. This makes the district poor due to low agricultural and economic activities, in addition to high

unemployment rate and HIV/AIDS pandemic. The choice of Rukungiri district for this study was informed by these inadequacies.

3.5 Population of the Study

Kothari (2012) define population as that population to which the researcher generalized his findings. The population for this study consisted of one thousand three hundred and fourty seven financials accountants and internal and external auditors of the three divisions of Eastern, Southern, and Western Rukungiri Municipality and 9 sub counties. The sub counties included, Bugangari, Buhunga, Buyanja, Bwambara, Kebisoni, Nyakagyeme, Nyakishenyi, Nyarushanje, and Ruhinda located within Rukungiri District. These divisions and sub counties were purposefully selected for being organizations that deals with financial matters of revenue generation for the District and requiring decentralization for effective local revenue generation. They are distributed as follows:

Table 3.1: Research Population and Sample Size

| Category of people from selected study areas | Total population | Sample size | Sampling procedure |
|---|------------------|-------------|--------------------|
| Chief Administrative Officer (CAO) | 1 | 1 | purposive |
| Deputy Chief Administrative Officer (DCAO) | 1 | 1 | purposive |
| Town Clerk and Assistant Town clerks | 4 | 4 | purposive |
| Senior Accountants | 2 | 2 | purposive |
| Senior Auditors | 2 | 2 | purposive |
| Sub County Chiefs | 12 | 12 | Simple random |
| Sub Accountants | 12 | 12 | Simple random |
| Finance and revenue officers | 12 | 12 | Simple random |
| Civil Servants (selected randomly 5 from each sub county) | 210 | 60 | Simple random |

| | | |
|--------------|------------|------------|
| Total | 256 | 106 |
|--------------|------------|------------|

Source: Field survey 2018

3.6 Sample Size and Sampling Procedure

The study purposively selected Rukungiri District based on the fact that it is one of the under developed district and it has low revenue generation due to centralization. The study also selected 106 respondents from the 3 divisions and 9 sub counties. The sample was generated according to the given categories in a bid to avoid biasness. In the first category, the researcher used purposive sampling where sample members were chosen with a specific purpose/objective in mind. This comprised of 1 Chief Administrative Officer (CAO), 1 Deputy Chief Administrative Officer (DCAO), 1 Town Clerk and 3 Assistant Town clerks, 2 Senior Accountants, 2 Senior Auditors, 12 Sub County Chiefs, 12 Sub Accountants, and 12 Finance officers as indicated in table.2 above.

In the second category, the researcher first used Stratified sampling where sample members were chosen randomly from different segments (strata) of the overall population, thereafter random sampling where simple members were chosen randomly for inclusion in the sample with each population element having an equal probability of being selected. The respondents from the civil servants were selected by using of using the sub counties as strata and then randomly selecting 5 respondents from each stratum. A total of 106 subjects were selected

3.6.1 Sample size

A sample is a selection of respondents chosen in such a way that they represent the total population as good as possible (Simons & Koranteng, 2012). A quota sampling approach was used to select 60 of the 210 civil servants. While, the remaining 46 respondents were sampled using purposive and simple random sampling technique. This number was chosen based on the sampling parameter suggested by Nwana (as cited in Simons & Koranteng, 2012), who suggested that if the population size is small (less than 200), a 40% or more sample size will be adequate. With the quota sampling method, the population was first stratified by ages. This approach allowed the researchers to observe relationships between subgroups.

3.6.2 Sampling procedures.

The study used simple random sampling, purposive and snowballing technique in the selection of schools and participants.

- i. **Sampling of Rukubgiri District:** Purposive sampling procedure was used to select Rukungiri District from which data were collected. The Rukungiri District was selected based on its remoteness, lack of adequate revenue for development, over centralized revenue generation system.
- ii. **Sampling of heads of administration (Chief Administrative Officer [CAO] and Deputy Chief Administrative Officer [DCAO]):** The heads were also purposively sampled. They were purposefully sampled because they handle the administration and revenue generation of the district affairs. They are also in charge of implementation of all government policies in the entire district.
- iii. **Sampling of Town Clerk and Assistant Town clerks:** The Town Clerk and Assistant Town clerks' sampling was done using simple random sampling. A total of 4 Town Clerk and Assistant Town clerks' were selected for being the most experienced staff in the district office.
- iv. **Sampling of Senior Accountants and Senior Auditors:** Two Senior Accountants and two Senior Auditors were sampled through simple random sampling.
- v. **Sampling of Sub County Chiefs:** A total of 12 Sub County Chiefs were sampled through simple random sampling to give everyone a chance.
- vi. **Sampling of Sub Accountants:** A total of 12 Sub Accountants were sampled through simple random sampling to give everyone a chance.
- vii. **Sampling of Finance and revenue officers:** A total of 12 Finance and revenue officers were sampled through simple random sampling to give everyone a chance.
- viii. **Sampling of Civil Servants:** A total of 210 Civil Servants (selected randomly 5 from each sub county) were sampled through simple random sampling to give everyone a chance.

3.7 Research Instrumentation

The research used two instruments for collection of primary data for this study. A researcher developed questionnaire titled: fiscal decentralization and local revenue generation questionnaire (FDLRGQ). The items used in the questionnaires were obtained from literature and interview questions for the focus group discussions. The questionnaire consisted of 25 items divided into three sections based on types of forensic accounting services. The questionnaire was structured on a closed ended format on a five point Likert scale ranging from, Strongly Agree, Agree, undecided, Disagree, and Strongly Disagree, graded as 5,4,3,2,1 respectively, while the interview question contained 10 items on an open ended format. Therefore, instrumentation for data collection was done in three stages as follows:-

Before the administration of the instrument, they were tested for validity and reliability and on passing the test, a transmittal letter was obtained from school of postgraduate studies and research (SPGSR), Kampala International University (KIU) giving the researcher approval to go to the field and conduct the study. The researcher proceeded to the field to collect primary data from the respondents observing the ethical considerations stated for the study. The researcher explained the objectives of the study to the respondents and requests them to take part in the study. Those who needed to sign an informed consent form were given one to show that they willingly participated in the study.

During the administration of the instrument, the researcher scheduled a meeting with the targeted respondents at a time convenient to all. The researcher gave them questionnaire and allowed them some time to fill them before collecting the completed questionnaires.

The researcher also gave the targeted group the interview questions before hand so that they could adequately prepare themselves for the interview and group discussion. After the specified time the interview and group discussion, the researcher came with a sound recorder to record the interview and discussions with the consent of the interviewees. After the administration of the instrument, the questionnaires, the interview and discussion transcripts were collected for replay and analysis to extract the information they were designed to collect as discussed. The

face-to-face interviews administered to respondents from the district office and finance department. The use of interview has the advantage of giving high return rate, it helps to clarify ambiguous responses, fill in missing gaps and increase the validity of the data (Sosthenes, 2013).

3.8 Validity of Instrument

Validity is the degree to which an instrument measures what it purports to measure (Sekaran, 2007). As noted by Aiken and West (1991) as cited in Odo (2014) it concerns the accuracy and meaningfulness of inferences. According to Creswell (2014) instruments used to evaluate research data must be valid and precise. If they are not, the information collected from a study is likely to be biased or factually flawed, doing more harm than good. He outlined the following as types of validity that researchers should guide against:-

Construct validity: A construct is the behavior or outcome a researcher seeks to measure within a study, often revealed by the independent variable. To achieve that researcher should operationalize or define the construct precisely (Creswell, 2014).

Internal validity: Internal validity refers to how well your experiment is free of outside influence that could taint its results.

External validity: External validity refers to how well your study reflects the real world and not just an artificial situation. Research instrument could achieve high external validity by being applicable to a diverse group of people in a wide array of natural environments.

Conclusion validity: When the study is complete, researchers may still invalidate their data by making a conclusion error. Essentially, there are two types to guard against. A Type I error is concluding there is no relationship between experimental variables when, in fact, there is. Conversely, a Type II error is claiming a relationship exists when the correlation is merely the result of flawed data. These errors could be minimized by ensuring that the conclusion was drawn based on the relationships observed from data analysis.

However, for this study, two types of validity were tested. First, to ascertain content validity, the researcher went through a review of literature and identified items

required to measure the concepts, and also questions were double checked to ensure they covered all areas of the study. This enabled the research instruments to capture accurate data from all areas of the study. Second, face validity was established by requesting three experts in the field of financial management and accounting from Kampala International University, one expert of financial management, one auditor and two practitioners of revenue generation from Rukungiri District office to give their opinions on the validity of the instruments.

They reviewed the items for their clarity relevance, content coverage and appropriateness. Some of the suggestions were inclusion of probing and negative questions in the instrument. This was deemed to be appropriate in capturing data from respondents which were then incorporate into the final version of the instrument for use in the study. The group of experts was given the questionnaires with the questions and the returns for the questions per group were as follows;

Table 3.2 Showing Item validated

| Group of experts | No of items received | No of items returned |
|----------------------------|-----------------------------|-----------------------------|
| KIU Accounting experts | 25 | 23 |
| Statistics experts | 25 | 22 |
| Rukungiri District experts | 25 | 23 |
| | | |
| Total | 75 | 68 |

Table 6 shows that out of the 75 items that were given to the experts, only 68 items were returned as well or correctly stated in accordance with the research objectives and research questions. Therefore, the Internal Validity Coefficient Value (IVCV) of the instrument was calculated using the formula below:-

$$V = CVI / TI$$

Where:-

CVI = number of items declared valid,

TI = total number of items,

IV = validity coefficient of instrument.

$$23 + 22 + 23 / 75$$

IV = 0.895 or 90%

Since the IV = 0.895 is above 0.5 is a clear indication that instrument were valid. That means items were well or correctly stated consistent with the research objectives and research questions.

3.9 Reliability of the Instrument

To test the reliability of the instrument, a pilot study was conducted in one District randomly selected from Uganda from which 30 subjects or samples were randomly selected consisting of 10 administrative and other staff 15 accounting officers and 5 auditors .The pilot study was carried out through a test retest method of reliability within an interval of two weeks between the first test and the second test administration. The two weeks interval was given to ensure that respondents did hardly remember exactly their previous response. The two scores obtained were then be subjected to regression analysis and correlation methods using Cranach's alpha. The rating scale instrument quality criteria were used to measure the items reliability.

