



Full Length Research Paper

An analysis of fiscal decentralization as a strategy for improving revenue performance in Ugandan Local governments

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Abstract

The inception of decentralization in late the 1990s in Uganda instilled so much hope in the people of Uganda as they anticipated that local governments would improve on revenue collection and service delivery. This was to be achieved through a privatization strategy which guaranteed better performance in revenue collection as compared to the previous system where government employees embezzled most of the taxes they collected. To date however, a number a number of challenges have made it hard fiscal decentralization to realize any fruits. This study was conducted to examine the impact of fiscal decentralization on revenue performance in Ugandan local governments. A cross-sectional survey research design involving both quantitative qualitative research methods were used in the study. A questionnaire was employed to collect and analyze quantitative data, while an interview guide was used to collect qualitative data. The study population included LC III, LC IV and LC V council members and technical members of staff in three local government districts of Mbale, Manafwa and Kampala. Both random and purposive sampling techniques were used to select a total sample of 600 respondents. Results indicate that fiscal decentralization helps to reduce corruption, leads to improved revenue performance, enables better planning for revenue collection, reduces on tax evasion, enables the local unit to get more sources of revenue, makes it easy to handle taxation disputes and also that Fiscal decentralization reduces on taxation bureaucracies hence better revenue performance. This paper posits that for improved revenue performance in a decentralized government, there is need to restrict political leaders from interfering with the work of technical staff, institution of tougher penalties for tax evaders, and also that there was need for central governments to increase funding to the local units. The findings also indicate that salaries for technical staff should be increased to minimize corruption and improve on revenue performance.

Keywords: Fiscal Decentralization, Revenue Performance, Local Government, Uganda

INTRODUCTION

Decentralization has become a very popular method adopted by countries intending to bring services closer to their population. Among the most important elements of decentralization is fiscal decentralization which encompasses relinquishing taxation powers from the central governments to local administrative units,

commonly referred to as local governments (Malesky, 2005; Akinyele, 1996). Research indicates that fiscal decentralization is one cost effective way of increasing competition and lowering government spending by strengthening local political structures for better planning, resource allocation and monitoring of government programmes (Busemeyer, 2007). Fiscal decentralization has been at the center of surge in economic development in many developing countries such as China, Nepal and Chile among others. Notably however

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is that decentralization policies including fiscal decentralization have been seen as an important tool in revenue performance and therefore instrumental in providing services closer to people in large and densely populated economies such as China, the US and some European countries through federal arrangements (Faguet, 2003; Clegg and Greg, 2010; Crook and Manor, 1994). The popularity of decentralization and in particular fiscal decentralization has been propelled by bad habits of centralized governments such as wasting resources on non-priority programmes, speckled works with uncoordinated and poor monitoring since all the powers are held at the center. Centralized governments are also characterized by ills such as bureaucracy, corruption, political alienation and nepotism among others that make it very difficult for governments to provide timely and quality services to the people. There is therefore no doubt that in recent times, the governments of China, Nigeria, Sudan and Uganda are battling with their citizens and political movements who want decentralized states under the umbrella of federalism at the expense of centralization of powers (Lambright, 2001). The World Bank and the UNDP has always promoted decentralization of fiscal powers arguing that fiscal decentralization is one way of making governments more responsive to their electorate by being conscious in their spending and ensuring accountability and value for money on government procurement contracts (Putnam, 1993; Ostrom *et.al.*, 1993; World Bank, 1994; UNDP, 1993). Although some scholars do not entirely agree with the principles of fiscal decentralization (Smith, 1985; Samoff, 1990), they have failed to validate their arguments with substantial evidence.

