How Local Can Government Go?
Lessons from Fiscal Decentralization in Uganda

by

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ABSTRACT

Revenue collection in the Kibaale District in Uganda, specifically the graduated tax, has improved at the sub-county level of local government under Uganda's ambitious decentralization process. Improved collection is attributed to better enforcement, local retention of tax receipts, and smaller jurisdictions. Expenditure of these funds varies, more often than not going to administrative costs and not towards public services. Interviews with local residents indicate a unsurprising stronger preference for higher spending on public goods, but also indicates residents are not comfortable questioning local administrators' spending habits. The lack of local accountability between local officials and public preferences is problematic when residents are promised improved services if taxes are paid, and then no progress on delivery is evident. However, accountability between the sub-county officials and district supervisors is quite developed, insofar as it relates to revenue collection and general administrative checks and balances.

One recommendation is for increased supervision of sub-county officials, especially in terms of expenditures. This would be enhanced by expenditure standards, broad cost guidelines for routine administrative expenses, and more defined responsibilities of service provision of the district vis-a-vis the sub-county. More qualitative evaluation, as opposed to restrictive censorship, can be beneficial for local governments so long as it does not stifle local administrators' opportunities to be innovative. A second recommendation is that village retention of funds be shifted to the higher authority of the sub-county, so that scarce resources can be more efficiently applied to visible public goods. As 25% of all sub-county funds are currently remitted to the village, this in effect divides these monies up into such small amounts that they cannot be applied to significant projects for the benefit of village residents. If kept at the sub-county, these funds should be earmarked for villages so sub-county administrators can target groups of villages in a given fiscal year and rotate the funds' use on a yearly basis.

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LIST OF ACRONYMS

ACAO	Assistant Chief Administrative Officer
BSF	Belgian Survival Fund
CAO	Chief Administrative Officer
CFO	Chief Financial Officer
GoU	Government of Uganda
HDICDP	Hoima District Integrated Community Development Project
IFAD	International Fund for Agricultural Development
KDDP	Kibaale District Development Programme
LC1	Village
LC2	Parish
LC3	Sub-County
LC4	County
LC5	District
MOLG	Ministry of Local Government
URDT	Uganda Rural Development and Training

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SECTION I:
INTRODUCTION

This thesis explores the impact of decentralization on local finance, specifically local tax collection and its expenditure in the Kibaale District in Uganda. With the increasingly popular demand for decentralized financial, administrative, and political governance that is being asked of developing countries, it would be useful—as well as prudent—to step back from the rhetoric of decentralization and see how its introduction has fared in case specific contexts. Now that Uganda's experience with decentralization has been underway for at least four years, if not longer by other standards, this is a logical time to step back and learn from this on-going process.[1] Looking at what has happened to Kibaale's locally collected revenue and how its expenditure patterns have changed over recent years will provide a revealing look into the practical workings of decentralization in Uganda.

(a) Why Local Fiscal Matters Could be Decentralized: The Conventional Argument

An often cited reason for embracing decentralization is that local authorities can better deliver services. Local officials should have a better sense of where the needs are greatest in their jurisdiction, which is inherently more difficult for a central authority to ascertain because of their presumed lack of familiarity with the area (Bahl & Linn, 1992). Furthermore, local officials should be more responsive and have more incentives to work directly with the residents in their area (Oates, 1993). Since they know (more or less) the people for whom they are technically working, it is hoped that local residents will hold these decentralized authorities more accountable than they might be able to hold a central government representative. In the end, improved accountability and resulting gains in service delivery are some of the many hopes for decentralization.

But what does a locality need in order to provide services? To start with, it needs financial resources. It also needs qualified staff who can manage that money and plan for its effective use. This report focuses on revenues generated locally by a district, as opposed to money that comes from higher levels of government (Ugandan or otherwise). Although other major revenue sources for districts include the central government and the donor community, each of these sources earmarks funding in its own direct and indirect ways. In the case of Kibaale, for FY 1997/98 only 17.6% of total budgeted expenditures were financed by locally raised revenue (Kibaale District Administration, 1997). Although this is a rather small percent of the larger amount of money that is spent to finance district activities, it is a critical 17.6% for the following reasons.

(b) Why Locally Raised Funds are Critical for Local Governments' Future Success

First, they are the only source of funds over which districts have true discretion to spend according to their own priorities. Centralized conditional grants are earmarked explicitly and its unconditional grants are usually earmarked de facto, despite the apparent contradiction in terms (MOLG, 1997). Likewise, the multitude of donor financed programs usually come with some sort of earmarking of their own. While central grants are crucial for service delivery in the districts, overeliance on these sources over time "destroys the incentives for responsible local decisions," since their own revenues are never fully developed (Oates, 1993). Essentially, locally raised revenues are the only aspect of budgeting that districts have true control over (Bahl & Linn, 1992). Since one of the explicit goals of decentralization is

[1] My research was conducted in Uganda for nine weeks in the summer of 1997. The research was supported by the Massachusetts Institute of Technology (MIT)-United Nations Development Programme (UNDP) Decentralized Governance Research Project.

to improve the ability of districts to effectively allocate funds, this "independent source" of money is critical for further study.

A second reason locally raised revenues are so important is that outside sources—in particular the central government's grants—are unreliable. These funds are never delivered in the amounts as budgeted at the outset of a fiscal year (Mawejje, 1997). Uganda operates on a cash budget, meaning that as a fiscal year ends and funds have dwindled, if some districts have not received grants as promised, they simply will not receive the money. This is incredibly destabilizing for districts, particularly those which do not have a prominent donor who will pick up the slack in some measure. Consequently, finding ways to improve collection of locally raised revenue is critical so that districts have stable sources of revenue.[2]

A third reason to study local finance is that evidence indicates locally raised revenues have not been captured to the extent possible in rural Uganda. While some of the locally collected taxes may be considered less than perfect in terms of strict taxation theory, sometimes working with what is available is more efficient than trying to do a major system overhaul. For example, the regressive graduated tax remains the largest source for local revenues and will likely remain so in the future. Consequently, finding ways to improve the tax's performance are key. There is scope for improving this revenue source, particularly if the weaker local authorities can reach performance levels equivalent to the leading ones (Crown Agents, 1996). Consultants to the Overseas Development Administration also noted that "increases in districts' locally generated income are here viewed as necessary conditions in order to underpin the sustainability of the decentralized system of government and service delivery in the longer term" (Crown Agents, 1996).

A fourth reason to study local revenues is precisely because such a large amount of Uganda's locally collected revenues are kept at an extremely local level. Enshrined in recent law, 65% of all locally raised revenues in Uganda are kept at the sub-county level of government.[3] A sub-county is even more local than a district and is presumed to be "closer to the people" than a district administration. Not only is 65% of the revenue kept at the sub-county, but 25% of that amount (or 16.7% of the total amount collected) is retained at the village level. In other words, even the retention of funds is highly decentralized. The graduated tax warrants study not because of changes in its administration (there are no major changes), but because decentralization is keeping those funds at increasingly localized levels of government.[4]

A fifth, and final reason for this study addresses the high hopes in Uganda for further decentralization of responsibilities from districts to sub-counties. Not only is there a general lack of information on how sub-counties function in practice, but in legislation and in the Kibaale District's experience there is increasing pressure on sub-counties to share in some service provision in cooperation with the district. In terms of revenue collection, Ugandan decentralization policy firmly believes that local officials are the best authorities to collect and spend local revenues, which the conventional arguments support in theory. I hope this case study provides a glimpse of the practical experience of decentralization in one district to date, and shows how theory may and may not always translate into practice at the local level.

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[2] For several years it has been the goal of the central government to use "Equalization Grants" to help those districts who are particularly disadvantaged. To date, this revenue source has never been distributed to districts.

[3] For a detailed explanation of Uganda's local governance structure, refer to section two.

[4] Prior to FY 1993/94, 20% of graduated tax receipts were kept at the sub-county. After this date, 50% was retained at the sub-county. As of FY 1997/98, that figure has increased to 65%. Consequently, the scope for responsibilities at the sub-county has increased significantly in recent years. All changes in percentage retained at the LC3 have been mandated by the central government.

(c) The case of Kibaale District

Among the 45 districts in Uganda there is wide variation in the apparent 'effectiveness' and 'good performance' of each as an example of local governance. When I routinely asked major aid agencies and line ministries at the central level—in particular the Ministry of Local Government (MOLG) and its spin-off, the Decentralization Secretariat (DS)—which districts would be considered a 'good performer,' one district's name that reappeared several times is Kibaale.[5] It was labeled a good performer because of its dramatic turnaround since its inception as a district in 1991, when it separated from a neighboring district named Hoima. It is located in the Western part of Uganda with a relatively sparse population, now estimated to be 280,000 residents. A map of the area and the controversial history of Kibaale are outlined in Appendix Two.

(1) Recent History

Kibaale's reputation for being an exceptionally disadvantaged area dates back to the "Lost Counties" conflict that originated under British colonization, continued through independence, and has even lasted up until the past several years.[6] Statistics from 1990 reflect the declining state of Kibaale: only 20% of the population had access to clean water, 43.9% of men and 38.5% of women were literate, 55% of school age children attended school, and the infant mortality rate varied between 122 and 143 per 1000 births (Irish Aid, 1996).

While Kibaale residents were happy to gain a degree of autonomy in 1991, it should not be underestimated how outside observers viewed the area as being more or less hopeless. It was remotely located, had virtually no infrastructure (in terms of road maintenance, electricity and water supply, telephone service, etc), its residents were some of the poorest in the country, the local economy appeared

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[5] As I gathered more information about local revenues in Uganda and settled on Kibaale as the main case study, interviews with MOLG, DS, Local Government Finance Committee, Uganda Local Authorities Association, and leading donor agencies all provided useful information. Irish Aid, the bilateral donor who sponsors the Kibaale District Development Program (KDDP), was also an insightful and cooperative source of information specific to Kibaale and the donor's experiences there. Time spent in Kibaale was split between learning how the District Administration functions and responds to authorities both local and central, and looking in-depth at three sub-counties. At the District level, the CAO, the ACAO, the CFO and his staff (including the Revenue Officer and the Internal Auditor), the Chair of the Finance Committee, the Chair of the Planning Department, and two locally based Irish Aid employees, as well as countless others, all supplied critical information. Witnessing the setting of the FY 1997/98 budget by the Kibaale District Council was a fascinating glimpse into how the district chooses its priorities and makes tough yet necessary decisions about its spending capabilities.

[6] Kibaale's neglect began in the last century when tensions built between the Bunyoro Kingdom (who lived in the area that is now Kibaale), the Buganda Kingdom (who neighbored Kibaale), and the British. The second appendix describes the "Lost Counties" conflict in detail, but it is critical to know that almost 40% of Bunyoro's land was annexed to Buganda for more than 60 years—and it is also critical to understand how neglected local residents felt. The area was returned to Bunyoro only in 1964. Many Ugandans assert that feelings of marginalization continued when Kibaale was part of the Hoima District. While these two areas were part of the Bunyoro Kingdom, Kibaale residents became frustrated with apparent neglect from the Hoima District Administration. In interviews, Kibaale residents complained that they were not getting services from Hoima, or at least anything that was worth the taxes they had to pay. They were also far from the district headquarters, meaning that they would be less inclined to receive direct support from the District Administration than areas that were closer and easier to reach.

to have few options for growth,[7] and local administrators had been marginalized by almost a century of colonization by one authority or another. Even though Kibaale was given a fresh start of sorts in 1991, it still had many hurdles to clear.

(2) Positive changes in Kibaale

Contrary to the low expectations for the immediate future of this district, there have been major changes in Kibaale since its inception. By October 1993 a new CAO was appointed, who has built a core group of colleagues who help him implement policy in Kibaale. Another change that has enabled many others is the arrival of an Irish Aid district-wide development program. Appendix Two outlines some of the many areas of progress this program has facilitated, and also describes the other major donors working in the area. Major improvements have occurred in road rehabilitation, hospital rehabilitation, local revenue collection, and improving overall district capacity. In essence, this is an area where centralized decision-making (or lack thereof) has moved to the district, and in some cases, the sub-county.

(3) Kibaale's Experience with Locally Raised Revenue

An area of remarkable change has been in locally raised revenue. The current Kibaale District Chair estimated that when Kibaale was under control of Hoima approximately 30-45% of local taxes were collected. However, between FY 1992/93 and FY 1994/95, there was a 71% increase in locally raised revenues (Irish Aid, 1997).[8] At the outset of this investigation, this was the extent of information available. This demonstrated such an incredible leap in collected revenues that logical next questions to ask were, why did this happen, and has this trend continued in subsequent years. That is the focus of this study, as is another aspect of locally generated revenues: their expenditures. Expenditures indicate to what extent localized authorities are better able to tailor services to local needs. This thesis examines this experience in three of Kibaale's sub-counties to learn from their recent history.

(d) Structure of the Thesis

The second section summarizes Uganda's structure of local governance and provides background information for those readers unfamiliar with local taxation in Uganda, particularly the graduated tax. The third section looks at the graduated tax's assessment and collection in Kibaale's sub-counties.[9] Performance in collection is the initial topic, and the aspect of actual assessments is a secondary topic explored. Possible motivations for local officials are also analyzed to see why these local bureaucrats are performing better than usually described in the literature.

In the fourth section describes how this tax money is being spent. nitially I look at the issue from the point of view of sub-county officials, and compare trends in each of the three case studies over the past

[7] Most people now living in Kibaale survive on subsistence agriculture. Items produced include coffee, cotton, tobacco, matoke, millet, cassava, sweet potatoes, and waragi, a liquor brewed from bananas (Irish Aid, 1996). There are no major industries in Kibaale.

[8] In 1992/93 the total amount collected hovered at US$329,976, whereas it jumped to $406,982 in 1993/94 and even higher to $564,670 in 1994/95 (all figures adjusted to 1992 dollars).

[9] As the graduated tax is assessed and collected in these sub-counties, and 65% of the total amount collected was spent there, sub-counties became the logical place to study local finance. I chose to study three of Kibaale's 18 sub-counties using annual LC3 revenue collection data kept in the CFOs office. I selected Mabaale and Mugarama sub-counties because they have rapidly increasing collection rates. Nalweyo was chosen because its collections have been steadily declining for three years. Time was also spent interviewing residents in neighboring villages about their preferences on public spending, which will be discussed at length in the latter part of this thesis.

three years. The perspective then shifts to local residents, whom I asked about their own priorities for service delivery and whether or not that delivery has changed with the policy changes of decentralization. By comparing the points of view of the public with those of local officials, comments can be made on the progress of local participation and accountability structures in place (or not in place) at the sub-county and district level. At the end of this section funds retained exclusively at the village are analyzed, questioning how best to use scarce resources throughout the LC system in Uganda. Finally, the conclusion highlights major reflections in the report and suggests possible policy implications for these findings.