Table 3.3: Item measurement reliability

| Cronbach's Alpha Coefficients | Value criteria |
|-------------------------------|----------------|
| <. 6 | Poor |
| .65 - .80 | Fair |
| .81 - .90 | Good |
| .91 - .94 | Very good |
| .95 and above | Excellent |

Source: - Fisher (2007) in Mohammad, Suleiman, Sern and Salleh (2015 : 166)

Table 3.4 Showing Overall Reliability Statistics

| Cronbach's Alpha | Number of Items |
|------------------|-----------------|
| .89 | 68 |

Cronbach's alpha coefficient of 0.89 was obtained and this indicated high significant relationship among the items and also significant reliability.

3.10 Method of Data Analysis

The primary data collected through the use of questionnaires were coded using appropriate scales (Likert scale) to allow for statistical analysis on the five research

questions quantitatively, while direct personal in-depth interview was used to generate qualitative data which was analysed using content analyses. According to Mugenda and Mugenda (2003), data must be cleaned, coded and properly analysed in order to obtain a meaningful report. The descriptive statistics of means and standard deviation, frequencies and charts were used to describe the quantitative data from respondents and to answer the research questions. Correlation and regression analyses were used in analysing the data at 0.05 Alpha level of significance. T-test statistic was used to determine any significant difference between mean scores of the independent variables. The Statistical Package for Social Sciences (SPSS) version 21.0 was used to analyse and interpret the data where applicable.

3.11 Ethical Issues

The study necessitated the use of human participants as well as the acquisition of some confidential district data. Thus, in this research, ethical considerations were identified and prioritized. Specifically, consent and confidentiality factors were valued in the process. The researcher ensured that these factors are safeguarded during the entire duration of the study. In order to gain the consent of the District regarding this study, the researcher secured an approval from both managements by means of a written letter of permission. Securing the permission of the participants was also given importance.

Thus, a written letter explaining the details of the research, its objectives, purpose and procedure was distributed to the selected participants before participating in the actual interview process. The reasons why the employees were selected as respondents was also stated in the consent form; this enabled the employees to connect the research aims with that of the participants' background. It was also to ensure that rapport and trust was built between the researcher and the respondents; this helped in gaining the cooperation of the participants. Although the participants were initially given their consent, the researcher also informed them that they could withdraw even during the research process and even without providing any reason. By giving this freedom, the participants felt forced to participate in the process.

The privacy of the respondents as well as the confidentiality of their responses was prioritised by the researcher as well. In order to do so, the names of all parties involved were kept confidential. All details that were related to the study were

included in the final report. The researcher also ensured that all data gathered for the study are protected from unauthorised access. All of the information that was gathered from all the respondents was used in this study alone.

3.12 Limitations of the Study

Some respondents were not be able to fill the questionnaire on the sport as required so they were given additional time which led to delay in data gathering. This was minimized by researcher adopting an alternative way where by respondents are assisted by the research assistant to help them fill and also collect the completed questionnaire. The study was based on fiscal decentralization and local revenue generation in local Authorities (governments) in Rukungiri District of Uganda. Therefore, researcher cannot administer the questionnaire on all the respondents alone, so research assistants were used in each organization to collect the questionnaire. The study was also restricted to issues of fiscal decentralization in the chosen district. There were also the limitations of time, money and logistics.

CHAPTER FOUR

DATA PRESENTATION, AND DISCUSSION OF FINDINGS

4.0 Introduction

In this chapter, the researcher presented his analysis findings and interpretation that guided his in drawing conclusion and recommendations of the study. The data was presented in relation to the study objectives and questions.

As show on the sample size in Chapter Three, 106 data collection tools were distributed to different categories and 81 were returned which was a 76.4% response rate.

4.1. Descriptive statistics for the demographic characteristics

The study involved various categories of people from the population. Table 4.1 below presents the demographic data of the categories.

Table 4. 1: Position held by the study respondents

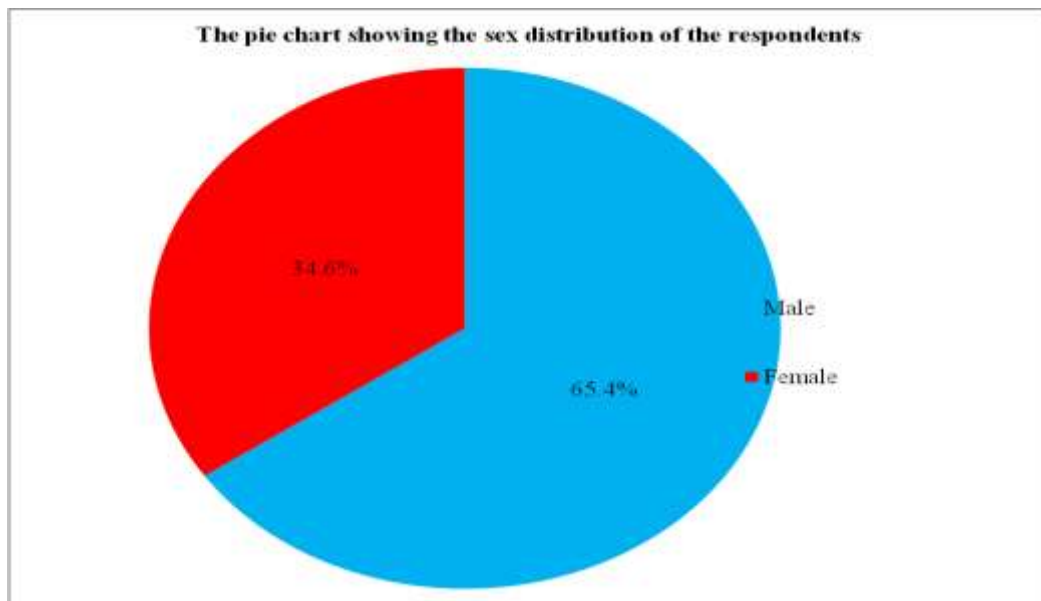
| Position held | Frequency (N=81 | Percentage of sample |
|----------------------|------------------------|-----------------------------|
| Accountants | 14 | 17.3% |
| Finance officers | 14 | 17.3% |
| Sub county chiefs | 8 | 9.9% |
| CAO | 2 | 2.5% |
| Auditors | 2 | 2.5% |
| Civil Servants | 41 | 50.6% |

Source: Primary Data, 2018

The data on table 4.1 shows that 14 respondents were accountants which represented 17.3%, 14 were finance officers that also represent 17.3%, 8 respondents were sub county chiefs that represented 9.9%, 2 respondents were auditors representing 2.4%, 2 respondents were CAO with a representation of 3.7%, and the sample had 41 other civil servants representing 50.6%; in this context, the major departments were represented in the study, it was concluded that the opinions expressed were a reflection of local government employees.

4.1.2.1 Sex of the respondents

Figure 4. 1: The pie chart showing the sex distribution of the respondents

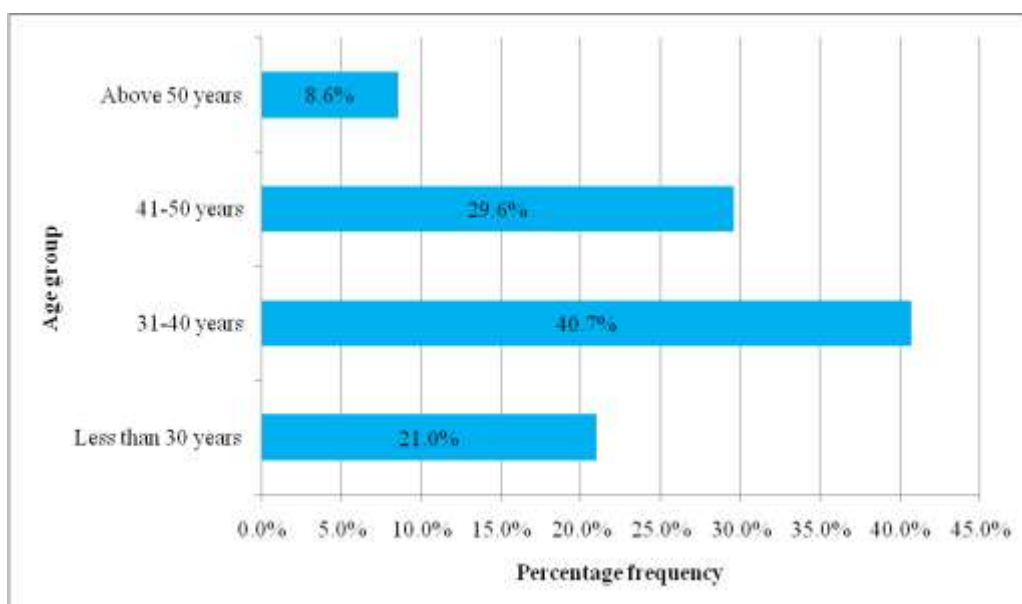


Source: Primary Data, 2018

From the results in the figure above, most of the study respondents (65.4%) were male and female were only 34.6% of the respondents.

4.1.2.2 Age group of the respondents

Figure 4. 2: Bar graph for age group of the respondents



Source: Primary Data, 2018

Findings in the figure above show that 21% of the respondents were less than 30 years, 40.7% were in the range of 31-40 years, 29.6% were in the range of 41-50 years and finally 8.6% were above 50 years.

