FISCAL DECENTRALISATION AND LOCAL REVENUE GENERATION IN UGANDA: A CASE OF GULU MUNICIPAL COUNCIL.

By

Christine Apiyo

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DECLARATION

I Christine Apiyo, hereby declare that this dissertation is my own original work and has not been produced by any previous researcher for any award and no other person is allowed to re-produce it without permission.

Signature____________________________

Christine Apiyo

Date________________________________

APPROVAL

This dissertation has been submitted after it has been approved by us as supervisors

Date____Signature_____________________________

Mr. Mugambe Paddy

Supervisor

Uganda Management Institute

Date______________________________________Signature________________________________

Mr. Baguma Innocent

Supervisor

Uganda Management Institute

DEDICATION

To my parents, Mr. Opoka Eugene and Mrs Opoka Martha, who gave me all the educational background and made me what I am now, my spiritual leaders, my Bishop Apostle Julius Peter Oyet, the lead Pr. Geoffrey Ojara for their spiritual support, my supervisors Paddy Mugambe and Innocent Baguma for all the supervisory work and guidance, my friends, my brothers and sisters for encouraging and praying for me in the period I was undertaking the study.

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LIST OF ACRONYMS

CVR	Content Validity Ration
DIE	DeutschesInstitut fur Entwicklungspolitik
DPWG-LG	Development Partners Working Group on Local Government
FD	Fiscal Decentralisation
FGD	Focus Group Discussion
GDI	German Development Institute
GMC	Gulu Municipal Council
GMC-LG	Gulu Municipal Council-Local Government
LDG	Local Development Grant
LDF	Local Development Fund
LGDP	Local Government Development Program
LGFC	Local Government Finance Commission
MFPED	Ministry of Finance, Planning and Economic Development
PRDP	Peace Recovery and Development Plan
PEAP	Poverty Eradication Action Plan
PAF	Poverty Action Fund
SPSS	Statistical Package for Social Sciences
UMI	Uganda Management Institute

ABSTRACT

The purpose of the study was to examine the effect of fiscal decentralisation on local revenue generation in Gulu Municipal Council. The study looked at the following objectives; to examine the effect of intergovernmental transfer systems on revenue generation in Gulu Municipal Council, to examine the effect of expenditure assignments on revenue generation in Gulu Municipal Council, and to examine the effect of revenue assignment on revenue generation in Gulu Municipal Council (GMC). The study took a cross sectional survey design, where both qualitative and quantitative methods of data collection and analysis were used. Data was collected using questionnaire, interview guide and focus group discussion guide. The data collected was analyzed using both descriptive and inferential statistical techniques of analysis.

The study found out that intergovernmental transfers improve local revenue generation. But still currently transfers contribute the biggest portion of revenue, and the study confirmed that intergovernmental transfers are regarded as the main source of revenue in Gulu Municipal Council (GMC). The finding also confirms that GMC has persistently remained financially dependent on central government transfers. The finding further showed that expenditure assignments to GMC contribute to local generation. However the assignments of functions have not been appropriate to enable GMC generate local revenue as always planned. Besides GMC lack the independence to determine what is required of them in terms of grants and other revenue sources due to political interference by the central government.

The study further reveals that much as the central government has assigned revenue to sub-national governments, revenue funds to run the responsibilities has remained insufficient. This is because fiscal decentralization has not given full autonomy of taxing power to Municipalities due to political influence, and there is low concession to increase investment in the Municipal Council. As a result, the revenue base is still low at the same time revenue collection has remained dismal annually.

CHAPTER ONE

INTRODUCTION

1.1Introduction

The study was to assess the contribution of fiscal decentralization to local revenue generation in Municipal Council Gulu. In the study, revenue generation was the dependent variable whereas fiscal decentralization was the independent variable. Fiscal decentralization was measured by the following attributes; intergovernmental transfer systems, expenditure assignments and revenue assignments to sub-national governments. Revenue generation was measured in the form of increase in the amount of revenue collection, meeting target of revenue planned, and tax compliance.

This chapter covers the background to the study, the statement of the problem, the general objective of the study, the research questions, the hypothesis, the scope of the study, significance of the study, justification of the study, and the operational definition of the terms and concepts.

1.2 Background of the study

1.2.1 Historical Background

Fiscal decentralisation and local government reforms were among the most widespread trends in development during the 1990s, (Martinez-Vazquet, J and F. Vaillantcourt, 2011). In highly decentralized federal countries (e.g. Switzerland, the United States, Austria and Germany), fiscal decentralisation is used for macroeconomic stabilisation. Today, these countries have very stable macroeconomic performance and low rates of inflation. China and Brazil have moved strongly in the direction of fiscal decentralisation reform though they share typical problems as developing nations, where government grants create a disincentive for local government to develop their own sources of revenues (Smoke, 2013).

In Africa, fiscal decentralization is aimed at improving the system of intergovernmental transfers (Elhiraika, 2007).Besides improving public finance management, some countries like South Africa, Kenya and Uganda have adopted intergovernmental transfer systems that are aimed at making them as proper and equitable as possible to meet broader policy goals such as poverty alleviation.

In Uganda, fiscal decentralisation was introduced way back in 1992 by the National Resistance Movement (NRM) under the leadership of Y.K Museveni with a view of improving service delivery and local governments' access to Local Development Grant LDG (Odero, 2004). A high priority is often accorded to decentralization as a way of diluting the concentration of political power, providing some degree of local autonomy for disaffected minorities and improving the accountability of local public services (Roy Bahl, 2008). This implies some devolution of taxing and spending power from the centre to local governments.

Contrary to history, however local governments in Uganda were not provided much power to raise revenue locally and instead rely extensively on intergovernmental transfers including conditional, unconditional and equalization grants. In addition to the limited local revenue raising power, collection of taxes and fees amounts to 10 percent of the total revenue available to local government on average, which is estimated to be one third to one half of revenue collection below the potential (LGFC, 2000).

There is widespread consensus that performance of local governments is less than desirable, and there are several reasons for this underperformance, among them the politicization of local taxes (including the abolition of the nominally important graduated personal tax ahead of the 2006 presidential election); wide reluctance among the population to pay taxes due to arbitrary, regressive and sometimes forceful collection practices; lack of awareness about the connection between services and taxes; collusion between tax collectors and tax payers; and lack of administrative capacity at the local level (CMI Brief 2014).

1.2.2 Theoretical Background

The theory of fiscal federalism of public sector responsibility for stabilization, distribution, allocation and equalization (Musgrave, 1959) is the basis for this study. The roles of the public and private sectors (Musgrave, (1959) on public finance provided the framework for what became accepted as the proper role of the state in the economy. This framework identified three roles for the government sector. These are correcting various dimensions of market failure, maintaining macroeconomic stability, and redressing income inequality. The central government is responsible for the correction of market failure and maintenance of macroeconomic stability, while the sub national governments and the central government are jointly responsible for redressing income inequality (Ozon-Eson, 2005).

Primary responsibility for the stabilization function has conventionally been assigned to the central government, partly because of the obvious problems that would result if sub-national jurisdiction had independent control over their own money supplies (Smoke 2008).

CMI brief (2014) asserts that local governments in developing countries often have only a minor role in the economy relative to industrialized nations, frequently accounting for modest percentages of public sector employment and spending. Moreover, they are typically very dependent on central government for resources and regulated by central agencies, even under relatively decentralized regimes. The impact of their fiscal behavior is therefore extremely limited.

The stabilization function of public sector responsibility involves the role of tax and spending policies and monetary policy in managing the overall levels of economic activity. Musgrave, (1959) agrees that this macroeconomic function should be assigned to the national government. This suggests that the national government must have a broad based tax suitable for this role. Oates (2002) analysis of 58 countries demonstrated a positive relationship between economic growth and fiscal decentralization and suggested some role for local governments, especially infrastructure development. Despite the responsibility of fewer mobility problems in less developed countries, there is no strong case to be made for assigning sub-national distribution responsibility to local governments. Local revenue bases are often limited, as are the expenditure role of local authorities and their capacity to administer major redistribution programmes. Extensions of the logic of preference variation suggest that in a system where there are opportunities for mobility, people will move to an area where a local government provides their preferred mix of public services. This produces a market-like solution to the local service provision problem (Fox and Menon 2008).

The fiscal federation theory also places the principle of responsibilities for distribution with the central government (Smoke, 2001). Smoke states that only the central government is in a position to redistribute resources from wealthier to poorer jurisdiction, differential local redistribution programmes would be expected to create problems if factors of production were mobile. Wealthy residents and businesses might move out of the jurisdiction that practices redistribution, while poor individuals eligible for benefits would try to move in, thereby undermining the redistributive base. Local governments tend to have access to revenue sources that are not easily levied in a way that is progressive with respect to income. Although there have been challenges to the conventional recommendation that distribution should be centralized, it is still generally accepted that decentralized governments are typically more constrained than the central government in altering the distribution of income (Kee, 2003).

The prescribed role of decentralized levels of government is the allocation of function because the demand for public services is not likely to be uniform across space. There are important exceptions to the general rule of decentralization to maximize locative efficiency. Certain capital intensive services, such as electric utilities and transportation systems, may exhibit economy of scale over a wider area. The provision of some services, such as water and roads, may generate inter-jurisdictional externalities. In such cases, resource allocation is more efficient when the service provision area is drawn and internalized. The concept of allocation, which is done entirely by the local government, refers to the ability of the local government to identify areas and their specific financial needs and later allocate necessary resources for addressing the expenditure needs. The theory is relevant to this study in such a way that it will guide the researcher in conceptualizing research themes.

The final element of this basic theory is the need for fiscal equalization. This is in the form of lump sum transfers from the central government to decentralized governments. The arguments for equalization are mainly two. The first which is on efficiency grounds see equalization as a way of correcting for distorted migration patterns. The second is to provide assistance to poorer regions or jurisdictions. Equalization is important in a number of federations. For example, Canada has an elaborate equalization scheme built into her inter-governmental fiscal arrangements (Boadway and Hobson, (2009).

1.2.3 Conceptual background

Fiscal decentralization refers to the transfer of functions or authority from central level of government to local institutions (e.g. regional, provincial, and municipal, etc.).With regards to the local decision making on the allocation of financial resources (i.e. financial discretionary powers) and the powers to levy local taxes (Republic of Rwanda**,** 2011).

In essence, fiscal decentralization presumes that if more revenue is transferred or generated, then local governments can deliver services efficiently and effectively (Olowu and Wunsch, 2004). However, the level of financial resources and human capital is mostly restricted such that it is inadequate in local governments, for the officials to fulfill their assigned responsibilities effectively and efficiently (Steiner, 2007). The goal of fiscal decentralization policy is to pursue efficiency in provision of service at local level; it also promotes sustainable development, economic growth and the reduction of poverty (Republic of Rwanda, 2011).

Revenue generation refers to the means used to mobilize revenue that effectively use the scarce resources like people, power and money in a manner that reduces the cost of compliance, while maximizing the revenue collection (Odd-HelgeFjeldstad, 2013). The measures and strategies that make it conducive for local governments to mobilize resources for funding their budget. The local government Act was amended to provide the necessary legal and policy framework enabling local governments to mobilize revenue for financing local government functions and projects. Revenue is the lifeblood of the state and taxation is the primary mechanism for collecting revenue (DPWP-LGD, (2009)

1.2.4 Contextual background

The 1995 constitution and the local government Act of 2001 gives administrative powers and fiscal authority to the local governments (districts/town councils and municipalities). This requires the local authorities to plan, implement, monitor and evaluate provision of social services. To finance the services, the central government extends grants (conditional, unconditional and equalization) in addition to locally generated revenue. The locally generated revenue includes Property taxes, business licenses and user fees to mention but few.

Today, all local governments are governed on a decentralised system of government that has been the key policy initiative of the Government of Uganda for Local government since 1995. Within this policy, the centre has transferred sub-national powers, functions and responsibilities to Local Governments. This has given Local Government substantial powers to make and implement recurrent and development plans based on locally determined priorities (GMC-LG, 2008)

Because of the decentralisation policy, the Centre transfers the funds to the Local Government to enable them implement their development plan. This can also be attributed partially to the Government's decisions to implement the PEAP via PAF funding. Much of the PAF funds are administered through the District and Municipal Local Councils. As of the financial year 2002 and 03 about 30% of the Central Government budget was being administered through Local Governments. This trend implies that Local Government managers now have more financial decisions and accountability to make (GMC)-LG, 2008)

Beginning Financial Year 2003/04, the Government of Uganda implemented the Fiscal Decentralisation strategy (FDS), starting first on a pilot basis in selected District and

Municipalities. The focus of the FDS is to promote Local autonomy, improve transparency and accountability and enhance efficiency and effectiveness in the location of resources towards the achievement of PEAP. The FDS gives more budgetary powers to Local Government and because of this, local government are required to generate enough local revenue in order to supplement the funds from the centre and to achieve the objective of the fiscal decentralisation system. It is intended that this three Year Revenue Enhancement plan will help the Municipal Council and other development process to Gulu Municipality, in fostering strategies for improved service delivery as she transforms into a commercial and industrial city for Northern Uganda (GMC-LG, 2008)

However local governments in Uganda were not provided much power to raise revenue locally and instead rely extensively on intergovernmental transfers including conditional, unconditional and equalization grants. In addition to the limited local revenue raising power, collection of taxes and fees amounts to 10 percent of the total revenue available to local government on average, which is estimated to be one third to one half of revenue collection below the potential (LGFC, 2000).

There is widespread consensus that performance of local governments are less than desirable, causing down ward trend and there are several reasons for this underperformance, including the politicization of local taxes and the abolition of the nominally important graduated personal tax ahead of the 2006 presidential election; wide reluctance among the population to pay taxes due to arbitrary, regressive and sometimes forceful collection practices; high compliance cost due to complex procedures, ineffective collection which leads to poor quality services and persistent resistance to payment; lack of awareness about the connection between service and taxes; collusion between tax collectors and tax payers; lack of administrative capacity and poor administration so they generate little revenue. The short falls in revenue collection has made Gulu Municipal

Council to largely continue to depend on the central funds through intergovernmental transfers. Experiencing large variance between planned and actual revenue collection, and unable to finance some important activities and development programs /projects. The top-down drive under fiscal decentralization to increase local revenue mobilization thus risk being counter-productive (GMC-LG, 2008)

This has also been exemplified in the local governments over reliance on central government transfers, and overall trend of revenue collection has been declining over the years. It is recognized that whereas planned and actual revenue consist of grants and local revenue sources, the divisions greatly relies on the latter, for instance of the estimated revenue of Ug Shs. 201,251,696 against Uganda shillings 250,510,150 only which is 80.3%, revenue collected were 133,663,592 against estimated of 155,554,950 which are 86%. Local Government Development Plan (LGDP) II estimated at Ug Shs. 77,273,000 only 57,588,104 was received as grant from central government and Uganda local authority association was able to support the division with Ug Shs. 10,000,000 (PCP C3 funds)

The quality of service provision is also below the citizens' expectations, with key services such as health care, water, sanitation, education, and agricultural advisory services remaining dismal. Yet, there is no evidence that the citizens who are the intended beneficiaries of the decentralization system are demanding accountability and better performance from their elected leaders (GMC-LG, 2008). The high transfers from the central government may represent an additional disincentive for collection of their own local revenue.

