

The Influence of District Local Government Revenue Collection on Delivery of Basic Community Services in Uganda

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Abstract: *The study examined the influence of local government revenue collection on the delivery of services in Masaka which is one of the oldest districts in Uganda. It focused on the following specific objectives; (1) the relationship between the existing tax base on service delivery; (2) the relationship between the existing mobilization capacity and service delivery; and (3) the effect of practicing transparency on the delivery of services in the district. The sample comprised market vendors and other small scale entrepreneurs who pay local tax in the district. Purposive sampling was employed in that only those local community members who pay taxes to the district authorities from their businesses were studied. This technique yielded sixty (60) respondents out of whom 23 were female. Results reveal that; (1) there is a positive and significant relationship between the existing tax base and the delivery of basic community services in the district [$r = .382, p < 0.03$]; (2) there is also a significant relationship between the existing mobilization capacity and the delivery of basic community services [$r = .419^{**}, p < 0.0001$] However, alternative hypothesis for study objective (3) was not supported in that there was a negative and insignificant relationship between the existing transparency and the delivery of basic community services [$r = .088, p > .504$]. It was therefore recommended that if district local governments are to succeed in their revenue collection efforts, there must be significant steps taken to ensure that there is transparency in terms of tax assessment, award of tender and the general procurement of district services.*

Keywords: Community services, local government revenue, tax base, mobilization capacity

1. Introduction

At the time when the proposal was mooted by government to devolve power and give mandate to the local governments to mobilize and collect revenues to supplement government grants, the local communities indeed thought that patriotism and improved service delivery will be easy to come by. This assumption was premised on the belief that natives were to take charge and make complicated procedures easy, work transparently and kick the vice of corruption out of all known channels of the district service process. However, this has not been the case. Indeed in many districts there is only controversy and challenge instead of convenience and comfort in revenue mobilization, its collection and utilization. It should be recalled however that the main objectives of establishing local governments included: (1) to provide democratic and accountable government; (2) to ensure the provision of services to communities; (3) to promote social and economic development; (4) to promote a safe and healthy environment; (5) to encourage the involvement of communities in a sustainable manner.

Thus, while it is common knowledge that local revenue mobilization and collection is one of the main roles of local governments, it has not been clearly established whether funds collected are properly utilized. The main purpose of this study therefore is to empirically examine the impact of the current local revenue collection on the service delivery. Local governments collect revenue in order to bridge the funding gaps between central government transfers and the actual amount of funds budgeted by the local government. More guidelines have been developed by the Ministry of

Local government to guide districts and even sub counties to plan for revenue enhancement. Under this system, local governments are obliged to mobilize adequate revenue to fully execute their mandate in service delivery. This is because a sound revenue system for local governments is an essential pre-condition for the success of fiscal decentralization (Bird, 2010; Martinez-Vázquez and Smoke 2010; Olowu and Wunsch 2003). In addition to raising revenues, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities (Shah 1998; Oates 1998). The basic community services include access to clean water; public lighting systems; safe sanitation services; health services; education; feeder roads; drainage channels; garbage collection and many other sanitation systems.

However, local revenue enhancement in local governments continues to be a very big challenge despite the various interventions from the different stakeholders. Various reports have stressed the worrying situation in revenue mobilization and control. For instance according to Masaka District Local government revenue enhancement report (2007), the district suffered significant losses of revenue. It is stressed that out of 9,424 businesses that were eligible to pay trading licenses, only 7,033 paid and this alone resulted into a loss of shillings 24,000,000 (twenty four million). The loss was also attributed to inadequacies in the remuneration and assessment process.

In Uganda, almost all local governments are facing a governance crisis and feeding on the poor service delivery syndrome. Put another way, fiscal decentralization which is

the devolution of revenue mobilization and spending powers to lower levels of government has not been beneficial in the recent years. Masaka district was selected because of its centrality in the creation of other new districts such as Kalungu and Lwengo.

There are various documented challenges in revenue collection by the various collection teams that range from failure to pay the mandatory 50% down payment before embarking on revenue collection from the markets, the vendor's refusal to pay market dues because of the Presidential pronouncements regarding removal of daily dues (mpooza), ungazetted markets which are unfenced as well such that vendors to sneak out after making their sales without paying any tax.

2. Literature Review

According to McCluskey *et al.*, (2003), the growth of Africa's towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure and financing. It has been observed by Tibaijuka (2005) that for Local Authorities to provide the services required adequately and efficiently, there is need for new methods and ways of mobilizing revenues.

A research by IMF (2010) indicated that most developing countries are emerging from the crisis with their fiscal prospects broadly intact. Many are still facing a fundamental need to raise more revenue from their own tax bases (Westman, 2004). The United Nations (2005) warned that achieving the Millennium Development Goals requires increasing domestic revenues in low-income countries (LICs) by around 4 percent of GDP.

