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The Effects Of Fiscal Decentralization On Revenue Performance In Local Governments Of Uganda

by

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Abstract

With the aim of effectively coping with the public's ever-increasing burdens and to decrease the operation expenditures essential in offering appropriate public services reliably, nationwide administrations must adjust to the diverse and multifaceted alterations stirring universally today i.e, decentralization. This article attempt to assess the impact of fiscal decentralization in local governments (LGs) in terms of revenue performance. This study involves analyzing the available data presented on local and national budget performance for a period from 2003 to 2016 following transparency measure which analyses the degree to which execution processes indicators exist and are exposed in budget papers throughout the administrative units in a government; these may consist of sectional financial plan requirements, the policymakers' financial plan, executives, operational financial plan official papers, and trimestral and yearbook reports. Findings revealed that an increase in domestic revenue collections by LGs led to an increase in National budget since there was significant improvement in the trend of LGs revenue collections and National budget. Since decentralization policy played a significant role by giving mandate to the LGs to collect local revenue and a proportion of this revenue is used to fund part of the National budget decentalisation policy should be reinforced in Uganda.

Key words: Fiscal decentralization, revenue performance, budget, Local Governments & Uganda

Introduction

With the aim of effectively coping with the public's ever-increasing burdens and to decrease the operation expenditures essential in offering appropriate public services reliably, nationwide administrations must adjust to the diverse and multifaceted alterations stirring universally today i.e, decentralization. The direct way several professionals have confidence in offering unlimited possibilities is decided by fiscal decentralization one of the four categories of decentralization. Others are; political decentralization, managerial decentralization and privatization decentralization. It has gone without saying that local governments are supposed to be extra wellversed as to the demographic statistics of their particular authorities, and consequently more proficient of distributing acceptable service levels of community services than countrywide administration are or could be (Faguet, 2014). This offers conforming levels of transparency and answerability for sub national governments, which is greater and more definite than is imaginable with the centralized governments. This indicates that, controlled nationwide governments in the contemporary times endeavor to influence the locus by devolving numerous roles and duties and accountabilities formerly detained by the central governmental units to subordinate units and more confined levels of localised governments or private institutions (World Bank, 2014).

Among the most important types of decentralization is economic (fiscal/financial) decentralization since fiscal obligation is an essential element of devolution (decentralization) and forms a core part of managerial (administrative) devolution, which comprises of the methods and instruments for financial collaboration in allocation public incomes amongst all levels of administration; for financial devolution in public incomes floating and disbursement apportionment; and for financial self-sufficiency for national, district, or indigenous government (Rondinelli, Nellis, & Cheema, 1983). Financial devolution incorporates surrendering financial controls from the central governments to the local government units. It is seen generally that decentralization gives local government's superior freedom of choice to respond to the preferences and desires of their citizens (Kabeba-Muriisa, 2008). Their tractability to answer to native requirements has amplified due to their superior financial authority to accumulate and spend income and managerial control to deliver services (Brucker, Kubica, Kway, Sizomu, & Teti, 2011). Therefore, if native administrators, structures and independent establishments like the case of Uganda are to carry out devolved utilities successfully, they need to have a satisfactory neck and neck of incomes either upstretched nearby or reassigned from the principal administration along with the specialist/experts to make resolutions concerning expenses.

Financial devolution, is well-defined as the obligation of disbursement tasks and income foundations to local government levels of administration, or the relocation of spending (or the transmission of reserves) and tax-raising (and appropriating) controls (Pretorius & Pretorius, 2008). According to Hart and Welham (2016) financial devolution takes numerous types, comprising of a) self (local) government -financing or charge (cost) retrieval over and done with user charges, b) co-financers or co-production venture arrangements of different companies or local people through which the workers contribute in providing services and structures through fiscal or labor donations; c) growth of native incomes through possession rights or auctions, transactions assessments, or knock-on/indirect duties; d) transnational and central government/intergovernmental relocations that swing over-all incomes from collected taxes by the principal administration to sub-national governments for all-purpose or exact uses; e) approval of sub-national loan acceptances and the call to arms of either sub-national and national capital through lend assurances.

In several emerging like sun-national governments or managerial units retain the lawful power to levy tariffs, but the tariff base remains pathetic and the reliance on the principal administration subsidizations so deep-seated that no effort is prepared to implement that right. Fascial obligation is an essential task for sub national governments as it consents local government superior financial power to collect and use revenue hence choice to answer back to the partialities and requirements of their voters (Brucker et al., 2011) particularly on better service delivery in Uganda (Balunywa, Nangoli, Mugerwa, Teko, & Mayoka, (2014). Outmoded financial decentralization exploration emphases on the consequential fiscal reimbursements which increase to its expenditure.