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-3013	2013-2014
Plan	321,584,808	381,224,433	487,639,871	285,221,865	1,760,522,108	2,670,183,322	1,392,804,500	3,649,659,000	2,589,861,000

Actual	285,184,966	573,372,580	422,498,948	299,482,958	1,046,924,416	741,010,018	985,194,831	1,690,470,334	1,937,073,000
Variance	36,399,842	(192,148,147)	65,140,923	(14,261,093)	713,597,692	1,929,173,304	407,609,669	1,959,188,666	652,788,000

Table 1.1: Revenue Collection in the different financial years and their variance

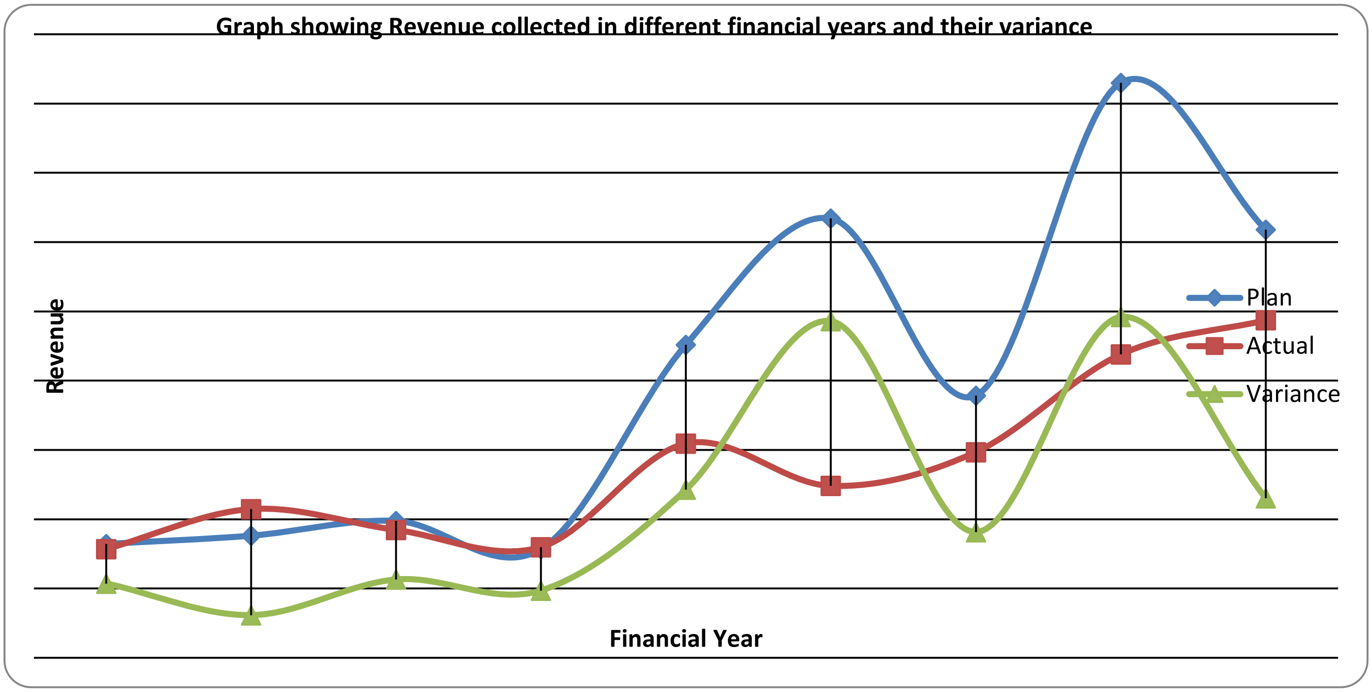

Figure 1.1: Revenue Collection in the different financial years and their variance

Figure 1 shows that the trend in local revenue collection may imply that Gulu Municipal Council still depends heavily on central government funds to fulfill its budget. If the situation is not revised, there is likelihood that the local revenue collection will drop further causing most of the development programmes to remain unattended. This researcher posits that fiscal decentralization of revenue collection has significant impact on the amount of local revenue collection annually. In order to verify the validity of this hypothesis, the effect of fiscal decentralization on local revenue generation in Gulu Municipal Council will be examined.

1.3 Statement of problem:

Article 191 of the Constitution and Section 81 of the Local Government Act of 1997 empowers Local Governments to levy, charge and collect fees, royalties, stamp duties, personal graduated tax, registration, licensing fees and other taxes specified in the fifth schedule of the Act.The Local Government Financial and Accounting Regulations (2007) and budget conference report Gulu Municipal Council (2008) shows adoption of policy frame work of revenue enhancement plan through revenue enumeration (data collection), revenue assessment, issuing demand notes, revenue payments and enforcement of collection to strengthen revenue collection in order to raise funds and finance its budgets and development programs.

The budgeted and realized revenue data showed that targeted revenue has never been realized as planned/projected in Gulu Municipal Council. There had been up and down ward trend of revenue collection, with large variance between planned and actual revenue collection rendering revenue collection performance less than desirable (GMC-LG, 2008). The short falls in revenue collection has made Gulu Municipal council to largely continue to depend upon the central funds through intergovernmental transfers. The high transfers from the central government may represent an additional disincentive for collection of their own local revenue (GMC-LG, 2008).

The gap between actual and planned revenue collection level and what the revenue is meant to accomplish provides good basis to argue that fiscal decentralization of revenue collection has significant impact on revenue collection annually. In order to verify the validity of this hypothesis, the contribution of fiscal decentralization to local revenue was examined.

1.4 General objective of the study

The objective of the study was to assess the contribution of fiscal decentralization to local revenue generation.

1.5 Specific objectives of the study

The following objectives guided the study;

i. To assess the contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council.

ii. To assess the contribution of expenditure assignments to local revenue generation in Gulu Municipal Council.

iii. To assess the contribution of revenue assignments to local revenue generation in Gulu Municipal Council.

1.6 Research Questions

The following questions guided the study;

i. What is the contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council?

ii. What is the contribution of expenditure assignments to local revenue generation in Gulu Municipal Council?

iii. What is the contribution of revenue assignments on local revenue generation in Gulu Municipal Council?

1.7 Hypothesis of the Study

The following hypothesis guided the study;

i. Intergovernmental transfers have no contribution to local revenue generation in Municipal Councils in Uganda.

ii. Expenditure assignments have a positive contribution to local revenue generation in Municipal Councils in Uganda.

iii. Revenue assignments contribute to local revenue generation in Municipal Councils in Uganda

1.8 Conceptual framework

Figure 1.2: Relationship between fiscal decentralization and local revenue generation.

Independent variables	Dependent variable
Fiscal decentralization	Local revenue generation

Intergovernmental transfers systems

- Conditional grants
- Unconditional grants
- Equalization grants

Expenditure assignments

- Human resource capacity
- Planning
- Administrative capacity

Revenue assignments

- Adequate revenue sources
- Cost effectiveness of collecting revenue sources
- Effectiveness in managing and collecting revenues

Revenue generation

- Increase in the amount of revenue collection
- Increase in revenue base
- Increase in tax compliance

Source: CMI Brief (2014) fiscal decentralization in developing countries lessons for Bangladesh Jesper.

Steffensen (2010) fiscal decentralization and sector funding principles and practices

DPWG-LGD (2009) Fiscal Decentralization and Options for Donor Harmonization in Berlin

Bahl, Roy (2008) pillars of fiscal decentralization CAF working papers Venezuela Georgia State University.

Figure 2, shows the concepts related to the two study variables namely fiscal decentralization and local revenue generation. The figure depicts how variable affects one another. Fiscal decentralization is the independent variable sub-portioned into; intergovernmental transfers, expenditure assignments and revenue assignments while local revenue generation is the dependent variable. Under normal circumstances it is assumed that if these dimensions are put in place and well implemented, local revenue generation can be improved in the Municipal council. Therefore the study is out to examine how these dimensions work in Gulu Municipal Council and how it may eventually impact on the local revenue generation.

1.9 Significance of the Study

The study results would provide directive that can guide local government to design and improve policies and practices on revenue generation. The study results may be used as referral document for the accountant at local levels to manage Municipal finance and challenges they are face with. The study results may provide further research, and open up debate how the fiscal guideline may be used to generate revenue in local government.

1.10 Justification of the Study

The contribution of fiscal decentralization was timely, given the fact that since decentralization fiscal policies to improve local revenue generation, there has been continuous realization of limited revenue collected and significant reliance on central transfers. Yet the intension of fiscal decentralization policies on revenue generation is to enable local governments collect sufficient revenue.

1.11 Scope of the Study

1.11.1 Geographical Scope

The study was carried out in Gulu Municipal Council, and other four divisions of Pece, Laroo Layibi and Berdege in Gulu District located in Northern Uganda.

1.11.2 Content scope

The study was based on the contribution of fiscal decentralisation to local revenue generation in Gulu Municipal Council. This included but not limited to; examining whether intergovernmental transfer systems, expenditure assignments, and revenue assignments contribute to local revenue generation. These portion in which the study was divided, gave clear contribution of fiscal decentralisation to local revenue generation in Gulu Municipal Council.

1.11.3 Time scope

The study was limited for a period of 5 years, which is between 2008/2009 to 2012/2013 financial years. The choice for this period was that fiscal decentralization strategy in 1993 was reviewed in 2004, and government recommended additional transfers to local governments (FDS report 2004). Therefore the following increase funding, local governments have continued to entirely depend on central government funding and this has led fiscal decentralization to take root. The contribution of fiscal decentralization to local revenue generation in Gulu Municipal Council was analyzed within this specified period.

1.12 Operational Definitions

The study will be guided by the following operation terms and concepts;

Federalism: is a political concept in which the power to govern is shared between national, states and local governments, creating what is often called a federation.

Decentralization: Transfer of authority and responsibility for delivery of public service to local governments.

Fiscal decentralization: transferring of national responsibility for generating revenue and allocating expenditure to local governments or the devolution of taxing and spending powers to lower levels of governments.

Intergovernmental transfer systems: are transfers of funds from one level of government to another. This may be to fund general government operations or for specific purposes.

Local revenue generation: Refers to the mechanism of collecting annual income to cater for the wellbeing of individual, organization and government and also for public funds.

Local Government: the lowest tier of government at which one finds both elected officials (e.g. councilors) and full-time civil-servants.

Corruption: is defined as the use of public office for private gain, or in other words, use of official position, rank or status by an office bearer for his own personal benefit or is the dishonest or fraudulent conduct by those in power, typically involving bribery.

Sub-national governments: are governments below the level of the national government.

Tax compliance: is the extent to which tax payers comply with tax laws.

Revenue base: is the source of regular part of the total revenues of a government, firm, Local government etc.

Revenue: denotes all incomes from taxes, fees (charges), fines, loans which local authorities mobilize from within and outside their own jurisdictional arenas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of the work that different authors and researchers have put forward that is related to fiscal decentralization and the study objectives. This chapter further presents the theoretical review, conceptual review, the actual literature review and the summary of the literature review of the study. The literature reviewed was organized thematically in accordance with the study objectives.

2.2 Theoretical review

The study was guided by the Theory of Fiscal Federalism; the theory identified three roles for the government sector. These were correcting various dimensions of market failure, maintaining macro-economic stability, and redressing income inequality. According to the theory, central government is responsible for the correction of market failure and maintenance of macro-economic stability, while the sub-national governments and the central government are jointly responsible for redressing income inequality (Ozon-Eson, 2005). The theory provided direction for sharing these functions among different levels of government. The economist Richard Musgrave's framework for analyzing these roles or function is widely accepted Ewetan O. (2012).

The Theory of Fiscal Federalism also placed principle responsibilities for stabilization and distribution allocation with the central government (Smoke, 2008). On the revenue side, the types of revenues considered most appropriate for local governments tend to be income inelastic, constraining the ability of local governments to pursue appropriate fiscal policy. Local governments in developing countries often have only a minor role in the economy relative to industrialized nations, frequently accounting for modest percentages of public sector employment and spending. Moreover, they are typically very dependent on central governments for resources and regulated by central agencies, even under relatively decentralized regimes (Bahl 2008). The impact of their fiscal behavior is, therefore, extremely limited.

Contrary to the Musgrave model of fiscal federalism, the local revenue situation in developing countries can be even more problematic than in industrialized countries. In some cases, local governments are more dependent on taxes related to economic activity (e.g. agricultural, business and market) than on more stable wealth-based taxes (e.g. land and property) and charges (e.g. water and sewerage) (Smoke, 2008).These dominant taxes are often structured such that they are inelastic during growth, but the fragility of the local economy can result in dramatic yield reductions during contractions, undermining local ability to behave counter cyclically.

2.3 Intergovernmental transfer systems and local revenue generation

The transfer system is the most important element on the decentralization program in many countries. Where-as it may be the most important element on the revenue side, the key implementation issue is for the design of the grant system to match the objective of the overall decentralization program. Hence any fiscal decentralization reform has to take into account the impact on and efficiency of systems of transfers between government levels. In this context, fiscal decentralization holds great promise for improving service delivery and in turn boost revenue collection while maintaining economic growth (DeMello, 2009) . But actual outcome depends on its design and the institutional arrangement for its implementation.

Locally owned-source revenues generally do not cover local government expenditure responsibilities; virtually all governments have intergovernmental transfer programmes

(DeMello, 2000).These serve multiple, often interrelated purposes which are particularly important. Transfer systems help to cover local government fiscal imbalances, supplementing inadequate local own-source revenues to improve the ability of local governments to meet their expenditure responsibilities. It can be used to meet national redistribution objectives, helping to offset fiscal capacity differences among local governments. It can be used to encourage local expenditures on particular goods and services that exhibit positive externalities or are considered to be basic needs that should be distributed less unequally than the ability to pay for them. Most transfer systems, even in developing countries, are intended, at least officially, to meet these objectives (Bahl and Linn (1992); Schroeder (1988); Shah (1994); and Smoke (2001)). Smoke 2008 & UNDP (2005) agreed that revenue assignment never matches the expenditure needs, it rarely provides local governments with sufficient revenues to fund their expenditure functions, hence intergovernmental transfers are often necessary to assure revenue adequacy**.**

Transfers come in a variety of forms depending on the purpose for which they are used. There are forms of intergovernmental fiscal transfers namely; general purpose or unconditional transfers (transfers provided as general budget support). Specific Purpose or conditional transfers (transfers provide to undertake specific activities) matching vs. non-matching (matching-requires sub-national government to finance a portion of the expenditure through own revenue sources). -open-ended vs. closed-ended matching (matching requirement open-ended the sub-national government matches whatever level of funding provided by the central government; matching closed-ended-the sub-national government matches the funding provided by the central government only up to a pre-specified limit.

Odd-HelgeFjeldstad & bird (2013), transfers can be used for a wide variety of purposes. They can be used to ensure: vertical” fiscal balance (providing additional resources to the local level, so that there is a balance between the fiscal needs and resources available to different levels of government); “horizontal” fiscal balance (ensuring fiscal balance in resource allocations between government units at the same level of government); the funding of specific national priorities; or that the effects of inter-regional spill-over or externalities are counter-acted.

Nigeria is one of the few countries in developing world to have significantly decentralized both resources and responsibilities for delivery of basic health and education services to locally elected governments. Local Government in Nigeria are constitutionally entitle to a share of 20% of federal revenue, which in recent years of oil price booms has implied sub-national resources flows to local government Okezei (2003). Local government’s responsibilities for primary health care services, in particular is emphasized in a recently revised health policy document formulated in the 1980s. However, there is little systematic evidence on how these institutions of decentralization work in practice. This is opposed to Uganda’s transfer systems, where central government transfers up to 90% of the conditional grants to local government (Smoke, 2008). This shows that local governments are overwhelmingly dependent on federal revenue transfers for the discharge of their responsibilities; others argue that over dependence of LGs on federal transfer undermined local accountability and created perverse incentives at the local level to misallocate public resources (Bird, 2010).