SECTION II:
DECENTRALIZED POWERS IN UGANDA: LOCAL GOVERNMENT IN KIBAALE

To understand how revenues are collected and ultimately spent, it is crucial to know how local governments in Uganda are organized. It is equally important to understand the structure of local taxes, particularly the interworkings of the graduated tax. The terminology and processes described below will be used throughout the text.

(a) Levels of Local Government in Uganda

Levels of local government are often referred to by their LC rank (for example, a sub-county is simply called "the LC3").[10] The diagram below summarizes the hierarchy, starting with the largest unit of local government and ending with the smallest. It also lists the key personnel who are involved in revenue collection, but is by no means an exhaustive list of all personnel in a District:

Level of Government	Key Personnel (in relation to revenue collection)
District (LC5)	CAO, LC5 Chair, CFO, Internal Auditor
↓	
County (LC4)	ACAO
↓	
Sub-County (LC3)	LC3 Chief, LC3 Chair, Cashier
↓	
Parish (LC2)	LC2 Chief, LC2 Chair
↓	
Village (LC1)	LC 1 Chair

In this thesis the sub-county will most often be the unit of analysis since this is where revenue collection occurs. Of these five LC levels, the most frequent target of central and donor scrutiny is the district (LC5). All central transfers are sent to districts; no other LC's receive direct central funding. Generally speaking, most donor aid happens goes to the central level through sectoral initiatives. Some districts have benefited from direct donor support, and within that support sub-counties may indirectly receive funds.[11] Local revenues are the only source of funds for sub-counties.

Kibaale is one of 45 districts in Uganda. It is estimated that there are over 900 sub-counties throughout the country. In Kibaale, there are 18 sub-counties with approximately three parishes per sub-county. The number of villages per parish range from eight to 15. For more specific information on Kibaale, see Appendix Two.

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[10] When Museveni's National Resistance Movement (NRM) came to power in 1986, local government was organized on a "Resistance Council" system within two years of the Movement's rise to power (it is now called a Local Council system; LC for short). The hope was to have bottom-up representation, which was to emanate from each level's compounding local elections. For example, once a village elected its representatives, these officials would form the next highest level of government, elect their leaders, and so on.

[11] Examples include Irish Aid in Kibaale District (whose support is expanding to Kumi District); the Belgian Survival Fund (BSF) and International Fund for Agricultural Development (IFAD) in Hoima and Kibaale Districts; DANIDA (Danish) in Rakai District; United Nations Capital Development Fund (UNCDF) in Mukono, Jinja, Kabale, and Arua Districts; SNV (Dutch) in Soroti, Lira, and Arua Districts; and the Austrian Aid Agency in Kisoro District.

(b) Key Personnel in Local Government

There are two types of authority figures at each LC: one is the Chair, who is an elected politician, and the other is the Chief, who is the civil servant. The chief does *not* have any tribal affiliation, despite the title. In the case of the District, the Chief Administrative Officer (CAO) is the chief. The CAO is the highest ranking civil servant in a District, and ultimately, an overseer for all government functions. Other important District personnel include the Chief Financial Officer (CFO); the Internal Auditor, who is also part of the Finance Department (and whose boss is the CFO); and the Assistant CAO (or ACAO), who helps the CAO manage the district.

At the sub-county the three key personnel are the LC3 Chief, the LC3 Chair, and the Cashier. Throughout the thesis the term "local officials" is used to refer to these three prominent actors in the collection and expenditure of local revenues, and the term "local governments" refers to the sub-county. The Chief and the Cashier are paid by the district from centrally delivered unconditional grants. As of the 1997 Local Government Act the politically elected LC3 Chair receives a salary, if any, from sub-county budgets.[12] The parish chiefs are also paid by the district. Chairs at the parish and village levels are not paid.

(c) Overview of Local Taxes in Uganda

At the local level there are several types of taxes available for local authorities to finance their activities.[13] The most common tax is the graduated tax, which will be discussed at length below. Other local revenue sources include flat rates that are applied to all taxpayers regardless of income level, including a District Development Tax and the Education Tax.[14] Licenses and fees are becoming an increasingly important source of funds, particularly market dues. Tendering out collection of market dues is widespread, and is assumed to be a contributing factor in significantly higher collection rates of market dues in recent years. In terms of licenses there is a wide range of activities that are regulated to some degree.[15] Of the monies collected for licenses, market dues, and fees, all funds are remitted to the district.

The most significant source of local revenue, however, is the graduated tax. For example, in 1994/95 it constituted 81% of total local funds collected. It has evolved from a strict poll tax into a tax on possessions and estimated potential income from assets.[16] The graduated tax is criticized for being highly regressive and disproportionally difficult for rural residents to pay. For all its shortcomings, however, it remains the one source of funds that districts depend on most.

[12] Other sub-county staff paid by the district include health workers and the Assistant Development Officer (although in the three sub-counties I visited there was no one with the latter title). For the LC3 office there are also typists and sometimes a messenger, and these salaries are paid by the sub-county.

[13] Taxes are also collected through the centralized tax collection agency, the Uganda Revenue Authority. Such taxes are prominent in more urbanized areas, and include an income tax as well as a property tax. Neither is collected in the Kibaale District.

[14] The District Development Tax is remitted in its entirety to the district although it is collected by the sub-counties. The Education Tax, however, is collected by the sub-counties but also stays in its jurisdiction.

[15] In Kibaale one significant fee is derived from the widespread sale of waragi, a local gin sold to distributors in Kampala for refining.

[16] The predecessors to the Graduated Personal Tax surfaced in Uganda in 1900 as a "hut tax" that was to be paid by any owner or occupier of a dwelling . A "poll tax" was instituted in 1905 that later replaced the hut tax, which was a common form of taxation in many British protectorates and colonies (Davey, 1974). It was revamped as a "graduated tax" in 1954.

(d) The Graduated Tax

Who Pays. The Graduated Tax is levied on men above 18 years of age, exempting people for health problems, full-time student status, or service in the Army or Police (Crown Agents, 1996). Women above age 18 who have gainful employment or a business are to pay as well (Local Governments Act, 1997). Potential income can be any property and land owned, livestock, crops, or income from property or work (Crown Agents, 1996).

Concern No. 1: Tax Burden. Despite its importance for local revenue generation, the Graduated Tax is criticized for its highly regressive nature and reliance on an inelastic tax base. An estimated 72% of all graduated tax payers fall into the lowest six tax grades (there are 37 bands), meaning that the poorest members of a district are the major tax base. (Crown Agents, 1996). In Kibaale, the District legally mandated a raise in the minimum amount due to 8,000 Ugandan Shillings (Ug Sh), as opposed to the centrally set 2,000 Ug Sh because the central figure was deemed "too low" (Tibagalika, 1997). Consequently, the fear is that the tax unduly burdens the poor. While this apparently steady tax base means that options for revenue increases are less likely owing to the less buoyant revenue yield, it does mean that collectors have a somewhat guaranteed source of income from taxpayers who will not move or experience significant fluctuations in household income given the subsistence nature of the Kibaale economy (Bahl & Linn, 1992).

Concern No. 2: Administrative Cost. It is also feared that the graduated tax is extremely costly to administer given its time and labor intensive assessment and collection procedures. It is estimated that up to 30% of the total amount collected is spent on administration (Crown Agents, 1996). After all, "local taxes…involve extracting small amounts of money from large numbers of people" (Davey, 1994). Some Kibaale sub-counties, however, are finding ways to reduce this cost by becoming more flexible in tax collection.[17]

Measuring Willingness to Pay. People interviewed in Kibaale about this subject were split as to whether the population is accustomed to paying the tax. Sometimes it was called "customary," and in other times it was emphasized that no one paid. Some writers have argued that "the concept of taxation was well understood before the colonial era…rarely has the basic obligation to pay a tax …been seriously disputed" (Davey, 1974), whereas others maintain there is a "chronic compliance problem [in payment]" (Crown Agents, 1996). The MOLG acknowledged in 1994 that the Graduated Tax "still carries the old punitive interpretation as opposed to the positive one of resources for development" (MOLG, 1994). This finding was reported by a Commission that was investigating the causes of a tax riot in Iganga District in January 1994.

(e) How the Graduated Tax is Determined and Paid

Assessment. The payment process begins with assessment of graduated tax payment due per household, which traditionally happens on a yearly cycle.[18] For one month the Enumeration Committee, consisting

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[17] For further details, turn to the next section and see how improved collection points are one reason behind some sub-counties' higher collection rates.

[18] A further complication local authorities face is a changing measurement of the district's fiscal year. Traditionally the fiscal year ran from January through December. This was altered in 1988 to run from October through September. Another change started with FY 1997/98, when it will run from July to June to be consistent with the

of the LC1 Chair, the LC2 Chair, and the LC2 Chief, visits households in their jurisdiction to determine what types of assets and/or potential income the family may have. An assessment form is filled out at the time of the inspection, which is also signed by the taxpayer to demonstrate that he or she was present for the assessment. These forms are then sent to the sub-county for the Graduated Tax Assessment Committee. Committee members are the LC3 Chair, the LC3 Chief, and the LC2 Chief of the parish being assessed. This Committee will compare the Enumeration Committee's form with centrally provided imputation values. These values estimate the expected income generated from a household's assets. For example, if a household has 5 cows, then they can be expected to earn a certain amount of money from this possession. The committee then has an estimated household income, which is compared to the tax scales to arrive at the assessed amount of graduated tax due for the next year. Assessments are distributed to households through the LC2 chiefs, and taxpayers have one month to appeal the assessment if they feel the amount due is too high. Assessments are distributed to taxpayers three months before the beginning of the next fiscal year.

There is concern that the assessment process is not only costly in terms of administration, but it is also to be the site of corruption through underassessment of friends or supporters. In an effort to prevent this from happening during the current election year (which is when districts uniformly expect lower collection rates due to the exchange of tax relief for votes by political authorities), the Kibaale District Administration instructed sub-counties not to re-assess this year, and to rely on the previous year's assessment rates. This process also brings in questions of equity in assessment, as people may deliberately hide their possessions in order to avoid a higher assessment. If this happens, the confidence in fair taxation may be eroded by taxpayers in general when the practice becomes widespread (Bahl & Linn, 1992).

Collection. Voluntary payments can be made during the first six months of the fiscal year. Payments must be made to the LC3 cashier, who is based at the sub-county headquarters. The LC3 Chief also signs the tax ticket, which is what the taxpayer receives as a receipt to prove payment has been made. If taxpayers do not pay in the first six months, after that time local authorities (specifically the LC1 Chairs, LC2 Chiefs, and in serious cases, the LC3 Chief) will begin enforcement of the law with home visits. These frequently occur at night when the head of the household is assured to be home and most likely unable to evade authorities. In Kibaale, most people who are delinquent pay during this visit or the following day. If a taxpayer still refuses to pay, the head of the household is arrested and detained in a sub-county jail. Usually family members will come the following day to pay the tax to assure immediate release. In rare cases the defaulter will be sent to the district jail for one month of service.

Officials Charged with Authority. In any sub-county the chief is ultimately responsible for maximizing revenue collection rates. He is the person district officials will hold accountable if there is a problem with collection. District monitoring of sub-county collection rates is not necessarily what district officials would like. In Kibaale there are supposed to be six auditors who visit each sub-county at least four times a year to monitor collection and expenditure of revenue. In reality, however, there are two auditors. With 18 sub-counties in the district, this shortage of staff prevents the auditors from spending more than one day in each sub-county per quarter.

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central government's fiscal year. Local authorities report that some residents still insist on paying under the January-December plan, which clearly causes complications.

SECTION III:
TAX COLLECTION: GAUGING THE IMPACT OF DECENTRALIZATION ON REVENUES

One of the hopes of decentralization is that by localizing fiscal matters—in this case, graduated tax collection—local revenues will be better collected. We presume that local authorities are better able to know who has and has not paid, and that they are also in a better position to enforce laws, since they have a more intimate knowledge both of the personal circumstances of residents and also of who may be trying to evade payment. But what has happened to revenue collection in empirical case studies?

Four tables of information are available to begin this analysis. For Kibaale District, tax assessment and collection data are available on a sub-county basis for three years, FY 1994/95-FY 1996/97.[19] All figures have been adjusted for inflation using the Consumer Price Index and all are adjusted into FY 1996/97 Ug Sh. For the moment I will concentrate on actual collections, as opposed to assessment.

As an aggregate figure for the district, the total number of shillings assessed and collected per year has actually *declined* (see Table 1). At face value this finding is inconsistent with the assumption that decentralization leads to better collection of local taxes. However, individual sub-county performance may be a better indicator of the reality behind that assertion. District-wide information may actually skew the picture that is emerging at the local level into an inappropriately general characterization, particularly as the presence of even a few poorly performing sub-counties can overshadow the better collectors. Furthermore, focusing only on district-wide data loses the nuances and diversity of sub-county performance, which is precisely the level of government that should be analyzed in greater depth since this is where collection occurs.

When examining individual sub-county performance, what is immediately clear in Table 1 is that collection rates have fluctuated. In order to see a larger pattern, look at the percentage change in collections between the earliest and the latest fiscal years as shown in Table 2. There is one important distinction to make about the structure of this data. During FY 1996/97 three new sub-counties were created, which can be seen by the absent data prior to the most recent year. To better reflect the changes in the area that has been sub-divided, the original land areas were used to calculate the percentage change. This means Mugarama and Kyebando are combined; Nalweyo, Nkooko, and Kisiita are combined; and Mabaale and Rugashari are combined. This leaves us with 14 sub-counties. Of these, only four have consistently lost ground in the number of shillings collected, as Table 2 shows. **On the other hand, 71.4% of the sub-counties have steadily increased the amount of money they collect from residents.** What are the reasons behind this improved sub-county performance?[20]

(a) Reasons for Improved Tax Collection

Local Retention of Funds. One of the first reasons LC3 Chiefs cite for better returns is that not only is 65% of all graduated tax revenue kept at the sub-county, but money is also retained by law at the village and parish levels of government. According to the 1997 Local Government Act, of the 65% retained at the sub-county, 25% of that amount (or 16.3% of the total amount collected), goes directly to the village. Another 3.3% (5% of the money retained at the sub-county) goes to the parish, and 3.3% belongs to the

[19] Only district level information is available for FY 1992/93 and FY 1993/94.

[20] In addition to the reasons listed in the following discussion, as with any jurisdiction it must be remembered there are economic differences between localities. For example, Mabaale hosts the largest weekly market in the district so its residents may be more economically active than people in more distant sub-counties. In addition, a period of drought in Nalweyo negatively impacted its revenue collection for obvious reasons.