The inception of decentralization in late the 1990s in Uganda instilled so much hope in the people of Uganda as they anticipated that local governments would improve on revenue collection and service delivery. This was to be achieved through a privatization strategy which guaranteed better performance in revenue collection as compared to the previous system where government employees embezzled most of the taxes they collected. In the present, many challenges have buried these hopes as local government revenues keep declining all the time. There are claims that local government officials and politicians connive with tax payers to amerce wealth from corrupt acts at the expense of masses (Fumihiko, 2008). Many tax payers have defaulted on their tax obligations with the help of officials charged to collect such taxes. Cases of conflict of interest are also on the increase. The declining levels of revenue have tremendously affected service delivery to the locals. This problem is closely linked to improper conduct of local politicians and technocrats in local councils who have on several occasions failed to observe the principles of best practice in the execution of their duties hence promoting corruption, nepotism, in-fighting and mainly abuse of office. For example, the Commercial High Court of

Uganda declared that there was undue influence peddling in the handling of taxi park revenue contracts between the Mbale Municipal Council and Mbale United Transporters Ltd, and that then Mayor, Ag. Town Clerk and Deputy Town Clerk had faulted the tendering process and had acted unlawfully in the execution of their duties hence resulting into loss of public funds (Kiryabwire, 2004). This study therefore sought to examine the effects of fiscal decentralization on revenue performance in local Governments in Uganda.

Research Design

A cross-sectional survey research design involving both quantitative and qualitative research methods was used in this study. Quantitative research methods were employed to collect and analyze quantitative data, while interview technique was used to collect qualitative data.

The study population included LC III, LC IV and LC V council members and technical members of staff in three local government districts of Mbale, Manafwa and Kampala. The technical members of staff included Chief Administrative Officers, the Sub-County Chiefs, Town Clerks and Assistant Town Clerks, Accountants, Revenue Collection Officers, Community Development Officers, Health Officers, Education Officers among others.

Sampling Technique and Sample Size

The study used both random and purposive sampling methods to select respondents. Three local council units including Kampala City Council Authority, Mbale Municipal Council and Manafwa District Local Government Council were purposively picked from the list of district in Uganda. This was done in consideration of factors such as location i.e. rural vs. urban, population i.e. densely populated vs. sparsely populated and economic activities carried out in those local council units i.e. agriculture, trade, etc. A total of 50 respondents were selected from each of the 5 divisions of Kampala City Council Authority, giving a total of 250 respondents from Kampala district. Another 250 respondents were selected from the 5 divisions of Mbale Municipality, while 100 respondents were picked from the 5 Sub-Counties of Manafwa district. In each city division, questionnaires were given to 25 technical staff and 25 political leaders, while 10 technical staff respondents and 10 politicians were picked in each rural local council. Therefore the study sample size from all the three districts as presented in table 1 was 600:

Data Collection Methods

The main data collection method was questionnaire. The

Table 1. Study population

Local Council Unit	Number of respondents
Mbale District (Urban Local Government)	
Industrial Division	50
Wanaale Division	50
Northern Division	50
Nauyo Sub-County	50
Bungokho Sub-County	50
Total number of respondents, Mbale District	250
Manafwa District (Rural Local Government)	
Bupoto Sub-County	20
Buwabwala Sub-County	20
Bumbo Sub-County	20
Bubutu Sub-County	20
Bumwoni Sub-County	20
Total number of respondents, Manafwa District	100
Kampala District (Capital City)	
Central Division	50
Nakawa Division	50
Rubaga Division	50
Kawempe Division	50
Makindye Division	50
Total number of respondents, Kampala District	250
Study population	600

researchers designed a questionnaire and administered it to selected respondents for purposes of data collection. In addition, key members of municipality divisions and sub county staff who participate in revenue collection and implementation of division work plans were interviewed. Relevant documents were also reviewed to get facts on the past performance.

Validity and Reliability Tests

Content validity index was used to test for validity of the questionnaire (CVI > 0.50 for both experts was achieved) and cronbach alpha coefficient was used to test for reliability (Cronbach alpha >0.60 for all variables was achieved).

Data Analysis

Descriptive statistics were used to extract the most important factors influencing the success of fiscal decentralization and revenue collection in the selected local governments.

Findings of the study

This section presents the research findings.

Sample attributes

Sample characteristics were used to understand the type of respondents. These included age, gender, job title and the level in the management hierarchy in which respondents were.

Respondent' Gender

Descriptive statistics including frequencies and percentages were used to determine the gender of respondents. Results were generated as seen in table 2: Results in table 2 show that majority respondents were female (51.7%) while male respondents were 48.3%.