Overview Of Decentralization In Uganda

Uganda‘s current sub-national progression improved in number and performance since 1987 Resistance Council/Committees (RCs) the Statute no. 9 that legitimatized Resistance Councils (RCs) and allocated authority in their zones of prerogative at the local level (Asiimwe, 1989). Subsequently, the central government boarded on an actual operation of the programme of sub-nation with the ratifying of the 1993 Resistance Council Statute (RCS) paved a way forward in the right direction. The sub-national policy was earlier protected in Uganda‘s Constitution of 1995 (cap. 197 and 198) and was legitimate by the Local Government Act, 1997 which recognized the district level Local Council (LCV), municipality (LCIV) and sub county / division / town council (LCIII) as commercial bodies of local governments and delegated to them far accomplished powers, duties, responsibilities and tasks in such areas as fascial, legislature, political, forecasting and administrative matters (Kugonza & Mukobi, 2015).

Currently, Uganda's local government comprises of 127 districts one (1) Kampala as at July 1, 2018 (MoLG, 2017; UBOS, 2018). By 2020 July, Uganda had eleven (11) officially designated cities, including Kampala (Capital City), Arua, Gulu, Jinja, Lira, Mbale, Masaka, Mbarara, Fort Portal, Soroti, and Hoima. These cities were part of a phased process in which several municipalities were elevated to city status to promote regional development.

The Uganda sub-national government structure is made of a four-tier cenotaph arrangement of local councils (LCs) and these local councils are categorized as urban councils and rural councils. They are also categorized as administrative units and local government (Local Government Act, 1997, Sec 3). The statute categorizes a village, a parish/ward, and a county as a unit administration/ administrative units that exist for devotions of supporting management of sub-national governments through the delivery of guidance on issues relating to the relevant unit of administrative level and checking service delivery in the region of authority among other responsibilities. Hence devolution in Uganda is grounded on three inter-connected aspects: (i) statutory and political liberation of the populace, (ii) financial delegation, and (iii) authority of the managerial mechanism by the local councils. The delegation of authority, purpose, and tasks to sub-national governments, was envisioned amongst other things to advance the delivery of services to the local populace. However, for this study, only fiscal devolution was considered.

Through fiscal decentralization today, local governments, municipalities and other councils in Uganda assess and collect fees and levies in their areas of jurisdiction for purposes of delivering services to the locals. In addition to these locally generated revenues (property rates, market dues, etc), the central government of Uganda transfers conditional, equalisation and non-conditional grants as budgetary support for these units from the consolidated fund. Local governments can also pass resolutions to borrow funds from commercial and development banks to support their development programmes through government graurantee, in addition to donations and grants given to them by development partners giving them greater fiscal power to collect and use the revenue.

Objectives of the Study

This article attempts to assess the impact of fiscal decentralization in local governments in terms of revenue performance because sufficient revenue collected guarantees better service delivery conforming to one of the main objective of creating more local government units since 2008 i.e. to bring services nearer to the people through increased participation through greater fiscal power to collect and use revenue. Therefore, this was hypothesized that; there is no relationship between fiscal decentralization and revenue performance in local governments in Uganda.

Literature Review

In general terms, decentralization has three fundamental dimensions of decentralization namely financial, political and administrative decentralization (Hart & Welham, 2016; Muriu, 2012) but for the scope of this study, the emphasis is only on the first dimension. Fiscial devolution is thought to occur when local governments have the managerial control to increase incomes and execute expenditure undertakings (Pöschl, & Weingast, 2015; Kim, 2008). Fiscal decentralization requires the transferal of authority to increase and preserve fiscal properties to accomplish allotted tasks to local level populace and managerial establishments. It is contended financial devolution endorses advanced competence, improved public service, better transparency and, ultimately, financial competence and growth because sub-national governments are improved situated than the central government to deliver public services as a result of proximity and informational advantage (Rodríguez-Pose & Krøijer, 2009).

Finance responsibilities is frequently quoted as the important instruction of finacial decentralization. This unfolds in two folds; first, it purely means that sun-national governments ought to have satisfactory properties to transmit out the roles they have been allotted in order to avoid the 'unfunded mandate' syndrome. Second, the source of sub-national government funding is also important. The extent to which local governments are supported in line with finance by their own collected funds rather than handovers is likely to affect how answerable they are to their populace. If local governments are to be giant spenders, they must, in the benefits of financial obligation, responsibility, answerability and also become bigger taxers' (Bird, 2011).