Table 1: Sub-County Performance in Assessment and Collection of Graduated Tax *

Sub-County	FY 1996/97			FY 1995/96			FY1994/95		
	Assessed	Collected	% Paid	Assessed	Collected	% Paid	Assessed	Collected	% Paid
a) Buyanja County									
Bwamiramira	36,419,000	27,837,000	76%	47,995,856	34,354,475	72%	49,780,578	36,218,372	73%
Mataale	40,233,000	30,457,000	76%	40,819,641	28,094,006	69%	44,093,089	33,966,303	77%
Mugarama	29,100,000	27,701,000	95%	42,632,818	26,952,986	63%	43,730,674	27,848,084	64%
Kyebando	16,968,000	12,765,000	75%	n/a	n/a	n/a	n/a	n/a	n/a
b) Bugangaizi County									
Bwanswa	41,091,000	33,612,000	82%	36,458,536	31,547,983	87%	36,260,056	30,457,937	84%
Kasambya	32,625,000	21,834,000	67%	27,925,939	18,972,099	68%	29,368,376	21,973,020	75%
Kakindo	32,379,000	23,782,000	73%	31,778,536	22,857,017	72%	32,140,332	21,037,455	65%
Nalweyo	28,698,000	20,216,000	70%	30,993,149	22,641,547	73%	32,476,116	26,199,268	81%
Nkooko	40,568,000	28,929,000	71%	37,808,453	25,886,519	68%	43,211,946	28,123,659	65%
Kisiita	14,348,000	11,688,000	81%	n/a	n/a	n/a	n/a	n/a	n/a
c) Buyaga County									
Kyanaisoke	43,883,000	35,465,000	81%	48,670,276	37,072,624	76%	54,933,128	30,387,307	55%
Kiryanga	37,270,000	31,831,000	85%	36,711,713	35,284,227	96%	40,314,939	35,054,707	87%
Mabaale	32,388,000	30,485,000	94%	77,314,807	50,334,779	65%	82,419,955	44,553,924	54%
Kagadi	58,767,000	47,042,000	80%	53,868,481	40,132,293	75%	57,894,976	38,923,171	67%
Muhooro	53,732,000	36,646,000	68%	57,807,265	41,566,674	72%	62,128,171	33,070,107	53%
Bwikara	45,206,000	28,543,000	63%	42,725,470	31,640,635	74%	35,498,590	25,697,908	72%
Mpefu	51,831,000	34,632,000	67%	52,277,238	34,062,514	65%	42,572,798	18,715,913	44%
Rugashari	38,313,000	27,537,000	72%	n/a	n/a	n/a	n/a	n/a	n/a
District Total	675,159,000	511,004,000	76%	665,788,177	481,400,378	72%	748,616,851	524,350,096	70%

Source: Kibaale District Administration, Finance Department
* All figures converted to FY 1996/97 Ugandan Shillings (1,000 Ug Sh = $1)

Table 2: Percentage Change in Assessment and Collection of Graduated Tax by Sub-County *

Collection		Assessment	
Sub-County	Percentage Change, 1994/95-1996/97	Sub-County	Percentage Change, 1994/95-1996/97
a) Buyanja County		a) Buyanja County	
Bwamiramira	-30.1%	Bwamiramira	-36.7%
Mataale	-11.5%	Mataale	-9.6%
Mugarama/Kyebando	31.2%	Mugarama/Kyebando	5.1%
b) Bugangaizi County		b) Bugangaizi County	
Bwanswa	9.4%	Bwanswa	11.8%
Kasambya	-0.6%	Kasambya	10.0%
Kakindo	11.5%	Kakindo	0.7%
Nalweyo/Nkooko/Kisiita	10.7%	Nalweyo/Nkooko/Kisiita	35.0%
c) Buyaga County		c) Buyaga County	
Kyanaisoke	14.3%	Kyanaisoke	-25.2%
Kiryanga	-10.1%	Kiryanga	-8.2%
Kagadi	17.3%	Kagadi	1.5%
Muhooro	9.8%	Muhooro	-15.6%
Bwikara	10.0%	Bwikara	21.5%
Mpefu	46.0%	Mpefu	17.9%
Mabaale/Rugashari	23.2%	Mabaale/Rugashari	37.0%
District Total	-2.6%	District Total	-10.9%

Source: Original data from Kibaale District Administration, Finance Department

* Three new sub-counties were created in FY 1996/97. To better reflect what has happened to these jurisdictions since this change in boundaries, these calculations are based on sub-county boundaries pre-1996/97.

Table 3: Number of Taxpayers in Each Sub-County

Sub-County	FY 1996/97			FY 1995/96			FY1994/95		
	Assessed	Paid	% Paid	Assessed	Paid	% Paid	Assessed	Paid	% Paid
a) Buyanja County									
Bwamiramira	1846	1399	76%	2352	1658	70%	2180	1619	74%
Mataale	2010	1549	77%	1913	1331	70%	1802	1394	77%
Mugarama	1512	1520	101%	2406	1782	74%	2406	1676	70%
Kyebando	842	662	79%	n/a	n/a	n/a	n/a	n/a	n/a
b) Bugangaizi County									
Bwanswa	2109	1765	84%	2156	1966	91%	1932	1682	87%
Kasambya	1770	1223	69%	1629	1173	72%	1677	1260	75%
Kakindo	1862	1419	76%	1947	1480	76%	1809	1204	67%
Nalweyo	2290	1604	70%	2881	2144	74%	2902	2324	80%
Nkooko	2247	1561	69%	2704	1758	65%	2704	1845	68%
Kisiita	1066	931	87%	n/a	n/a	n/a	n/a	n/a	n/a
c) Buyaga County									
Kyanaisoke	2481	2086	84%	2966	2328	78%	3107	1759	57%
Kiryanga	2301	1989	86%	2259	2178	96%	2310	1997	86%
Mabaale	1976	1909	97%	4218	3089	73%	4173	2576	62%
Kagadi	3507	2743	78%	3394	2694	79%	3394	2421	71%
Muhooro	3301	2661	81%	2284	2017	88%	3282	1882	57%
Bwikara	3045	2085	68%	3060	2379	78%	3160	n/a	n/a
Mpefu	3836	2551	67%	3886	2606	67%	2872	1294	45%
Rugashari	2502	1848	74%	n/a	n/a	n/a	n/a	n/a	n/a
District Total	40503	31505	78%	40055	30583	76%	39710	24933	63%

Source: Kibaale District Administration, Finance Department

Table 4: Average Graduated Tax Assessment/Payment Per Household (Ug Sh)

Sub-County	FY 1996/97		FY 1995/96		FY 1994/95	
	Assessed	Paid	Assessed	Paid	Assessed	Paid
a) Buyanja County						
Bwamiramira	19,729	19,898	20,406	20,720	22,835	22,371
Mataale	20,016	19,662	21,338	21,107	24,469	24,366
Mugarama	19,246	18,224	17,719	15,125	18,176	16,616
Kyebando	20,152	19,282	n/a	n/a	n/a	n/a
b) Bugangaizi County						
Bwanswa	19,484	19,044	16,910	16,047	18,768	18,108
Kasambya	18,432	17,853	17,143	16,174	17,512	17,439
Kakindo	17,389	16,760	16,322	15,444	17,767	17,473
Nalweyo	12,532	12,603	10,758	10,560	11,191	11,273
Nkooko	18,054	18,532	13,982	14,725	15,981	15,243
Kisiita	13,460	12,554	n/a	n/a	n/a	n/a
c) Buyaga County						
Kyanaisoke	17,688	17,001	16,409	15,925	17,680	17,275
Kiryanga	16,197	16,004	16,251	16,200	17,452	17,554
Mabaale	16,391	15,969	18,330	16,295	19,751	17,296
Kagadi	16,757	17,150	15,872	14,897	17,058	16,077
Muhooro	16,277	13,772	25,310	20,608	18,930	17,572
Bwikara	14,846	13,690	13,963	13,300	11,234	n/a
Mpefu	13,512	13,576	13,453	13,071	14,823	14,464
Rugashari	15,313	14,901	n/a	n/a	n/a	n/a
District Total	16,669	16,220	16,622	15,741	18,852	21,030

Source: Kibaale District Administration, Finance Department
1000 Ug Sh = $1

county. Chiefs feel this shows people that their money is not just being taken to the sub-county, or even the distant district administration; a portion stays in the local community. Furthermore, village retention is based on the total amount collected by the village, meaning that it is better to have 25% of 100,000 Ug Sh, than of 50,000 Ug Sh. Chiefs often cite this LC1 retention as an incentive for villagers to monitor their neighbors.

Improved Enforcement. A second reason for higher collection rates seems simple on face value, but is so critical to an effective tax system that it is often overlooked: better enforcement. Chiefs estimate that anywhere from 40% to 70% of residents pay taxes willingly. As for those who do not pay in the allotted six months, enforcement becomes a more serious issue. Often this means a night raid on a tax evader's home to serve as a reminder of the obligation to pay, and in some cases, to arrest the violator. Two "good performers," Mugarama and Mabaale, took a pro-active approach to collection once the period of voluntary payment had passed. This is significant for two reasons. First, this implies that someone acting as a supervisor (in this case the LC3 Chief) is key to improving performance in a spread-out area that is difficult to reach by one person alone. Second, forcing people to pay is a visible reminder to the neighbors of the tax evader of what happens when someone does not comply with the law.

Smaller Jurisdictions. A third reason for higher collection rates, at least in the three sub-counties studied here, is the positive impact of redrawing boundaries. As Table 2 indicates, the areas that were once only one sub-county had the following percent improvements in collection after splitting: Mugarama/Kyebando, 31.2%; Nalweyo/Nkooko/Kisiita, 10.7%; and Mabaale/Rugashari, 23.2%. By splitting these areas into smaller jurisdictions the chiefs were able to more effectively manage the area in their charge. Furthermore, the total tax effort seems to have increased, to the benefit of these smaller units of government. Chiefs felt that under the original boundaries there was no way they could keep effective tabs on the LC1 chairs and the LC2 chiefs. For example, the Mabaale LC3 Chief knew there was collusion between an LC2 Chief and taxpayers under the previous boundaries. It happened in an area that was difficult for him to reach in order to adequately monitor the situation, and thus it persisted.

Public Mobilization. Fourth, in recent years the sub-county administration made a conscious effort to educate residents about why the graduated tax is paid. Mobilization meetings happen in one village, where three to five surrounding villages are invited to attend. Chiefs estimate 30% of the area's population attends. At the meetings chiefs explain that money paid is partially kept at the sub-county, and that 25% of it stays at the village level. Mabaale's LC3 Chief emphasizes the need for development projects because people cannot afford to pay for the services on their own. They need the sub-county, and the sub-county needs them to pay the graduated tax. This is also a good time for him to remind people that the law will be enforced. In Mabaale the LC3 Chief encouraged parishes to set up a prize system, such as rewarding the first taxpayer who pays. In addition, the sub-county also sets up a competition between the parishes, so that the first parish to have all its residents pay wins a bicycle.

Improved Transportation for Collectors. A fifth reason for higher payment rates is better transportation for the LC3 Chiefs. Kibaale is an extremely rural district, where homes are so spread out that even within a sub-county it can be difficult to reach the outskirts of the boundaries. Since virtually no one has an automobile, and traveling by bicycle can be too time consuming, an agreement was made to co-purchase a motorcycle for each sub-county through each LC3 and the Hoima District Integrated Community Development Project (HDICDP).[21] This has dramatically improved LC3 Chiefs' mobility, not just for collection, but for interaction with the district administration, for depositing revenues in the bank, and general maintenance of order.

[21] See Appendix Two for details on this project.

Improved Collection Points. A sixth and final reason for better collection rates is the innovation of some sub-counties to "go where the money is" to collect it. For example, in Mugarama the cashier has a stall at the weekly market in order to collect tax payments when residents have money in hand. The cashier estimated that up to 80% of voluntary tax payers will pay at the market. In another example, since some villages are so far from the sub-county headquarters residents will give their payments to the LC1 Chair, who will pay on their behalf when he has to go to headquarters on business. When he returns to the village, he brings the tax ticket to the residents. Since the graduated tax is often paid in one lump sum, which can be difficult to pay since many households survive on subsistence agriculture, this flexibility helps residents meet their obligations.

(b) How Assessment Can Impact Collection Receipts

Increasing collection rates are an encouraging sign about tax administration in the sub-counties. But to end the story here means ignoring an important aspect of revenue generation: tax assessment. Although the assessment process itself has not been altered, as Table 1 indicates, the aggregate amount of shillings assessed in each sub-county has definitely changed. Remembering that some sub-counties are combined for a total of 14, five of these sub-counties—or 35% of the total—have a significant percentage decline in the amount assessed (see Table 2). The more alarming cases are Bwamiramira with a -36.7% decline in assessment, and Kyanaisoke, with a -25.2% decline.

Nine sub-counties, on the other hand, have improved their assessment levels. The two leading sub-counties on this end are actually sub-counties that have divided their territory, like Mabaale/Rugashari, which raised assessment levels by 37%, and Nalweyo/Nkooko/Kisiita, which has improved assessment by 35%. **This fact may lend tentative support to the notion that by further localizing taxation collection, tax effort may be more efficiently captured.**

A positive spin on these fluctuations may be that sub-counties are more realistic now in projecting their tax base, as well as their ability to collect from it. As budgeting skills are refined, these declines in assessment targets may be attributable to better budgeting on the part of sub-county officials. The sub-county budgets I examined became increasingly detailed over time. Furthermore, LC5 and LC3 administrators mentioned that past projections were often based on doubling the previous year's figure—wholly independent of the fact that that projection was impossible to attain. Better budgetary planning may happen from more visits from the LC5 Internal Auditor as well as from other LC5 administrators who emphasize practical budgeting as the next LC5 budget is being set in the presence of all LC3 officials.[22]

Another way to look at changes in assessment addresses the discretionary procedure that is used to make the original assessment. There is certainly room for underassessment, and even outright bribery. Declines in assessment rates should be looked at through the eyes of local administrators. If you know you will be judged by the district on the percent of total taxes collected in relation to the total amount assessed, it is in your best interest to lower the assessment as much as possible. In other words, if you make the target easier to attain by lowering that final goal, you have a much better chance of looking like a good performer in the eyes of your supervisor. While this phenomenon may not be true across the board, it may be one possible explanation for the changes in the data.

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[22] While some district level employees may benefit from centrally or donor sponsored technical assistance, in Kibaale this level of assistance is not directly used by sub-county officials. The sub-county officials learn improved budgeting techniques from the district.