Switzerland is an exemplary federal fiscal system. The Swiss federation comprises of 26 states, the so-called cantons. The cantons are divided into roughly 3000 Municipalities of varying size and population. The three states levels finance their expenditures essentially by their own taxes and fees. The total tax revenue of all the three level was 93 billion CHF in 2001, of which 46% in imposed by federation, 32% by the cantons and 22 by the Municipalities (Swiss federation tax administration, 2002). Unlike Uganda that has a decentralization systems, where the entire finances trickles down to beneficiaries, little effect is visible on the ground this therefore prompt the researcher to assess whether decentralization has been effective.

Hull and Searle (2007); Martinez-Vazquez, Rider and Wallace (2008), asserts administrative justifications, for relying on intergovernmental transfers vs. sub national government taxes is that it is a less costly way to finance government. Thus the central government can assess and collect taxes more cheaply than can sub-national governments. “More cheaply” means that for any given amount of revenue collected, the pure administration costs (assessment, collection, etc.) are lower, and the compliance costs are lower. He continued with the argument against and said that sub-national governments are more corrupt than the central government, and therefore a shift of responsibility to sub-national governments will lead to a waste of revenues.

Martinez-Vazquez, Arze del Granado and Boex, (2007) sub national governments would push the central government to replace transfers with independent taxing powers. While this is no doubt true in some places, there are other cases where sub-national governments support the intergovernmental transfer strategy than the local government tax collection. Provincial and local government politicians would much prefer to spend central government taxes if they can get enough of them than raise their own taxes from local voters. All too often, the sub-national government politicians are willing (if silent) partners in the revenue centralization decision (Bahl and Wallace, 2007, Bahl, Wallace and Cyan, 2008), Martinez-Vazquez, Rider and Wallace, 2008).

UNCDF & Steffensen, Boex & Yilmaz (2010) argued that almost without exception, governments across the world assign more expenditure functions to local authorities than can be financed from their own revenue sources. This is also the case across Anglophone Africa. The result of this mismatching of functions and finances usually referred to as vertical imbalances. Thus the local governments are generally dependent on transfers from higher levels of government (Bird 2010; Boadway and Shah 2009; Boex and Martinez-Vazquez 2006; Bird and Smart 2002). In addition, differences in local revenue bases and administrative capacities may create problems of equalization (horizontal imbalance) between local government authorities, in particular between rural and urban areas. The presence of such imbalances means that one cannot design an appropriate system of local government taxation without simultaneously designing an appropriate system of intergovernmental transfers (Bird, 2010).

Akpan 2011, Mugabi 2004; Steffensen and Tidemand 2004, Brosio 2000 and Mugabi 2004) states that, the level of intergovernmental transfers varies widely between countries and also between rural and urban councils within individual countries. (Chitembo 2009) in Botswana, for instance, rural councils receive 92% of their total revenues from the central level, compared to 62% for urban areas. In Uganda, local governments are heavily dependent on transfers from the central government (on average, 88% of total revenues in 2007), while local governments in South Africa, on average, generate the bulk of the revenues from 'own' sources (89% in 2007). It is feared that sub-national governments that are highly dependent on national transfers may increase their current expenditures above their capacity to fund them out of current revenues and then close the gap through borrowing. (Yatta & Vaillancourt 2010, DPWG-LGD's 2009, and Bahl & Wallace, 2007).

2.4 Expenditure assignments and local revenue generation

UNDP (2005), the assignment of functional or expenditure responsibilities is the first "pillar" of fiscal decentralization simply because it defines who does what, which functions are assigned to different levels in the overall system of government in a given country. Bahl, Roy (2008), expenditure assignments is the transfer of responsibility for the planning, financing and management of certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional or functional authorities (Odd-HelgeFjeldstad, 2013).

Odd-Help Fjeldstad 2013, UNDP 2005 & Bird (2010) argued that local governments may not have the technical capacity to implement and maintain certain huge projects and they may not have the training to effectively manage larger budgets. In reality, however, varying degrees of local capacity local government and civil society/the private sector obviously affect decisions about which levels of government can best perform which tasks. In most cases, decentralization of basic services does not mean the wholesale transfer to local agencies of all tasks associated with those services.

However Steffenson (2010), illustrate that it necessary for provision of human and financial resources to undertake the services that the Municipal have been conferred. Expenditure assignment itself can be the best way to build local capacity with the help of central to maintain equity in spending across jurisdictions and ensure proper attention to training of staff involved in revenue mobilization. Tendler (1997), Fox & Menon 2008), commonly accepted objectives for fiscal decentralization include those of an efficient allocation of resources via a responsiveness where it is best achieved by the "subsidiary" principle, (Bird 2010, Roy Bahal 2008 and Chitembo, (2009) states that clear assignments of expenditure responsibilities necessarily conditions for tax revenue assignment and fiscal equalization mechanism. Clearly, both systems can be inadequate for different expenditure assignments and can easily become obsolete as soon as expenditure assignments are significantly changed. (Yatta and Vaillancourt 2010; Jamala 2013 and Robert

2009) agreed that the experience of many economies in transition shows that without a specific expenditure assignment, it is revenue availability that dictates the responsibilities of each government level. This leads to institutional instability and again to an inefficient provision of public services. In the design of a decentralized system of intergovernmental finances, there is an obvious need for a policy decision on concrete assignment of expenditure responsibilities between the central government and the regions and between the regions and the local governments (Martinez-Vazquez, Feruglio, N. 2007, McLure and Vaillancourt, 2006).

Odd-HelgeFjeldstad (2013) however, the failure to establish by law a clear assignment of expenditure responsibilities for each government level can become a source of conflict between the central and sub-national governments and can lead to an inefficient provision of public services. Bird 2010; Martinez-Vázques and Smoke (2010), DPWG-LGD (2009), agreed and insert that lack of specific and clear assignments of expenditure responsibilities necessarily conditions the adequacy of any tax revenue assignment and fiscal equalization mechanism. Without a specific expenditure assignment, revenue availability will dictate the responsibilities of each government level. This leads to institutional instability and again to an inefficient provision of public services, (UNCDF, 2008)

CMI (2004), expenditure needs that are associated with the expenditure assignments Otherwise, in difficult fiscal conditions; spending less or even withdrawing from common competencies is more defensible for both central and sub-national governments. It is likely that a relative disproportion of funds will be spent on salaries and much less on other operation expenditures; similarly, maintenance may be reduced to a minimum, in particular if no specific source of funding is assigned. Given the limited capacity of districts to rise own revenues, over the short to medium term, the majority of service delivery will be financed through a series of earmarked grants, whilst block transfers will fund administrative functions at the districts and provide discretionary funds to supplement earmarked allocations to service delivery.

Odd-HelgeFjeldstad (2013), assigning expenditure responsibilities is an important pillar of fiscal decentralization; to provide a stable economic environment, the maintenance of high employment and price stability should be assigned to the central government. This is true; majorly the economically and fiscally open character of economies in sub-national jurisdictions prevents sub-national governments from effectively addressing macro-economic concerns such as employment and price levels. The institutional economic reality is that one of the basic tools of stabilization policy control over the money supply through a monetary authority rests with a central bank. To promote a more equitable distribution of income/resources, for much the same reason, because sub-national economies are "open", securing equity in the distribution of income and wealth should largely be a central responsibility. It does assure a more efficient allocation of resources (when markets fail).The efficiency argument (i.e., allocation policy) is the raison for a sub-national role.

One cannot establish the required level of sub-national government revenues without an estimate of expenditure needs. If finance does not follow function, it becomes difficult to effectively impose hard budget constraints at the sub-national level if there is an insufficient assignment of revenues. The economically efficient assignment of revenues requires prior knowledge of the assignment of expenditures.

Nicoletta Feruglio (2007), summaries the important of assigning responsibilities; financing should follow functions. In addition, it is important to clearly define the assignment of expenditure responsibilities in order to enhance accountability (who is responsible for what), so as to avoid unproductive overlap, duplication of authority and legal challenges. Hence a clear definition of the role of the public sector should be established before expenditure responsibilities can be assigned. There should be identified level of Government which should be responsible for specific function and activities belonging to the public sector (central, regional and local).

2.5 Revenue assignments and local revenue generation

Revenue assignment refers to the question of vertical sharing of public resources. If fiscal decentralization is to be a reality, sub-national governments must control their "own" sources of revenue. Sub-national governments that lack independent sources of revenue can never truly enjoy fiscal autonomy. Where local expenditure is higher than local taxes; the differences are financed by transfers from central government, borrowing, and or donor support (Fjeldstad, 2004).

For instance, in Tanzania the lion's share of operation costs in district councils is financed by central government transfer. In contrast, local authorities in South Africa generate an aggregate of more than 90% of their own revenue. The remaining revenues are transfers from the national and provincial governments. However, huge difference exists between municipalities. Metropolitan council's mobilize on average 97% of their revenues as opposed to some smaller municipalities which only raise 65% of their revenues form their own sources (Fjeldstad, 2006). Fiscal decentralization has an added advantage in revenue mobilization effort. The advantage is that it gives the local people, through their District Assembly, the chance to mobilize internally generated revenues such as rates, fines, fees, land and licenses (Bahl and Linn (1992)

Sub national governments that depend on own revenues have incentives to be more accountable to citizens, to provide market-enhancing public goods, and to be less corrupt (Singh and Srinivasan, 2006; Rodden, 2003; Careaga and Weingast, 2003; Ambrosanio and Borgignon

2006).Compliance with tax payments Beblawi and Luciani (1987). As Levi (1988) explains, tax payments are quasi-voluntary and depend on compliance of the taxpayers. And, as Robinson, (2003) and Timmons (2005) illustrates statistically, voluntary compliance with taxes is higher when citizens receive public goods and services they value in exchange for taxes, thus to motivate greater compliance and greater government revenues. Oates (2005) agrees and asserts that fiscal decentralization promotes increased revenue mobilization, this happens because decentralization can broaden the aggregate tax base by reaching the traditional tax bases of income, consumption and wealth in ways that a central government cannot.

UNDP Primer (2005) once the assignment of expenditure responsibility has been determined, the second key question is: what revenue sources are assigned to sub-national governments? Obviously, an important determinant of the assignment of revenue sources to sub-national governments is the assignment of expenditure responsibilities, giving rise to the adage that finance should follow function. However, it should be stressed that in most countries, local governments cannot feasibly be assigned revenue sources matching their expenditure assignments. In addition, it is important to consider which revenue sources specifically make sound local government revenue sources, since some taxes are better suited for local governments while others are better left to national governments.

Bird (2010) agrees that local governments should be assigned stable sources of revenue. Local taxes should also be easy to administer and it should be easy to separate the tax base between different local jurisdictions. Bird (2010) stresses, preferable if local taxes broadly correspond to the benefits received by local residents from local government services. As a result, examples of appropriate local revenue sources include: real estate property taxes; retail sales taxes; business fees; regional personal income taxes motor vehicle fees, and; user charges.

Fjeldstad (2004) revenue sources that are often bad local taxes but good central government taxes include the value-added tax (VAT), corporate income taxes, and trade (import/export) taxes. One problem regarding the assignment of revenue sources in many countries is that while sub-national governments need to have at least some revenue discretion in order to fully benefit from fiscal decentralization reforms, central governments often seem unwilling to provide a significant degree of real revenue autonomy to sub-national governments e.g. in setting tax rates or pursuing defaulters. In addition, revenue decentralization often causes increased sub-national fiscal inequality with wealthier regions being able to collect more revenues than poorer ones. In these cases, equalization grants or other intergovernmental fiscal transfer schemes become necessary to ensure that sub-national governments have adequate revenues to fulfill their expenditure responsibilities.

Fjeldstad (2006) sub-national government tax increases are usually very small in magnitude, and are dominated by revenues from intergovernmental transfers. To the extent taxpayers perceive no linkage at all; instead they will tie service benefits more to the level of grants than to the level of local taxes. Even more likely, the benefits from increased sub-national government taxes will be so negligible that they will go unnoticed. Hence the process of making a decision to increase taxes is not a transparent one and the voters may not know who to hold accountable.

Steffensen (2010) points out that in Uganda, for example, several local taxes have been abolished recently without sufficient consideration of alternative sources. In other countries (e.g., Zambia and Tanzania), the central government strongly controls local government tax rates and the tax base, and there are numerous examples of political interference in the mobilization of local government revenues. DPWG-LGD (2009) recommends fostering the sustainable mobilization of own resources by local authorities in connection with the relevant services. Taxes that are "ideal" for local governments to mobilize are taxes that achieve a "correspondence" between the tax and the benefits from local government services, and are relatively easy to administer do not easily give "perverse incentives" to taxpayers. Revenues commonly assigned to the local level include taxes such as property taxes, user fees (for example, utility fees, fees for garbage collection or market fees), licensing and permit fees, and rent on local government property, such as buildings and equipment.

Bird (2010) states useful reference points, and practice a country should play as crucial role when considering optimal ways to dividing revenue responsibility between central and lower tiers of government. Tanzi (2000), the case for centralization is usually built around macro-economic considerations and equalization, and the case for local government taxing powers on efficiency considerations and increased accountability. The 'optimal' way to do things, however, depends on how the government weighs these considerations (Martinez-Vázques and Smoke 2010; Boex 2009; Bahl and Wallich 1992). Furthermore, the capacity to administer revenue instruments is always an important constraint to the assignment of 'taxing powers' to lower levels of government in developing countries. Hence, but not least important, local revenue sources must be politically acceptable (Bahl*et al.* 2003).

According to Okezie (2003) the primary purpose of revenue generation is to raise income for government expenditure. It is the best and quickest mode of raising revenue open to government for economic activities in order to increase the quality of life of its citizens. Tax loopholes develop when tax laws create ways for taxpayers to legally avoid paying taxes on some earnings. Akpan (1993), identified embezzlement and diversion of funds as a problem of tax collection, that result in the loss of huge sum of revenue to fraudulent staff charged with the responsibility of tax collection. Akapan (1993), reports that, non-performance of employee due to poor motivation and lack of training as a major threat to effective tax collection. Hence tax collectors should be adequately motivated in order to enhance effective tax collection.

Jamala, (2013) pointed out that another problem of tax collection is the failure by tax payers to submit their correct information for assessment. While DIE (2010), enumerates inadequate legal policies, poor system of accountability of the tax officials and lack of adequate awareness/campaign on the importance of tax, as some of the constraints of tax collection and filing. Jamala (2013) blames the ineffectiveness of local administration on lack of mission or comprehensive functional role, lack of proper structure to enhance the development revenue base, lack of qualified and experienced tax officials to handle tax assessment and collection.

Jamala (2013) distinguish four features; which level of government chooses the taxes from which sub-national governments receive revenues; which defines the tax base(s); which sets the tax rate(s), and which administers the tax(es). From the viewpoint of sub-national fiscal sovereignty, the capacity to set rates is clearly the most important of these; it is what allows sub national governments to choose the level of public services. Sub-national governments clearly cannot be allowed total discretion in the choice of the taxes they will levy; for example, they should not be allowed to levy import duties on international trade or trade between sub-national jurisdictions or to impose taxes likely to be exported in large part. Excessive sub national latitude in the choice of tax bases and in tax administration can create unacceptable complexity and administrative burdens, as well as inequities and distortions in the allocation of resources.

Alabede (2001) agreed that one of the major challenges of revenue generation in developing countries is that of compliance of the tax payers and the administration of tax. Most often there is shortage of well trained and qualified personnel which are supposed to serve as tool for revenue generation at the local government level, even the few available are not properly trained and efficient in budgetary and financial management systems. At the same time the incentives given to the revenue collectors is often low and at the end of the taxpaying process, poorly paid revenue collectors are all too easily tempted by bribes and the whole process corrupted.