4.1.2.3 Level of education of the respondents

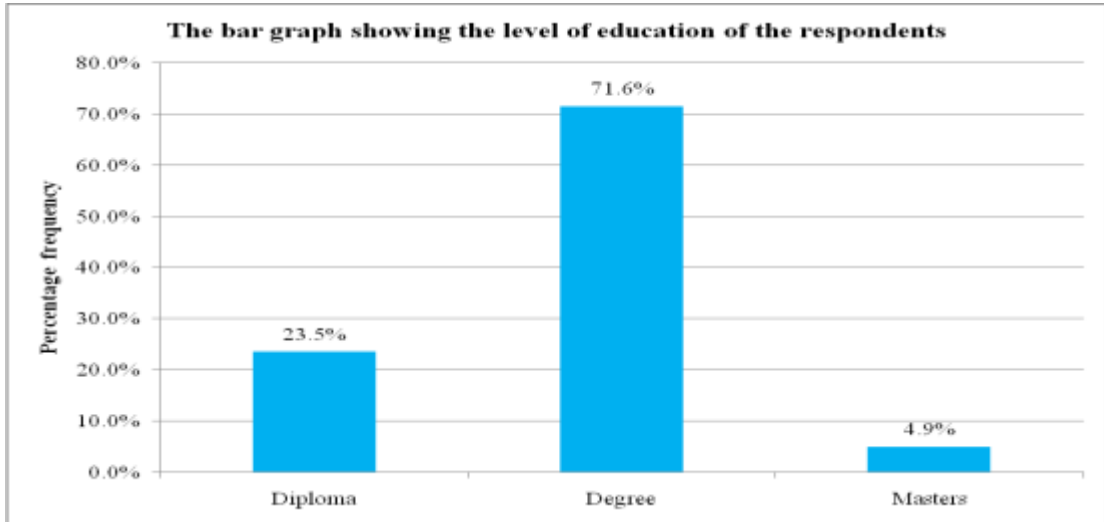


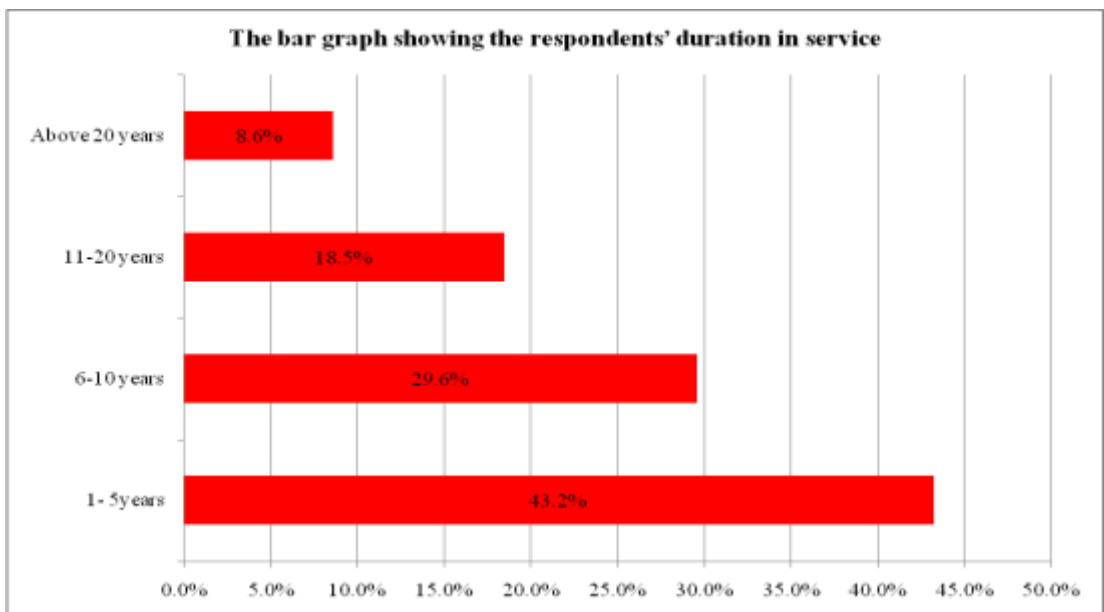
Figure 4. 3: The graph showing the level of education of the respondents

Source: Primary Data, 2018

The findings above show that most of the respondents (71.6%) were of degree level, 23.5% were of Diploma, and only 4.9% of the respondents had masters.

4.1.2.4 Duration in service of the positions held by the respondents

Figure 4. 4: The bar graph showing the respondents' duration in service



Source: Primary Data

The findings in figure above show that most of the respondents (43.2%) had served for 1-5 years, 29.6% had served for 6-10 years, 18.5% had served for 11-20 years and only 8.6% of the respondents had served for above 20 years.

4.2 The effect of enabling environment on local revenue generation in Rukungiri District Local Government

4.2.1 Descriptive statistics on the enabling environment

Research Question 1: To establish the effects of how enabling environment contribute to local revenue generation in Rukungiri District. In the first objective the study sought to establish the effect of enabling environment on local revenue generation in Rukungiri District Local Government. In response, descriptive statistics were generated regarding enabling environment measured using five items. The items measuring enabling environment were scaled using the five-point Likert scale where, 1 = strongly disagree 2 = Disagree, 3 = Neutral/Undecided, 4 = Agree and 5 = strongly agree.

Table 4. 2: Means for survey questions related to enabling environment

| Statements | | 5 | 4 | 3 | 2 | 1 | Mean |
|---|-------------|-------|-------|-------|-------|-------|-------------|
| The policies are always favoured for local revenue generation | N=81 | 52 | 20 | 5 | 4 | 0 | 4.48 |
| | %ge | 64.2% | 24.7% | 6.2% | 4.9% | 0% | |
| Fiscal decentralization operates in a good economic environment | N=81 | 48 | 27 | 3 | 3 | 0 | 4.48 |
| | %ge | 59.3% | 33.3% | 3.7 | 3.7 | 0% | |
| Decentralization generation is done within the set legal provisions | N=81 | 27 | 49 | 3 | 2 | 0 | 4.25 |
| | %ge | 33.3% | 60.5% | 3.7% | 2.5% | 0% | |
| Decentralization levels of government have been strengthened to effectively manage local revenue generation | N=81 | 13 | 9 | 47 | 6 | 6 | 3.25 |
| | %ge | 16.0 | 11.1 | 58.0 | 7.4 | 7.4 | |
| There are adequate resources and capacity for the district to meet their fiscal responsibilities of local | N=81 | 0 | 10 | 35 | 12 | 24 | 2.38 |
| | %ge | 0% | 12.3 | 43.2% | 14.8% | 29.6% | |

| | | | | | | | |
|--------------------|--|--|--|--|--|--|--|
| revenue generation | | | | | | | |
|--------------------|--|--|--|--|--|--|--|

Source: Primary data, 2018

The results in the table above showed that;- 64.2% strongly agreed to the statement that policies are always favoured for local revenue generation, 24.7% agreed to the statement; 6.2% were neutral/undecided; 4.9% disagreed; and none of the respondents strongly disagreed. Mean=4.48 showed that on average, the respondents agreed to the statement that policies are always favoured for local revenue generation.

Similarly, 59.3% strongly agreed to the statement that fiscal decentralization operates in a good economic environment, 33.3% agreed to the statement; 3.7% were neutral/undecided; 3.7% disagreed; and none of the respondents strongly disagreed to the statement. Mean=4.48 showed that on average, the respondents agreed to the statement that fiscal decentralization operates in a good economic environment.

Also, 33.3% strongly agreed to the statement that decentralization generation is done within the set legal provisions, 60.5% agreed to the statement; 3.7% were neutral/undecided; 2.5% disagreed; and none of the respondents strongly disagreed to the statement. Mean=4.25 showed that on average, the respondents agreed to the statement that decentralization generation is done within the set legal provisions.

Again 16.0% strongly agreed to the statement that decentralization levels of government have been strengthened to effectively manage local revenue generation, 11.1% agreed to the statement; 58.0% were neutral/undecided; 7.4% disagreed; and 7.4% of the respondents strongly disagreed to the statement. Mean=3.25 showed that on average, the respondents were neutral/undecided to the statement that decentralization generation is done within the set legal provisions.

None of the respondents strongly agreed to the statement that there are adequate resources and capacity for the district to meet their fiscal responsibilities of local revenue generation, 12.3% agreed to the statement; 43.2% were neutral/undecided; 14.8% disagreed; and 29.6% of the respondents strongly disagreed to the statement. Mean=2.38 showed that on average, the respondents disagreed to the statement that

there are adequate resources and capacity for the district to meet their fiscal responsibilities of local revenue generation.

Thematic data analysis of interview responses: During the interview, 10 respondents were interrogated and their responses were as follows;

Firstly, respondents were asked whether the policies are always favoured for local revenue generation. The respondents provided further explanation in the open ended questions. In doing so Muhame Hussein an auditor hinted that:

“Participation of Local Leaders in Revenue collection a number of people are ignorant on Local Government Taxes and fees such as the scope and usefulness of paying fees and taxes, the use to which their tax and fees payment are put, their roles and responsibilities, the District and urban councilors charging and other related policies related to tax collection. The local leaders therefore participate in social mobilization in informing the tax payers (masses) on all the above and other key issues regarding local revenues. This has improved tax payer compliance and as results, enormous improvements in local revenues collection can be realized by Rukungiri Local Government” Muhame Hussein (personal communication, June, 5, 2018)

Another respondent, Mr. Kyomugasho Justine of the audit department asserted that;

“The local institutions involvement in the collection of local revenue such as local Banks helps the tax payers to pay their tax obligation at ease without going to distant place seeking offices to pay their tax. There are laws that help the improvement of tax collection and administration. The legal policy and regulatory framework for Local Revenue Administration, with the power to administer them scattered across the Local Government ministry and local governments” Kyomugasho Justine (personl communication, Junr, 5, 2018).

Similarly, the chief administrative officer (CAO) Mr. Muhereza Brian said that;

“The constitution of the republic of Uganda has a biding force on all authorities and persons throughout Uganda. It gives power local governments to levy tax, charge, collect and appropriate fees and tax as provided for under article 191 of the constitution of the Republic of

Uganda. Article 152 of the same constitution also requires that all taxes are imposed under the authority of an act of Parliament” Muhereza Brian (personal communication, June, 6, 2018).

On the other hand, Mr. Natukunda Alex an accountant had this to say:

“The Local Government Act cap 243 provides the authority of government to impose tax under section 80 and in accordance with the Article 152 of the constitution of Uganda, local governments (Financial and accounting) regulations, 2007, provide regulations regarding financial administration and control; budgeting, Revenue payment, accounting and controls, treasury management, asset management. There is also risk management and offences and penalties in Local governments. Others include, market Act, local governments (Rating) Act, 2005, the Trade (Licensing) Act cp. 101 Liquor Act cap. 93, cattle traders Act cap. 224, etc” Natukunda Alex (personal communication, June, 7, 2018).

Similarly, Mr. Karuhnga Aston an accountant provided for positive insight who he said that:

“There is political will that is conducive for revenue collection in Rukungiri District Local government. The political leaders in Rukungiri are always available in assisting technical staff in generating tax Revenue plans. Such Plan is referred to as the Revenue Enhancement Plan. It includes budgets, monitoring and evaluation framework, all of which is clearly articulated and tabled in the District council for Approval. The structure of the Revenue enhancement pan include; current Local Revenue situational analysis, Revenue Enhancement strategies and action plans and budgets. And this willingness help in the generation of targeted local Revenue” Mr. Karuhnga Aston (personal communication, June, 7, 2018).

Further, participants were asked to assess whether fiscal decentralization operates in a good economic environment. Throwing more light on the open ended interview question, Mr. Muhereza Edwin a town clerk stressed that:

“There is favourable economic environment because these who have the money are able to pay. Here they advocate for justice when imposing and collecting taxes. People are treated fairly. This implies that equality of sacrifice or ability to pay tax is proportion to income

received” Mr. Muhereza Edwin (personal communication, June, 8, 2018).