A final explanation for this fluctuation may also reflect changes that have or have not happened with the centrally supplied imputation values. If imputation values are not accurately adjusted to be consistent with inflation, then local governments will develop severe fiscal problems when their shillings are worth less than the imputation values imply (Musgrave, 1987). As a policy issue it must be wondered how far authorities can go to adjust for inflation versus how much of this adjustment a population can realistically absorb. This is a particularly critical issue in rural Uganda, where most people do not have reliable incomes. Making the necessary changes for inflation in the imputation values may be more detrimental to these limited incomes, and if the central government is accounting for this fact, then the resulting shortfall is clear. Although resolving this issue is not within the scope of this thesis, the situation is a real example of central decisions that have serious consequences for local authorities and residents.

(c) Why Local Bureaucrats Performed Better Than Expected

In the literature on institutional performance and bureaucracies many prototypes of behavior are discussed as if they were self-evident truths. Decentralization skeptics worry about the "institutional capacity" of local bureaucrats, fearing that these people are even more susceptible to taking bribes than middle-level management. It is theorized that if civil servants' wages are so low that a bribe is really seen as an extra salary of sorts. Local bureaucrats are thought to want to consolidate their local personal power, meaning that tax relief is often exchanged for support. Is that skepticism necessarily warranted? What examples can we take from this case that demonstrate why the stereotypical behavior has been minimized to the extent possible?

<u>Assumption: Trading Tax Relief for Political Support.</u> One assumption about mixing local politicians and tax collection is that politicians will exchange tax relief for political support (Prud'homme, 1995). Administrators at the central and district levels of governments say this practice is widespread. Politicization is clearly possible, given the role of the LC1 Chair—an elected official—in assessment and collection of the graduated tax. **The Kibaale District Administration tried to limit this activity in the upcoming election year by directing sub-counties not to re-assess for FY1997/98, given the opportunity for underassessment.** However, addressing this issue requires more than band-aid measures, and the Government of Uganda has tried to build in mechanisms to control this problem.

To deter villagers from listening too seriously to promises of tax relief, 16.3% of the graduated tax collected in a village is returned to that village itself. A village's return is based on the total amount they collect, so the more the collect they more they get back. In theory, residents know that if they exchange their tax obligation for political support then this means less money will come to the village. A village's money is often used for public goods like a school, so the absence of that money can have a big impact—if that connection is made in the taxpayer's mind.

Ugandan lawmakers have also tried to minimize this problem by making the LC3 Chief the local official who is ultimately responsible for tax collection. The Chief is a civil servant, not a politician. At least he should not be looking for true "votes" in the same way a politician might.[23] At least in theory the Chief's allegiance should be to his administrative bosses in the district headquarters, which makes him

[23] However, it should not be underestimated how the chief is dependent on good relations with the LC3 Chair as well as lower level politicians in order to have effective collections in the first place. In other words, politics can enter the picture in many ways. It should also be noted that if a Chief is excessively 'power hungry,' that he may in some cases act like a politician even though he is technically a civil servant.

more independent, in a way, than a politician. Holding the LC3 Chief accountable to civil servants rather than the public may be enhanced now that District Service Commission (DSC) is responsible for hiring chiefs and reassigning them to new sub-counties.[24] As will be outlined in the conclusion, several mechanisms exist to prevent the chief from acting as if the sub-county were his personal kingdom.

Assumption: Taking Bribes is Widespread. The taking of bribes is presumed to be a widespread activity that ultimately devalues the function of government. One frequently cited reason for bribe-taking is that civil servants' salaries are not sufficient, so bribes serve as "supplemental income." Without a doubt, graft does play a role in local government in Uganda (as it probably does in most countries, in the "developing" and "developed" economies alike). For example, the Mabaale LC3 Chief explained that sometimes a taxpayer gives only a fraction of the assessment, with the LC1 chair or an LC2 official taking a share of the payment. Then the official quietly keeps that taxpayer away from the attention of the LC3 Chief. This is not to say, however, that LC3 Chiefs are immune to corruptive measures as well; depending on the individuals involved in any situation, such an option is usually available.

The question remains, how can bribe-taking be minimized to the greatest extent possible? Part of this answer lies in personal motivations of each civil servant or politician.[25] People take on these responsibilities for very different reasons, which will eventually affect the methods used to carry out assigned tasks. Another part of the answer addresses the role of wages for civil servants. Wages in this sector have been notoriously low for years, although the case can be made that under decentralization these wages are steadily increasing. **The LC3 Chief and Cashier are now paid by the District from centrally provided grants, meaning that source of funds is more reliable than local revenues collected by the sub-county** (which is how they used to be paid). Under the previous payment system chiefs commented that salaries could be delayed by up to three months, whereas now they are paid on time. Evidence presented in the next section implies that staff allowances have been increasing under decentralization as well. As a result of this de facto raise, officials may be less inclined to take bribes since their "take home" incomes are rising.

Assumption: Institutional Capacity is Missing. A third hesitation about newly strengthened local authorities is that they cannot assume the new-found responsibility of spending more money without being wasteful. In relation to tax collection, the fear exists that no one is monitoring how the money is spent and/or collected, and that this is entirely too much discretion given too quickly. It is also suspected that local officials do not think their actions will lead to any disciplinary action by authorities, so there is no incentive to act responsibly. Two aspects of Uganda's decentralization experience address this issue.

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[24] DSCs are based at each District Headquarters, and since these Commission members ultimately judge an LC3 Chief's performance perhaps this means he will be less likely to take risky actions like outright bribery. While the creation of DSCs has generally been regarded as a positive development, I did hear one criticism that it could unduly promote "sons of the soil" over other equally qualified persons who may not be from the area. Fear of such favoritism could potentially undermine a DSC if it permeates the structure. The decentralization of the civil service has also been criticized because it can sometimes lead to administrators acting more like politicians in order to keep the DSC happy. In other words, it makes unpopular decisions harder to implement if DSC backlash is possible (Kimono, 1997).

[25] The role of worker dedication, either internally driven or encouraged by the organization, was found to be a contributing factor in better performance in government-sponsored programs in several case studies in Brazil (Tendler, 1997). In this Ugandan case study the importance of rewards from superiors also played a contributing factor in better employee performance. This example will be drawn out further in the next discussion of assumptions about local bureaucratic behavior.

One key fact, which will be returned to at the conclusion of the thesis, is the clearly assigned role of supervisor by the district in relation to the sub-county.[26] At least four times a year an Internal Auditor from the District's Finance Department visits each sub-county to review expenditure records and to look for major discrepancies. A Revenue Officer in the same Department verifies that each sub-county is honestly reporting its total revenues collected. Both divisions in the Finance Department have caught inconsistencies, so there is reasonable faith that these LC3 bureaucrats are carrying out their responsibilities as charged. One problem with district supervision, however, is that severe understaffing in the Internal Auditor's office prevents supervision to the extent desired. With less time being spent on each sub-county the quality of monitoring may be lower than it could be with more staff members.

Another reduction of LC3 staff apathy happens through an incentive program offered by the Kibaale District Administration. The sub-county that has the best performance in tax collection, defined as the highest percent of taxes collected in relation to the total assessed, receives a bull for a community celebration. The CAO instituted this incentive precisely to reward good behavior. In terms of the prize's perception by LC3 officials, it is quite an honor to receive the award. The reward is so prestigious that one sub-county even altered its books in order to boost its collection rates. However, the Revenue Officer caught the false information when he was reviewing end-of-year results for FY 1996/97.

<u>Assumption: Improving Bureaucratic Behavior is too Costly.</u> It is presumed that local officials perceive the personal or administrative costs of being a better performer as too high. In an area like Kibaale, with an extremely spread-out population, an administrator may not believe it is worth his time to aggressively collect a tax (which may not be a lot of money in the first place). This is especially true since adequate transportation is a serious issue in Kibaale. Fortunately, with the purchase of motorcycles for each sub-county through HDICDP it is hoped this impediment to good performance will be tempered to some degree. Furthermore, the CAO hopes the new incentive programs from the district will prove to LC3 chiefs that better performance *is* worth their time.

<u>Assumption: Local Officials Want to Consolidate Their Power.</u> A final assumption about local officials' behavior is that they act to consolidate their individual power locally. This may happen particularly if the official feels he is not respected by local residents and/or the district. Surely some civil servants act with the goal of power as part of the motivating reasons for their participation in the profession in the first place. However, before saying this happens across the board we must define "power" through the eyes of the LC3 Chief. One way to define "power" is in relation to the people an LC3 Chief is supposed to govern: the people in his jurisdiction. If consolidating his power in their eyes is the most critical motivator, independent of his relationship to the District, then perhaps the stereotype plays out in that instance.

However, when an LC3 official defines "power" as a prestige associated with good performance in the eyes of the District, then his behavior may change dramatically. In this case, the LC3 chief cannot act independent of district rules. Someone is watching his behavior. In other words, he cannot act as if the sub-county were his own kingdom. As noted previously, the DSC controls future job transfers, which means there is a definite restraint involved. In addition, if an LC3 Chief wins the

[26] Tendler succinctly summarizes the importance of supervision as follows: "[W]hether central governments use mistrust as an excuse has little relevance...it was precisely *because* central government was on the scene as a mistrustful outsider that the local 'content' of these programs did better and expanded" (Tendler, pg. 149). Treating the referred to "central government" as the district in this case shows an identical power of supervision and constructive mistrust.

District tax collection prize, not only does he win favor in the eyes of the District administration, but the case could be made that the residents in the sub-county feel good about their rewarded behavior as well. In sum, there are many motivators to an LC3 Chief's actions. Consolidation of power depends heavily on whom the chief considers his ultimate evaluators.

SECTION IV:
TAX EXPENDITURE: WHERE THE MONEY GOES, AND WHO'S WATCHING

For a fuller picture of how Uganda's decentralization program has impacted local authorities, this thesis now moves to the expenditure side of local government finance. How have budget allocations at the sub-county changed as more authority to spend is left with LC3 officials? What happens to money that is kept at the most local level of governance of all, at the village, under this new incentive system? Are these allocations more responsive to local demands, as is presumed by decentralization advocates? Are these limited local resources being used to their maximum potential?

(a) Local Spending Patterns

To monitor local spending habits I gathered as many LC3 budgets as possible for the three case study sub-counties. Budget structures were quite diverse, so I redesigned each budget into a somewhat uniform pattern that would be easier to compare. At times the revenues do not always match exactly with expenditures in Tables 6 through 8. The differences are usually minimal.[27] Most categories in the re-worked budgets are the same. However, at the end of each "expenditure" section, special categories have been added as the need arises. These are complete sub-county budgets, meaning that capital and recurrent funds to be spent at the LC3 level are included. There are no direct transfers from the district; these budgets are based exclusively on locally collected revenue.

I have split expenditures into two categories: "public services" versus "administrative costs." This was done to look for a distinction in government spending on non-excludable, public services as opposed to spending on items that may not directly affect the public. Why does this matter? It is a starting point to see how local expenditures are perceived by administrators and the public. Seeing if these opinions intersect is one indicator that local authorities are more accountable or responsive, and the opposite trend may indicate these structures have not emerged. Disagreement on expenditures is bound to happen anywhere in the world; the difference remains in how those discrepancies are addressed. I want to acknowledge, however, that some administrative costs are important for the functioning of local government. To say government should forego administrative budget items in totality is to undermine its capacity and overall health.

In this study, a public service refers to items like health, education, road maintenance, water, and to a lesser degree, development of the local markets and programming for women and youth. Administrative costs refer to three very different budget items: a) normal administrative costs associated with any office, b) capital improvements (administration building repair/construction or purchasing motorcycles for official use),[28] and c) staff allowances and salaries. Why would these latter two line items be more controversial than typical administrative expenditures?

In the case of staff allowances and salaries, it can easily irritate a public who see their money going into the personal pockets of administrators—people already presumed to have a higher and more reliable income than others in the community. Depending on how that money is spent (i.e. is it evident that

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[27] I did not try to balance or reconcile these differences, as this is beyond the scope of this thesis.

[28] These capital improvements are highlighted because the public may think this expenditure is not directly beneficial. The argument may be criticized because I could also legitimately say that government does have capital expenses that need funding. While I do believe there are necessary administrative costs like capital improvements, the point remains that from the point of view of the *public* those expenses may not be considered as crucial (no matter if that judgment is right or wrong).

Table 5: Sub-County Spending Patterns on Public Services and Administrative Costs

Sub-County	FY 1997/98		FY 1996/97		FY 1995/96		*FY 1993/94	
	Public Serv.	Admin.	Public Serv.	Admin.	Public Serv.	Admin.	Public Serv.	Admin.
Mabaale	n/a	n/a	15.40%	84.60%	13.90%	86.10%	36%	64%
Mugarama	18.40%	81.60%	21.50%	78.50%	21.20%	78.80%	n/a	n/a
Nalweyo	n/a	n/a	35.40%	64.60%	11.90%	88.10%	n/a	n/a

Source: Data is derived budgets provided by each sub-county chief
* Signifies a gap in sequencing.

Table 6: Mabaale Sub-County Budgets

FY 1996/97

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	57,075,350
Monies Remitted to LC1, LC2, LC4	
Village (LC1)	8,004,150
Parish (LC2)	0
County (LC4)	5,421,535
total amt at LC3	43,649,665
Total Revenue in LC3:	
65% of tax/fees	43,649,665
Ed. Tax	2,860,000
TOTAL	46,509,665
EXPENDITURE	
Public Services	
Health	0
Education	2,860,000
Feeder Roads	2,000,000
Water & Sanitation	1,000,000
Programs (women/youth)	1,320,000
Market Development	
Administrative Costs	
Allowances/Salaries	13,493,453
Administration Bldg	3,959,000
Administrative Costs	1,403,337
Motorcycle/Transport	2,251,600
Office expenditures *	1,382,400
Miscellaneous	1,115,100
Pymt to Other Agencies	2,547,453
Salaries of Parish Chiefs	1,296,756
Unpaid Bills	9,178,046
TOTAL	43,807,145

* office expenditures covered grounds upkeep, and the purchase of a typewriter and trays for the office.

FY 1995/96

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	58,739,105
Monies Remitted to LC1, LC2, LC4	
Village (LC1)	9,806,605
Parish (LC2)	0
County (LC4)	3,922,642
total amt at LC3	45,009,857
Total Revenue in LC3:	
65% of tax/fees	45,009,857
Ed. Tax	3,341,951
TOTAL	48,351,808
EXPENDITURE	
Public Services	
Health	684,561
Education	3,341,951
Feeder Roads	0
Water & Sanitation	0
Programs (women/youth)	2,695,122
Market Development	12,526,927
Administrative Costs	
Allowances/Salaries *	13,469,141
Administration Bldg	6,306,585
Administrative Costs	3,092,922
Motorcycle/Transport	0
Office expenditures	0
Miscellaneous	600,888
Pymt to Other Agencies	0
Salaries of Parish Chiefs	0
Unpaid Bills	1,532,985
Emoluments (Salary)	7,392,547
TOTAL	51,643,630

* figures were grouped under "office of the LC3" and "office of LC3 Chair." Since these are both benefit and service related, author allocated these items according to other general budget ratios.