2.6 Summary of Literature review.

Fiscal decentralization reform and implementation is much more than technical adjustments of division of responsibilities between different level of government, it portrays very much power and politics in the individual countries and is framed around three pillars, namely the clarity of roles and responsibilities between levels of government including who provides what service, who taxes what, and who is accountable to whom. The sub-national government requires a minimum degree of autonomy on expenditure, revenue, and staffing. The sub-national government also requires institutional building; it should generally possess the required administrative and technical capacity to effectively carry out their assignment responsibilities.

In relation to revenue generation, many countries have expenditure tasks devolved to sub- national government that substantially exceed their capacity to raise revenues from sources under their own control. Local government must therefore depend on intergovernmental transfers including revenue sharing arrangements under which they receive a share of central taxes to close the resulting fiscal gap. Therefore most countries cannot design appropriates system of sub- national taxation without simultaneously designing an appropriate system of intergovernmental transfers.

As notice, most local governments own taxation arrangements also deserve attention. They affect large numbers of people and seem countries share similar experience of revenue sources being arbitrary, coercive, corrupt and non-transparent. They are costly to administer, difficult to enforce, they carry high compliance cost and often regressive. Without tackling problem of basic design and method of collection any top down drive to increase local revenue risks being counterproductive. The main sources of own revenue for urban Municipalities are usually property taxes, business license, market fees and various user charges. They have the potential to provide substantial and reliable revenue if well administered, however according to the various literature read all have serious drawbacks.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the procedures and methods that were used to execute the study. The chapter gives details about research design; study population; sample size and selection; sampling techniques; data collection methods; procedures of data collection and analysis; and measurement of variables.

3.2 Research Design

The study adopted a cross sectional survey design. Cross sectional design was used because it enabled researcher to carry out in depth investigation in the system that allowed soliciting of detailed information in a relatively shorter period of time. Both qualitative and quantitative methods of data collection and analysis were used, combining numerical and textual information helped researcher to enrich the interpretation of finding of study because data on all variables were gathered and represented what was going on though at one point at time.

3.3 Study population

The target population was (163) where it included the Councilors (34) Finance and administration (52), Technical staff (including other heads of departments and sections) (16),Chairperson of the Divisions (4), District Public Accounts Committee in charge of Municipal (2), Office of the internal Auditor (4) Human Resource Office GMC, (2014) and prequalified contractors (52) Procurement Office GMC, (2014). The first six categories were decision making populations which was involved in the study because they participate in planning, implementation, monitoring and reporting the process of revenue generation in the Divisions under fiscal decentralization.

3.3.1 Sample Size and Selection

The successful population was 152 respondents out of the total population of 163.This included all the key respondents and other general respondents as specified in the tale below. The selection was to help the researcher to produce more reliable and detailed results because fewer errors may arise as a result during the data collection exercise. The sample size was to be determined by use of mathematical tables formulated by Krejcie& Morgan (1970).

Table 3.1: The categories of respondents that was sampled for the study

No	**Category of respondents**	**Population size**	**Sample size**	**Sampling technique**
1	Finance and administration staff in GMC	52	48	Simple random sampling
2	Chairperson of the Divisions under GMC	4	4	Purposive
3	District Public Accounts committee working with GMC	2	2	Purposive
4	Office of internal Auditor GMC	4	4	Purposive
5	Other heads of sections and department in GMC	16	14	Simple random sampling
6	Municipal Councilors	34	32	Simple random sampling
7	Prequalified contractors in Municipal council	52	48	Simple random sampling
	Total	163	152	

Source: Human Resource and Procurement Offices Gulu Municipal Council**,** Adopted from Krejcie R.V and Morgan D.W (1970) determining sample size for research activities, Education and Psychological measurement, 30,608 Publications.

3.3.2 Sampling techniques and procedures

Simple random sampling techniques adopted for finance and administrative staff, other heads of sections and departments, councilors, and pre-qualified contractors. Purposive sampling technique was adopted for chairperson of the divisions; office of the internal audits and District Public Accounts committee working with GMC. The human resource office as categorized was used as a sample frame; respondents knowledgeable about fiscal decentralization and local revenue generation in Gulu Municipal Council. The researcher used the lists of prequalified contractors register from Municipal Council authority of procurement department and used this as sampling frame from which to select the study participants, the participant was selected randomly and that gave each member of the population under study an equal chance of participation.

3.4 Data collection methods

Both qualitative and quantitative data collection methods were adopted. These methods facilitated triangulation of information to improve the overall quality of data collected.

3.4.1 Surveys

Survey methods allowed the collection of significant amounts of data in an economical and efficient manner, and they typically allowed for much larger sample sizes. Survey method did allow; standardization, ease of administration, ability to tap the "unseen, "suitability to tabulation and statistical analysis, and sensitivity to sub-group differences. Questionnaires were developed and administered to the respondents to extract information under study.

3.4.2 Interviews

Interviews were carried out because there was need to collect in-depth and detailed information. The interviews from key informants provided context to other data, and ensure accuracy.

Interviews also substituted focus groups were the potential participants were not included or were not comfortable to have public conversations with the researcher about the study questions.

3.4.3 Focus group discussions (FGDs)

Focus group Discussions (FGDs) were selected because it could create a good avenue for the respondents to clarify their views and it's non-discriminate against people who cannot read or write. The method allowed the researcher to conduct the data collection rapidly, in a less expensive way; it's was flexible and produced rich information due the fact that it had a synergistic effect, allowing in depth exploration of different points related to the topic under study. A series of open ended questions were formulated for each FGD and tape recorder was used as data collection tools. (4) FGDs was conducted in Municipal Council each represented four Divisions.

3.5 Data collection instruments

The instruments of data collection that the researcher used were questionnaires, interview guide and focus group discussion guide.

3.5.1 Questionnaire

Questionnaire were used because they were less expensive, permit anonymity, the result may be more honest responses, and tend to eliminate biasness due to the fact that the questions were phrased to different respondents (Amin, 2005)

3.5.2 Interview guide

Interview guide was semi-structured. The instrument was chosen because it involved asking predetermined questions and allowed probing and exploring of spontaneous remarks given by the respondents. The interview targeted the key informants who are knowledgeable about fiscal decentralisation and revenue generation which made the researcher to solicit in-depth information of the topic under study.

3.5.3 Focus Group Discussion guide

Focus group discussion was used because it is less expensive, can be conducted rapidly and tend to produce rich information due to the fact that they have a synergetic effect. The instrument is also flexible allowing in-depth exploration of different points related to the topic under study.

3.5.4 Pretesting

3.5.5 Validity.

The research instruments were pretested to ensure that they are accurate and can collect reliable data. Further, validity of the research instrument was checked using content validity ratio (CVR), which is the proportion of the valid items to total items.

3.5.6 Reliability

The research instrument was pretested to ensure that they can yield consistent result or data, the instrument was tested using test and retest technique. To find out if the scores on the same test by the same individual was consistent over time. Reliability was done by administering the test to a group of 5 people then after some time the same test was administered to the same group of people. The two sets of test were evaluated.

3.6 Procedure of data collection

Introductory letter from Uganda Management Institute (UMI) was presented, to the Senior Town Clerk of Gulu Municipal Council who in turn introduced the researcher to Human resources personnel. The researcher assured respondents that any information they will give was to be kept confidential and will be used for academic purposes only. The questionnaire was in English with room of interpretation in Acholi as the dominant language spoken in Gulu. A consent form was given to the respondents to sign on accepting to participate in the study and they were assured of their right to withdraw at any stage of the interview.

3.7 Data Analysis

3.7.1 Quantitative Data analysis

After collection, data was edited to check for uniformity, consistency, reliability, legibility and completeness. Responses were tallied; frequency tabulations for different responses, and total frequencies were checked against distribution of questionnaires and then coded by assigning numbers of different questions for easy analysis. After that exercise, a computer programme called Statistical Package for Social Science (SPSS) was used. In this programme, frequency tabulation and cross tabulation was worked out.

3.7.2 Qualitative data analysis

Qualitative data analysis begun during data collection; information was transcribed from the tape recorder, and entered into computer for further analysis. Data was analyzed by assigning different categories to different information and coding. Content analysis was carried out by cross checking questions in the topic guide to ensure validity and authenticity of the answers given. All information was analyzed according to the set research objectives and other relevant information captured.

3.8 Measurability of variability

The variable in the questionnaire was measured using a Likert scale. The scale of 1-5 were to be used to help the researcher measure the extent to which research objective are achieved in the study, according to the respondent's perceptions, where by 1 represented strongly agree, 2 represented agree, 3 was undecided, 4 Disagree, and 5 strongly disagree. These scores were totaled to measure respondent's attitudes against or for topic under study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter gives the descriptive background variables, data analysis, presentation and interpretation of study findings in line with the study objectives and research hypothesis from the study on how fiscal decentralisation contribute to local revenue generation in Municipal Council in Uganda using a case study of Gulu Municipal Council.

4.2 The response rate

The study consisted of different respondents, with different response rate. 80 questionnaires were distributed, and 77 were filled and received back, giving a response rate of 96%, 20 key informants were interviewed against at a target of 22, giving a response rate of 90% and out of 52 targeted four FGDs, 45 respondents in four FGDs were conducted, giving a response rate of 90 %.

Not all the targeted respondents were able to respond to the questionnaires. Out of the 152 targeted respondents, responses were solicited from 132 respondents implying a response rate of 87%, meaning that 13% of the targeted respondents did not return the questionnaires or appear to participate. However, the response was a representative to arrive at reliable and valid conclusion because percentage response was about 70% as illustrated by (Amin, 2005).

Table 4.1: Specific response rates per category.

Category of respondents.	**Sample size**	**Actual responses**	**Response rate**
Finance and administration staff in GMC.	48	38	79%
Chairperson of the Divisions under GMC.	4	4	100%
District Public Accounts committee working with GMC	2	2	100%
Office of internal Auditor GMC.	4	4	100%
Other heads of sections and department in GMC	14	12	86%
Municipal Councilors.	32	27	84%
Prequalified contractors in Municipal council.	48	45	94%
Total	152	132	87%

Source: Field data.

Result in table 4.1 shows that different categories of respondents were involved in the study and in proportionate percentages. However, not all the targeted respondents in the sample gave data. Out of 152 targeted respondents, only 132 respondents were accessed making a percentage of 87% response rates. This was taken to be a good and reasonable response rate for the findings to be realisable and adequate for a valid research because response rate is more than 70% (Amin, 2005)

4.3 Background Characteristics of respondents.

This included the level of education, position held and duration of service in the position mentioned. This information was presumed by the study to be important because such aspects

might influence the opinion of the respondents on how fiscal decentralisation contribute to local revenue generation in Gulu Municipal Council (GMC).

4.3.1 The education level of respondents

The educational level of respondents was another variable considered for the study. This was intended to find out whether the sample was selected in terms of education level. This could help the researcher find out the degree of understanding of the respondents to be utilised in the sample selected. The elicited respondents are presented in table 5,

Table 2.2: Education levels of the respondents.

	Level of Education	Frequency	Percent
	Primary	1	1.3
	Secondary	11	14.3
	Tertiary	20	26.0
	University	33	42.9
	Others	8	10.4
	Total	73	94.8
	No-responses	4	5.2
Total		77	100.0

Source: Primary data.

From the table 4.2 the study reveals that the majority of the respondents with 42.9% were of University level of education, followed by 26.0% who were of tertiary level of education, 14.3% of Secondary level, 10.4% from Other levels of education and 1.3% of Primary level of education. However 5.2% of the supposed respondents did not fill the questionnaires. This shows that all the respondents for the study were knowledgeable enough to interpret the questions put to them and at the same time to give reliable information.

4.3.2 Positions held by respondents

The researcher sought to know the management positions held by the respondents in GMC and below are the findings.

Table 4.3: Positions held by respondents

	Management position	Frequency	Percent
	Policy Formation	17	22.1
	Making Decision	11	14.3
	Implementation	41	53.2
	Others	4	5.2
	Total	73	94.8
	Non-responses	4	5.2
Total		77	100.0

Source: Primary Source Data.

From the table 4.3 above, the study reveals that majority of the respondents with 53.2 % were the implementers, followed by policy formulators, 22.1%, decision makers, 14.3% and others at 5.2%. The number of non-responses was 5.2%. Looking at the positions held, one can easily tell that the sample was the representative enough for the respondents to give balance information.

4.3.3 Duration of service in the above position.

The researcher categorized the duration of service in the above position held by the respondents, those who have served between less than one year, one to two years, three to four years, five to ten years and more than ten years. The intension to find out to the duration of service was to know whether the respondents were experienced enough to give accurate and reliable information about fiscal decentralisation and local revenue generation. The results are presented in the figure 3 below

Duration of service in local government.

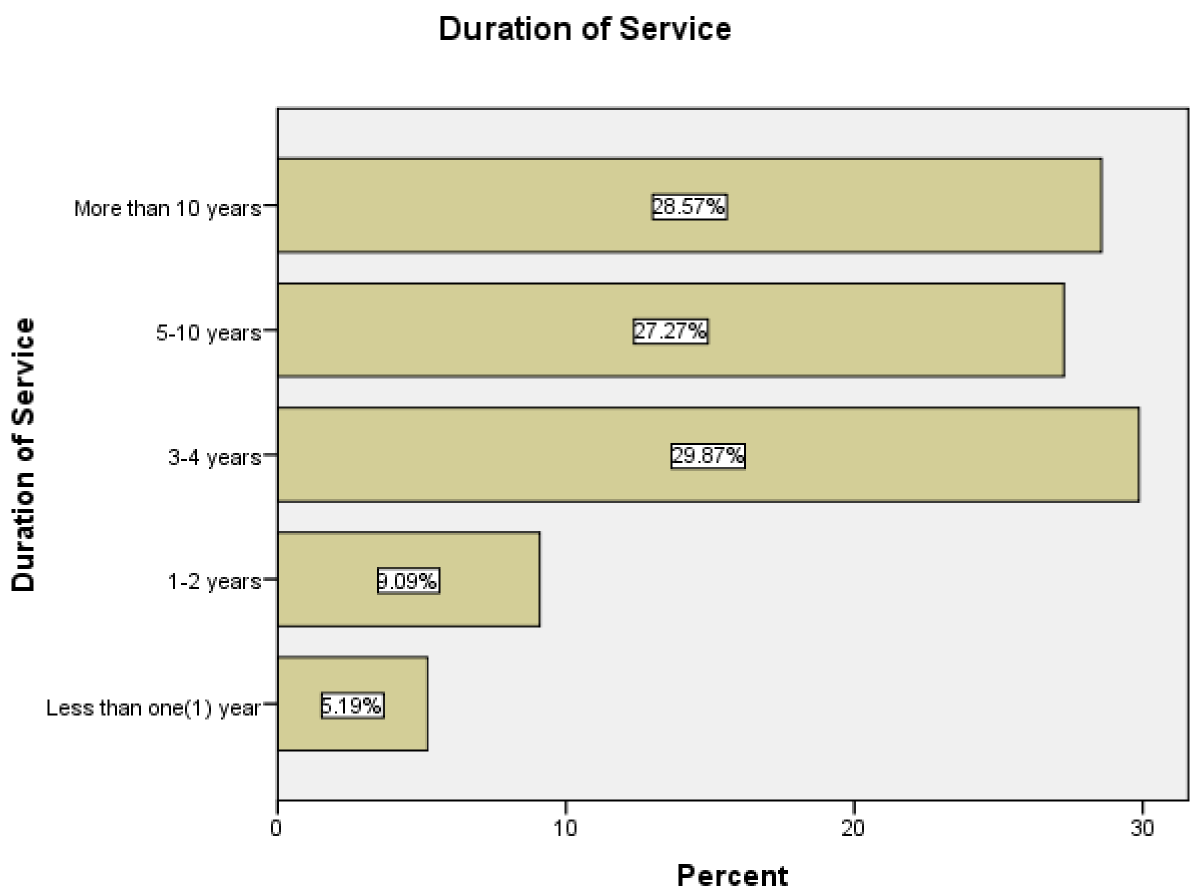

Figure 2.1: Duration of service in the above position

The study reveal that 29.87% of the respondents have worked for three to four years; followed by 28.57% of respondents worked for more than ten years, 27.27% of respondents worked for five to ten years, 9.09% of respondents worked for one to two years, and 5.19% respondent worked for less than one year. This analysis shows that majority of respondents were taken to be experienced about the subject matter which was under investigation.