On growth in revenue generation: Mr. Muhame Roland an assistant clerk said that:

“There is an indication that there is growth in Revenue generation in Rukungiri District local Government because of the creation of new markets, rapid growth of trading centers in the areas of the district and the increased businesses and economic activities, because most people are engaged in income generating activities” Mr. Muhame Roland (personal communication, June, 8, 2018).

Similarly, on growth in revenue generation: Mr Bagabo Isabel added that:

“Communities are helped to improve their projects through many ways such as national Agriculture Advisory Services (NAADS), universal primary Education (UPE), and Universal Secondary Education (USE) for example the NAADS programme has promoted District food security through intervention geared towards increasing people’s ability to pay taxes and this in turn lowers Local Revenue generation. High tax rates also effect return on investments and in the long run may lead to some businesses to collapse and this may on the other hand affect Local Revenue Generation” Mr Bagabo Isabel (personal communication, June, 9, 2018).

District Authorities are supposed to sensitize the communities on starting income generating projects and also help them with stat up capital where possible.

4.2.2 The effect of enabling environment on local revenue generation in Rukungiri District Local Government

Table 4. 3: Correlation of enabling environment on local revenue

| Correlations | | | |
|-------------------------|---------------------|----------------------|--|
| | | enabling environment | Fiscal Decentralization and Local Revenue Generation |
| enabling environment | Pearson Correlation | 1 | .351** |
| | Sig. (2-tailed) | | .001 |
| | N | 81 | 81 |
| Fiscal Decentralization | Pearson Correlation | .351** | 1 |
| | Sig. (2-tailed) | .001 | |

| | | | |
|--|---|----|----|
| and Local Revenue Generation | N | 81 | 81 |
| **. Correlation is significant at the 0.05 level (2-tailed). | | | |

Source: Primary data, 2018

Significance (Sig=0.001<0.05) showed that enabling environment had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government.

4.3 The effect of assignment of appropriate revenue and function to lower local Government on Local Revenue generation in Rukungiri District Local Government

4.3.1 Descriptive statistics on the assignment of appropriate revenue and functions

Research Question 11: To determine the effects of assignment of appropriate revenue and function to lower local Government contributes to Local Revenue generation in Rukungiri District.

In the first objective the study sought to establish the effect of assignment of appropriate revenue and functions on local revenue generation in Rukungiri District Local Government. In response, descriptive statistics were generated regarding assignment of appropriate revenue and functions measured using nine items. The items measuring assignment of appropriate revenue and functions were scaled using the five-point Likert scale where, 1 = strongly disagree 2 = Disagree, 3 = Neutral/Undecided, 4 = Agree and 5 = strongly agree.

Table 4. 4: Means for survey questions related to assignment of appropriate functions and revenue to sub national governments.

| Statements | | 5 | 4 | 3 | 2 | 1 | Mean |
|---|------|-------|-------|-------|-------|------|------|
| There is political will by central, government to decentralize fiscal functions | N=81 | 47 | 15 | 19 | 0 | 0 | 4.35 |
| | %ge | 58.0% | 18.5% | 23.3% | 0% | 0% | |
| The district has enough capacity to handle the given fiscal responsibilities | N=81 | 38 | 32 | 10 | 0 | 1 | 4.31 |
| | %ge | 46.9% | 39.5% | 12.3% | 0 | 1.2% | |
| Assigned fiscal functions are well understood by the implementers | N=81 | 26 | 15 | 24 | 16 | 0 | 3.63 |
| | %ge | 32.1% | 18.5% | 29.6% | 19.8% | 0% | |

| Statements | | 5 | 4 | 3 | 2 | 1 | Mean |
|---|-------------|----------|----------|----------|----------|----------|-------------|
| Assigning appropriate fiscal functions has led to improved local revenue generation in the district | N=81 | 49 | 23 | 5 | 4 | 0 | 4.44 |
| | %ge | 60.5% | 28.4% | 6.2% | 4.9% | 0% | |
| The central government has assigned adequate revenue sources to the district | N=81 | 10 | 30 | 10 | 20 | 11 | 3.10 |
| | %ge | 12.3% | 37.0% | 12.3% | 24.7% | 13.9% | |
| The collection of assigned revenues has not been effective | N=81 | 51 | 23 | 4 | 3 | 0 | 4.51 |
| | %ge | 63.0% | 28.4% | 4.9% | 3.7% | 0% | |
| There is effectiveness in managing and collecting assigned local revenue sources | N=81 | 53 | 10 | 6 | 6 | 0 | 4.21 |
| | %ge | 65.3% | 12.3% | 7.4% | 7.4% | 0% | |
| Assigned revenues have been appropriate | N=81 | 22 | 21 | 21 | 17 | 0 | 3.59 |
| | %ge | 27.2% | 25.9% | 25.9% | 17% | 0% | |
| The assigned revenues have boosted local revenue generation | N=81 | 0 | 20 | 15 | 38 | 8 | 2.58 |
| | %ge | 0% | 24.7% | 18.5% | 46.9% | 9.9 | |

Source: Primary data, 2018

The results in the table above showed that;-58.0% strongly agreed to the statement that there is political will by central, government to decentralize fiscal functions, 18.5% agreed to the statement; 23.3% were neutral/undecided; none of the respondents of the respondents disagreed or strongly disagreed to the statement. Mean=4.35 showed that on average, the respondents agreed to the statement that there is political will by central, government to decentralize fiscal functions.

49.9% strongly agreed to the statement that the district has enough capacity to handle the given fiscal responsibilities, 39.5% agreed to the statement; 12.3% were neutral/undecided; none of the respondents of the respondents disagreed; 1.2% strongly disagreed to the statement. Mean=4.31 showed that on average, the respondents agreed to the statement that the district has enough capacity to handle the given fiscal responsibilities.

32.1% strongly agreed to the statement that assigned fiscal functions are well understood by the implementers, 18.5% agreed to the statement; 29.6% were

neutral/undecided; 19.8% of the respondents of the respondents disagreed; none of the respondents strongly disagreed to the statement. Mean=3.63 showed that on average, the respondents were neutral or undecided to the statement that assigned fiscal functions are well understood by the implementers.

60.5% strongly agreed to the statement that assigning appropriate fiscal functions has led to improved local revenue generation in the district, 28.4% agreed to the statement; 6.2% were neutral/undecided; 4.9% of the respondents of the respondents disagreed; none of the respondents strongly disagreed to the statement. Mean=4.44 showed that on average, the respondents agreed to the statement that assigning appropriate fiscal functions has led to improved local revenue generation in the district.

12.3% strongly agreed to the statement that the central government has assigned adequate revenue sources to the district, 37.0% agreed to the statement; 12.3% were neutral/undecided; 24.7% of the respondents of the respondents disagreed; 13.9% strongly disagreed to the statement. Mean=3.10 showed that on average, the respondents were neutral/undecided to the statement that the central government has assigned adequate revenue sources to the district.

63.0% strongly agreed to the statement that the collection of assigned revenues has not been effective, 28.4% agreed to the statement; 4.9% were neutral/undecided; 3.7% of the respondents of the respondents disagreed; none of the respondents strongly disagreed to the statement. Mean=4.51 showed that on average, the respondents agreed to the statement that the collection of assigned revenues has not been effective.

65.3% strongly agreed to the statement that there is effectiveness in managing and collecting assigned local revenue sources, 12.3% agreed to the statement; 7.4% were neutral/undecided; 7.4% of the respondents of the respondents disagreed; 7.4% of the respondents strongly disagreed to the statement. Mean=4.21 showed that on average, the respondents agreed to the statement there is effectiveness in managing and collecting assigned local revenue sources.

27.2% strongly agreed to the statement that assigned revenues have been appropriate, 25.9% agreed to the statement; 25.9% were neutral/undecided; 17% of the respondents of the respondents disagreed; none of the respondents strongly disagreed to the statement. Mean=3.59 showed that on average, the respondents were neutral or undecided to the statement assigned revenues have been appropriate.

None of the respondents strongly agreed to the statement that assigned revenues have been appropriate, 24.7% agreed to the statement; 18.5% were neutral/undecided; 46.9% of the respondents of the respondents disagreed; 9.9% of the respondents strongly disagreed to the statement. Mean=2.58 showed that on average, the respondents disagreed to the statement assigned revenues have been appropriate.

Thematic analysis of the interview data: During interview, the respondents were asked about what functions have been assigned to the district authorities in the collection and generation of local revenue. Mr. Muhame Hussein an auditor opined that:

“There is a political will by the government to decentralise fiscal functions. This demonstrated by the legal, policy and regulating framework: The current system of local Revenue Administration in Rukungiri District is regulated by laws, regulations, and policies, within the power to administer, they are scattered across the District and lower local governments and this include the constitution which empowers the Rukungiri District local Government to levy, charge collect and appropriate fees, and taxes, as provided for under article 191” Muhame Hussein (personal communication, June, 5, 2018).

Mr. Kyomugasho Justine of the audit department asserted that

‘The local Government Act, cap 243 which also gives it power to impose ta& under section 80 of the local government act and the local governments (Financial and accounting) regulations, 2007 which gives it power to regulate financial administration and control, budgeting, revenue payments, accounting and controls, treasury managements and offences and penalties regarding to fiscal

management in Rukungiri District local Government” Kyomugasho Justine (personal communication, June, 5, 2018).

Similarly, the chief administrative officer (CAO) Mr. Muhereza Brian said that;

“Making laws to collect taxes. Local Governments are mandated under the Local government Act to make laws. Ordinance for the case of the Higher Local government (District) and by - laws for the case of lower Local Government as long as they are not inconsistent with the constitution. Legislation is important where things or affairs are not taking place according to the norms, culture and aspiration of the people in the area” Muhereza Brian (personal communication, June, 6, 2018).

On the other hand, Mr. Natukunda Alex an accountant had this to say:

“In the case of councils, legislation can be used as a tool of enforcing certain behaviour in the community such as regulating payments of certain fees that local Authorities may deem it necessary to sustain their local Revenue generation” Natukunda Alex (personal communication, June, 7, 2018).

Similarly, Mr. Karuhnga Aston an accountant provided another insight when he said that:

“Districts are given power to create and manage local market under the market Act. Rukungiri District local Government invokes the same law to establish markets in lower local government. This law provides for the establishment and management of markets and control of markets, rules and bylaws applicable to markets, offences and penalties for contravene the Act, maintenance and control of markets etc” Mr. Karuhnga Aston (personal communication, June, 7, 2018).

In addition, the respondents were asked about the strength and weakness of these functions

in the process of generating local revenue. Mr. Muhereza Edwin a town clerk attested that:

“The District has enough capacity to handle the given fiscal responsibilities as strength of generating local revenues all it needs is the power and authority to do so. The present constitutional provisions do not give the district full powers to charge all forms of

taxes” Mr. Muhereza Edwin (personal communication, June, 8, 2018).