FY 1993/94 (20% retention at LC3)

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	10,566,716
Monies Remitted to LC1, LC2, LC4	
Village (LC1)	n/a
Parish (LC2)	n/a
County (LC4)	n/a
total amt at LC3	10,566,716
Total Revenue in LC3:	
65% of tax/fees	n/a
Ed. Tax	n/a
TOTAL	10,566,716
EXPENDITURE	
Public Services	
Health	3,808,933
Education	n/a
Feeder Roads	n/a
Water & Sanitation	n/a
Programs (women/youth)	n/a
Market Development	n/a
Administrative Costs	
Allowances/Salaries	1,313,467
Administration Bldg	1,597,294
Administrative Costs *	122,869
Motorcycle/Transport	245,738
Office expenditures **	n/a
Miscellaneous	n/a
Pymt to Other Agencies	122,869
Salaries of Parish Chiefs	n/a
Unpaid Bills	n/a
Emoluments (Salary)	n/a
Rehab., LC3 Chief's home	798,647
TOTAL	8,009,817

Source: Mabaale Sub-County. All figures converted into FY 1996/97 Ugandan Shillings (1,000 Ug Sh = $1).

Table 7: Mugarama Sub-County Budgets

FY 1997/98

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	22,486,586
Monies Remitted to LC1, LC2, LC4:	
Village (LC1)	4,021,021
Parish (LC2)*	804,204
County (LC4)	1,158,391
total amt at LC3	16,502,970
Total Revenue in LC3:	
65% of tax/fees	16,502,970
Ed. Tax	1,415,250
TOTAL	17,918,220
EXPENDITURE	
Public Services	
Health	800,000
Education	2,000,000
Feeder Roads	0
Water & Sanitation	500,000
Programs (women/youth)	0
Market Development	0
Administrative Costs	
Allowances/Salaries	4,954,590
Administration Bldg	4,000,000
Administrative Costs	1,920,741
Motorcycle/Transport	1,849,520
Office expenditures	0
Miscellaneous	600,000
Pymt to Other Agencies	400,000
Public Relations	30,000
TOTAL	17,054,851

* LC4 retention=5% of all money collected;
LC2 retention=5% of GT collected

FY 1996/97

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	22,463,175
Monies Remitted to LC1, LC2, LC4	
Village (LC1)	4,686,562
Parish (LC2)	0
County (LC4)	2,246,317
total amt at LC3	15,530,296
Total Revenue in LC3:	
65% of tax/fees	15,530,296
Ed. Tax	1,715,000
TOTAL	17,245,296
EXPENDITURE	
Public Services	
Health	0
Education	1,715,000
Feeder Roads	1,000,000
Water & Sanitation	1,000,000
Programs (women/youth)	0
Market Development	0
Administrative Costs	
Allowances/Salaries	0
Administration Bldg	5,500,000
Administrative Costs *	5,030,295
Motorcycle/Transport	1,350,000
Office expenditures **	1,650,000
Miscellaneous	0
Pymt to Other Agencies	0
Public Relations	0
TOTAL	17,245,295

* Administrative costs were listed as "office," and therefore are only reported in this lum sum. Since no allowance figures were reported, it can be assumed a significant part was allowances.
** Office Expenditures=purchase of safe for LC3 and purchase of furniture for LC3 office.

FY 1995/96

REVENUE	
LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	29,801,352
Monies Remitted to LC1, LC2, LC4	
Village (LC1)	7,450,338
Parish (LC2)	0
County (LC4)	2,980,134
total amt at LC3	19,370,880
Total Revenue in LC3:	
65% of tax/fees	19,370,880
Ed. Tax	3,343,011
TOTAL	22,713,891
EXPENDITURE	
Public Services	
Health	0
Education	3,343,011
Feeder Roads	0
Water & Sanitation	861,878
Programs (women/youth)	0
Market Maintenance	603,315
Administrative Costs	
Allowances/Salaries	0
Administration Bldg	1,519,061
Administrative Costs *	8,418,531
Motorcycle/Transport	0
Office expenditures **	1,834,724
Miscellaneous	0
Pymt to Other Agencies	161,602
Public Relations	0
Parish Chiefs' Salaries	3,863,087
Rehab., Chief's Office/Home	1,939,227
TOTAL	22,544,436

* Administrative costs were listed as "office," and therefore are only reported in this lum sum. Since no allowance figures were reported, it can be assumed a significant part was allowances.
** Office Expenditures=typewriter purchase and office furniture purchase.

Source: Mugarama Sub-County. All figures converted into FY1996/97 Ugandan Shillings (1,000 Ug Sh = $1).

Table 8: Nalweyo Sub-County Budgets

FY 1996/97		FY 1995/96	
REVENUE		**REVENUE**	
LC3 Rev. from GT/Market Dues/Licenses/Permits:		LC3 Rev. from GT/Market Dues/Licenses/Permits:	
GT/Other Rev's	15,016,375	GT/Other Rev's	16,843,260
Monies Remitted to LC1, LC2, LC4:		Monies Remitted to LC1, LC2, LC4:	
Village (LC1)	3,754,094	Village (LC1)	4,210,276
Parish (LC2)	750,819	Parish (LC2)	842,163
County (LC4)	750,819	County (LC4)	842,163
			0
total amt at LC3	9,760,644	total amt at LC3	10,948,657
Total Revenue in LC3:		Total Revenue in LC3:	
65% of tax/fees	9,760,644	65% of tax/fees	10,948,657
Ed. Tax	1,862,400	Ed. Tax	unclear
LC3 Devel. Fund	4,324,000	LC3 Devel. Fund	unclear
TOTAL	15,947,044	TOTAL	10,948,657
EXPENDITURE		**EXPENDITURE**	
Public Services		Public Services	
Health	51,316	Health	0
Education	2,910,000	Education	0
Feeder Roads	2,000,000	Feeder Roads	762,319
Water	200,000	Water	215,470
Programs (women/youth)	400,000	Programs (women/youth)	0
Market Development	80,000	Market Development	323,204
Administrative Costs		Administrative Costs	
Allowances/Salaries	2,588,226	Allowances	1,090,276
Community Center	1,350,000	Community Center	1,077,348
Administration Bldg	0	Administration Bldg	0
Administrative Costs	1,763,082	Administrative Costs	899,438
Motorcycle/Transport	1,700,000	Motorcycle/Transport	430,939
Office expenditures *	420,000	Office expenditures	986,851
Finance Committee	153,150	Finance Committee	0
Miscellaneous	365,269	Miscellaneous	191,614
Nalweyo Town Council	200,000	Nalweyo Town Council	0
Committee Meetings	1,366,000	Committee Meetings	538,674
		Parish Chiefs' Salaries	2,472,074
		Const. Med. Asst. Home	646,409
		Housing Allowance	1,313,503
TOTAL	15,547,043	**TOTAL**	10,948,119

* Office expenditures, as oppossed to Administrative Costs, cover "compound upkeep" and "rent."

Source: Nalweyo Sub-County. All figures converted into FY 1996/97 Ugandan Shillings (1,000 Ug Sh = $1).

public servants can afford items they previously could not?), it may cause more resentment and dissatisfaction. I do not want to argue, however, that civil servants in Uganda are well paid by international standards—because they are not. On the other hand, wealth is relative. Bringing local salaries "up to standard" can be a loaded political issue, with intended and unintended consequences.

In the case of capital improvements, the rub to the local residents can be the very real frustration of having a sub-standard health clinic or school while local administrators (who may already seem to have so much) are spending millions of shillings on a new administration building. Or they buy a motorcycle. Each sub-county has an existing administrative building, which often doubles as the LC3 Chief's home. Built in the 1960s by the Baganda,[29] it is evident that few, if any, improvements have been made on it. Consequently, it is reasonable to see that some type of remodeling is needed. But controversy enters the picture in deciding *when* those repairs are needed, and to what extent the reconstruction should take place. Is a new administrative building more important than a new health clinic? More important than a new school? These capital improvements may be positive in terms of temporary job creation, but the long-term job creation impact is not there nor are the numbers of jobs created large in number.

(1) Spending on Public Services

Table 5 demonstrates how spending on public services versus administrative costs has changed. In Mabaale and Mugarama the percent of money budgeted for public expenditures has declined. In Mabaale the change has been more dramatic, with money spent on public services shifting from 36% of the entire budget in FY 1993/94 to 15.4% in FY 1996/97. Likewise, the jump in Mabaale's spending for administrative costs/services has risen from 64% to 84.6%. The manner in which that money has been spent will be discussed momentarily. Although the percent of expenditures going towards public services has also declined in Mugarama, the change has not been as dramatic as the Mabaale case. In Mugarama, public expenditures hovered around 21% for two years, and in this upcoming year's budget they have declined slightly to 18.4%.

In the case of Nalweyo, public expenditures have dramatically increased, from 11.9% to 35.4%. Unfortunately the data available in Nalweyo were limited, so the conclusions are a bit tentative. Two factors unique to Nalweyo may contribute to this difference. One is the 1993 arrival of more than 3,000 households from the Bachiga tribe, who were forcibly removed from the Kibaale Forest by the government.[30] With such a huge influx of new residents, there would be additional pressure on the sub-county government to spend more on public services, especially as immigrants are trying to get settled. A second factor may be the fairly strong presence and competition from an NGO, Uganda Rural Development and Training (URDT). In general there appeared to be few active NGOs in Kibaale, and even fewer had a reputation (for better or worse) parallel with URDT.

There may be one mitigating factor that explains the above trends, the possibility that the district has stepped in for this "gap" in public service provision. In other words, perhaps this attention to public services is not the responsibility of the sub-county and that's why it is not reflected in the budgets. **While the district is responsible for some public service provision (after all, this is the only level of government with access to central funds), it is crucial to realize there is increasing pressure on the**

[29] See Appendix Two for additional information about Kibaale's history. As a brief note, the Baganda tribe held control of the area that is now Kibaale, for at least 50 years. The land was returned to the Banyoro tribe at the time of independence from the British. Often the administrative structures that were built decades ago by the Baganda are the only administrative buildings in use to this day, and the structures can be quite dilapidated.

[30] Despite the identical name, Kibaale Forest is actually in another district called Kabarole.

sub-counties to take more responsibility in this arena. Pressure comes not only from the 1997 Local Governments Act (where districts *and* sub-counties are told to focus on primary education, select health services, and in the case of only the sub-county, maintain local roads), but pressure on the sub-counties also comes from the district itself. As I witnessed the setting of the FY 1997/98 budget, district officials repeatedly told sub-counties they would have to start sharing various service provisions since the sub-county is retaining so much locally raised revenue.[31] The district said it could not provide levels of support as it could in the past since its own funding, in effect, has been cut.[32] There is also hope in some parts of the central government and in some donor agencies that increasing responsibility can be given to the sub-counties.

It should be remembered that villagers are told to pay taxes because the government needs this money for service provision. Presumably, local residents should be able to see something for their money, which is why tailored service delivery is a touted benefit of decentralization. Ironically, by ambiguously defining whether a district or a sub-county is responsible to undertake that service provision, the service may be neglected in the end in the minds of local residents. They may not know who failed to provide them with a service, but they know it is one of two sources.

(2) Spending on Administrative Costs

Of all the spending categories listed under "administrative costs" in the budgets, staff allowances and capital improvements are more likely to attract public criticism, as explained earlier. Again, Mabaale and Mugarama are more alike than Nalweyo. In the first two sub-counties, expenditures on allowances and salaries have definitely increased, although there is divergence on spending for capital improvements. In Nalweyo, the expenditures on allowances and salaries have declined, while spending on capital improvements has been constant.

Remember that salary payment responsibilities have changed over time. Each district determines if sub-county employees should be paid from the LC5 or LC3 budget. In Kibaale, the LC3 Chief, Cashier, LC2 Chiefs, Assistant Development Officers, and health workers are paid by the district. Only the typist, a messenger, and the Chair receive a salary from the sub-county. It is possible that some of these salaries now paid by the district were once paid by the sub-county, but the exact date of this change is unknown.

For Mabaale, allocations for allowances and salaries have been rising. They span from only 12.4% of the total budget in FY 1993/94, to peak at 43.1% of total spending in FY 1995/96, and fall a bit in FY 1996/97 to 31.8%. One thing is clear, however. In Mabaale significant spending went to the construction of a new administration building, particularly in FY 1995/96. Given the extreme expense of such a project, it takes several years to finance. As of July 1997 it was incomplete.

In Mugarama spending on staff allowances and salaries has also fluctuated. In FY 1995/96 this budget item assumed an alarming 45.7% of the total budget. This figure dropped to 18.2% in FY 1996/97 but

[31] There is a fair amount of uncertainly in the minds of sub-county officials as to what they should financially expect from district government. Although sub-county officials are present for the setting of the budget, it is hard to know what allocation is made for your particular local area if health is addressed by sector, and not locality. A sense of distrust was fairly common, as if wondering whether or not the sub-county will get its fair share. The district also had the same comment about the sub-counties when it comes to remitting 35% of revenues to district coffers. How does one really know if the amount given is accurate?

[32] Kibaale is an extremely rural district, and the district headquarters is quite far from most of its jurisdictions. Not only does this mean that sub-county interaction with the district is limited (and costly), but it also means there are limits to how well a district office can serve 18 different sub-counties.

increased again in this upcoming budget to 27.7% of the total budget.[33] Two years ago only 15.2% of the budget was spent on capital improvements (although over 50% of that amount went to "rehabilitation of Chief's Office/Home"). In FY 1996/97 this jumped to 39.7% as the sub-county began aggressive construction of a new administration block. Furniture was also purchased for the sub-county office, as it was in FY 1995/96. In the current fiscal year, 32.6% of funds will be allocated for capital improvements.

For Nalweyo, spending on allowances and salaries was also alarmingly high in FY 1995/96 when it consumed 49.5% of all possible expenditures. That figure dropped to 25% in the past fiscal year. Spending on capital improvements has remained constant at 19% of total expenditures. For Nalweyo the capital improvements have focused on the construction of a new community center, as opposed to a new administration block. The community center that was inherited from the Baganda was in such a state of disrepair that it was deemed unsafe for use. At least in principle, a community center invokes an image of community-wide use, as opposed to a new administration building. That generalization may or may not be true, depending on how the center is actually used by the community.