4.4 Empirical findings of the contribution of fiscal decentralisation to revenue generation in Gulu Municipal Council (GMC).

The findings are presented objective by objective using descriptive statistics of frequencies and inferential statistics of correlations and linear regression analysis. All the variables were measured on a five point Likert scale ranging from 1- Strongly Agree (SA), 2- Agree (A), 3- Un-Decided (UD), 4- Disagree (D) and 5- Strongly Disagree (SD). In this study Strongly Agree and Agree were taken to mean Agree and Strongly Disagree and Disagree were taken to mean Disagree.

4.4.1 Findings on local revenue generation.

Local revenue generation was measured on the questionnaire using nine statements, where respondents were required to show their level of agreement or disagreement. Below are the findings.

Table 4.4: Showing respondents' views on local revenue generation.

Statements measuring local revenue generation.	SA	A	UD	D	SD
There is a revenue enhancement plan to increase revenue collection in Gulu Municipal Council (GMC).	42.9	51.9	1.3	2.6	1.3
Revenue enhancement plan is properly followed to increase revenue collection in Gulu Municipal Council (GMC).	15.6	54.5	7.8	18.2	3.9
There is registration of revenue sources to increase tax compliance in GMC.	28.6	62.3	2.6	2.6	3.9
There is a revenue data base system to increase revenue collection in GMC.	15.6	67.5	6.5	5.2	5.2
There is a revenue assessment to increase revenue sources in GMC.	15.6	71.4	3.9	6.5	2.6

There is issuing of demand note to increase tax compliance in GMC.	33.3	62.7	2.7	1.3	
There is enforcement of revenue collection to increase tax compliance in GMC.	26.0	66.2	1.3	3.9	2.6
There is revenue review meeting to increase revenue collection GMC.	13.0	67.5	6.5	7.8	5.2
There is annual revenue review meetings and reporting to increase tax bases in GMC.	26.0	59.7	10.4	3.9	

Source: Primary data

Table 4.4 shows that the majority of the respondents were in agreement with the nine statements used to measure local revenue generation; 94.8% were in agreement that there is a revenue enhancement plan to increase revenue collection in Gulu Municipal Council (GMC). 70.1% were in agreement that revenue enhancement plan is properly followed to increase revenue collection in Gulu Municipal Council (GMC), 90.9% were in agreement that there is registration of revenue sources to increase tax compliance in GMC, and 83.1% were in agreement that there is a revenue data base system to increase revenue collection in GMC.

An additional 87.0% were in agreement that there is a revenue assessment to increase revenue sources in GMC. While 96.0% were in agreement that there is issuing of demand note to increase tax compliance in GMC, 92.2% were in agreement that there is enforcement of revenue collection to increase tax compliance in GMC. 80.5% were in agreement that there is revenue review meeting to increase revenue collection GMC, and 85.7% were in agreement that there is annual revenue review meetings and reporting to increase tax bases in GMC.

Majority of the respondents were in agreement of the nine statements used to measure local revenue generation because the central government by act of parliament enacted bi-law for revenue enhancement plan. In this enhancement plan strict rules, guidelines and regulations for adoption and implementation of revenue generation processes are followed by the Municipal Council and the four Divisions. The process of payment of actual receipts mostly is through the bank, with the exceptional few case of non-payment through the bank, there are also the independent bodies of the Councilors who work with the enforcement officers and the treasurers of the Divisions. The all teams' effort is to make sure revenue collection processes are followed to increase tax compliance and to increase the amount of revenue collection planned. The Municipal also has adopted tendering of revenue collection to the contractors and in dealing with the contractors they do follow procedures of contract award, rules and regulation to achieve the common objective of improved local revenue collection.

4.4.2 To assess the contribution of intergovernmental transfer systems to revenue generation in Gulu Municipal Council.

In order to understand the attitudes and perceptions of the respondents on intergovernmental transfer systems, and examine how it contributes to revenue generation in Gulu Municipal Council, respondents were asked to give their views on thirteen statements. Below are the findings.

Table 4.5: Showing views of respondents on Intergovernmental transfer systems.

Statements measuring Intergovernmental transfer systems	**SA**	**A**	**UD**	**D**	**SD**

Municipal council participates in the design of methods of conditional grants.	19.7	51.3	6.6	18.4	3.9
The guidelines for utilizing conditional grants are simple to understand by the implementers in municipal council.	29.9	55.6	3.9	9.1	1.3
The procedures for utilizing unconditional grants are clear to municipal council	22.7	61.3	2.7	12.0	1.3
The procedures for utilizing the conditional grants are transparent to municipal council.	17.1	57.9	11.8	11.8	1.3
Conditional grants give incentives to municipal council to increase revenue collection.	6.5	58.4	13.0	20.8	1.3
Unconditional grants gives incentive to municipal to increase revenue collection.	9.2	47.4	11.8	28.9	2.6
Conditional grants encourage municipal council to collect their own revenue.	23.7	52.6	7.9	13.2	2.6
Unconditional grant encourages an increase collection of municipal own revenues.	18.4	48.7	7.9	22.4	2.6
Conditional grants enable proper planning of revenue generation to municipal council.	24.7	54.5	7.8	11.7	1.3
Unconditional grants enable efficient local revenue generation in municipal council.	6.5	44.2	15.6	32.5	1.3
Conditional grants enable effective local revenue generation in municipal council.	10.5	48.7	11.8	26.3	2.6
Conditional grants increases revenue bases	21.1	46.1	18.4	13.2	1.3
Conditional grant increases tax compliance in municipal council.	7.9	44.7	19.7	22.4	5.3

Source: Primary data

Table 4.5 shows that the majority of the respondents with 71.0% were in agreement that Municipal council participates in the design of methods of conditional grants, this shows there is participatory design of method of grant because of the use of guide line. As the findings further reveals that 85.5 % were in agreement that the guidelines for utilizing conditional grants are simple to understand by the implementers in municipal council, 84.0% were in agreement that the procedures for utilizing unconditional grants are clear to municipal council and 75.0% were in agreement that the procedures for utilizing the conditional grants are transparent to municipal council.

An additional 64.9 % were in agreement that municipal council participates in the design of methods of conditional grants, 56.6% were in agreement that the guidelines for utilizing conditional grants are simple to understand by the implementers in municipal council. , 76.3% were in agreement that the procedures for utilizing unconditional grants are clear to municipal council, 67.1% were in agreement that the procedures for utilizing the conditional grants are transparent to municipal council, and 79.2% were in agreement that conditional grants give incentives to municipal council to increase revenue collection.

Still in table 9 50.7% were in agreement that unconditional grants enable efficient local revenue generation in municipal council, 59.2% were in agreement that conditional grants enable effective local revenue generation in municipal council , 67.2% were in agreement that conditional grants increases revenue bases, and 52.6% agreed that conditional grant increases tax compliance in municipal council. They were in agreement because some expense assignments of the services under grants transfers are linked to tax payers and community benefit. This is confirmed when 75.0% were in agreement that conditional grants give incentives to municipal council to increase revenue collection. It can happen so when condition or unconditional grants are use or directed towards other development strategies like infrastructural development e.g. opening roads, market, schools, hospitals, health centre and lights/electricity which boost some commercial business and farming to give rise to new revenue sources, revenue bases and increase revenue collection and tax compliance since taxes an linked to services in Gulu Municipal Council.

Hypothesis testing.

The researcher proceeded to statistically assess the extent to which intergovernmental transfer systems contribute to revenue generation in Gulu Municipal Council.

Hypothesis stated**, ‘’ *Intergovernmental transfer systems have no contribution to local revenue generation in Municipal Councils in Uganda.”***

The hypothesis was tested at a 95% level of significance (two-tailed) using Pearson’s product-moment correlation coefficient, which measured the degree and direction between intergovernmental transfer systems and revenue generation in Gulu Municipal Council. The results are presented in the table below.

Table 4.6: Intergovernmental transfer systems and revenue generation in Gulu Municipal Council

Study Variables		Intergovernmental Transfers Systems	Revenue Generation
Intergovernmental Transfers Systems	Pearson Correlation	1	.350*
	Sig. (2-tailed)		.004
	N	67	65
Revenue Generation	Pearson Correlation	.350*	1
	Sig. (2-tailed)	.004	
	N	65	75

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

Table 4.6 shows that there is a weak positive relationship between intergovernmental transfers systems and revenue generation in Gulu Municipal Council, ($r=0.350$, $p=0.004$). The relationship is statistically significant at 95% confidence level since p-value<0.025.

The above finding is in line with one of the key informant, the chief finance officer Municipal, who said*; ''most of the release of transfers inform of conditional grants are affected by bureaucracy, the process takes so long for the funds to be released for particular projects which may be of good service to tax payers. And not only delays the actual grants receipts are always less than planned, and the projected expenses for service provision are not met, always such moneys/ transfers are returned back to central government without creating impact in the community in Gulu Municipal Council and the four divisions.''*

Regression analysis was further used to establish the extent to which intergovernmental transfer systems contribute to local revenue generation in Gulu Municipal Council. The coefficient of determination was used and the results are presented in the table below.

Table 4.7: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.350	.122	.109	.56458

Table 4.7 shows that the coefficient of determination (Adjusted R Square) is 0.109. This implies that intergovernmental transfers systems accounts for 10.9% of the variance in revenue generation in Gulu Municipal Council.

To assess the overall significance of the model, analysis of variables (ANOVA) was done and the results presented in the table below.

Table 4.8 Analysis of variables (ANOVA).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.802	1	2.802	8.792	.004[a]
	Residual	20.081	63	.319		
	Total	22.884	64			

a. Predictors: (Constant), intergovernmental transfer systems

b. Dependent variable: revenue generation

In determining whether a model is significant, the decision rule is that the calculated *p*-value (level of significance) must be less than or equal to 0.05. Since the calculated *p*-value of 0.004 is less than 0.05, the model was found to be statistically significant ($F=8.792$, $df = 1$, $p<0.05$ $(=0.004)$). This means that intergovernmental transfer systems have a significant contribution to local revenue generation in Gulu Municipal Council.

The above finding is in line with one of the key informant, the Treasurer who said*;'' in flexible rules and guideline of conditional grants which are used to fund or run activities are of other services but not the one which can give birth to revenue sources or bases to increase revenue collection. He also commented on political interference of the higher councilors in decision making at the influence of the central government which always hamper programs and projects in the Municipal. This retards conditional and unconditional grants, to fetch its real benefit intended for community to get services to motivate them to pay tax willingly to increase the amount of tax collection and tax compliance. In view of his statement GMC always do not reach the target of planned local revenue collection in the actual collection and this shortfall in local revenue collection hamper development program which could give birth to new sources of collection to increase annual amount of revenue collection in GMC.''*

4.3.2 To assess the contribution of expenditure assignments to revenue generation in Gulu Municipal Council.

In order to understand the attitudes and perceptions of the respondents on expenditure assignments, and examine how they contribute to revenue generation in Gulu Municipal Council, respondents were asked to give their views on sixteen statements. Below are the findings.

Table 4.9: Showing views of respondents on expenditure assignments.

Statements measuring expenditure assignments	**SA**	**A**	**UD**	**D**	**SD**
The assigned fiscal responsibilities procedures are clear to implementers	13.0	70.1	2.6	14.3	
The assigned fiscal responsibilities are simple to understand by the implementers.	13.0	66.2	3.9	16.9	
There are sufficient human resources to collect revenue.	7.8	35.1	6.5	44.2	6.5
Gulu municipal council undertakes training of staff that collects revenue.	6.6	53.9	7.9	26.3	5.3
Gulu Municipal Council has full autonomy to establish staff structure to implement revenue generation.	18.2	46.8	9.1	22.1	3.9
Municipal Council has sufficient finance to remunerate staff implementing revenue collection.	10.5	31.6	9.2	40.8	7.9
GMC carry out budget planning.	49.4	49.4	1.3		
There is certainty in revenue collection due to budget planning in GMC.	12.3	56.2	11.0	16.4	4.1
There is efficiency in revenue collection due to clear responsibilities in revenue collection processes.	6.6	47.4	10.5	32.9	2.6
GMC has simple administrative processes of collecting revenue.	16.9	66.2	3.9	11.7	1.3
GMC has clear administrative processes to increase amount of revenue collection.	18.2	55.8	2.6	20.8	2.6
An assigned fiscal responsibility leads to increase in tax bases in GMC.	7.9	55.5	9.2	23.7	3.9
GMC has sufficient funds to finance the fiscal responsibilities to increase revenue collection.	5.2	32.5	13.0	44.2	5.2
The assigned fiscal responsibilities lead to efficiency and effectiveness in revenue collection.	4.2	55.8	11.7	22.1	5.2
The assigned fiscal responsibility leads to improved tax compliance by the tax payers.	9.1	53.4	13.0	20.8	3.9

Source: Primary data

Findings in table 4.9 shows that majority of the respondents were in agreement on twelve of the sixteen statements used to measure expenditure assignments; with 83.1% in agreement that the assigned fiscal responsibilities procedures are clear to implementers, 79.2% were in agreement that the assigned fiscal responsibilities are simple to understand by the implementers, 60.5% were in agreement that there are sufficient human resources to collect revenue, and 65.0% were in agreement that Gulu Municipal Council undertakes training of staff that collects revenue.

Additional 98.8% respondents were in agreement that Gulu Municipal Council has full autonomy to establish staff structure to implement revenue generation; 68.5% were in agreement that Gulu Municipal Council has sufficient finance to remunerate staff implementing revenue collection, 54.0% were in agreement that GMC carry out budget planning, and 83.1% were in agreement that there is certainty in revenue collection due to budget planning in GMC.

The findings further reveal that 74.0% were in agreement that there is efficiency in revenue collection due to clear responsibilities in revenue collection processes; 63.4% agreed that GMC has simple administrative processes of collecting revenue, 60.1% were in agreement that GMC has clear administrative processes to increase amount of revenue collection, and 62.5% were in agreement that an assigned fiscal responsibility leads to increase in tax bases in GMC.

Majority of the respondents were in agreement because assignment of expenditure has been clear as guided by the laws and Acts in line with local government spending. The Procurement and Disposal of Public Asset Act 2001 which guides any procurement or spending on supplies, works and services, Local Government Act, Local Government accounting and Financial Act, the Constitution of Uganda 1995 and bi-law within the Gulu Municipal Council.

However, the findings revealed that 42.9% of the respondents disagreed that GMC has sufficient funds to finance the fiscal responsibilities to increase revenue collection, 42.1% were in disagreement that the assigned fiscal responsibilities lead to efficiency and effectiveness in revenue collection, and 37.7% further disagreed that the assigned fiscal responsibility leads to improved tax compliance by the tax payers.