Some of the respondents revealed in the open ended questions the weakness of the functions

in the process of generating local revenues as follows:

Mr. Muhame Roland an assistant clerk said that:

“Market may fail to kick start. Research has shown that markets fails to start because local authorities fail to identify or fail to come in good terms with the owners of the land identified for the intended market, if the land does not belong to that particular local government” Mr. Muhame Roland (personal communication, June, 8, 2018).

Similarly, Mr Bagabo Isabel added that:

“Inability by the local Authorities to formulate conducive bylaws and ordinances to supplement the market Act in establishing the proposed market etc. However local governments at times make laws that contradict superior laws and even fail to implement the existing laws and this brings about a mismatch in the implementation and executing of the District plans and Budgets” Mr Bagabo Isabel (personal communication, June, 9, 2018).

In another development, Mr. Komujuni Juanita an assistant clerk averred that:

“Lack of capacity by local leaders in making relevant legislations on local revenue collection and enhancement has been the main constraint of Districts to generate adequate revenue. Research has proved that, although local leaders have powers under the constitution and the local Government Act to initiate and formulate policies e.g. charging bylaws revenue enhancement policy, ordinance and bylaws for consideration and approval by council. Most local leaders do not have the capacity to formulate and initiate relevant legislation because of their low expertise, because most of them have never gone to school and they lack the legal expertise to do so” Mr. Komujuni Juanita (Personal communication, June 9, 2018).

However, Mr. Byobakam Charles the deputy chief administrative officer (DCAO) provided a contrary opinion when he said that:

“Districts are given power to create and manage local market under the market Act. Rukungiri District local Government invokes the same law to establish markets in lower local government. This law provides for the establishment and management of markets and control of markets, rules and bylaws applicable to markets, offences and penalties for contravene the Act, maintenance and control of markets. Therefore, we need to exploit this opportunity to generate the much needed revenue” Mr. Byobakam Charles (Personal communication, 10, June, 2018).

4.3.2 The effect of assignment of appropriate revenue and function to lower local Government on Local Revenue generation in Rukungiri District Local Government

Table 4. 5: Correlation of assignment of appropriate revenue and functions on local revenue

| Correlations | | | |
|--|---------------------|--|---|
| | | Fiscal Decentralization and Local Revenue Generation | the assignment of appropriate revenue and functions |
| Fiscal Decentralization and Local Revenue Generation | Pearson Correlation | 1 | .473 ^{**} |
| | Sig. (2-tailed) | | .000 |
| | N | 81 | 81 |
| the assignment of appropriate revenue and functions | Pearson Correlation | .473 ^{**} | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 81 | 81 |
| **. Correlation is significant at the 0.05 level (2-tailed). | | | |

Significance (Sig=0.000<0.05) showed that the assignment of appropriate revenue and functions had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government. Pearson correlation (r=0.473) showed that there was a moderate positive relationship between the assignment of

appropriate revenue and functions and the fiscal decentralization and local revenue generation in Rukungiri District Local Government.

4.4 The relationship of intergovernmental transfer systems and local revenue generation in Rukungiri District.

4.4.1 Descriptive statistics on the relationship of intergovernmental transfer systems and local revenue generation

Research Question 111: What is the relationship between fiscal decentralization and local revenue generation in Rukungiri District? In the second objective the study sought to establish the the relationship between fiscal decentralization and local revenue generation in Rukungiri District Local Government. In response, descriptive statistics were generated regarding the appropriate intergovernmental transfer systems measured using five items. The items measuring assignment of appropriate revenue and functions were scaled using the five-point Likert scale where, 1 = strongly disagree 2 = Disagree, 3 = Neutral/Undecided, 4 = Agree and 5 = strongly agree.

Table 4. 6: Means for survey questions developing appropriate inter-governmental transfer system

| Statements | | 5 | 4 | 3 | 2 | 1 | Mean |
|--|-------------|-------|-------|------|-------|-------|-------------|
| Conditional grants, unconditional grants and equalization grants are the main transfers made to the district | N=81 | 44 | 37 | 0 | 0 | 0 | 4.54 |
| | %ge | 54.3% | 45.7% | 0% | 0% | 0% | |
| Intergovernmental transfer system is done in an appropriate manner | N=81 | 43 | 35 | 3.7 | 0 | 0 | 4.49 |
| | %ge | 53.1% | 43.2% | 3.7% | 0% | 0% | |
| Proper guidelines are followed when making transfers | N=81 | 49 | 22 | 6 | 4 | 0 | 4.43 |
| | %ge | 60.5% | 27.2% | 7.4% | 4.9% | 0% | |
| Intergovernmental transfers have improved local revenue generation | N=81 | 11 | 25 | 3 | 28 | 14 | 2.89 |
| | %ge | 13.6% | 30.9% | 3.7% | 34.6% | 17.3% | |
| There are some challenges that still hinder effective intergovernmental | N=81 | 27 | 45 | 3 | 6 | 0 | 4.15 |
| | %ge | 33.3% | 55.6% | 3.7% | 7.4% | 0% | |

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| transfers | | | | | | | |
|-----------|--|--|--|--|--|--|--|

Source: Primary data, 201

The results in the table above showed that;- 54.3% strongly agreed to the statement that there are conditional grants, unconditional grants and equalization grants are the main transfers made to the district, and 45.7% agreed to the statement; none of the respondents of the respondents were neutral/undecided, disagreed or strongly disagreed to the statement. Mean=4.54 showed that on average, the respondents agreed to the statement that there are conditional grants, unconditional grants and equalization grants are the main transfers made to the district.

Similarly, 53.1% strongly agreed to the statement that intergovernmental transfer system is done in an appropriate manner, and 43.2% agreed to the statement; 3.7% were neutral/undecided; none of the respondents of the respondents, disagreed or strongly disagreed to the statement. Mean=4.54 showed that on average, the respondents agreed to the statement that intergovernmental transfer system is done in an appropriate manner.

Another 60.5% strongly agreed to the statement that proper guidelines are followed when making transfers, and 27.2% agreed to the statement; 7.4% were neutral/undecided; 4.9% disagreed; none of the respondents of the respondents strongly disagreed to the statement. Mean=4.43 showed that on average, the respondents agreed to the statement that proper guidelines are followed when making transfers.

Some 13.6% strongly agreed to the statement that intergovernmental transfers have improved local revenue generation, and 30.9% agreed to the statement; 3.7% were neutral/undecided; 34.6% disagreed; 17.3% of the respondents of the respondents strongly disagreed to the statement. Mean=2.89 showed that on average, the respondents disagreed to the statement that that intergovernmental transfers have improved local revenue generation.

Other 33.3% strongly agreed to the statement that there are some challenges that still hinder effective intergovernmental transfers, and 55.6% agreed to the statement;

3.7% were neutral/undecided; 7.4% disagreed; none of the respondents of the respondents strongly disagreed to the statement. Mean=4.15 showed that on average, the respondents agreed to the statement that there are some challenges that still hinder effective intergovernmental transfers.

Thematic data analysis of interview responses: During the interview, respondents were also asked on what types of intergovernmental transfers are made to the District. All the participants responded that conditional grants, unconditional grants and equalisation grants are the main transfers made to the district. They further explained that these are external sources of Revenue Rukungiri District local Government receives from the Government. Article 193 of the constitution of the republic of Uganda clearly spells out the grants to Local Governments. However Rukungiri District Local council is obliged to indicate how conditional and equalization grants obtained are to be passed to lower local governments.

Furthermore, the respondents were asked about what types of intergovernmental transfers are made to the District. Mr. Muhame Hussein an auditor opined that:

“Considering unconditional grant as one major external source of Revenue to the District, it is the minimum grant that is paid to Rukungiri Local Government to run decentralized services and is always calculated in a manner that is specified in the seventh schedule of Local Government act. For a given fiscal year this amount is equal to the amount paid to local governments in the preceding fiscal year for the same items adjusted for general price changes plus or minus the budgeted costs of running added or subtracted services” Muhame Hussein (personal communication, June, 5, 2018).

Responding to the interview question, Mr. Kyomugasho Justine of the audit department was of the view that:

“Conditional grant also pause another source of Revenue which the money is given to local governments to finance programmes agreed upon between the central government and the local government and has to be expanded for the purpose for which it was made in

accordance with the agreed conditions” Kyomugasho Justine (personal communication, June, 5, 2018).

Responding to the question on grants Equalization, the chief administrative officer (CAO) Mr. Muhereza Brian said that;

“Equalization grants are also other external source of Revenue to Rukungiri Local government. This is money paid to local government in form of special provision for th least district if is based on the degree to which a local government is lagging the average standard for a particular since. It is therefore addresses horizontal imbalances between and causes the vertical fiscal gap. But this grant is hardly given to Rukungiri District according to the respondents” Mr. Muhereza Brian (personal communication, June, 6, 2018).

Shading more light, Mr. Natukunda Alex an accountant had this to say:

“There also the donor contributions which are funds that are accessed to the district in the form of donations or contributions from well-wishers especially developed countries. It is however, significant to note that are have continued to drop critically and there are no relied upon as a source of revenue for the District. This is because most donors put their funds in a pool and the Central Government takes in a pool and the central government takes responsibility to prioritize how to access item. And according to the respondents this contributes to about 7% of the District budget” Mr. Natukunda Alex (personal communication, June, 7, 2018).

Interrelating to what extent has this intergovernmental transfer helped to improve local revenue generation, Mr. Karuhnga Aston an accountant provided another insight when he said that:

“Government transfer systems by the use of the Electronic Funds Transfer (EFT), the use of Information Technology (IT) programmes called the Integrated Financial Management System (IFMS) for the collection and management of Revenues (taxes). It uses a computer

software called Oracle Public Sector Financial International (PSB/OPSI). This has helped in minimizing losses through funds transfers, budgeting and expenditure. Processes like budgeting, payments, cash management and Revenue receiving / Accounts receivables. According to the respondents this has improved the accountability and transparency in the financial management of the district” Mr. Karuhnga Aston (personal communication, June, 7, 2018).

In addition, the respondents were asked about these government transfers and how they help in the process of generating local revenue. Mr. Muhereza Edwin a town clerk attested that:

“It has also shown that these government transfers help in the construction of infrastructure such as roads, markets, stadium which attribute people to accessing markets for their goods and this in turn help them to gain economic capacity to pay taxes. Government programmes like National Advisory Services (NAADS) have empowered the community to engage in improved their economic capacity to pay local taxes” Mr. Muhereza Edwin (personal communication, June, 8, 2018).