After looking at these three cases, it is obvious there is widespread variation in how sub-county budgets are organized. What does this mean for effectiveness of local governments? Does this mean local governments are more responsive to local residents' demands? Possible answers to this question will be addressed in the upcoming analysis when public perceptions of the expenditures are examined. Another way to look at these discrepancies is to ask if this means that people in different parts of Kibaale—not to mention other parts of Uganda—have different levels of service provision? Are those gaps acceptable? One of the goals of decentralization may be for tailored service delivery, but when does such tailoring lead to possible neglect of overall national health?

(b) "Public" Perceptions of Spending by Local Governments

The allocational reality behind budgeting in three Kibaale sub-counties is described above. We know how local government spending patterns have changed—and not always consistently—over recent years. As the focus shifts to local residents' preferences on spending habits, one question to ask is why should we try to determine what "the public" viewpoint is when there will surely be conflicting opinions? The answer directly addresses one of the touted benefits of decentralization: a more accountable governance structure. To have accountability (at least in one definition of the term) there should be some level of interaction between civil servants and citizens. Consequently, there should be some incorporation of public preferences in local budgets. But to what extent are these preferences reflected in the budgets of these three Kibaale sub-counties as outlined above?

During my visits to the three sub-counties half of my time was spent trying to gauge how a typical resident might prioritize local spending habits. Approximately 100 residents in the villages surrounding these sub-county headquarters were surveyed, most frequently through a group interview. A translator was always used, and all of the appropriate cautions for such circumstances should be applied in this case. Nevertheless, a consistent pattern emerged in terms of how people ranked their priorities.[34]

(1) Ranking Service Priorities

[33] Mugarama was the only sub-county with a current draft budget at the time of research, despite the fact that FY 1997/98 began during my stay.

[34] Another caution about these interviews is that some people responded to questions with "wish list" priorities, which may or may not reflect a realistic assessment of the situation. To the extent possible I tried to focus people's comments so that such wish lists were minimized.

I gave interviewees a list of budgetary items and asked the respondents to prioritize them. Items were health, education, road maintenance, a new administration building, and a motorcycle (or other appropriate transportation for local officials). Many people prefaced their comments by saying all services were important, but when I pressed them to rank the services the following pattern emerged. Not surprisingly, people overwhelmingly support public services, namely health and education (ninety-nine percent of the time these two ranked first). Why? Typical responses included, "because everyone can use a school or a clinic," or, "LC3 officials do not need to have a new administration building like a child needs health care." Road maintenance generally fell in the middle of the ranking, although a few times it ranked last. A new administration building was usually ranked fourth and transportation for local officials was typically ranked last. It was apparent that public services are more valued than capital goods that help provide administrative services to the community, from the point of view of local residents.

To further test what are the critical elements in health and education services, I surveyed approximately 20 people. I asked what is more important for a health clinic: to rehabilitate the building, to have better trained personnel, or to have drugs? The critical concern always centered on having more drugs available, and the clinic's physical state was given last priority. For education, people wanted more qualified teachers as opposed to a new classroom. One respondent said, "You can always teach class under a tree if you have to [but an unqualified teacher will always be unqualified]." **People appeared to be searching for the tools to make their public services more effective, not just the physical infrastructure that means they can exist in shell form.**

(2) Public Approval/Disapproval for Local Spending Habits

After ranking service area priorities I wanted to know if interviewees felt the sub-county was spending money in ways the public prefers. After all, a correlation between the two seems like a fundamental first-and-then-second step to accountability at the local level. The elicited responses were contrary to expectations. More often than not, most people simply said they had no idea how the sub-county spends the money, and the answer stopped there. People who gave that response did not seem to care in the first place about how the money was spent, whereas other people said it was not their place to question how LC3 officials spend money. **Those are two fundamentally different responses—one points to the fact that not everyone who qualifies as "the public" necessarily cares deeply about government spending patterns, and one shows that people are not comfortable questioning a bureaucrat's decision.** The group of interviewees who was most insistent about not being able to question the sub-county lived in a village only 8-10 km from the sub-county headquarters. How must people feel who are even farther away from their closest level of government?

(3) Reasons to pay taxes

Since Kibaale residents are told to pay taxes to gain better services, what happens when they see no change at all in that public service provision? To look for possible answers to that question, I polled people as to why they bother to pay taxes. When I asked people why they pay taxes as a general concept, as opposed to contrasting it with our previous discussion on service provision, the response was a demonstration of rote memorization. "We pay taxes because we know the use of the tax." That use was "for the provision of services that each village could not provide on its own." The principle of economies of scale in service provision is a valid theory indeed, but it seemed unlikely to me that this was the number one motivation to pay the graduated tax—particularly if these "services" are not realized.

Consequently I asked the question in a different way, asking directly if people were happy with how services are currently being delivered (keep in mind, this was asked *after* most people said it was not their place to question government). This question led to a series of complaints, whether it was lack of drugs in the health clinic or roads that were not repaired. **People knew what the problems were—it is not that they did not know *what* to tell local officials, but that that communication was not fundamentally possible.** The rush to list grievances was ironic when in the previous breath most respondents said they pay taxes because they know their uses. Clearly they are not satisfied with the reality of these uses.

So why pay taxes? The answer may be straightforward, but it comes down to not having a choice. Any head of household is legally required to have his/her graduated tax ticket available to show any local official on demand. If a person travels without that ticket, either temporarily or to make a business transaction in a nearby town, the taxpayer is liable for the full amount upfront. In other words, without a tax ticket your mobility is severely restricted. Since most interviewees' first response was, "We pay taxes for services," I turned the comment around and asked it as a question. One group actually laughed at that suggestion—"We pay because we *have* to pay." Residents also mentioned that the night patrols to apprehend tax evaders were a punishment for non-payment. It appears that these enforcement mechanisms are working at the village level. These examples indicate that the role of enforcement is undeniable.

(c) Why Different Priorities Matter: Impact on Accountability and Confidence in Government

The two previous discussions contrasted local administrators' preferences for sub-county budget expenditures with those of the public. Not surprisingly, citizens prefer more spending on public services, as opposed to items that they could be excluded from. As is apparent from the earlier discussion, however, spending on public services has actually declined in some sub-counties for a trade-off in higher spending on staff allowances/salaries or capital improvements for the LC3. Since many village respondents felt it was not their place to question local authorities, to what extent is the public able to express its opinions about priority expenditures? Why does this apparent discrepancy matter? To some extent it is an irreconcilable difference in opinion. After all, just because "the public" thinks a budget item should be important does not mean is inherently the most significant priority. Furthermore, "the public" is bound to have differences in priorities itself; it is not as if there is agreement on issues. However, these discrepancies *are* important for several reasons.

In a strictly theoretical sense, it is important to understand where the limits exist in the application of decentralization theory. When do some actions lead to a chain reaction of others, and when do they not (most fundamentally, this is addressing the presumption of participatory public and whether or not local government can be responsive)? When exactly does the often cited role of accountability factor into local decisions? This issue is not just theoretical, as it raises important practical issues for policy-makers, whose challenge it should be to find more effective ways to encourage the outcomes that they would like to see. A deeper issue in the context of taxation policy is the following: how long will people remain content with paying for something whose benefit is not apparently realized? When is that tax effort lost?

(1) Transition to a Participatory Public

The interviews above indicate that a key prerequisite to a more accountable government structure—the ability to question or supply input to government decisions—is absent. If people do not feel comfortable questioning a government action, then how can they tell local officials that spending patterns should be changed? **If the public is not engaged (to any degree) in decision-making, how does a local government know how to tailor local service delivery?** Decentralization is often promoted because local governments are presumed to know the needs of their residents better than a central government authority. It seems like a perfectly reasonable assumption. But in the case of Kibaale, how are these decisions any different? How are they more inclusive of local public opinion?

Earlier the Local Council system was described as a hope for "bottom up" representation in Uganda (Villadsen and Lubanga, 1996). The responses elicited above indicate a missing connection between these LC structures. If the LC system were truly representative, people would feel more comfortable making constructive comments to their local officials within their cultural norms. The respondents at one village felt strongly that they could not question their representatives. I said I was confused, because I thought the point of the LC system was for every villager to have a voice through the LC1 Chair. They replied by saying that every time you move to a higher level of government your ideas are less represented. They implied that only part of their concerns ever made it out of the village. How much of this sentiment is a normal feeling towards government that is universal in most nations, as opposed to citing a real disconnect in the LC system as structured in Uganda, remains to be seen.

Part of the issue in Uganda's LC system may be in the structure of compounding elections for LC positions. As a result of this the LC3 Council, which should in theory be the voice for the public when setting LC3 budgets with the administrators, is not directly elected. Another issue may be determining to what extent the Council has real input to government decisions. At the district level I was very impressed with the setting of the FY 1997/98 budget, where district administrators had to justify their budget allocations to LC3 Chiefs and Chairs. This was a meeting of the LC5 Council. Lively debate raged for several days, and it was clear district officials could not make a budget without this input. In the end, I thought this was an excellent example of participation in local decision making. But what happens when this process moves to the sub-county? How much input is solicited by the Chief from the Chair and the LC3 Council?[35] In the three sub-counties I studied, the Chair appeared to have significant input. But the Council seemed like a much more distant authority in the eyes of local administrators. In fact, it was explained in one case that the Chief and Chair basically draft the budget, which is submitted to the Council—who makes very few changes, if any. **It appears *this* is where the disconnect is happening in terms of engaging public input on government budget decisions—at the sub-county, and less so at the district.**

One reservation needs to be made lest the reader assume there is no hope for local participation in sub-county governance structures in Uganda. It is true that the above answers are very different from what decentralization proponents expect to find. And it is true that these responses indicate a serious gap, and possibly a widening gap in some sub-counties, as to how the public versus the local civil servants and politicians think the tax money should be spent. However, the time period in which this research has taken place—in the first few years of Kibaale's decentralization experience—means that this study does not serve as an ex-post evaluation of fiscal decentralization. On the contrary, this is a process in which Kibaale is in the very early stages of.[36] The challenge for policy-makers is to acknowledge that strategies must be formulated that will help areas like Kibaale transition from the state of representation as it exists now, into more inclusive measures.

[35] NGOs or the private sector may also be sources of input. In Kibaale neither of these actors is very prominent, but in other cases their presence may be more defined.

[36] In fact, Kibaale was in the third batch of districts to decentralize in Uganda. The categorization of districts into batches is further described in Appendix One under the discussion of the Local Governments Statute of 1993.

It is critical that these more "inclusive measures" be defined on culturally appropriate norms. After all, as terms like 'democratization" have very different implications and meanings in some African countries as opposed to North American ones, degrees of public participation will also vary. Even though it may be too early in Kibaale's decentralization process to see significant increases in public participation, further research could look to see the extent of how local governments have become more responsive over time—no matter how small the changes may be. How has interaction between the Chief and the Chair and/or Council changed in recent years? Has sub-county responsiveness changed when a problem or crisis is brought to its attention? Are there clearly outlined rules for administrators' behavior, and are they well known? How much public disclosure exists regarding sub-county decisions? How exactly does the public evaluate local goverment's performance? In what ways do rural citizens feel engaged in their local government?

(2) Impacts on Checks-and-Balances & Accountability.

Lack of input from the community implies that accountability is lacking in the local government structure. Routes to improving this are partly embedded in the questions previously asked, in terms of monitoring increases in public participation. But it could also be improved with more transparency about local government decisions. For example, household tax assessments could be posted in a public manner so that they are reviewed by at least those people close to sub-county headquarters. Additional effort could also be made for villagers to know their rights under decentralization. One group of villagers I spoke with told me how they knew they should receive 10% of the revenues collected in their village, and they wanted to know when that money would be delivered. It is good to hear they know there is an allocation for their area, but unfortunately they are actually entitled to 25% of the amount, not 10%. At least these are signs, however, that villagers know that something has been promised to them, and that they know when it has not been delivered.

Part of accountability comes from *below* the sub-county level, but I maintain this is not the sole way to evaluate the notion of improved accountability. Another important measurement of accountability is between a sub-county government and its immediate supervisor, the district.

By examining this intergovernmental accountability it could be argued that the LC system is functioning well. The manner in which the district government monitors sub-county performance has been described previously, namely through the Internal Auditor who makes quarterly visits to each LC3 office. While this supervisory role may not be as great as district administrators might like because of staff and financial constraints, they *do* catch gross negligence on the part of sub-county officials (at least in terms of revenue collection; expenditure is not monitored to such an extent). Consequently, sub-counties do not act solely on their own accord; their behavior is tempered by other actors. In other words, sub-county officials *are* often being held accountable to higher levels of government.

One explanation for this increase in intergovernmental accountability may be that increasing levels of decentralized governance may require it for improved effectiveness. After all, if a CAO wants to have a good record so he can be promoted, his performance is at least in part judged by sub-county effectiveness in the sense that the district does rely on sub-counties for governance. In other words, district officials also have an incentive to work with more local levels of governance. **This 'chain reaction' of accountability between many levels of government is an example of how decentralized powers are kept in check by not only institutional mechanisms, but by each bureaucrats' interest in self-preservation at multiple levels of government.**

Would sub-county behavior be the same if they knew their behavior was *not* being monitored by a supervisory agent? Probably not. Sub-counties are adjusting to new responsibilities under Uganda's aggressive decentralization program, particularly now that they retain 65% of all local revenues collected. Adjustment to this enhanced power takes time, and monitoring from above can help with the transition. This is not to say that the district should be a force that watches every move in a sub-county; such behavior defeats the purpose of giving power to local authorities on the presumption that they will be more effective. **But ex-post monitoring, as opposed to ex-ante censorship, appears to be a key ingredient in helping local authorities adjust to their enhanced responsibilities.** Monitoring from above does not inherently have to be a negative aspect of the implementation of decentralization. The critical issue is *how* it is applied.

(3) When promises become hollow

A tax system may be considered effective to the extent that citizens are accustomed to paying and that compliance is widespread. That graduated tax collection has lived through almost five decades is a good indicator that this acknowledgment between government and its citizens is accepted in Uganda. After hearing, however, the reason given behind paying taxes—for services that people cannot provide on their own—I have to wonder how long people will accept this as a valid reason when they do not see any improved services. In Kibaale's experience so far, tax money allocated for public services is actually declining in real terms in two of the three sub-counties surveyed. When is the line crossed in the minds of the taxpayers that there is little or no connection between what they pay for taxes and what they receive as services? When does that realization lead to the conclusion that it is not worth paying taxes in the first place? Therefore, when is a tax base paralyzed or held captive to citizen apathy or distrust of government? What forms of protest may citizens take—lack of payment, or worse?