Respondents' age and knowledge of fiscal decentralization

Descriptive statistics including frequencies and percentages were also used to determine the age of respondents and their knowledge on fiscal decentralization. Results on respondents' age and knowledge were generated as seen in table 3:

Results in table 3 indicate that majority respondents (40%) were 31-40 years old. These were followed by those respondents with age 26-30 years old (35.3%) and

Table 2. Gender

Gender	F	%	Valid Percent	Cumulative Percent
Female	230	51.7	51.7	51.7
Male	215	48.3	48.3	100.0
Total	445	100	100.0	

Source: Primary Data

Table 3. Age and level of knowledge

Age of respondents					Knowledge of respondents about fiscal decentralization				
Age	F	%	Valid Percent	Cumulative Percent	Knowledge	F	%	Valid Percent	Cumulative Percent
18-25 years old	82	18.4	18.4	18.4	Not knowledgeable	128	28.8	28.8	28.8
26-30 years old	157	35.3	35.3	53.7	Somewhat knowledgeable	150	33.7	33.7	62.5
31-40 years old	178	40.0	40.0	93.7	Neutral	18	4.0	4.0	66.5
41-50 years old	26	5.8	5.8	99.6	Knowledgeable	125	28.1	28.1	94.6
51 years and above	2	0.4	0.4	100.0	Very knowledgeable	24	5.4	5.4	100.0
Total	445	100.0	100.0		Total	445	100.0	100.0	

Source: Primary Data

Table 4. Job title and level in management hierarchy

Respondents' job title					Respondents' level in management hierarchy				
Job title	F	%	Valid Percent	Cumulative Percent	Level	F	%	Valid Percent	Cumulative Percent
Accountant	72	16.2	16.2	16.2	Top Level	43	9.7	9.7	9.7
Administrator	180	40.4	40.4	56.6	Middle Level	179	40.2	40.2	49.9
Councilor/Mayor	156	35.1	35.1	91.7	Lower Level	207	46.5	46.5	96.4
Others	37	8.3	8.3	100.0	Other	16	3.6	3.6	100.0
Total	445	100.0	100.0		Total	445	100.0	100.0	

Source: Primary Data

18-25 years old (18.4%). Respondents aged 41-50 years old were 5.8% while only 2 respondents constituting 0.4% were aged 51 years and above.

In addition, results in table 3 show that most of the respondents were somewhat knowledgeable about fiscal decentralization (freq=150). A total of 128 respondents constituting 28.8% were not knowledgeable about fiscal decentralization, while 125 respondents contributing 28.1% were knowledgeable. Results also show that 24 respondents, constituting 5.4% were very knowledgeable, while 18 respondents contributing 4.0% were neutral.

Job title and respondents' level in management hierarchy

Descriptive statistics including frequencies and percentages were also used to determine the job title of respondents and the level in management hierarchy in their respective local units. Results were generated as seen in table 4:

Results in table 4 indicate that the majority respondents were administrators (freq=180). Councilors and mayors came second (freq=156), while accountants

Table 5. Officials who design revenue policies and sources of revenue

Who designs revenue policies?					Sources of revenue				
Officials/bodies	F	%	Valid Percent	Cumulative Percent	Source	F	%	Valid Percent	Cumulative Percent
Councillors	175	39.3	39.3	51.7	Property Rates	40	9.0	9.0	39.3
Budget & Planning Committee	125	28.1	28.1	79.8	Graduated Tax	5	1.1	1.1	40.4
Revenue Department	65	14.6	14.6	94.4	Taxi/Bus Park	110	24.7	24.7	65.2
Individual Departments	10	2.2	2.2	96.6	Sell/lease of council property	102	22.9	22.9	88.1
Consultants	15	3.4	3.4	100.0	Donations	53	11.9	11.9	100.0
Total	445	100.0	100.0		Total	445	100.0	100.0	

Source: Primary Data

were 72. The others category registered the least number of respondents with only 37 respondents.

Results in table 4 further indicate that the majority of respondents were at lower level of the local units' management hierarchy (freq=207). These were followed by middle level managers (freq=179). Top level managers were only 43, while the others were 16 respondents.

Fiscal Decentralization and Revenue Performance

Data were collected on who designed revenue policies, the sources of revenue, how and whether fiscal decentralization improved revenue performance. This section presents the findings from primary data.

Who designs revenue policies?