The above disagreement is line with the view of one of the key respondent who said*: ''the rules, guideline, Laws, Acts, and Constitutions are there alright in place to guide expenditure and other local government activities, but the assignments itself is not appropriate to generate local revenue because GMC has not been given proper mandate to determine what is required of the Municipality. This is because GMC are not independent to determine the various sources of revenue as they are always interrupted by political interference.*

They are not independent to carry out recruitment and selection of staff according to their need, because it is done by District service commission in commend from Central Government. The respondents quoted the assignment of revenue collection to the Division treasures as an additional assignments but not the primary assignment. This gives them fatigue, and since revenue collection is not the primary assignments treasurers do. They put little attention to the nutty-gritty involve in revenue collection processes leading to revenue shortfalls. As well, the treasurers demand salary increase which has never been affected. All this confirm how expenditure assignments can affect negatively revenue collection in GMC.''

Hypothesis testing.

The researcher proceeded to statistically examine the extent to which expenditure assignments contribute to revenue generation in Gulu Municipal Council.

Hypothesis stated***, ''expenditure assignments have a positive contribution to revenue generation in Municipal Councils in Uganda.''***

The hypothesis was tested at a 95% level of significance (two-tailed) using Pearson's product-moment correlation coefficient, which measured the degree and direction of expenditure assignments and revenue generation in Gulu Municipal Council. The results are presented in the table below.

Table 4.10: Correlation matrix for expenditure assignments and local revenue generation in Gulu Municipal Council

Study Variables		Expenditure Assignments	Revenue Generation
Expenditure assignments	Pearson Correlation	1	.535*
	Sig. (2-tailed)		.000
	N	70	69
Revenue generation	Pearson Correlation	.535*	1
	Sig. (2-tailed)	.000	
	N	69	75

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

Table 4.10 shows that there is a moderate positive relationship between expenditure assignments and revenue generation in Gulu Municipal Council, ($r=0.535$, $p=0.000$). The relationship is statistically significant at 95% confidence level since $p\text{-value}<0.025$.

The research finding is correspondent with one of the key respondent (Assistant Town Clerk) who stated that; *''Municipal having limited mandate to decide and determine what is required of them in assigning responsibilities. He said many times Municipal has suggested expanding on revenue base but because there has been public outcry, the government has many times suspended the implementation of such taxes.*

Another key respondent also commented of deliberate political interference of the abolition of Graduated Tax, replaced by Central Government Local service taxes and compensation taxes which drastically stop and has hampered revenue collection respectively. Hence this illustrates how limited are the mandate of the Municipality is to establish various sources of taxes and determine what is required of them as autonomous body with limited power to increase revenue collection.''

Regression analysis was further used to establish the extent to which expenditure assignments contribute to revenue generation in Gulu Municipal Council. The coefficient of determination was used and the results are presented in the table below.

Table 4.11: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535	.287	.276	.51329

Table 4.11 shows that the coefficient of determination (Adjusted R Square) is 0.276. This implies that expenditure assignments accounts for 27.6% of the variance in revenue generation in Gulu Municipal Council.

To assess the overall significance of the model, analysis of variables (ANOVA) was done and the results presented in the table below.

Table 4.12: Analysis of Variables (ANOVA).

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.092	1	7.092	26.920	.000[a]
	Residual	17.652	67	.263		
	Total	24.745	68			

a. Predictors: (Constant), expenditure assignments.

b. Dependent variable: revenue generation.

In determining whether a model is significant, the decision rule is that the calculated *p*-value (level of significance) must be less than or equal to 0.05. Since the calculated *p*-value of 0.004 is less than 0.05, the model was found to be statistically significant (F=7.092, df = 1, p<0.05 (=0.000)). This means that Expenditure Assignments have a significant contribution to revenue generation in Gulu Municipal Council.

The research finding is in line with one of the key informants (Expenditure Accountant) who said that*; ''the assignment of other expenditure which is of central government influence do not sometimes match with community needs to bring rise to taxable revenue sources; for example NAADs projects, many of the projects failed and did not empower the community economically to strengthen them to pay taxes and this contributed to gap and revenue shortfalls annually.''*

4.4.4 To assess the contribution of revenue assignments to revenue generation in Gulu Municipal Council.

In order to understand the attitudes and perceptions of the respondents on revenue assignments, and examine how it affects revenue generation in Gulu Municipal Council, respondents were asked to give their views on fourteen statements. Below are the findings.

Table 4.13: Showing views of respondents on revenue assignments.

Statements measuring revenue assignment	SA	A	UD	D	SD
The non tax revenue is the major sources of revenue assigned to GMC by Central Government.	40.3	57.1	1.3	1.3	
Central government assigns adequate revenue sources to the municipal council.	20.8	42.9	6.5	26.0	3.9
Collection of assigned revenue is cost effective to municipal council.	7.8	54.5	9.1	26.0	2.6
The assigned revenue is adequate to meet the municipal services provision.	5.5	43.2	9.5	36.5	5.4
Gulu Municipal council is effective in collecting revenues assigned to by the central government.	7.8	42.9	10.4	35.1	3.9
Municipal are efficient collectors of assigned revenues.	7.8	50.6	9.1	27.3	5.2
Assigned revenue creates a good environment for private investment in GMC.	10.5	48.7	10.5	25.0	5.3
Assigned revenues creates infrastructural developmental in municipal council.	10.4	58.4	9.1	18.2	3.9
Revenue assigned makes municipal council independent of central government transfers.	10.4	24.7	9.1	46.8	9.1

Revenues assigned improve service delivery in municipal council.	14.3	68.8	3.9	9.1	3.9
Service deliveries improve tax compliance in municipal council.	6.6	59.2	6.6	25.0	2.6
Tax compliance increases the amount of revenue collection.	7.9	68.4	5.3	15.8	2.6
The assigned revenue to municipal council is simple to assess.	2.6	55.6	7.8	28.6	5.2
Revenue assigned increases the amount of revenue collection in municipal council.	13.0	61.0	14.3	7.8	3.9

Source: Primary data

In table 4.13 above, respondent's view of relationship between revenue assignment and local revenue generation are presented. Table 12 shows that the majority of the respondents were in agreement on all the thirteen out of fourteen statements used to measure revenue assignments. with 97.4%% in agreement that the non-tax revenue is the major source revenue assigned to GMC by Central Government; and this explains why 63.7% were in agreement that Central government assigns adequate revenue sources to the municipal council, 62.3% were in agreement that Collection of assigned revenue is cost effective to municipal council, and 50.7% were in agreement that the assigned revenue is adequate to meet the municipal services provision.

Additional 58.4% of the respondents were in agreement that Gulu Municipal Council is effective in collecting revenues assigned to by the central government, 59.2% were in agreement that Municipal are efficient collectors of assigned revenues, 68.8% were in agreement that assigned revenue creates a good environment for private investment in GMC, and 83.1% were in agreement that assigned revenue creates infrastructural developmental in municipal council.

The findings further reveal that 65.8% of the respondents were in agreement that revenue assigned makes municipal council independent of central government transfers, 76.3% were in agreement that revenue assigned improve service delivery in municipal council, 58.2% were in agreement that service deliveries improve tax compliance in municipal council, and 74.0% were in agreement that tax compliance increases the amount of revenue collection.

The research finding is in line with one of the FGD, the group reported that. *‘’fiscal decentralization has made access to services such as education, health, and access to road easy. This is fairly in support that services are linked to taxes for the benefit of the community and these bring rise to increase in tax compliance and increase in revenue collection. The FGD illustrate that such initiative give opportunities towards infrastructural development like roads. When roads are created business can shoot which can aid revenue collection in the Municipality of Gulu. They stated that, because of revenue enhance plan initiative brought under fiscal decentralization in line with revenue assignment, technical people in Division concern with revenue collection can properly plan since they know how much revenue is generated for a particular Division’’*

However, the research finding from one of the key informant further revealed disagreement he stated that. *‘’with revenue assignment collection system and its effectiveness and efficiency to boost revenue collection, to him revenue collection has not been cost effective to municipal council, and he stated that the revenue assigned has made municipal council instead more independent on central government transfers, Municipal Council has never met the set target objective of the amount of revenue collections for many years. This partly explains the reason why there has been continuous and increasing dependence on of central transfers by the municipal council.’’*

This finding correspond with a report from one of the FGDs: the group reported that. *‘’revenue collections are in two approaches namely; tendering which involve the bidding for contract, evaluation meeting and award of contract but in these process the Municipal and Divisions experience more cost than the benefit from tendering. Because the revenue systems have inadequate sensitization to the tax payers and because of inadequate information, some people manipulate the system and do illegal business which hinder revenue collection and hence reduce on the amount of revenue collection. Still in the same weakness of the revenue system assigned, the tenders which are the revenue collectors always allay with the taxpayers and misappropriate revenue amount report which gives rise to illegal payment leading to corruption and shortfall in revenue collection. The shortfall in revenue collection annually causes GMC to rely on central transfer, and unable to finance sufficiently the some of the development programmes and projects.’’*

Hypothesis testing.

The researcher proceeded to statistically examine the extent to which revenue assignments contribute to revenue generation in Gulu Municipal Council.

Hypothesis stated, ‘’Revenue assignments affect revenue generation in Municipal Councils in Uganda.’’

The hypothesis was tested at 95% level of significance (two-tailed) using Pearson’s product-moment correlation coefficient, which measured the degree and direction between revenue assignments and revenue generation in Gulu Municipal Council. The results are presented in the table below.

Table 4.14: Correlation matrix for revenue assignments and revenue generation in Gulu Municipal Council

Study variables		Revenue assignments	Revenue generation
Revenue assignments	Pearson correlation	1	.574*
	Sig. (2-tailed)		.000
	N	71	69
Revenue generation	Pearson correlation	.574*	1
	Sig. (2-tailed)	.000	
	N	69	75

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

Table 16 shows that there is a moderate positive relationship between revenue assignments and revenue generation in Gulu Municipal Council, (r=0.574, p=0.000). The relationship is statistically significant at 95% confidence level since p-value<0.025.

This research finding is in line with one of the FGDs where they reported that. *"our revenue system is complex since most tax payers do not know the different types of taxes levied to them, they feel that tax burden is too much on their small business so they try to avoid it, hence reduce the amount of revenue collection. The group also added and presented that the coercive way of revenue collection where the tax payers experience harsh communication and they quoted when asking for trading license, property tax and ground rent. Makes the tax payers hide and avoid paying taxes which hinder revenue collection. If proper procedures and systems are in place it could improve revenue collection annually."*

Regression analysis was further used to establish the extent to which revenue assignments contribute to revenue generation in Gulu Municipal Council. The coefficient of determination was used and the results are presented in the table below.

Table 4.15: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.574	.330	.320	.48951

Table 4.15 shows that the coefficient of determination (Adjusted R square) is 0.330. This implies that revenue assignments accounts for 32.0% of the variance in revenue generation in Gulu Municipal Council.

To assess the overall significance of the model, analysis of variables (ANOVA) was done and the results presented in the table below.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.902	1	7.902	32.978	.000[a]
	Residual	16.055	67	.240		
	Total	23.957	68			

a. Predictors: (Constant), revenue assignments

b. Dependent variable: revenue generation

In determining whether a model is significant, the decision rule is that the calculated *p*-value (level of significance) must be less than or equal to 0.05. Since the calculated *p*-value of 0.000 is less than 0.05, the model was found to be statistically significant (F=7.902, df = 1, $p<0.05$ (=0.000)). This means that revenue assignments have a significant effect on revenue generation in Gulu Municipal Council.

The report finding is in line with another FGD who presented that. *''the assigned revenue system lack proper sensitization of the importance of paying taxes and different types of taxes to be paid* *to the community, they also commented that the assigned tax systems are also very complex for the community to understand this entire drawback in the system causes reduction in revenue collection amount where it leads to annual reduction and shortfall in revenue collection''*

Conclusion

Research findings established that intergovernmental transfer systems have a positive statistical significant relationship with revenue generation in Gulu Municipal Council. The findings further affirmed that intergovernmental transfer systems have a significant contribution to local revenue generation in Gulu Municipal Council. Therefore the hypothesis stated that, intergovernmental transfers have no contribution to revenue generation in Municipal Councils in Uganda was rejected. The findings also established that expenditure assignments have a positive statistically significant relationship with revenue generation in Gulu Municipal Council.

The findings further affirmed that expenditure assignments have a significant contribution to local revenue generation in Gulu Municipal Council. Therefore the hypothesis stated that; expenditure assignments have a contribution to local revenue generation in Municipal Councils in Uganda was accepted.

Research findings further established that revenue assignments have a positive statistically significant relationship with revenue generation in Gulu Municipal Council. The findings further affirmed that revenue assignments have a significant contribution to revenue generation in Gulu Municipal Council. Therefore the hypothesis stated that; revenue assignments affect revenue generation in Municipal Councils in Uganda was accepted.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, discussion, conclusions and recommendations got from the research findings guided by the research general objective and specific objectives. The specific objectives were as follows: To examine the effect of intergovernmental transfer systems on revenue generation in Gulu Municipal Council, to examine the effect of expenditure assignments on revenue generation in Gulu Municipal Council and to examine the effect of revenue assignment on revenue generation in Gulu Municipal Council.

5.2. Summary of the findings

The main objective of the study was to assess the contribution of fiscal decentralization to local revenue generation. There were three independent variables, namely; intergovernmental transfer systems, expenditure assignments and revenue assignments while revenue generation was the dependent variable. Data was analyzed by use of frequencies, Pearson's product moment correlation coefficients and regression analysis and findings from the study indicated as summarized objective by objective.

5.2.1 The contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council;

There was a weak positive relationship between intergovernmental transfer systems and revenue generation in Gulu Municipal Council. The p-value for intergovernmental transfer systems was less than 0.025 (=0.004), given r=0.350, the researcher therefore accepted the relationship as statistically significant. Further findings from regression analysis affirmed that intergovernmental transfer systems have a significant contribution to revenue generation in Gulu Municipal Council. The research findings of (F=8.792, df = 1, $p<0.05$ (=0.004)), implies that improvement in intergovernmental transfer systems positively contribution to local revenue generation in Gulu Municipal Council. Similarly, decline in intergovernmental transfer systems will negatively contribute to local revenue generation in Gulu Municipal Council.

As shown with coefficient of determination (Adjusted R Square) at 0.109. This implied that intergovernmental transfers systems accounts for 10.9% of the variance in revenue generation in Gulu Municipal Council.

5.2.2. The contribution of expenditure assignments to local revenue generation in Gulu Municipal Council;

There was a moderate positive relationship between expenditure assignments and revenue generation in Gulu Municipal Council. The p-value for expenditure assignments was less than 0.025 (=0.000), given r=0.535, the researcher therefore accepted the relationship as statistically significant. Further findings from regression analysis affirmed that expenditure assignments have a significant contribution to local revenue generation in Gulu Municipal Council with (F=7.092,df = 1, $p<0.05$ (=0.000)).

The findings affirmed by the coefficient of determination (Adjusted R Square) which is 0.276 and this implies that expenditure assignments accounts for 27.6% of the variance in local revenue generation in Gulu Municipal Council. The level of significance calculated where p-value of 0.004

and is less than 0.05. This means that expenditure assignments have a significant contribution to local revenue generation in Gulu Municipal Council.

The assignment of function to sub national government by the central government under fiscal decentralization has not been done efficiently. This is because the Municipality where not given proper independency to determined what is required for the Municipal Council.