Referring to another question on what challenges could have been faced during the whole process of transferring the funds. One of the Participants, Mr. Byobakam Charles the deputy chief administrative officer (DCAO) was of the view that:

“The District have faced a challenges of late transfers of Funds from the centre such funds include NAADS, UPE Funds, Wealthy creation funds, funds for elderly like social Assistance Grants for Empowerment(SAGE) and this have hampered some of the Government programmes and it eventually daunted the generation of Local Revenues. Also, corruption and misuse of Public funds by both the technical officers and political leaders during the process and division of funds from the original planned purposes have fraught the generation of Revenues in the District” Mr. Byabakama Charles (Personal communication, June, 10, 2018).

However, all the 10 respondents interviewed agreed that, the District has improved Health Centres at different levels using the transferred fund for example Health Centre II at Parish level, health Centre II at sub county level health Centre IV at county and it has even allocated funds to private hospitals like Nyakibale karoliwanga hospital, kisiizi Hospital - Nyarushanje and Kebisoni health Centre IV and these health facilities have improved the health conditions of the community which has eventually enable the people to pay taxed and ultimately improve local revenue generation in the District.

Table 4. 7: Correlation of appropriate intergovernmental transfers on local revenue generation

| Correlations | | | |
|--|---------------------|--|--|
| | | Fiscal Decentralization and Local Revenue Generation | the appropriate intergovernmental transfer systems |
| Fiscal Decentralization and Local Revenue Generation | Pearson Correlation | 1 | .401 ^{**} |
| | Sig. (2-tailed) | | .000 |
| | N | 81 | 81 |
| the appropriate intergovernmental transfer systems | Pearson Correlation | .401 ^{**} | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 81 | 81 |
| **. Correlation is significant at the 0.05 level (2-tailed). | | | |

Source: Primary data, 2018

Significance (Sig=0.000<0.05) showed that appropriate intergovernmental transfer systems had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government. Pearson correlation (r=0.401) showed that there was a moderate positive relationship between the appropriate intergovernmental transfer systems and local revenue generation in Rukungiri District Local Government.

4.5 R-square statistic for the variables

| Model Summary | | | | |
|----------------------|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .700 ^a | .490 | .471 | .19093 |

R-square=0.490 meant that the assignment of appropriate revenue and functions, enabling environment and the appropriate intergovernmental transfer systems affect 49% of the fiscal decentralization and local revenue generation in Rukungiri District Local Government.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of the findings according to the study objectives, conclusion, recommendations and the suggested areas for further studies.

5.1 Discussion of the study findings

5.1.1 The effect of enabling environment on local revenue generation in Rukungiri District Local Government

The researcher found out that enabling environment had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government. This was in agreement with Benkovic, Milanovic, & Milosavljevic (2017) who embraced clear government regulations and laws for Local Government Financing; and in their article, creating an environment of stability and predictability with regard to revenue planning when preparing local government entities' budgets leads to achieving a vertical balance when distributing revenues amongst various state levels.

The findings have revealed that there is a considerable good political environment in Rukungiri District local Government and this is evidenced by the participation of Local leaders both at the District and low local governments in the formulation of laws and regulations, formulation and passing of budgets and their involvement in social mobilization of the masses in matters concerning revenue generation. Arguably, this confirms the literature reviewed by smoke (2015), that a sustainable enabling environment for fiscal decentralization must first have adequate political will which must be defined constitutionally and or legal provision to define a minimum level of Sub national government right.

Therefore, local government political leaders should intensify their political participation in the social mobilization in educating the masses on tax payment and assist tax collector in the mobilization and collection of local revenue. The central government must also recognize that effective political leaders in local governments need adequate resources and capacity to meet their responsibility (Smoke, 2015). Therefore, in the researcher's opinion, he urges the political leaders to intensify their

social mobilisation and educating the masses to increase on local revenue generation and the central government should assist local leaders in facilitation to make them effective.

The findings have revealed that there are favourable economic environment in the District because of the creation of new markets fast growing towns and new government programmes such as NAADS which have improved people incomes in the District. Therefore there is need to create more markets and increase the funding of government programmes such as NAADS and this is evidenced in the literature review where it says that “Capital improvement plans are needed to estimate the cost and prioritize which service improvement projects to undertake within budget resources that are available to the municipality (Potrafke & Reischmann, 2015).

The findings have revealed that the Uganda constitution (1995) and the Local Government Act (CAP 243) give mandate Local Government to coordinate and provide specific services to the citizenry within its areas of Jurisdiction. These are further enhanced by the Decentralization policy strategic framework (DPSF) and the Local Government sector investment Plan (LGSIP) Local Governments which focus to depending decentralization aimed at poverty reduction. This is needed by Rukungiri District Local Government focusing on systems strengthening and coordination all geared toward strengthening fiscal decentralization. This should be done by mentoring lower local governments and Higher Local governments councils, having coordination meeting at different levels of local governments and increase their capacity in financial management.

The findings revealed that Rukungiri local government have little or at times no resources to meet its obligation under fiscal decentralization and these resources include both human and financial resources. First the District and lower local governments have inadequate staff to manage finance, collect relevant local taxes, and even some of the District staff have low capacity in financial management. A case in point many districts staff do not know how to use the integrated financial management system (IFMS)

Arguably (Vasilescu, 2014) states that, Financial management and Accounting improvements are essential to identify collateral to be pledged to finance projects in the short term and to help build the credit rating system and replicate initial municipal borrowing in the lay long run.

The support needed here is to install and train municipal staff on using a double entry accounting. Once substantial human and financial resources are invested in providing the basic services, they must be operated and maintained in properly or the assets value will diminish due to physical deterioration. Therefore, in the researcher's own view, there is need by the central government to increase resources to local government but at the higher level and lower local governments to facilitate them in meeting their obligation in regard to fiscal decentralization.

Secondly, there is need to intensity training to both political and technical leaders especially on issues related to fiscal decentralization. The above training should include among other things; the funding of local councils to meet more frequently, training political and technical officers in financial, management, proper book keeping and empower finance staff with capacity in preparation of financial accounts /statements/reports using the Integrated Financial Management System (IFMS).

5.1.2 The effect of assignment of appropriate revenue and function to lower local Government on Local Revenue generation in Rukungiri District Local Government

The researcher found out that assignment of appropriate revenue and functions had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government. This was in line with Article 191 (1) of then constitution of Uganda which empowers local governments to levy, charge collect and appropriate fees and taxes in accordance with laws enacted by parliament to that effect. The taxes and fees local governments Act. These include graduated personal tax, property tax, market fees and many others. Revenues that local governments raise by themselves are very important in advancing decentralization. These revenues

ensure the autonomy and discretion of local governments plan, budget and implement their local priorities and needs (Local Government Act, 1997, CAP 243). According to the finding by the researcher, found out that there is a little will by the Central Government in the fiscal decentralization because it transfers little responsibility for planning, decision making on financial matters and even making of laws and regulations. This is done through the devolution of power to local governments.

This is whereby some authority is given powers to levy charge and appropriate taxes and fees from their respective areas of jurisdiction. These powers seem not work according to the funding because Rukungiri District contributes 3% of its budget locally and 97% borne by the central government which have financial control over Local governments. Secondly, Local Governments are given power to introduce by laws and ordinances to introduce new taxes and rates charges subjects to ministers' approval. This means that the final authority lie with the centre. And if the minister does not see it fit he/she may disregard the good decisions of the local government.

The findings revealed that there are strength and weakness of the functions in the process of generating Local Revenue and these include; in some areas markets fail to kick start because of the inability of the authorities to initiate by-laws that are conducive to market management and tax collections, failure to appropriate the proceeds from the market to the district coffers, political interference by some leaders who at times act as local Revenue collectors/contractors and another problem that bring about mismanagement of collection and management of local revenue sources by corrupt political leaders and technical staff. On the strength of management and collection of local Revenue in the District the stakeholders are given capacity building on Revenues management and collection through seminars and workshops.

More so, researcher found out that there is cost effectiveness in the collection of Revenue by using the tendering process. Local Government sets reserves of the tendered /contracted revenue source and they are very much sure 100% of getting the anticipated money to be paid as tax collectors from the tendered sources. But the tendering system in the district still has some loopholes that need to be addressed.

The findings have revealed that there is lack of capacity by lower local government political leader initiating and formulating bye-laws to supplement superior laws that would in turn enforce local Revenue generation.

Secondly, research have shown that most lower Local Government financial officers do not have the technical capacity to handle financial matter regarding to Local Revenue generation and in some cases there are inadequate staff to handle the fiscal decentralization. There is also lack of financial capacity by lower Local Government to hold their meetings and make decisions related to financial matters in regard to Revenue collection. There is also inadequate understanding of the Lower local government planning and budgeting cycle among the technical staff, political leaders and even the community.

Arguably, (Bahl, 2013) indicates that fiscal responsibility at Sub national levels calls for implementation of a stable transfer system, geared to filling a gap between the assigned spending and Revenue function raising responsibilities of Lower – level Governments. The definition of such system is far from easy, especially given the need to preserve adequate incentives for tax effort and cost –effectiveness in spending by the Sub national governments (SNG). However, in the process of fiscal decentralization, it is important to be aware of the risks for macroeconomic management and fiscal discipline.

Mechanisms of fiscal transfers may impose considerable rightly to the central government budget. Therefore, substantial Jurisdictions can affect the central government's ability to carry out stabilization and macroeconomic adjustment through the budget.

Secondly, Article 191 (10) of the constitution empower local governments to levy, charge, collect and appropriate fees and taxes in accordance with law enacted by parliament. Revenues that Local Government raises by them are very important in Advocacy decentralization. These revenues ensure the Autonomy and direction of Local governments to plan budget and implement their Local priorities and needs.

Therefore, the rationale of collecting local revenue is to co-finance, maintain and sustain investments, service, and loans. Facilitate council operations and they finance other operations of the district.

Ministry of Local government (2007) indicates that local taxes also regulate and control the proliferation of certain businesses and also reduces over reliance on central government and donor groups. They also promote accountability to the community resulting into a guaranteed and improved service and sustainability of service delivery.

Therefore, in the researcher's view there is need to have adequate local Revenue by the local government because these Revenues if they are not adequately raised they hamper a lot of projects since Local Revenues are used for co-funding, maintenance and sustainability of investments, it is also used to facilitate council operations.