Descriptive statistics including frequencies and percentages were also used to determine the official and/or bodies that were responsible for designing revenue policies and also examine the sources of revenue in local units. The results were analyzed as seen in table 5:

Results in table 5 above show that majority respondents indicated that councillors designed revenue policies (freq=175). The respondents also indicated that Budget and Planning Committees designed revenue policies (freq=125). 65 respondents representing 14.6% indicated that revenue departments designed revenue policies in their local units, while 55 respondents representing 12.4% indicated that chief executive officers designed revenue policies in local units. Only 15 and 10 respondents representing 3.4% and 2.2% respectively

indicated consultants and individual departments designed revenue policies respectively.

Results in table 5 further show that trading licenses were the main source of revenue for local councils (freq=135). This was followed by taxi/bus parks with a frequency of 110 representing 24.7%. 102 respondents representing 22.9% indicated that local councils get revenue from sell and/or lease of council properties, while 53 respondents indicated that the main source of revenue for local councils was donations. 40 respondents representing 9.0% indicated that local councils generate revenues from property rates. On the other hand, only 5 respondents representing 1.1% indicated that local councils generate revenue from graduated tax.

Revenue Performance

Descriptive means were used to determine whether and how fiscal decentralization improved revenue performance. The results were analyzed as seen in table 6:

Results in table 6 indicate that respondents strongly agreed that fiscal decentralization help to reduce corruption (Mean=4.45), fiscal decentralization leads to improved revenue performance (Mean=4.44), fiscal decentralization enables better planning for revenue collection (Mean=4.42), fiscal decentralization reduces on tax evasion (Mean=4.42), fiscal decentralization enables the local unit to get more sources of revenue (Mean=4.01) and also that fiscal decentralization makes it easy to handle taxation disputes (Mean=4.41). In addition, the respondents also agreed that Fiscal decentralization reduces on taxation bureaucracies (Mean=3.97).

Table 6. Revenue performance

Revenue performance parameter	N	Min	Max	Mean
Fiscal decentralization enables better planning for revenue collection	445	1	5	4.42
Fiscal decentralization enables the local unit to get more sources of revenue	445	1	5	4.01
Fiscal decentralization leads to improved revenue performance	445	1	5	4.44
Fiscal decentralization makes it easy to handle taxation disputes	445	1	5	4.41
Fiscal decentralization reduces on taxation bureaucracies	445	1	5	3.97
Fiscal decentralization help to reduce corruption	445	1	5	4.45
Fiscal decentralization reduces on tax evasion	445	1	5	4.42

Source: Primary Data

Table 7. Revenue performance in the past 3 years

How was the past performance?	F	%	Valid Percent	Cumulative Percent
Very Good	61	13.7	13.7	13.7
Good	85	19.1	19.1	32.8
Fair	82	18.4	18.4	51.2
Poor	189	42.5	42.5	93.7
Very Poor	28	6.3	6.3	100.0
Total	445	100.0	100.0	

Source: Primary Data

Local council revenue performance in the past 3 years

Frequencies and percentages were also used to examine the performance of revenue collection in local councils for the past 3 years. The results were analyzed as seen in table 7:

Results in table 7 show that revenue performance in the local councils was poor in the past 3 years (Freq=189). A total of 85 and 82 respondents indicated that revenue performance was good and fair respectively. On the other hand, 61 respondents indicated that revenue performance was very good while 28 indicate that the performance was very poor in the past 3 years.

Challenges with fiscal decentralization

Descriptive means were used to determine the challenges faced with fiscal decentralization in local councils. The results were analyzed as seen in table 8:

Results in table 8 above show that respondents strongly agreed that there was too much political interference in the running of work (Mean=4.45), that councilors were not well educated and knowledgeable about government programmes (Mean=4.43) and that

there was poor pay for technical staff (Mean=4.55). The respondents also strongly agreed that there was corruption resulting from political interference (Mean=4.56) and also that paying councilors allowances and other emoluments was too costly (Mean=4.55) and that the local unit did not have adequate sources of revenue (Mean=4.44). Further to this, the respondents agreed that it was difficult to collect taxes (Mean=3.21).

However, the respondents strongly disagreed that there was poor pay for councilors (Mean=2.32).