These questions may seem academic in nature but are fundamental to the social contract government promises in relation to tax collection and service provision. How long will the public wait for results? More expenditure on services of a public nature would be a concrete example to citizens that taxes can actually benefit "the public." It may demonstrate to people that local governments can actually do something, which is critical to building people's faith in government effectiveness. This is particularly relevant for Uganda, where for years the government was thought of as an entity to be feared and not as a provider. Building on local government credibility is certainly something that takes an extended period of time, and encompasses more than just providing services for paid taxes. But building credibility may be a delicate process, and will not likely benefit from making promises that cannot be reasonably filled.

(d) When Local Retention May Go Too Far

Another aspect of local expenditure is the retention of 25% of the sub-county's share of revenues at the village unit of government. In other words, 16.3% of total graduated tax revenues collected in a district are kept by villages. It is only logical to explore how and how well this money is being spent.[37]

This money is distributed to villages at the close of a fiscal year, once sub-county officials tally how much revenue was collected. Villages are compensated in a way that rewards higher tax effort as described earlier. In some cases the money is distributed to the parish, and then the villages in a parish

[37] Prud'homme argues that when very low income countries add more levels of government what happens is "total overhead expenditures [increase] at the expense of direct useful expenditures," the latter type being "expenditures providing services to people and enterprises" (Prud'homme, 1993). In the end, this lowers the efficiency of government.

decide how to spend the money collectively. The hope is that more can be accomplished by pooling money instead of acting alone. This is a reasonable conclusion, especially in light of the following example. In Mabaale sub-county each parish was distributed Ug Sh 973,354 on average last year. That is just under $1000. When that money is split into village allocations, and there are on average 11 villages in each parish, this means that each village receives Ug Sh 88,487. That is roughly $88.

What can a village do with $88? The following example should put the options in perspective. One of the most important priorities for villages is building new schools. Not only are the existing buildings in declining condition, but with the onset of "Universal Primary Education" (UPE),[38] the pressure is on for villages, parishes, and sub-counties to create as many new school buildings as possible. Let's assume each village has $100 to spend. That money can buy 2000 bricks. However, approximately 20,000 bricks are needed to build two classrooms. Money also has to be factored in for the cost of sand, cement, and labor (although the latter can be donated through parent time). In the end, the village allocations do not result in an amount that is significant enough to make a real capital improvement.[39]

It should go without saying that local revenues are scarce resources in developing countries. Even as an aggregate amount these revenues are not a huge "piece of the pie" as they may be in countries that have a stronger tax base upon which to draw. For example, in Kibaale's current budget only 17.6% of all revenue sources were locally raised (Kibaale District Administration, 1997). As this is the only source of funds the district has true discretion over, it is critical to maximize their use. Mismanagement is not only wasteful but it prevents the district (or sub-county) from targeting this money on priorities *they* identify. Since taxpayers are urged to pay on the principle that payment leads to better service provision, this is also a standard that sub-counties have placed upon themselves.

Is leaving 16.3% of total revenues raised locally at the village—a unit of governance that cannot immediately produce a final product—the best use of scare funds? As the school construction example highlights, the answer may well be "no." If each village spends their $88 on a school, it will take years of application of these funds to attain a school. Even if three villages pool funds in one year that is roughly $300 of the $1000 needed for brick materials alone. At what point does the public begin to lose faith that their tax money is working for their best interest? What would happen if that money were kept at the sub-county? If kept at the sub-county that is $3000 to be spent. Roughly three new school buildings could be built, especially after adding in the education tax revenues. Perhaps that money could be more efficiently allocated by the sub-county.

One caveat is that villages retain this money as incentive for people to pay their graduated tax in the first place. LC3 Chiefs believe this is a key reason for inducing people to pay. Consequently, it does not seem practical to completely end the sharing of local revenues between the sub-county and the villages. The better question to ask is how much money needs to be left at the local level in order to induce confidence in government and willingness to pay taxes? It could very well be that 25% of sub-county funds may be too high; the challenge is figuring out if a lesser percent can be retained at villages for the

[38] UPE was a pledge given by Museveni, whereby he promised that each Ugandan family is allowed to send four children to school free. By some accounts this has doubled the number of pupils in Ugandan schools, and it has placed an incredible hardship on local schools and the central ministries that serve them.

[39] This may be changing to an extent, with some donors trying to make more localized interventions. One example is a Capital Development Fund sponsored by UNCDF, or Irish Aid which makes roofing supplies available for schools. Perhaps in combination with these support resources substantial progress towards effective use of locally retained funds can be made. However, since these donors operate in a limited number of districts, this extra support is probably not too promising—or something to rely on—for other parts of Uganda.

equivalent result, or whether 'village funds' can be earmarked at the sub-county and remain in those structures, providing that money is only spent on village needs.

SECTION V: CONCLUSION

Increasing the amount of locally raised revenues collected is a fundamental prerequisite for the long-term stability of local finance in Uganda. It is so important because locally raised revenues are the only source of funds that districts have true discretion to spend. If district and sub-county governments are to have any ability to prioritize programs based on local circumstances—one of the basic tenets of decentralization—then improving their own-revenue sources is critical to the realization of that goal.

(a) Lessons about Assessment and Collection of the Graduated Tax

One surprising finding at the outset of the research was that district-wide collection of the graduated tax has actually declined in real terms in Kibaale. The hope of finding better collection rates is more likely, however, when the district-wide data are disaggregated into sub-county information. In this case, 71.4% of the sub-counties have increased their collection of the graduated tax in recent years. The two main reasons for this cited by LC3 chiefs are, first, that 65% of all local revenues are now retained at the sub-county or lower levels of government, which serves as an invaluable incentive to pay, and second, enforcement has become more stringent in recent years.

An interesting finding addresses the often assumed relationship between improved collection and making smaller units of government. How far should policy-makers split jurisdictions, either for the protection of ethnic homogeneity or for better service delivery?[40] In Kibaale three new sub-counties were created in FY 1996/97. I analyzed the original jurisdictions to see if authorities were able to better capture taxes in a more administratively decentralized system. The areas that were once only one sub-county had collection rates significantly higher than in those sub-counties whose boundaries did not change. **The evidence implies that more localized collectors can best capture local tax effort.**

Improving collection of the graduated tax also deals with motivations of the people who collect the tax: the LC1 chair, the LC2 chief, and ultimately, the LC3 chief. A host of arguments in the literature say why local bureaucrats will *not* perform well, so why are they apparently doing better in Kibaale? Several structural ways this has been achieved was discussed, but a common thread permeating many reasons is that there is a clear supervisory relationship between sub-county officials and their immediate supervisor, the district.

(b) Lessons on Expenditures

In two of the three sub-counties studied expenditures on public services have declined in the past three years. Generally speaking, allocations for allowances/salaries have increased, as have expenditures on capital improvements like an administration building. The overall fact remains, however, that spending on public services is declining.

As might be expected, the public's perception of how tax money should be spent does not fit into the above patterns. There is overwhelming support for spending on public services, particularly health and

[40] This is a critical issue in Uganda because there is a constant push to further sub-divide units of government. For example, six new districts were created in early 1997. Even within districts there are pushes to split sub-counties into two jurisdictions as opposed to one. This trend is of increasing concern for some policy-makers because it is unknown when a line is crossed and units of government divide too much. It is not clear when economies of scale are lost.

education, and much less for putting money towards a new administration building. Clearly there is a discrepancy in spending preferences between LC3 officials and the public.

When local residents were asked if they approved of the LC3's expenditure pattern, respondents were either indifferent or said it was not their place to question government decisions. When the question was rephrased to ask for opinions on service delivery, frustrations with the status quo came out quickly. If it is not their place to challenge the LC3 officials, this does not bode well for the assumption that decentralization leads to a more participatory and accountable governance structure. Why bother to pay taxes if the reason you are told to pay—in order to receive services—is not valid? **Enforcement is an overwhelming reason for compliance, not improved faith in local government to provide services.**

This finding questions how accountable local governments should be or can be to the people they serve. One critical type of accountability that *has* improved is intergovernmental accountability. With key supervisory roles in place between the district and the sub-counties, productive links have been fostered without being overly restrictive.

(c) Policy Recommendations

This report is not a final reflection of the state of decentralization in Uganda; there are many questions raised that have yet to find compelling answers. Several such questions will be raised alongside the related policy recommendations below.

(1) Linking Decentralized Levels of Government

One aspect of the literature on decentralization that seems to lack qualitative evidence is the search for mechanisms that can link different levels of government. I hope there are ways to tie their fates to one another so that each has a good reason to listen to the other, and foster better performance. **This study has shown in repeated instances that when levels of government are more formally connected, that better bureaucratic performance and improved intergovernmental accountability is often the result.** One worry of several inspectors in MOLG is that some districts equate decentralization with abdication from the center. Likewise, district officials sometimes have difficulty in getting information from the sub-counties. It can even be the case that sub-county chiefs cannot obtain cooperation from village or parish officials and politicians. It appears that decentralization is defined by some local officials—at a multitude of levels—as a road to independence, and ultimately, local consolidation of power.

This is not a very positive image, particularly when one of the goals of decentralization is fostering better government responsiveness. How can a local government possess that quality when it will not even listen to a higher authority? Why should those officials ever bother to listen to local residents? There are concrete examples in Kibaale's experience that prove it *is* possible to link levels of government in ways that encourage cooperation, and ultimately, more responsive government officials. The issue then becomes, how these links can be fostered at additional levels of government as well.

One common thread between all these examples is that the person who needs to be monitored has a supervisor of some type at a higher level of government than where they are serving.[41] In other words, the person in question knows that his fate (meaning length of employment or advancement

[41] People may need to be monitored not because they are bad employees per se, but because their position in government makes them more susceptible to potential corruption.

opportunities) is being judged by his performance—and someone is watching. If the type of monitoring that happens is designed not to be a stifling force that limits an official's discretion, but as a watchful eye that periodically reviews performance with known consequences if discretion is mishandled, then this is a positive step to the establishment of accountability between levels of government.

Examples of effective connections between levels of government are the following. First, LC3 chiefs know that their evaluation by superiors (CAO, CFO, and DSC), depends on their ability to collect taxes. It is checked by Internal Auditor visits as previously described. Second, district officials are also accountable to their bosses, namely the central government and donors. If the CAO wants a promotion into central government, he had better demonstrate an impressive record on multiple fronts. If he wants to keep the donors satisfied, every shilling they forward to his jurisdiction had better be accounted for. Likewise, if the ACAO wants to be promoted to CAO in his career, he knows that a positive impression must be made on the DSC and conveyed to the central government. **All of these examples show employees who have critical responsibilities and corresponding power that could be potentially abused, and how they know for certain that they cannot act in a vacuum that is separate from the larger authority that watches them.**

This research also shows cases where these intergovernmental links have *not* been formed yet. The challenge remains to find ways for an LC3 chief to be more responsive to LC1 and LC2 officials, and hopefully, to citizens.[42] Two-way accountability also needs to improve. Even in the above positive examples, the supervision always came from above, not from authorities situated below. In the case of Uganda, there is no recent history of allowing such criticism from below to flourish. It does not mean it is impossible, but that it will likely take more time. **At least early on in decentralization in countries with similar histories to Uganda, linking levels of government through top-down mechanisms may be important.**

The key in implementing monitoring from above is that it is not overly restrictive. Otherwise you defeat the entire purpose behind decentralization. A local administrator with newfound responsibilities should definitely have the freedom to make daily decisions without someone looking over his shoulder. Periodic review from one's supervisor could provide the necessary checks and balances ("periodic" meaning monthly or quarterly, *not* weekly), as long as the goal of the review is to check for mismanagement and not to criticize every action. Local administrators must have the discretion to take risks, which means they will learn from their mistakes as well as from their successes. The supervision should review past actions, and not serve as a censor to future ones. Supervision can turn negative when local administrators perceive every decision is under scrutiny, and if any mistake is made it will be unforgivable. That is not the type of supervision I advocate.

The creation of expenditure standards for local governments would greatly facilitate the monitoring process and define boundaries for all officials involved. For example, sub-counties do not have any guide as to what percent of their budgets should be spent on a series of items. For that matter, there is no basic cost data available in the first place, meaning there are no guidelines saying how much should be reasonably spent on building a new administration block, or whatever the expenditure item may be (Odur, 1997). In the most fundamental sense administrators at all levels of government

[42] Fox notes that "authoritarian clientelism does not necessarily erode in a liner process towards citizenship," meaning in this case that full-blown democracy in a North American context is not an easy goal to attain since there are several ways to build on an improving democracy (Fox, 1997). I argue here that intergovernmental accountability is one way to hopefully achieve this, but surely other changes need to happen as well.

need to know how to get the maximum gains for a minimum of expenditures—which is why expenditure standards can be so important (Nkayarwa, 1997).

These standards could be set by the district and be an evaluation tool for the Internal Auditor. This could dramatically help cost-sharing of service provision between the district and sub-counties. Such linkages would also help the sub-county know what to expect from the district in terms of sectoral expenditures in their area, which to date remains a mystery to many LC3 officials. Also, with these norms being public knowledge, villagers would also have a better sense of what the government wiil provide. This could be an excellent way to strengthen intergovernmental accountability.

Also lacking are incentives for LC3 officials to incorporate input from the LC2 or LC1. To encourage this behavior, perhaps the LC5 should take a more active role in seeing how the LC3 budgets are organized, and how they were created in the first place. As previously described, there is an excellent example of incorporating others' opinions into budgeting as the LC5 Council was quite participatory. The LC3 officials discussed throughout this thesis were present for this debate; now it is time for that degree of public disclosure to be carried to their own LC3 Councils, an not stop at the LC5.

(2) Opportunities for Decentralizing Revenue Collection & Expenditure

Assumptions about inherent benefits of local government and local finances are clear. Perhaps one of the reasons the assumptions about benefits of fiscal decentralization[43] are having difficulty being proved is that at least in the case of local finance, two very different activities are being lumped together in this analysis: collection of revenue and its expenditure. I argue that these are inherently different responsibilities of local governments. **While collection may be more inclined to benefit from decentralization (as previously explained), the case for extensive decentralization of expenditures (at least with few guidelines of how that money should be spent) needs further evidence.**

The fact that spending on public services, as opposed to administrative costs, has fluctuated so much in recent years sheds doubt on the assumption that local officials will automatically spend in accordance to local needs. While decentralization advocates may say that this budget variation is a good reflection of service tailoring, it could also be argued that this is an example of budgeting without supervision. One implication of this could be unequal delivery of services. Given that there is little communication between sub-counties, let alone between different districts to see to what degree services are being provided across the country, this can have potentially detrimental effects on equitable access to services.