To ensure full functionality of Fiscal decentralization, Oommen (2008) has stated local governments ought to be given sufficient authority and autonomy to enable them to manage tax collection and expenditure based on their budgets approved by a duly elected local council (Zhang & Chen 2015; Dziobek, Mangas & Kufa, 2011). Jean, Lee, Malarkey & McMahon (2010); and Dziobek et al., 2011) advance that the highest level of fiscal decentralization is implemented in the homeland and that one of the most successful ways that local governments can increase revenues is by collecting taxes from their own citizens and commercial activities such as hotel tax, local service tax, tourist license fees, property rates, fines, leases, license fees, and market dues.

Another form of tax that was greatly used to contribute to the funding of local governments was graduated tax. Although there is little literature relating to this form of tax, graduated tax alone contributed to over 80% of local governments in Uganda and approximately 30% of total revenues collected by municipalities and other urban-based local governments (Bahl & Bird, 2008; Francis & James, 2003). Unfortunately, the graduated tax was abolished by the central government mainly for political reasons (Jean et al., 2010) but eventually, it was reintroduced in terms of Local Service Tax and other indirect taxes (LST) (Bogere, 2013).

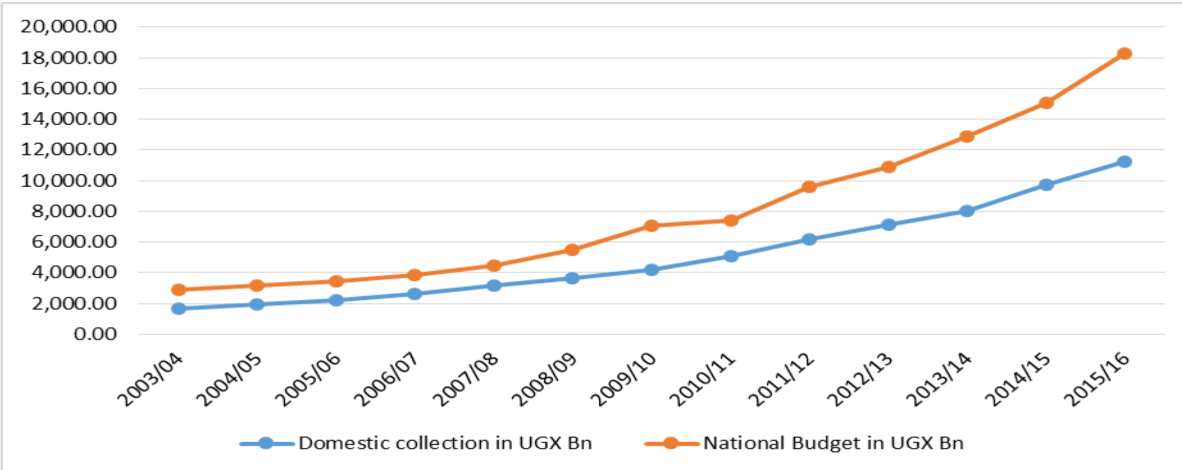
Existent research has shown that fiscal decentralization has registered some success in improving service delivery through the transfer of funds and tax raising powers from central to local governments (Bahl, & Bird, 2008; Akinyele, 1996). Fiscal decentralization has also enabled local governments to exercise the authority entrusted unto them to generate adequate revenues locally and receive funds from the central government and freely spend them on local development programmes (Rusten, Sedara, Netra & Pak, 2004). Consistent to the above are the findings of Balunywa et al (2014) who established that fiscal decentralization helps to reduce corruption, leads to improved revenue performance, enables better planning for revenue collection, reduces on tax evasion, enables the local unit to get more sources of revenue, makes it easy to handle taxation disputes and also that fiscal decentralization reduces on taxation bureaucracies hence better revenue performance. For example, according to the Local Government Finance Commission (LGFC), in the Financial Year 2009/2010, most local councils improved in the collection of local revenues due to effective mobilization and technical and financial support from the centre (Bogere, 2013). For instance, District Local Governments including Kampala City (Kampala Capital City

Authority) improved their performance by 24 percent - from 118 to 142 billion shillings. Also, some districts are rich and others poor (Kafeero, 2018).