5.2.3The contribution of revenue assignments to local revenue generation in Gulu Municipal Council;

There was a moderate positive relationship between revenue assignments and revenue generation in Gulu Municipal Council. The p-value for intergovernmental transfer systems was less than 0.025 (=0.000), given r=0.574, the researcher therefore accepted the relationship as statistically significant. Further findings from regression analysis affirmed that revenue assignments have a significant contribution to local revenue generation in Gulu Municipal Council significant with (F=7.902,df = 1, $p<0.05$ (=0.000)). This implies that improvement in revenue assignments positively contribute to local revenue generation in Gulu Municipal Council. Similarly, decline in revenue assignments negatively contribute to local revenue generation in Gulu Municipal Council.

Research findings affirmed that coefficient of determination is (Adjusted R square) of 0.330, implying that revenue assignments accounts for 32.0% of the variance in revenue generation. This means that revenue assignments have a significant effect on revenue generation in Gulu Municipal Council.

Since the study found out that assignments of revenue has contributed something little on local revenue generation to Municipality. This implies that improvement in revenue assignments positively contributes to local revenue generation in Gulu Municipal Council. Similarly, decline in revenue assignments negatively contributes to local revenue generation in Gulu Municipal Council.

5.3 Discussion of the findings

In this section the researchers discusses the findings of the study according to the study objectives.

5.3.1 The contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council;

Majority of the respondents were in agreement that grants give incentives to municipal council to increase revenue in various ways, the research finding was in agreement with that of Odd-HelgeFjeldstad & bird (2013), who found out that intergovernmental transfer programmes serves multiple, often-interrelated purposes; they help to cover sub-national fiscal balances, supplementing inadequate local own-source revenue to improve the ability of the Municipalities to meet their expenditure responsibilities.

Transfers are used to meet national re-distributional objective; helping to offset capacity differences among sub-national governments or Municipalities, they are used to encourage local expenditure of particular goods or services that are considered to be of basic needs that should be distributed less unequal than the ability to pay them. DeMello, (2000) agrees stating that most transfers are intended, at least officially, to meet this objective, and there are varieties of methods or mechanism of how to do so.

However, the finding is in disagreement with that of (Smoke, 2008) he did not find an empirical evidence to justify or discredit the pursuit of fiscal decentralization in developing countries because information is scanty and mixed, besides most of the fiscal decentralization systems in developing countries are more of political adjustments entice with a lot of political influence and interference. As well, Bird, (2010), asserts that local governments are overwhelmingly dependent on federal revenue transfers for the discharge of their responsibilities; example Uganda's transfer systems, where central government transfers make up to 90% of the conditional grants to local government. He argued that over dependence of LGs on federal transfer's undermined local accountability and created perverse incentives at the local level to misallocate public resources.

Finding from other scholar as stated from the literature; Chitembo, (2009) in Botswana, for instance, rural councils receive 92% of their total revenues from the central level, compared to 62% for urban areas. In Uganda, local governments are heavily dependent on transfers from the central government (on average, 88% of total revenues in 2007), while local governments in South Africa, on average, generate the bulk of the revenues from 'own' sources (89% in 2007). It is feared that sub-national governments that are highly dependent on national transfers may increase their current expenditures above their capacity to fund them out of current revenues and then close the gap through borrowing. (Yatta & Vaillancourt 2010, DPWG-LGD's 2009, and Bahl & Wallace, 2007).

In Switzerland, the Swiss federation comprises of 26 states, the so-called cantons. The cantons are divided into roughly 3000 Municipalities of varying size and population. All the three states level finances their expenditures essentially by their own taxes and fees. The total tax revenue of all the three level was 93 billion CHF in 2001, of which 46% is imposed by federation, 32% by the cantons and 22 by the Municipalities (Swiss federation tax administration, 2002). Unlike Uganda that has decentralization systems, where the entire finances trickle down to beneficiaries. In Nigeria, both resources and responsibilities for delivery of basic health and education services are given to locally elected governments. Local Government in Nigeria are constitutionally entitle to a share of 20% of federal revenues, which in recent years of oil price booms has implied sub-national resources flow to local government.

5.3.2. The contribution of expenditure assignments to local revenue generation in Gulu Municipal Council;

The study findings of the general informants, indicates that majority of the respondents were in agreement that expenditure assignment affects positively revenue collection.

The finding is in agreement with UNDP (2005), which states that assignment of functions or expenditure responsibilities is very important and is the first “pillar” of fiscal decentralization simply because it defines who does what, which functions are assigned to different levels in the overall system of government in a given country. Bahl, Roy (2008) also complemented that expenditure assignments are the transfer of responsibility for the planning, financing and management of certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional or functional authorities.

As the research finding states, Nicoletta Feruglio (2007), agrees and summaries the importance of assigning responsibilities; financing should follow functions. In addition, it is important to clearly define the assignment of expenditure responsibilities in order to enhance accountability (who is responsible for what), so as to avoid unproductive overlap, duplication of authority and legal challenges. Hence a clear definition of the role of the public sector should be established before expenditure responsibilities can be assigned. There should be identified level of Government which should be responsible for specific function and activities belonging to the public sector (central, regional and local).

Steffenson (2010) is in agreement that necessary provision of human and financial resources to undertake the services that the Municipal have been conferred. Expenditure assignment itself can be the best way to build local capacity with the help of central to maintain equity in spending across jurisdictions and ensure proper attention to training of staff involved in revenue mobilization. Chitembo, (2009) confirms that clear assignments of expenditure responsibilities necessarily conditions for tax revenue assignment and fiscal equalization mechanism. Clearly, both systems can be inadequate for different expenditure assignments and can easily become obsolete as soon as expenditure assignments are significantly changed.

Yatta and Vaillancourt, 2010, Jamala 2013 and Robert (2009) agreed of similar experience that many economies in transition show that without a specific expenditure assignment, it is revenue availability that dictates the responsibilities of each government level. This leads to institutional instability and again to an inefficient provision of public services. In the design of a decentralized system of intergovernmental finances, there is an obvious need for a policy decision on concrete assignment of expenditure responsibilities between the central government and the regions and between the regions and the local governments (Martinez-Vazquez, Feruglio, N. 2007, McLure and Vaillancourt, 2006).

However, Odd-Help Fjeldstad 2013 disagreed and commented that local governments may not have the technical capacity to implement and maintain certain huge projects and they may not have the training to effectively manage larger budgets including effective and efficient revenue generation. In reality, however, varying degrees of local capacity local government and civil society/the private sector obviously affect decisions about which levels of government can best perform which tasks. This confirms when one of the key informants stated that revenue collection assignments to Division treasurers are additional responsibilities, not a primary duties and responsibility. This makes the treasures to pay little attention, and do not take it so serious than as it could have been the primary responsibilities. Revenue assignments as additional responsibility to treasurers has been without additional pay due to inadequate fund.

5.3.3. The contribution of revenue assignment to local revenue generation in Gulu Municipal Council;

The study finding illustrates that majority of general and the key informants are in agreement with DPWG-LGD (2009) , the view correspond to the Municipality being efficient collectors of assigned revenues, creating environment for private investment, infrastructural developmental, improving service delivery and increasing tax compliance. DPEG-LGD (2009) recommends fostering the sustainable mobilization of own resources by local authorities in connection with the relevant services. Taxes that are "ideal" for local governments to mobilize are taxes that achieve a "correspondence" between the tax and the benefits from local government services, and are relatively easy to administer do not easily give "perverse incentives" to taxpayers. Revenues commonly assigned to the local level include taxes such as property taxes, user fees (for example, utility, fees for garbage collection or market fees), licensing and permit fees, and rent on local government property, such as buildings and equipment (DPEG-LGD, 2009).

Fjeldstad, (2006) agreed and stated that fiscal decentralization has an added advantage in revenue mobilization effort. The advantage is that it gives the local people, through their District Assembly, the chance to mobilize internally generated revenues such as rates, fines, fees, land and licenses (Bahl and Linn (1992). Sub-national governments that depend on own revenues have incentives to be more accountable to citizens, to provide market-enhancing public goods, and to be less corrupt (Singh and Srinivasan, 2006; Rodden, 2003; Careaga and Weingast, 2003; Ambrosanio and Borgignon 2006) and compliance with tax payments Beblawi and Luciani (1987). As Levi (1988) explains in support of that, tax payments are quasi-voluntary and depend on compliance of the taxpayers. And, as Robinson, (2003) and Timmons (2005) illustrates statistically, voluntary compliance with taxes is higher when citizens receive public goods and services they value in exchange for taxes, thus to motivate greater compliance and greater government revenues. Oates (2005) agrees and asserts that fiscal decentralization promotes increased revenue mobilization, this happens because decentralization can broaden the aggregate tax base by reaching the traditional tax bases of income, consumption and wealth in ways that a central government cannot.

Bird (2010) agrees and stresses that local governments should be assigned stable sources of revenue. Local taxes should also be easy to administer and it should be easy to separate the tax base between different local jurisdictions. Preferable if local taxes broadly correspond to the benefits received by local residents from local government services. Example of appropriate local revenue sources include: real estate property taxes; retail sales taxes; business fees; regional personal income taxes motor vehicle fees, and; user charges. Okezie (2003) complement the primary purpose of revenue generation is to raise income for government expenditure. It is the best and quickest mode of raising revenue open to government for economic activities in order to increase the quality of life of its citizens. Tax loopholes develop when tax laws create ways for taxpayers to legally avoid paying taxes on some earnings.

However, contrary to above findings, some of the respondents disagreed that collection of assigned revenue has been cost effective to municipal council, that revenue assigned has made municipal council independent of central government transfers. This research finding corresponds to the key informants who said there has been continuous and increasing dependent of central transfers by the municipal council.

In line with the disagreement, several countries share different experience, for instance, in Tanzania the lion's share of operation costs in district councils is financed by central government transfer. In contrast, local authorities in South Africa generate an aggregate of more than 90% of their own revenue. The remaining revenue is transfer from the national and provincial governments. However, huge difference exists between municipalities. Metropolitan council's mobilize on average 97% of their revenue as opposed to some smaller municipalities which only raise 65% of their revenue from their own sources.

In Uganda, Steffensen (2010), states that several local taxes have been abolished recently without sufficient consideration of alternative sources. In other countries (e.g., Zambia and Tanzania), the central government strongly controls local government tax rates and the tax bases, and there are numerous examples of political interference in the mobilization of local government revenue. Akpan (1993), identified embezzlement and diversion of funds as a problem of tax collection, that result in the loss of huge sum of revenue to fraudulent staff charged with the responsibility of tax collection. Akapan (1993), reports that, non-performance of employee due to poor motivation and lack of training as a major threat to effective tax collection. Hence tax collectors should be adequately motivated in order to enhance effective tax collection.

Jamala, (2013) pointed out that another problem of tax collection is the failure by tax payers to submit their correct information for assessment. While DIE (2010), enumerates inadequate legal policies, poor system of accountability of the tax officials and lack of adequate awareness/campaign on the importance of tax, as some of the constraints of tax collection and filing. Jamala (2013) blames the ineffectiveness of local administration on lack of mission or comprehensive functional role, lack of proper structure to enhance the development of revenue base, lack of qualified and experienced tax officials to handle tax assessment and collection.

5.4 Conclusions.

The study made the following conclusions;

5.4.1 The contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council;

The findings indicated that intergovernmental transfer systems have a significant contribution to revenue generation in Gulu Municipal Council. That means improvements in intergovernmental transfer systems shall have a significant positive influence on the revenue generation in Gulu Municipal Council. Similarly a decline in intergovernmental transfer systems shall have a significant negative contribution to local revenue generation in Gulu Municipal Council. When the planned amount of grants is adhered to, infrastructural developments (Markets, opening new roads, road maintenance, cabbage collection, light and provision of security) which do encourage investors and other economic activities. In addition to flexible conditions according to the community needs and best practice, intergovernmental transfer systems will have a positive influence on local revenue generation and the reverse is true.

5.4.2. The contribution of expenditure assignments to local revenue generation in Gulu Municipal Council;

The findings indicated that expenditure assignments have a significant contribution to local revenue generation in Gulu Municipal Council. That means improvement in expenditure assignments shall have a significant positive contribution to local revenue generation in Gulu Municipal Council. Similarly a decline in expenditure assignments shall have a significant negative contribution to local revenue generation in Gulu Municipal Council. Expenditure assignments, when improved in relation to clear, simply and single assignments to the implementers, assignments streamlining to adequate funds to support execution of the expenditure responsibilities assigned and backed by sufficient human resources to affect local revenue generation positively. Anything contrary to that will contributes to local revenue collection negatively.

5.4.3 The contribution of revenue assignments to local revenue generation in Gulu Municipal Council;

The findings indicated that revenue assignments have a significant contribution to local revenue generation in Gulu Municipal Council. That means improvements in revenue assignments shall have a significant positive contribution to local revenue generation in Gulu Municipal Council. Similarly a decline in revenue assignments shall have a significant negative contribution to local revenue generation in Gulu Municipal Council. Other components of revenue assignments like tax systems its self**,** sufficient staffing as followed after responsibility assignments, revenue collection and management as a primary assignment to treasurers to work independently to oversee revenue collection will increase revenue collection anything contrary to that, expenditure assignment will contributes to local revenue collection negatively.

5.5. Recommendations

The study made the following recommendations in relation to findings and conclusions;

5.5.1. The contribution of intergovernmental transfer systems to local revenue generation in Gulu Municipal Council;

- The issue of intergovernmental transfer systems should be handled with utmost attention especially when designing its conditions for implementation, should be participatory design by the implementing Municipalities so that they own the activities and projects for the benefit of the community.

- Sensitization and creating awareness to the implementers through staff training among Division under Municipality. This should be done in such a way to bring on board the grants effectiveness and efficiency, value for money, out come and impact benefit should be considered to the community. Emphases should be put to create linkage between tax payment and the services the community who are tax payers get in return and this will increase tax compliance which will increase revenue collection.
- The bureaucracy involved in the process of intergovernmental transfers should be reduced to allow flexibility and prompt release of funds on time to match with quarter activities in the intergovernmental transactions and avoid return of funds to the central government before its use and benefit to the community is accomplished.
- The study recommends that Municipal Council should engage in local capacity building that will be sufficient to generate revenue to the Municipalities. With the hope that the Central Government transfer shall keep on reducing with time and all revenue which fit the local jurisdiction in the municipality should be decentralized. This will enhance fiscal decentralization and will promote financial autonomy from the central government.
- There should be participatory design of methods of conditional grants according to the needs and best practice in the Municipalities. Such that the needs are tailored to the tax payers to boost positive turn up for tax payment and increase revenue collection.
- The release of grants should adhere to the planned amount to enable proper planning in the municipalities and to boost activities like infrastructural development e.g. roads, market which boost commercial farming and business to increase the numbers of revenue sources which will in the end increase revenue collection.

- There should be flexible conditions of grants according to needs and best practice of a particular Municipality to handle projects that give rise to revenue base or sources in the municipalities. Example opening of roads like feeder and ring roads which can attract industries, investment and commercial farming where in turn will create new revenue sources and from the available revenue sources revenue will be collected and these will give rise to the amount of tax collection every year in Municipalities of Uganda.
- There should be a revision or amendments of inflexible guidelines of utilization of grants, which sometimes causes lateness in the release of funds. When fund is not released on time, it delays the implementation of some activities which retards service delivery and affect local revenue collection because benefit and not linked to taxes.
- Open minded leaders both appointed and elected who do not impair their independence to bore to political pressure. E.g. the abolition graduated tax and replacement with local service tax and compensation tax which failed shortly by stoppage. These factors coupled and caused drastic reduction in the amount of revenue collection in Municipalities.
- The design of the methods, guidelines, procedures of transfer should be simple, to the implementers to response to the needs of tax payers to boost revenue collection in the municipalities.
- There should be consideration of transfers specifically to finance revenue collection processes and activities like; transport provision, development and installation of data base system to capture and store revenue information, staff training to implement revenue collection directly, and revenue collection should be considered primary assignment to the Municipal and Divisions treasurers not as an additional assignment.