Therefore, there is need for cost effectiveness in managing and collection of local taxes and if the tax is mismanaged it may create distortions in the quality and sustainability of service delivery. On the issue of the government willingness to decentralize power to the local government like this district of Rukungiri, there is need to have a will by the central government and if there is no will nothing will be shown on the ground.

On the issue of lower local governments, the researcher argues the central government to give both financial and technical facilitations to enable local governments execute their assigned duties. In conclusion the researcher found out that there is a relationship between appropriate revenues and function and local revenue generation in Rukungiri District Local Government

5.1.3 The effects of appropriate intergovernmental transfer systems on local revenue generation in Rukungiri District.

The researcher found out that appropriate intergovernmental transfer systems had a significant effect on the fiscal decentralization and local revenue generation in Rukungiri District Local Government. This was supported by Muñoz, Radics, & Bone (2016) who suggested that the introduction of equalization transfers can contribute to tackle more effectively the sub-national fiscal disparities and hence

improve regional equity. Bahl (2013) added that, most transfer systems are intended at least officially to meet these objectives and they use a variety of types of mechanism to do so; and they help to cover sub-national government fiscal imbalances, supplementing inadequate local owner source revenues to improve the ability of sub-national re-distributional objectives, helping to offset capacity differences among sub-national governments, third, they can be used to encourage local expenditure on particular goods and services that exhibit positive externalities to pay for them.

This researcher found out that, District Local Government is receiving external funding of its Budget from the central government and these may include:-

The conditional grant (85%), the unconditional grant (10.8%) and the equalization grant which constitute 97% donor funding inclusive. The researcher found out that conditional grants constitute a big percentage of external sources of Revenue to the District followed by the un-conditional grant and the finding was that Rukungiri local government rarely gets the equalization grant. Conditional grants are funds that given to the District to finance programmes agreed upon between the government and Rukungiri District and it has to be spent on the purpose originally agreed in accordance with the agreed conditions.

The unconditional grant according to the finding is also one of the major external sources of Revenue to district local governments and it's a minimum grant that is paid to local Governments to run decentralized services. Other sources include equalization grant which is rarely given to Rukungiri District Local Government and other external source is the capitation grant given to secondary schools in the District. Arguably, this diverts from the reviewed literature by (Pittl et al., 2015), which indicates that, intergovernmental transfer programmes serve multiple often – interrelated purposes.

Firstly, they help to cover sub-national governments (SNG) imbalances, supplementing inadequate Local Revenue sources to improve the ability of Sub-National re-distributional objectives helping to offset capacity differences among Sub national governments, third, they can be used to encourage Local expenditure on a particular goods and services that exhibit positive externalities to pay for them.

Most transfer system are indented to meet these objectives and they use a variety of types of mechanisms to do so.

Secondly, (MFPED, 2003), indicate that, it is better to note that central transfers will need to provide a direct incentive for a Local government to increase Local Revenue. Therefore, funds will be available to the Local governments each year in order to reward those with improved tax Administration and tax collection overtime. Each Local collection that has improved its tax administration and collection over time the greater proportion of available funds will be allocated to its. These funds could either be transferred as part of the Non-wage element of the unconditional grants or as a separate grant. Whichever is substantial enough to ensure Local governments make additional efforts to raise Local Revenue?

It was however revealed from the study that the above grants can be affected by the following:- inadequate appropriation of the above funds especially the conditional and unconditional grants; late release of all the grants and this hinders development in the District and hence curtails economic growth; and at times even the promised grants according to the indicative planning figures (IPFS) given to the District by the ministry of Finance and economic development are not delivered as promised and this in turn retard capital projects that had been planned and budgeted by the District and this the long run effect local Revenue generation between the would be projects such as market construction, Road construction stalls, which in the long run facilitates local revenue generation.

Other quandaries include inefficiencies in procurement units and in competency of contractors that leads to take back the unspent money to treasury (central government); financial constraints arising from under collection of Local Revenue because the District qualify to get some grants if there is sufficient local funds to co-fund and supplement the grants generated from the centre; inability by council leaders, to provide oversight role over budget management because a big number of them are illiterate; and lack of technical capacities, delays by the district procurement and disposal Units (PDUs) and contracts committee in handling Procurements and deliberate actions by the responsible officers to circumvent procurement procedures (PPAA Act, 2003, section 95) states that non-compliance with the law attracts

penalties so that effect and attract penalties that drastically reduces Revenues of the District.

Therefore, in the researcher view, the central government should appropriate adequate revenue to Local Governments and the Central Government releases should be timely. Inefficiencies in the procurement units and incompetency should be collected and this should be done through training and if necessary recruit competent staff, Rukungiri local Government should strive hard to increase on its Local Revenue because this could earn it more grants from the central government. On the other hand people should elect capable leader who have the capacity to play an oversight role over budget management to avoid being penalised for doubtful expenditure s and other related financial matters. There is also need for the district to recruit PDU, and contract committee officers who are responsible (ethical), technically upright that would use their competence to comply with PDDU laws and regulations. Lastly the findings have shown that, there is a big relationship between intergovernmental transfers and local Revenue generation

5.3 Conclusion

In 1993 Uganda begun decentralizing the delivery of public service from the central to local government .The goal was to improve local Revenue generation through empowering local government to plan for themselves as well as generate and manage the resources needed to implement their plans and Budgets. Today approximately 70% of service delivery is under taken at the District and sub-county/Town council/Municipal Levels.

Local government autonomy, however, exists only on paper because local government like Rukungiri District Inclusive cannot locally generate revenue needed to finance service provision. Consequently, central government transfer about 97% to Rukungiri District local government. Evidently, the central government has effectively decentralized the Implementation of service delivery but its strong hold on priority setting and finding continues. This implies that Rukungiri local government as a planning organ of government have limited discretion over utilization of majority of its funding. It's noteworthy that many service delivery challenges are deeply rooted in its financing. Rukungiri Local Government is heavily

dependent on the central governments transfer 90% as grants, 7% as donor funding and 3% which are dismal locally generated, furthermore, central government transfers predominantly comprise conditional grants 85.9% and unconditional grant 10.8 %.However, the un conditional grant is defined in both the constitution (Article 193) and local government Act ,1997 section 84(2) as “the minimum grant that shall be paid to local governments to run decentralized services “. Worse still a large proportion of the unconditional grant that should optimise flexibility in local government expenditure goes to cover salaries and wages (about 89%).The remainder is distributed between many unfunded service delivery priorities and in many cases supplemented the wage Bill. This agonizingly implies a sustained Human Resource in the District with less facilitation to undertake their responsibilities. No wonder many ambulances and graders are packed a month after being bought because of lack of fuel.

While there is need to Increase un-conditional financing this above won't solve service delivery challenges; emphasis should be placed on service delivery standards. Poor service delivery or the lack there of Implies that regardless of the level of financing, service delivery will continue deteriorating Conditional giant should have a proportion directed towards local revenue enhancement because Rukungiri District local government's revenue enhancement plans are largely unfunded. Therefore, fiscal decentralization Initiatives should prioritise Implementation of Revenue enhancement strategies to improve financial autonomy of Rukungiri District local government and offer local governments. This was vital in ensuring sustainable service delivery in the District through robust recurrent budgets financed by the locally generated Revenue. It's about time that Local Rukungiri District local Government explored public private partnerships' and engage the informal sector in a productive way because it is a permanent phenomenon in devoting economic evidently, there disorganization within the informal sector but this should not blind the District from recognizing it's obvious potential regarding local Revenue generation thus, improving service delivery.

5.4 Recommendations

A commissioner in charge of districts and urban authorities in the Ministry of Local government urged politicians not to interfere with Tax collection and he also advised

districts to identify tax bases and register them in order to come up with real tax projection. And on another note a poverty alleviation consultant noted that many districts are finding it hard to pay councillors' allowance and to recruit essential staff. "The lucrative revenues from fuel and motor vehicles all collected by the central government, leaving The local governments with nothing. Yet districts get less than 20% of the National Budget". (Saturday vision, District crippled by low Revenue collections, July 23, 2011).

Therefore, the researcher recommends that Rukungiri District local government should do the following to boost its local Revenues: -Step up revenue generating projects like Markets; Promote tourism by constructing lodges and hotels in its area of jurisdiction; Preserve National resources like forests and water bodies; and should invest in projects where the District has a comparative advantage over other Districts. The researcher further recommends that Rukungiri District local government shouldn't mix politics with tax collection for example by decampaigning some taxes to become popular but rather improve on the revenue collection policies. Such as register Revenue bases which you have in the District to be able to project the Revenue they can generate; have favourable policies in the district that encourages investors, For example help to access land for investment; have proper accountability and Transparency for the tax generated by the District in order to encourage tax payers; and intensify tax Education to masses on the Role paying tax and the benefits of the tax itself.

Other techniques to improve revenue collection that the researcher recommends include fighting corruption in the Tendering process, service commission and elsewhere since the Pandemic effects Revenue generation; formulation of favourable Laws and Regulations that are favourable to Revenue generation; and recruit competent staff in tax management and administration.

The government used to collect over 80 billion from Graduated tax and Rukungiri District local Government alone used to collect 1.8billion shillings constituting 80% of the local Budget. This was replaced by local service tax, Hotel tax and shs.45billion of Graduated compensation tax to local government, however, these new taxes and Graduated compensation tax cannot meet local government

expenditure as it used to be with Graduated tax. The research was recommending the Introduction of Graduated tax.

The research also recommends that if the graduated tax is not reinstated the graduated compensation should be doubled to 100 billion because according to the local Government Act, 2008 stipulates that the Graduated compensation ended in the previous financial year 2010/2011.

5.5 Suggestion for Further Study

In extending this work, there are specific research directions that need to be investigated. These include:

1. Fiscal Decentralisation and Local Government Performance in Rukungiri District
2. Formation of New Districts and Local Revenue Generation
3. Abolition of graduated tax and local revenue generation in Rukungiri District
Local Government

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Appendix C: Questionnaire for Technocrats

Dear Respondent

This is a research leading to the award of a Degree of Masters in Business Administration of Kampala International University. The purpose of this study is to assess the effectiveness of fiscal decentralization on improving local revenue generation in Rukungiri District Local Government. You are kindly requested to feel and express your opinion on each of the issues raised as objectively as possible.

The information that you will give will be treated with outmost confidentiality and under no circumstance will it be personalised. The basic research ethics are to be observed and adhered to.

Your positive and quick response will be appreciated.