Methodology

This study involves analyzing the available data presented on local and national budget performance for a period from 2003 to 2016 following transparency measure which measures the extent to which performance measured exists and is revealed in budget documentation across organizational units in a government; this may include departmental budget requests, the executive budget itself, operating budget documents, and quarterly and annual reports (Alt & Lassen, 2006). This is achieved by the classic building public budget methods of foundation budget, which states that revenue or expenditure budget for next year can be predicted concerning their level of performance in an earlier period, which is usually the year preceding the current one that is based on known execution data about revenue and expenditure (Crełu, Gheonea, Talaghir, Manolache & Iconomescu, 2015). Specifically, the Method increase (or decrease) was applied, which consists in determining the volume and structure of the draft budget by calculating the average annual rate of increase (or decrease) of budget revenues and expenditures from analysis of budget execution results from previous years (at least the past five consecutive years but for our case the past thirteen years) (Crełu et al., 2015; Ichim, 2013). Finally, the study used Pearson's correlations to compare the relationship between local government revenue collections and national budget data.

Figure 1: Trend in National Budget and Domestic revenue collections by LGs in Uganda from 2003/04 up to 2015/16 (in Billions UG shillings)



Source: Author's own computations from Auditor general's Report, 2016

The findings from figure 1 above revealed that an increase in domestic revenue collections by LGs led to an increase in National budget since there was significant improvement in the trend of LG revenue collections and National budget. The results imply that the decentralization policy played a significant role by giving mandate to the LGs to collect local revenue and a proportion of this revenue is used to fund part of the National budget.

Table 1: Relationship between Domestic revenue collections by LGs and National Budget using Pearson correlation analysis

		Domestic collection in UGXBn	National Budget in UGXBn
Domestic collection in UGXBn	Pearson Correlation	1	.997**
	Sig. (2-tailed)		.000
	N	13	13
National Budget in UGXBn	Pearson Correlation	.997**	1
	Sig. (2-tailed)	.000	
	N	13	13
**. Correlation is significant at the 0.01 level (2-tailed).			

To assess the relationship between Domestic revenue collections by LGs and National Budget, the researcher used Pearson correlation analysis at 0.01 level of significance. It is evident from table 1 above that there exists a strong positive relationship (99.7%) between Domestic revenue collections by LGs and National Budget. The relationship between Domestic revenue collections by LGs and National Budget was significant since the p-value (0.000) was less than 0.01 level of significance. The findings imply that an increase in Domestic revenue collections by LGs would lead to significant increase in National Budget. The findings further indicate that the decentralization policy has played a pivot role towards enhancing domestic revenue collection by giving authority to the local governments.

Discussions, Recommendations And Conclusion

The findings above imply that there is an increase in the domestic revenue collection by Local Governments which leads to additional funding of the national budget. This implies good budget performance by government, it increases timely disbursement of funds to the lower local governments which have a direct implication to service delivery. Increase in domestic revenue collection at the local government level also may also result into improved service delivery to the local people which may also improve on the livelihood of the locals.

The increased revenue collections at the local government level may also imply that the local government policy has performed to its expectations since increased revenue may imply that local governments possess funds that will support the delivery of services efficiently and effectively without too much dependency on the central government.

Fiscal decentralization is the core form of decentralization since it avails funds to enable other forms of decentralization i.e; administrative to perform their duties since funds for recurrent costs are assumed to be readily available hence improved service delivery since the local government staff may be mindful and customer oriented while attending to the locals with in the given locality.

Further still, the increased revenue collections at the local government may also imply that the local government are inn better positions to make financial decisions concerning the preferences and needs of their local constituents.

Recommendations

Local governments should enhance accountability and transparency during the revenue collection in order to increase availability of funds to be used in improving service delivery. Further Local governments should ensure that their staff are morally upright and will ensure that funds are directed in the right projects. Additionally Local government should ensure that their councils pass byelaws that protect funds at the lower governments. Clear policies related to protection of local governments should be put in place tough penalties to avoid misuse of funds and partnerships and linkages should be established with developed local governments from developed countries to ensure that they mobilize resources, technology transfer, software development and expert training in financial modules to equip them with skills needed in financial management.

Local government are managed using different forms of administration i.e., administrative, political and fiscal. The most important form of decentralization is fascial decentralization form since it is a core part on decentralization because it enhances effective administration in relation to service delivery at the local level through increased revenue collections. Funds are the life blood of any organization and without funds Local governments will remain dependant on central government which retards growth and development due to influenced decision making. For effective and efficiency Local governments more revenue should be collected as the only way that will empower local governance and citizenry in Uganda.

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