- There should be laid down strategies for Municipal Council to generate own revenue instead of depending on grants from Central Government.

5.5.2. The contribution of expenditure assignments to local revenue generation in Gulu Municipal Council;

- The study therefore recommends that clauses 1 and 2 of the article of 191 of the 1995 Constitution of Uganda that empowers Municipalities to have complete legal powers to generate local revenue from their areas of jurisdiction and to operate without political interference.
- The Municipalities should put emphasis on assignment of functions and assignments of revenue since they are viewed to have a greater impact on the amount or revenue collection.
- When handling assigned responsibilities the laws already in place should be consulted, example the PPDA Act, Local governments Act and Finance Act, Local Government Accounting and Financial Regulation Act to guide the expenditures and encourage transparency and accountability on the expense responsibilities.
- The Central Government should assign responsibilities that are clear to be understood by the implementers and give autonomy to Municipal Council to determine and establish what they need to implement for the benefit of the community. So that tax payers are motivated to pay tax, when taxes are being paid there will be rise of tax compliance in Municipality. Rise of tax compliance will increase revenue collection amount in Municipal Council.
- There should be human resource empowerment in terms of recruitment, training, autonomous to develop and maintain staff structures.

- Municipal Council should adopt finance should follow functions approach, where expenditure assignments are given in line with the necessary financial support. Example; transport, data bases system and staff remuneration.
- Municipal Council should adopt simple and clear administrative processes so that the implementers and the tax payers improve on local revenue generation e.g. all revenue collection receipts should be paid in the bank to reduce illegal collection.
- There is also need to sensitize the taxpayer on their rights and obligations to increase tax compliances and to increase local revenue collection in Municipality.

5.5.3. The contribution of revenue assignments to local revenue generation in Gulu Municipal Council;

- The study recommends that local governments should put in place conducive policies that will lead to increase on the level of investment to increase the tax base. This can be done by promoting investment policies such as subsidies, tax grace period, tax holidays, and promoting infrastructural development like opening roads and market.
- Municipal Council should strengthen revenue enhancement plan by tendering and staff collection approach, improvement should be done on the tendering processes. For staff collection approach improvement should be done by recruiting sufficient human resource and establishing staff to collect revenue.
- Strengthening good tax systems of the assigned revenue sources; where payment is encouraged through the bank strictly, introduction of computer software for revenue data capture and storage, simplifying the complex types of taxes, and tax systems objectives should be linked to improve service delivery e.g. cabbage collection, road maintenance, opening of new roads, health and education and markets for the benefit of the community.
- Municipal Council should enact by-law which encourages tax compliance and enforcement of revenue collection. These by-laws should facilitate; planning of town, maintain security, encourage direct tax, give concession and encourage investors to open factories and industries to increase local revenue collection.
- There should be a continuous sensitization of tax payers, strict prevention and monitoring of collection process.
- Proper procedures should be followed by people mandated to collect revenue, there should be provision of accountability to community, so that the community or the tax payers build

trust and confident on the service offered and will pay tax willing and these will increase the amount of tax collection in Municipal Council.

- Municipal Council should provide consistent power supply to support the operation of infant industries and factories already in existence and attract the upcoming once to create more sources of revenue and increase revenue collection.
- Municipal Council should come up with bi-law that will deal effectively with tax defaulters, reduce on non-compliance of tax obligation.
- Central Government should give full autonomy and mandate for Municipal Council at best practice within the jurisdictions to identify and create more revenue bases and sources to increase revenue amount so as to met target as always planned and never met annually.
- Government should simplify the tax system that has been assigned so that the community can understand. Example property tax which has not been not easy to value in the process of assessment by the tax official themselves.
- Improvement of communication by the revenue collection staff agent to reduce the level of coercion which same times occur in the process of revenue enforcement.
- Municipal Council should enforce effective supervision in revenue collection processes by the involvement of Assistant Town Clerk not only the treasurers, and in conjunction with the implementing staff namely; enforcement officers and the town agents who are involve in revenue collection.
- The tendering system extend of mandate should be revised favorable for revenue collection of the assigned revenue.

5.6. Limitations of the study

Although this research was carefully prepared, it had some limitations. The following were the study limitations:

First of all, the research was conducted in only one Municipality of Gulu in Uganda. Other municipalities were not involved in the study mostly due to cost implications.

Some respondent's e.g. the general informants and members of focus group discussion (the prequalified contractors) wanted some payments in return of their responses. Therefore it was not easy to get expected data from them. However the researcher coordinated with the procurement department officer to gather the members around the office the yard and declared how the research information is for study purposes and it's important to the community

5.7. Contributions of the study

The study made some contribution to the body of knowledge in the field of revenue generation. Theoretically the study summarized intergovernmental transfer systems, expenditure assignments and revenue assignments and its proponents, revenue generation and its proponents, provided linkage, and influence as it is interconnected and interrelated.

Conceptually all the dimensions of the dependent variable and independent variables were adapted from the scholars in Chapter one, indicating that the study labored to link related concepts for Municipal Council performance.

The following are the specific contributions of the study.

1. A number of studies have been done in relation to revenue generation. However, no such study has been found to have been carried out on how it is impacted by intergovernmental transfer systems, expenditure assignments and revenue assignments. This study will make tremendous contribution in that area.

2. Through the study findings and conclusions, an effort has been made to make recommendation of significant policy and management implications to policy makers. Institutionally and managerially, the recommendation will go a long way in distilling issues critical for the well functioning of Municipalities in Uganda under fiscal decentralization.

3. This study will contribute to policy changes and the direction of revenue generation amongst municipalities in Uganda. It can be a reference point for municipal authorities and other local governments in Uganda as well as the Ministry of local government and Ministry of Finance, Planning and Economic Development

4. This study has made a contribution in the use of both quantitative and qualitative methods of data collection and analysis by adopting triangulation approach since such an approach give valid information and other benefit related to triangulation.

5.8. Further Research should be done on:

The study concentrated on intergovernmental transfer systems, expenditure assignments and revenue assignments in Gulu Municipal Council. However other factors like politics, tax payers' characteristics, service delivery and economic factors were not part of this study. These are possible areas of further research. Specifically the following should be further study perspectives;

1. Examining the effect of politics on revenue generation in Gulu Municipal Council.
2. Examining the influence of tax payers’ characteristics on revenue generation in Gulu Municipal Council.
3. Establishing the effect of economic factors on revenue generation in Gulu Municipal Council.
4. Public service delivery and local revenue generation. The interest could be the impact of spending in quality of service delivery of public goods like infrastructure (roads, market and schools), Health service and these are likely to bring out the link between service delivery, tax compliance benefit and increases in local revenue collection

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APPENDICES

APPENDIX 1

Questionnaire: For general respondents

Dear Respondent,

This is a research leading to the award of a Master Degree in Management Studies (Financial Management) of Uganda Management Institute (UMI). The purpose of this research is to study the effect of fiscal decentralization on revenue generation in Gulu Municipal Council

You are kindly requested to feel free and express your opinions on each of the issues raised as objectively as possible. Please answer the following questions according to your perception in relation to fiscal decentralization and local revenue generation.

All the information you provide will be treated with a high degree of confidentiality and under no circumstance will it be personalized. The basic research ethics and code of conduct will strictly be observed and adhered to.

Your positive and quick response will be highly appreciated, and you may or shall at most spend 60 minutes only of your valuable hours to participate in the study.

Thank you for your cooperation

Yours Faithfully,

Christine Apiyo

SECTION A: Background Information

Sex	☐Male ☐Female
Age	☐Below 20 Years ☐21-30 Years ☐31-40 Years ☐41-50 Years ☐51-60 Years ☐Above 61
Level of education	☐Never went to school ☐Primary ☐Secondary ☐Tertiary ☐ University ☐Others:________
Management position in the district/Sub county or institution in fiscal decentralization process, local revenue generation process	☐Policy Formation ☐Making Decision ☐Implementation ☐Others Specify______
Duration of service in Division/Municipality/institution or business-/Local Government/Organization you represent	☐Less than one(1) Year ☐1-2 Years ☐3-4 Years ☐5-10 Years ☐More than 10 Years

In the remaining part of the questionnaire, you are requested to objectively express your opinion in regard to fiscal decentralization and local revenue generation in local government systems, Gulu Municipal Council.

Thematic areas are being considered, please use the following scale to indicate the best opinion that reflects your opinion on each statement by simply ticking the appropriate alternative.

For example if you strongly agree with the statement, circle or tick number 1 against the statement.

1 Strongly agree 2 Agree 3 Undecided 4 Disagree 5 Strongly Disagree

SECTION B: Intergovernmental Transfers

	On the Following statements choose (tick) the most appropriate response to each	**Strongly agree (1)**	**Agree (2)**	**Undecided (3)**	**Disagree (4)**	**Strongly disagree (5)**
1	Municipal council participates in the design of methods of conditional grants.					
2	The guidelines for utilizing conditional grants are simple to understand by the implementers in municipal council.					
3	The procedures for utilizing unconditional grants are clear to municipal council.					
4	The procedures for utilizing the conditional grants are transparent to municipal council.					
5	Conditional grants give incentives to municipal council to increase revenue collection.					
6	Unconditional grants gives incentive to municipal to increase revenue collection.					
7	Conditional grants encourage municipal council to collect their own revenue.					
8	Unconditional grant encourages an increase collection of municipal own revenues.					
9	Conditional grants enable proper planning of revenue generation to municipal council.					
10	Unconditional grants enable efficient local revenue generation in municipal council.					
11	Conditional grants enable effective local revenue generation in municipal council.					
12	Conditional grants increases revenue bases.					
13	Conditional grant increases tax compliance in municipal council.					

SECTION C: <u>Expenditure assignments</u>

	On the Following statements choose (tick) the most appropriate response to each.	**Strongly agree (1)**	**Agree (2)**	**Undecided (3)**	**Disagree (4)**	**Strongly disagree (5)**
1	The assigned fiscal responsibilities procedures are clear to implementers.					
2	The assigned fiscal responsibilities are simple to understand by the implementers.					
3	GMC practices single assignments of responsibilities.					
4	There are sufficient human resources to collect revenue.					
5	Gulu municipal council undertakes training of staff that collects revenue.					
6	Gulu Municipal Council has full autonomy to establish staff structure to implement revenue generation.					
7	Municipal Council has sufficient finance to remunerate staff implementing revenue collection.					
8	GMC carry out budget planning.					
9	There is certainty in revenue collection due to budget planning in GMC.					
10	There is efficiency in revenue collection due to clear responsibilities in revenue collection processes.					
11	GMC has simple administrative processes of collecting revenue.					
12	GMC has clear administrative processes to increase amount of revenue collection.					
13	An assigned fiscal responsibility leads to increase in tax bases in GMC.					
14	GMC has sufficient funds to finance the fiscal responsibilities to increase revenue collection.					
15	The assigned fiscal responsibilities lead to efficiency and effectiveness in revenue collection.					
16	The assigned fiscal responsibility leads to improved tax compliance by the tax payers.					

SECTION D: Revenue Assignments

	On the Following statements choose (tick) the most appropriate response to each	Strongly agree (1)	Agree (2)	Undecided (3)	Disagree (4)	Strongly disagree (5)
1	The non tax revenue is the major sources revenue assigned to GMC by Central Government.					
2	Central government assigns adequate revenue sources to the municipal council.					
3	Collection of assigned revenue is cost effective to municipal council.					
4	The assigned revenue is adequate to meet the municipal services provision.					
5	Gulu Municipal council is effective in collecting revenues assigned to by the central government.					
6	Municipal are efficient collectors of assigned revenues.					
7	Assigned revenue creates a good environment for private investment in GMC.					
8	Assigned revenues creates infrastructural developmental in municipal council.					
9	Revenue assigned makes municipal council independent of central government transfers.					
10	Revenues assigned improve service delivery in municipal council.					
11	Service deliveries improve tax compliance in municipal council.					
12	Tax compliance increases the amount of revenue collection.					
13	The assigned revenues to municipal council are simple to assess.					
14	Revenues assigned increases the amount of revenue collection in municipal council.					

SECTION E: <u>Local revenue generation</u>

	On the Following statements choose (tick) the most appropriate response to each	**Strongly agree (1)**	**Agree (2)**	**Undecided (3)**	**Disagree (4)**	**Strongly disagree (5)**
1	There is a revenue enhancement plan to increase revenue collection in Gulu Municipal Council (GMC).					
2	Revenue enhancement plan is properly followed to increase revenue collection in Gulu Municipal Council (GMC).					
3	There is registration of revenue sources to increase tax compliance in GMC.					
4	There is a revenue data base system to increase revenue collection in GMC.					
5	There is a revenue assessment to increase revenue sources in GMC.					
6	There is issuing of demand note to increase tax compliance in GMC.					
7	There is enforcement of revenue collection to increase tax compliance in GMC.					
8	There is revenue review meeting to increase revenue collection GMC.					
9	There is annual revenue review meetings and reporting to increase tax bases in GMC.					

Appendix II

Interview Guide for Key informants

Dear Sir or Madam;

I am Christine Apiyo, a student of Uganda Management Institute (UMI), pursuing a degree of Master of Management Studies (Financial Management Option). As part of the requirement for the fulfillment of the award, I am required to present a report on the topic: Fiscal Decentralization and Revenue Generation in Gulu Municipal Council,

You are kindly requested to respond to the related questions herein so as to facilitate the study. The research is purely academic and therefore your response will be used for this purpose. Your responses will be treated with high level of confidentiality. So please reserve at most 60 minutes and answer the few questions in this document. Thank you in advance for your cooperation and participation.

SECTION A: **Intergovernmental Transfer Systems**

1) Mention the types of grants that the Divisions receives from the central government

3) How does the policy affects local revenue generation Gulu Municipal Council?

4) What are your recommendations under fiscal decentralization to improve local revenue generation in GMC?

SECTION B:Expenditure assignments

1) Please mention the kinds of responsibilities assigned to Gulu Municipal Council.

2) How do these responsibility assignments affect local revenue generation in GM?

3) What are your recommendations on responsibility assignments to increase revenue collection?

SECTION C: REVENUE ASSIGNMENT

1) What do you comment on the sources of revenue assigned by central government to Gulu Municipal Council to increase revenue collection?

2) What do you comment on the management of the assigned revenue to increase on tax compliance?

3) What do you say about increase in tax bases in GMC under fiscal decentralization?

4) What are your policy recommendations under revenue assignments to increase revenue collection in GMC?

SECTION D: Local revenue generation

1) Mention the major sources of local revenue in GMC.

2) Comment on the processes of local revenue generation in GMC.

3) What are the basic factors affection local revenue collections under fiscal decentralization?

____

____

4) What are your recommendations to increase yearl;

a) Amount of revenue collection?

____

b) Revenue bases?

____

c) And tax compliance of in GMC?

____

Appendix III

Focus group guide

Purpose of the study

To let the participants explore their knowledge of fiscal decentralization and local revenue generation

Specific material for the activity: Charts, markers and masking tape

Group discussion

Divide the participants into groups.

Ask the group to discuss about fiscal decentralization and local revenue generation, and let the group brings forth their own way of understanding the topic.

Explain the real meaning of fiscal decentralization to the groups

Ask the group the following questions

1) How does fiscal decentralization affect local revenue generation in Gulu Municipality?

2) Discusses the process of revenue generation in Gulu Municipal Council.

3) What are basic factors affecting local revenue generation under fiscal decentralization?

4) Conclude by asking each group to give recommendation to improve revenue collection in Municipal Council.

Appreciate every member for participating and close the discussion.