Thank you for your cooperation

Yours truly

Natwijuka Crispus
MBA Student

Section A: Background Information (Bio-Data of Respondents)

1. Age bracket (*tick in the appropriate box*)

| | | | |
|---------------|---------------|---------------|--------------|
| 21 – 30 years | 31 – 40 years | 41 – 50 years | 51 and above |
| | | | |

2. Gender (*tick in the appropriate box*)

| | |
|------|--------|
| Male | Female |
| | |

3. Highest education level attained (*tick in the appropriate box*)

| | | | | |
|-------------|---------|-------------------|-----------------|-----|
| Certificate | Diploma | Bachelor’s Degree | Master’s Degree | PhD |
| | | | | |

4. Tick the right job category you belong to:

| | | | | |
|------------|------------------|-----------------------|-----|--------|
| Accountant | Sub County Chief | Chief Finance Officer | CAO | Others |
| | | | | |

5. Number of years of service in the organization (*tick in the appropriate box*)

| | | | | | |
|-----------|-------------|------------|--------------|-------------|---------------|
| 0-5 years | 6 -10 years | 6-10 years | 11 -20 years | 16-20 years | Over 20 years |
| | | | | | |

In the **sections B to E** of the questionnaire, you are requested to objectively express your opinion in regard to the fiscal decentralization and local revenue, generation in Local Government. Thematic area are being considered, please simply tick appropriate alternative, where: 5 = Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree, 1= Strongly Disagree

| Section B: Enabling Environment | 5 | 4 | 3 | 2 | 1 |
|--|----------|----------|----------|----------|----------|
| B1. The policies are always favoured for local revenue generation | | | | | |
| B2. Fiscal decentralization operates in a good economic environment | | | | | |
| B3. Decentralization generation is done within the set legal provisions | | | | | |
| B4. Decentralization levels of government have been strengthened to effectively manage local revenue generation | | | | | |
| B5. There are adequate resources and capacity for the district to meet their fiscal responsibilities of local revenue generation | | | | | |
| SECTION C: Appropriate Functions and Revenue to LGs | 5 | 4 | 3 | 2 | 1 |
| C1. There is political will by central. ,government to decentralize fiscal functions | | | | | |
| C2. The district has enough capacity to handle the given fiscal responsibilities | | | | | |
| C3. Assigned fiscal functions are well understood by the implementers | | | | | |
| C4. Appropriate fiscal functions has led to improved local revenue generation | | | | | |
| C5. The central government has assigned adequate revenue sources to the district | | | | | |
| C6. The collection of assigned revenues has not been effective | | | | | |
| C7. There is effectiveness in managing and collecting local revenue sources | | | | | |
| C8. Assigned revenues have been appropriate | | | | | |
| C9. The assigned revenues have boosted local revenue generation | | | | | |
| Section D: Inter-Governmental Transfer System | 5 | 4 | 3 | 2 | 1 |
| D1. Conditional grants, Unconditional grants and Equalization grants are the main transfers made to the district | | | | | |
| D2. Intergovernmental transfer system is done in an appropriate manner | | | | | |
| D3. Proper guidelines are followed when making transfers | | | | | |
| D4. Intergovernmental transfers have improved local revenue generation | | | | | |
| D5. There are some challenges that still hinder effective intergovernmental transfers | | | | | |

| Section E: Fiscal Decentralization and Local Revenue Generation | 5 | 4 | 3 | 2 | 1 |
|---|----------|----------|----------|----------|----------|
| E1. Fiscal decentralization empowers the local people economically | | | | | |
| E2. Fiscal decentralization enhances local participation in decision making | | | | | |
| E3. Fiscal decentralization enhances economic growth and development at the local level | | | | | |
| E4. Fiscal decentralization enhances accountability and transparency process at your district | | | | | |

Appendix D: Interview Guide for the Civil Servants

Dear Respondent

This is a research leading to the award of a Degree of Masters in Business Administration of Kampala International University. The purpose of this study is to assess the effectiveness of fiscal decentralization on improving local revenue generation in Rukungiri District Local Government. You are kindly requested to feel and express your opinion on each of the issues raised as objectively as possible.

The information that you will give will be treated with outmost confidentiality and under no circumstance will it be personalised. The basic research ethics are to be observed and adhered to.

Your positive and quick response will be appreciated.

Thank you for your cooperation

Yours truly

Natwijuka Crispus
MBA Student

Section A: Background Information (Bio-data of respondents)

1. Age
2. Sex
3. Level of Education
4. Position Held

GUIDING QUESTIONS

Section B: Enabling Environment

B1. What enabling environment is there to ensure generation of local revenue?

B2. What indicators show that there is favourable economic environment for local revenue generation?

B3. In what way has the working environment affected local revenue generation?

Section C: Appropriate Functions and Revenues to Local Governments

C1. What functions have been assigned to the district authorities in the collection and generation of local revenue?

C2. What are the strength and weakness of these functions in the process of generating local revenue?

C3. To what extent have the assigned fiscal functions improved local revenue generation in the District?

C4. Which revenue sources have been assigned specifically by governments to the district?

C5. How do you rate the performance of these revenues in local generation and why?

Section D: Intergovernmental Transfer Mechanism

D1. In what ways are fiscal transfers made to the District?

D2. Which types of intergovernmental transfers are made to the District?

D3. To what extent have these intergovernmental transfers helped to improve local revenue generation?

D4. What challenges could have been faced during the whole process of transferring the funds?

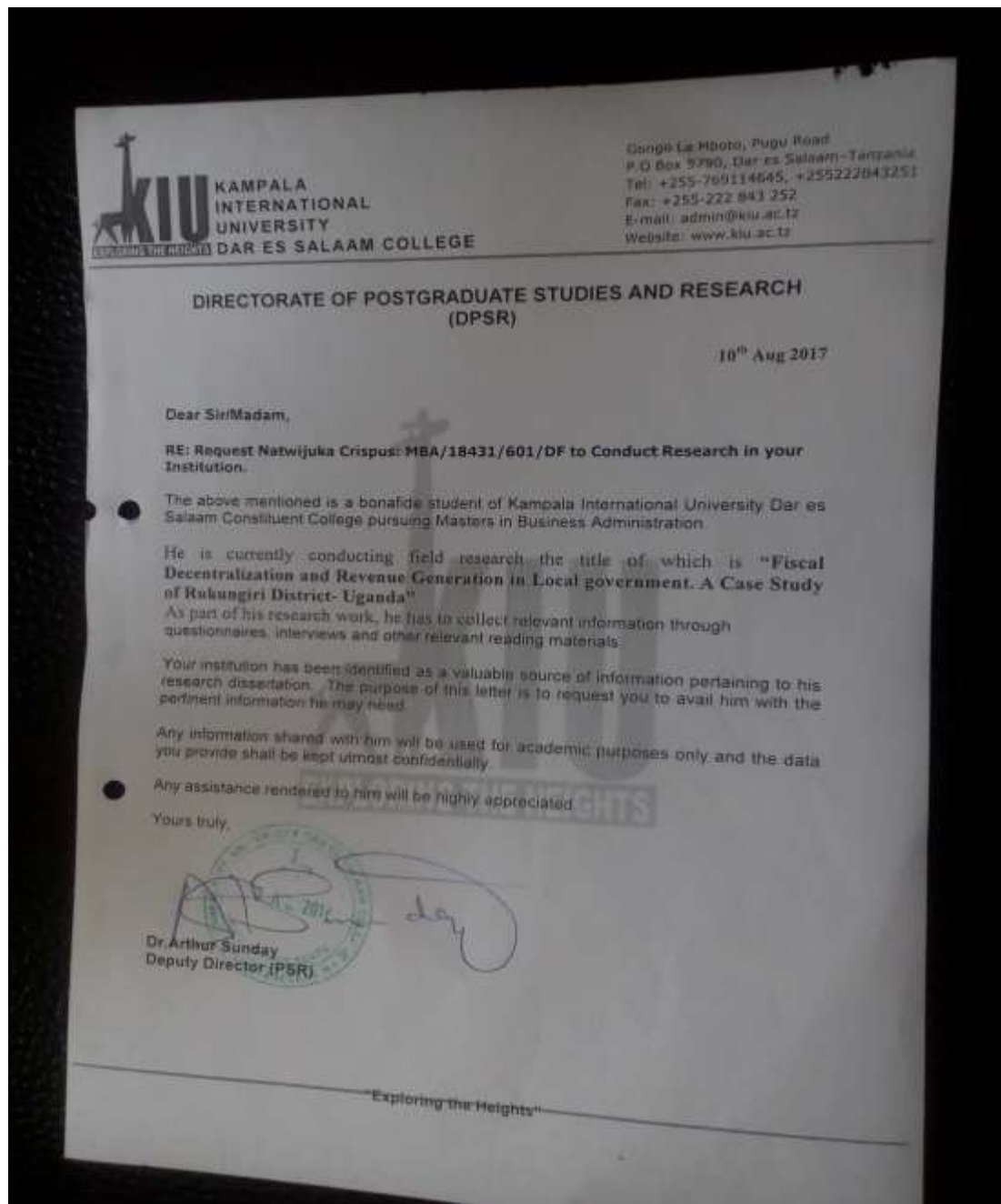
Section E: Fiscal Decentralization and Local Revenue Generation

E1. What is your assessment of the implementation of the fiscal decentralization in your District?

E2. How relevant is fiscal decentralization to the socio-economic growth within your District?

E3. What is the effect of fiscal decentralization on your District?

Appendix E: Transmittal Letter



Appendix E: Analysis of outputs

ANOVA^b

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 2.701 | 3 | .900 | 24.700 | .000 ^a |
| | Residual | 2.807 | 77 | .036 | | |
| | Total | 5.508 | 80 | | | |

a. Predictors: (Constant), the assignment of appropriate revenue and functions, enabling environment , the appropriate intergovernmental transfer systems

b. Dependent Variable: Fiscal Decentralization and Local Revenue Generation

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|---|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.265 | .186 | | 12.162 | .000 |
| | enabling environment | -.562 | .119 | -1.661 | -4.722 | .000 |
| | the appropriate intergovernmental transfer systems | -.471 | .158 | -1.347 | -2.978 | .004 |
| | the assignment of appropriate revenue and functions | .967 | .141 | 3.410 | 6.849 | .000 |

a. Dependent Variable: Fiscal Decentralization and Local Revenue Generation

Correlations

| | | enabling environment | Fiscal Decentralization and Local Revenue Generation |
|--|---------------------|----------------------|--|
| enabling environment | Pearson Correlation | 1 | .351** |
| | Sig. (2-tailed) | | .001 |
| | N | 81 | 81 |
| Fiscal Decentralization and Local Revenue Generation | Pearson Correlation | .351** | 1 |
| | Sig. (2-tailed) | .001 | |
| | N | 81 | 81 |

** . Correlation is significant at the 0.05 level (2-tailed).