Retaining 65% of all locally raised revenues at the sub-county levels appears to be a reasonable way to allocate money—because improved mechanisms the funds' use should improve allocations, and also because LC3 officials are much closer to district residents than the LC5 administration. **There is doubt, however, as to why 25% of the amount retained by the LC3 must be kept at the village. The pool of funds is so limited in Uganda, particularly in rural districts like Kibaale, that this appears to be an ineffective use of extremely scare resources.**

Could the sub-county spend the money better? Money disbursed to the villages has such weak purchasing power that it would take years of savings to build classrooms as described in the previous section. Is it better to build three complete structures per year through the sub-county—and show

[43] Namely that local governments are better suited to collect certain revenues, they are more equipped to know exactly where money needs to be spent to help the most people, and in the end, they are more accountable than the central government because their expenditure habits will be reviewed by the people around the area.

results—or should each village be allowed to slowly build their school in anywhere from five to ten years? Given that the public does not want to wait forever to see results, a strong case can be made that the LC3 may be more efficient. This money could be earmarked as "village funds" so that they would not go to staff allowances or capital improvements. Despite the earmarking, perhaps the sub-county is in a better position to effectively spend those funds in a strategic manner.

In terms of the argument that LC1 retention is important because it serves as an incentive to pay, perhaps it can still be used as an incentive for local collection as long as the sub-county, instead of the LC1, has the burden to show results for those funds.[44] If the LC3 is able to build three schools per year in different parts of the sub-county, then villages will see that benefit. Even if one's exact village does not receive classrooms right away, that person will hear that they have been provided in other areas. In fact, that village would know its own opportunity would be coming soon. Rather than reduce the village allocation to something below 25% of funds collected, which would be an even smaller pot of money with even fewer chances to be utilized, rather keep that money earmarked for villages in its entirety at the sub-county. Doing this could also be an incentive for LC3 officials to be more responsive to village needs (and the district could add some incentive for the consultation), especially if agreed procedures on use of these 'village funds' require communication with the communities that will directly benefit.

(d) A Final Comment

It should be remembered that Kibaale, not to mention Uganda, is at an early stage of its experimentation with decentralization. There is extreme variation in the political, administrative, and fiscal opportunities of the country's 45 districts, so what may be true in Kibaale may not hold as much truth in another setting. This study does, however, shed light onto the little-researched relationships between the district and the sub-counties, not to mention villages. Given that one of the ultimate goals of decentralization in Uganda is to devolve even more powers to the sub-county level of government, I hope that this analysis provides a useful glimpse into the relationships that have emerged and how they can be strengthened.

[44] The notion that the village retention really is an incentive to pay tax can be doubted to some degree in the first place, in light of the responses of the public in the previous section. I would not say it is a completely discredited notion, but rather that there is doubt on its overall strength.

APPENDIX ONE:
UGANDA'S ROAD TO DECENTRALIZATION

The Ugandan experience with decentralization is often cited as one with a unique combination of institutional, legal, and political support for the decentralization process. Interestingly, a more holistic look at Uganda's history reveals a country that has experienced the extremes of tight and loose central control. Under British rule Uganda was relatively decentralized administratively, which continued through the nation's independence in 1962. By 1967, however, the trend towards extreme centralization had begun under Obote. Deterioration of local powers continued under Idi Amin in the 1970s as well as during the fight for control of the country after his ouster in 1979. During these two decades of centralization, the role of the local chiefs—who were mainly administrative bureaucrats by the end of British rule—became transformed into a position of total authority "'without any administrative check' and no popular accountability" (Tidemand, 1997).

When the National Resistance Movement came to power in 1986, it could be argued that decentralization was ushered back into Uganda with the introduction of the Resistance Council (RC) system.[45] As the government of Yoweri Museveni introduced the RC system in its first two years in power, at the central level the status of district effectiveness was being researched. One of the first places to start reform was with the bloated civil service, whose initial reforms began in 1990 with the Civil Service Review Programme (the reform was further refined in 1992) (Langseth, 1996). In 1992 the Decentralization Secretariat was created under the Ministry of Local Government in order to intensively guide districts through the forthcoming legislation.

Uganda's aggressive pursuit of decentralization is evidenced by strong presidential and line ministry support (in most cases), clear statutory intent through three major pieces of legislation, an implementation strategy that believes in "learning on the job" as opposed to being more cautious in releasing powers to local authorities, and finally its skillful use of dozens of donor agencies who are willing to support this ambitious decentralization in a multitude of program and funding arrangements.

Key Legislation in Support of Decentralization

Below is a brief summary of major pieces of legislation that have formalized the Ugandan Government's commitment to decentralization. Descriptions of these laws focus on key pieces that are relevant to local revenue collection and are not a comprehensive review of each law's significance towards decentralization.

<u>Local Governments Statute of 1993</u>

In 1993 the Local Governments Statute was created as an "enabling law" to start placing parameters around central versus district responsibilities. It was decided that central money would be transferred to districts in block grants with the intent of increasing district discretion over its expenditure. Equalization grants were also promised to help more disadvantaged districts, but to date these funds have not been available. In terms of local revenue, the Statute mandated that at least 50% of all locally raised revenues remain at the sub-county. Previously this was limited to 20% of the total amount collected. Districts were given the power to hire their own staffs through the District Service Commission. In relation to local personnel, sub-parish chiefs were retrenched as an effort to save money (GoU, 1997).

[45] The RC system is now called the Local Council (LC) system, hence the labeling of local governments by the LC acronym.

It was also decided at this time to decentralize powers to the districts in phases. Three batches were created based on presumed institutional capacity. Decentralization of the recurrent budget happened in two phases. For the first year a district was on a "vote system," meaning that central funds would come earmarked. During that first year, districts maintained two budgets (one for government transfers and another for own revenues). In the second year central transfers were treated as revenues and only one budget was organized by districts (MOLG, 1997). The batch one districts were on the vote system starting FY 1993/94, meaning their budgets were fully decentralized in FY 1994/95. Batch two districts were fully decentralized in FY 1995/96, and for batch three districts this did not occur until FY 1996/97. Kibaale is a batch three district.

The 1995 Constitution

The 1995 Constitution, which was seven years in the making, was another major step in furthering decentralization in Uganda. Not only does the Constitution more clearly outline central and local service responsibilities, but it established that the district should be the basic unit of local government. It also mandates that CAOs are hired by the District Service Commission, as opposed to being centrally appointed as they were before. Rules were also set in relation to the District Executive Committee and how the LC5 Chair is elected by adult suffrage (UNCDF/MOLG, 1997).

Local Government Act of 1997

In March 1997 the Local Government Act was passed by Parliament. Building upon the Constitution, the Act stipulated that "local governments" will consist of the District Council and the Sub-County Council. Both levels of government are bodies corporate, meaning that they have lending powers, the ability to borrow funds, and the possibility of being sued. The Act also increased the amount of locally raised revenues to be retained at the sub-county to a minimum of 65%. The law mandates that only up to 15% of local revenue may be paid as allowances for people sitting in local government meetings. Service responsibilities were also further delineated for central, district, and sub-county governments (Local Governments Act, 1997).

APPENDIX TWO:
KIBAALE'S RECENT HISTORY

The area that is now Kibaale District has lived through a tumultuous history throughout colonization by the British, and its troubles continued in the time following independence. This area was part of the Hoima District until 1991, when Kibaale was created as a separate district. Located in the western part of Uganda, it has a low population density in comparison to other districts, with approximately 280,000 people now living in 4,625 km^2.

The Legacy of the "Lost Counties"

The Bunyoro Kingdom, one of four major Kingdoms that covered the area of Uganda when it was colonized by the British, was partially located in the area that is now Kibaale and Hoima. Having a rather contentious relationship with various British settlers who came to the area in the mid to late 1800s, Banyoro leaders were less inclined to help the British as their control strengthened in the area that is now Uganda. On the other hand, a neighboring Kingdom, the Buganda, was seen as a more cooperative kingdom in the eyes of the British.

An act that happened in 1900, the formalization of the Uganda Agreement, continued to impact the residents of Kibaale up until the 1990s. One part of this Agreement was the formalization of the Buganda Kingdom's boundaries—which incorporated almost a third of the Bunyoro Kingdom's population into Buganda (Beattie, 1971). John Beattie, an anthropologist who lived in Bunyoro for 22 months between 1951-3 and 1955, best summarizes the impact of this action on the area that is commonly referred to as the "Lost Counties:"

> "Thus at a stroke Bunyoro was punished for its resistance and Buganda rewarded for its assistance to the British campaign, though...the primary reason for the annexation...[was for] military reasons. So from the turn of the century until 1964 about 40 percent of the Banyoro people lived in a Buganda territory and were subject to Buganda chiefs, a state of affairs which the Banyoro and their succeeding kings bitterly and increasingly resented." (Beattie, pg. 76)

The "Lost Counties" (which are Buyaga and Bugangaizi—now two of the three counties in Kibaale) voted in a 1964 referendum to return to Bunyoro. To a casual observer of current Ugandan politics this history may not appear relevant. But the issue of the "Lost Counties" was raised whenever I mentioned the study of Kibaale, and cited as one reason behind the district's recent label of a 'good performer' that the people now living in Kibaale have "something to prove" because of their neglected history. The tension continues to this day as few people in Kibaale have land titles; they remain in the hands of Buganda absentee landowners, and this is an issue of increasing attention.

Kibaale in the 1990s

The split from Hoima in 1991 and Kibaale's recent experience are described in section two.

Donor agencies present

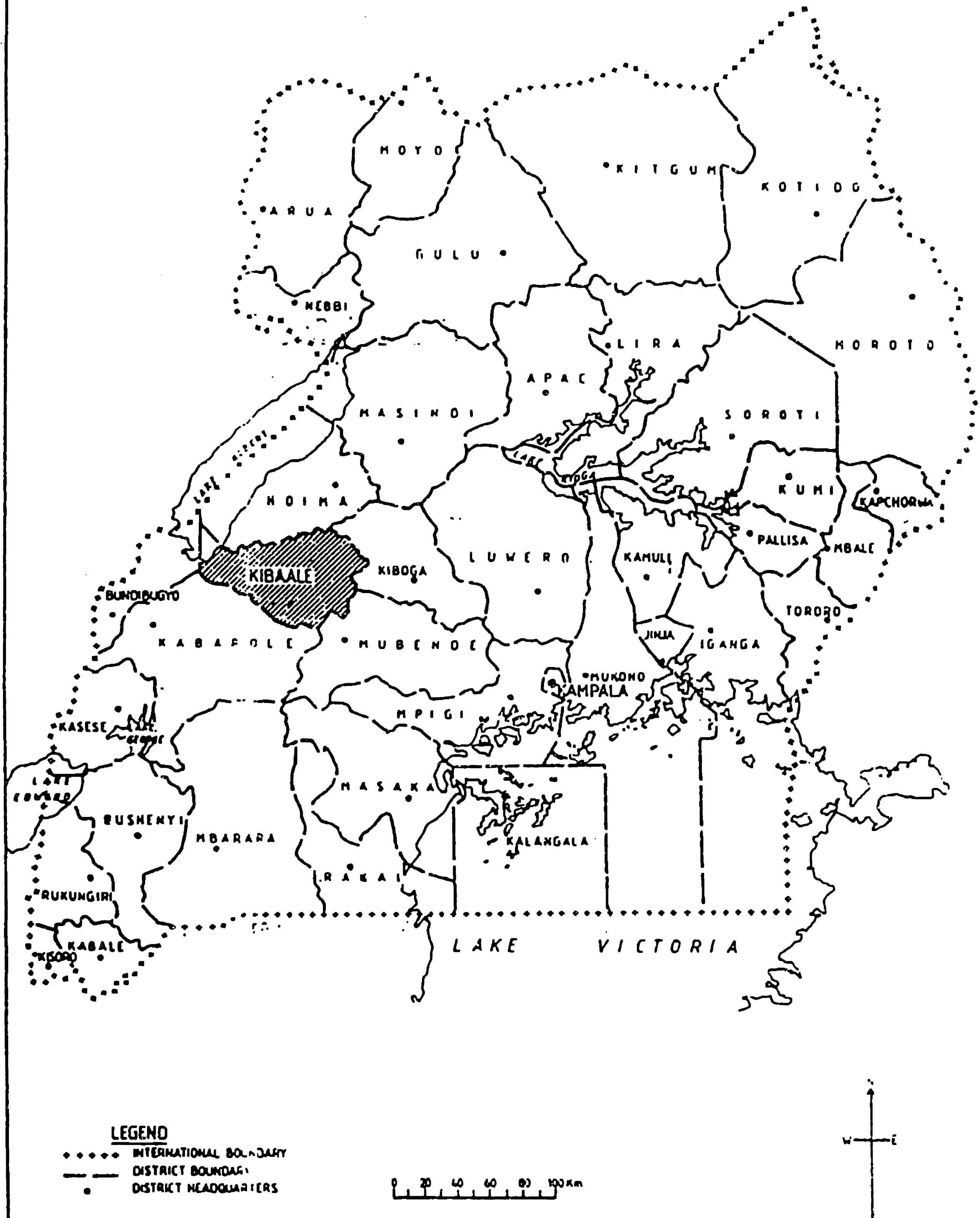
The first major donor initiative in the area occurred in 1990 with the Belgian Survival Fund (BSF)/International Fund for Agricultural Development (IFAD)'s introduction of the Hoima District Integrated Community Development Project (HDICDP). Although this project was initially started when the two districts were under Hoima's jurisdiction, it has expanded to cover both areas. Depending on whom you ask, coverage may be biased towards Hoima, since that is where the project offices are located. HDICDP covers a wide range of programming, including health, agriculture, community development, and capacity building for the district administration (HDICDP, 1997).

Irish Aid also approached Kibaale in 1994 with an idea for a Kibaale District Development Program (KDDP). While many sectors have benefited from this program, including health, education, water, and overall capacity building, one of the most famous examples of this program's success has been their use of labor-based road maintenance. Although this has been used in many other countries, as of 1994 it had not been tried in Uganda. Kibaale district officials, Irish Aid employees, and MOLG all mentioned how skeptical central authorities were that the method would work, and that they have been impressed with the remarkable improvement in Kibaale's roads in such a short time In fact, labor-based road maintenance has spread to other districts as well. Two Irish Aid employees live in Kibaale; one is in the Works Department and the other in the KDDP office for general program management.

These are the two major donors present, although the African Development Bank (ADB) and the Japanese Development Agency (JICA) are working on road maintenance. Active NGO's are the Hoima Diocese and the Uganda Rural Development and Training (URDT), the latter which is active in Nalweyo and Nkooko sub-counties and in the town of Kagadi.

UGANDA

LOCATION OF KIBAALE DISTRICT IN UGANDA



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