Suggested Solutions for improved revenue performance

Descriptive means were also used to examine the suggested solutions for improved revenue performance through fiscal decentralization in local councils. The results were analyzed as seen in table 9:

Results in table 9 above show that respondents strongly agreed that political leaders should be restricted from interfering with the work of technical staff (Mean=4.55), there was need for tougher penalties for tax evaders (Mean=4.12) and also that there was need for central government to increase funding to the local unit (Mean=4.44). The respondents also strongly agreed that

Table 8. Challenges

Challenge	N	Min	Max	Mean
There is too much political interference in the running of work	445	1	5	4.45
It is difficult to collect taxes	445	1	5	3.21
The local unit does not have adequate sources of revenue	445	1	5	4.44
Paying councilors allowances and other emoluments is too costly	445	1	5	4.55
Councilors are not well educated and knowledgeable about government programmes	445	1	5	4.43
There is corruption resulting from political interference	445	1	5	4.56
There is poor pay for technical staff	445	1	5	4.55
There is poor pay for councilors	445	1	5	2.32

Source: Primary Data

Table 9. Suggested solutions

Solutions	N	Min	Max	Mean
Political leaders should be restricted from interfering with the work of technical staff	445	1	5	4.55
There is need for tougher penalties for tax evaders	445	1	5	4.12
Central Government should increase funding to the local unit	445	1	5	4.44
Councilors should not be paid. They should work as volunteers.	445	1	5	4.43
Minimum qualifications for Councilors should be raised	445	1	5	4.04
There is need for tougher penalties for corrupt political and technical officials	445	1	5	4.46
Councilors should be trained and sensitized on the running of government programmes	445	1	5	4.55
Salaries for technical staff should be increased	445	1	5	4.54
Allowances and emoluments for councilors should be increased	445	1	5	2.22

Source: Primary Data

minimum qualifications for councilors should be raised (4.04) and that councilors should not be paid (Mean=4.43). In addition to this, respondents strongly agreed that salaries for technical staff should be increased (Mean=4.54), tougher penalties for corrupt political and technical officials be put in place (Mean=4.46) and also that councilors should be trained and sensitized on the running of government programmes (Mean=4.55).

The respondents however strongly disagreed that allowances and emoluments for councilors should be increased (Mean=2.22).

DISCUSSION OF FINDINGS

What are the major sources of revenue in Uganda Local Governments?

The findings indicated that the main sources of revenue for local governments were trading licenses which is inline with Olowu (2002); Jean *et al.* (2010) who argued that business licenses constituted a key component of local council revenues. Rusten *et al.* (2004) and Oommen (2008) had argued that local governments relied heavily on donations and grants from central government and other non-governmental organizations. Indeed these suggestions were proved true by the findings from primary data as respondents listed these as one of the main sources of revenue.

Although there was no literature suggesting that local governments collected revenue from taxi/bus parks and sell and/or lease of council properties, the findings indicated that these were second and third best sources of revenues for local governments, especially urban councils respectively. However, while literature upheld graduated tax and property rates as main sources of

revenue (see Bahl and Linn, 1992; Francis and James, 2003; Jean *et al.* 2010), our findings underscored these sources. The reasons given were that graduated tax had been abolished by central government and that property rates were difficult to collect. The following statement was a comment made by one of the councillors:

“The money collected from graduated tax was very little, more over it would end being swindled by tax collectors. Despite this, our people were being hunted day and night for graduated tax. It is therefore good that president Museveni abolished it.”

While councillors supported the abolition of graduated tax, technical staff expressed concerns. They argued that graduated was the only sure and guaranteed source of revenue especially for rural local governments a small tax base. For example following statement was made by a Chief Finance Officer during an interview:

“How do you expect rural local governments to survive without graduated tax? The government abolished graduated tax prematurely. First of all, government grants are insufficient. Secondly, they come late! Thirdly, they come with conditions! I think there should have proper planning and stakeholder consultation before such decisions were taken”

On property rates, the respondents indicated that local councils do not have capacity collect property rates as seen in the following statement:

“Our law enforcement department is very weak. They can not handle property rate cases adequately. Besides, it is very difficult get those landlords and moreover, you can't evict tenants whose landlords have not paid easily... you security.”

What is the trend of revenue performance in Ugandan Local Governments?

A number of parameters such as persons responsible for designing revenue policies, benefits and revenue performance in the past three years were used to examine revenue performance trends in Ugandan local governments. On responsibility, our findings indicated that councillors, Budget and Planning Committees and revenue departments designed revenue policies in local governments. The findings also indicated fiscal decentralization help to reduce corruption, improved revenue performance, enabled better planning for revenue collection and also that fiscal decentralization reduced cases of tax evasion, enabled the local unit to get more sources of revenue and that it made it easy to handle taxation disputes. These findings are inline with literature (see Olowu, 2002; Jean *et al.* 2010; Francis and James, 2003 and Lambright, 2001; Putnam, 1993; Ostrom *et.al.* 1993; World Bank, 1994; UNDP, 1993)

On the performance of revenue collection in past 3 years, our findings indicated that revenue performance was poor. This finding substantiates Buwembo (2005);

Tumushabe *et al.* (2010) and Horng *et al.* (2005) who decried poor revenue performance in local governments.

RECOMMENDATIONS

Recommendation on sources of revenues in Uganda Local Governments

This study has identified a new source of revenue for local governments that scholarly work did not manifest. It is therefore upon this basis that we recommend that local governments should collect revenues from taxi/bus parks in addition to traditional sources such as trading licenses, donations and government grants.

Due to a limited tax base and also considering that fact graduated is the main source of revenue for rural local governments, we recommend that it be reinstated in order to buff up tax base for such local councils.

Although property rates can be a very vital source of revenue, most local councils have failed to collect such taxes due to legal and manpower problems. This study therefore recommends that government should tighten the laws on revenue collection to ensure increased compliance. Issues such penalties for non-compliance would compel landlords to pay their property taxes, hence increasing revenues. The government should also empower local councils with enough and well trained revenue collection and enforcement officers to handle landlords who fail to pay their taxes. The use computers and other databanks can also help in tracking non-complaint landlords.

Recommendation on the trend of revenue performance in Ugandan Local Governments

Since the findings indicated poor revenue performance in local governments, we recommend more sources of revenue be identified as discussed above. We also recommend better skilled manpower that will help reduce tax evasion hence better revenue performance.

The extent to which fiscal decentralization has improved revenue performance

Overall, our findings indicated that indeed fiscal decentralization improved revenue performance and service delivery with the exception of few shortfalls such as corruption, nepotism and political interference among others. The recent developments in Kampala have taken Kampala city council back to central government. However, since findings strongly support decentralization, and also given the numerous challenges associated with centralized governments, this study strongly recommends that Kampala City Council Authority be taken back to its

former status as a decentralized government.

In addition the above, we also recommend that political leaders should be restricted from interfering with the work of technical staff and also that the central government should increase funding to the local unit. Further to this, government should increase minimum qualifications for councilors so as to attract capable leaders who understand government programmes and laws better. This will help reduce political interference and inefficiency within the political representatives in local councils. This study also recommends that councilors in local governments should offer voluntary services to their communities and not be paid. This will help reduce pressure on the already limited resources that local councils have to do community work. The salaries for technical staff should be increased, in order to attract better talents and improve quality of service delivery. Finally, we recommend tougher penalties for corrupt political and technical officials to help reduce corruption and also that councilors should be trained and sensitized on the running of government programmes.

CONCLUSION AND LIMITATIONS

Since the inception of decentralization, there has been little effort to empirically examine the fiscal decentralization as strategy for improving revenue performance of local governments. Despite the challenges faced such as illiteracy of most councilors who participated in the study and the lack of experience of some respondents in fiscal decentralization, this study has given hints on some salient factors affecting fiscal decentralization in Uganda. A number of useful recommendations have been suggested to guide policy makers for better fiscal decentralization and revenue performance. It is therefore our hope that these recommendations are considered.

It is hoped that the findings of this study will benefit law makers, law enforcement bodies, policy and standards bodies and politicians including the Parliament of Uganda, the Ministry of Local Government, the Ministry of Finance, The Auditor General's Office, The President's Office, the donor community and Local Councils III, IV and V by way of providing guidelines for effective and efficient implementation of fiscal decentralization for better revenue performance in local governments. There is no doubt that this study will improve conditions for decentralization hence facilitating improved revenue collections and service delivery in the country.

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