It was noted by the fiscal policy experts (Brewer, Chandler and Ferrell, 2006) that the spirit of decentralization was to provide a better position in identifying local needs and deliver public services accordingly. Given this background, the district local governments can easily identify and raise revenue from local sources such as road tolls, property tax, fees, fines, market dues and the like to boost their financial base for development of the locality. In addition to the Internally Generated Funds (IGFs), the district local governments are also expected to come up with projects and programmes that can help communities to reduce poverty in their localities (Bray, 2008).

In Uganda, it is typical to find that local source revenues are a small portion of a local government's total revenue. This can be due to a variety of factors including: restrictions imposed from the politicians or central government on the types of revenue sources available to the local government and the actual rates that can be charged. In Uganda also, there is generally a culture of dependency on the central government decisions and guidance such that if the charged revenues are unpopular to injure political support, it can be discarded its revenue potential notwithstanding. This has been supported by Venables (2010) who observed that local politics opposes local revenue collection. Whatever the combination of causes, the result is that local government is usually over dependent on transfer payments and less able to exercise decentralized leadership for development.

According to Wallace (1994), a broaden tax base through tax policy reforms and mobilization of domestic resources is absolutely essential for sustaining poverty reduction over the long run. The informal sector being effectively immune from taxation, governments of developing countries have fewer tax instruments than rich countries.

The research by Odd-Helge Fjeldstad (2003) concluded that there is an urgent and obvious need for more revenues to enable resource poor countries to provide and maintain even the most basic public services.

3. Methodology

A cross sectional survey design was adopted and the study population were the market vendors and small scale entrepreneurs who pay taxes to the district local government. Purposive sampling technique was employed in that only those local community members who pay tax to the district authorities especially from their business were contacted. The assumption is enshrined in the canons of a good tax which are; equality, certainty, convenience and economy. This sampling technique yielded a total of sixty (60) respondents who filled and returned the questionnaires out of which 23(38.3%) were female. A five point Likert Scale was used for rating the items of the opinion survey ranging from (5 = Strongly Agree to 1 = Strongly Disagree).

Reliability of the questionnaires was determined using Cronbach Alpha that stood at 0.8358 implying that the questionnaire registered the highest form of reliability.

Correlation and regression analyses were performed using SPSS package version 20 to test the relationship and the general effect of local government perceived revenue collection on service delivery.

4. Results

4.1 Perceived tax base in the delivery of basic community services

Data was analyzed using both descriptive and correlation analysis. Before testing the relationship between tax base and service delivery, descriptive statistics was analyzed as indicated in table 1. From the table 78.3% of the respondents agreed that widening tax base is attributed to identifying new potential revenue sources which means that people are aware that in order to increase service delivery, new taxes have to be introduced. In addition, 80% also agreed that low income has affected the tax base leading to low service delivery. Results also show that a very low figure (50%) agreed that in order to increase the tax base for proper service delivery, tenders should be awarded to the highest bidder. Also, 71.7% agreed that multiplicity of taxes affects the tax base hence poor service delivery and another 71.7% agreed that taxpaying culture negates tax base widening. It should also be noted that 70.0% of the respondents agreed that there is sensitization of the masses on new taxes to increase tax base for effective service delivery. Finally, 71.7% of the respondents agreed that subsistence agriculture negates tax base widening and consequently affects service delivery.

Table 1: Responses on the existing tax base to deliver basic community services

Response	A & SA	N	D & SD
	%	%	%
1. Widening tax base is attributed to identifying new potential revenue sources	78.3	15.0	6.7
2. Low income has affected the tax base	80.0	3.3	16.6
3. Advertised tenders should be awarded to the highest bidder to increase tax base	50.0	5.0	45.0
4. Multiplicity of taxes affects tax base	71.7	20.0	8.3
5. There is sensitization of the district on the new taxes to increase tax base	70.0	23.3	6.7
6. Taxpaying culture negates tax base widening	71.7	21.7	6.7
7. Subsistence agriculture has affected tax base	71.7	13.3	15.0

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

Testing the relationship between the perceived existing tax base on service delivery

A correlation matrix was generated to establish the relationship between the perceived existing tax base on service delivery. As indicated in table 2, there was a positive and significant correlation between perceived existing tax base and service deliver ($r = .382, p < 0.03$) implying that widening the tax base is very critical to the realization of services in Masaka district.

Table 2: Correlation matrix

	Tax base	Mobilize	Transparency	Service delivery
Tax base	-			
Mobilize	.268*	-		
Transparency	.253	.455**	-	
Service delivery	.382**	.419**	.088	-

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

**. Correlation is significant at the 0.01 level (2-tailed)

4.2 Descriptive analysis on mobilization capacity in the district

Before determining the relationship between mobilizations capacity in the district and basic community services delivery, descriptive statistics was first summarized and analyzed. As indicated in table 3, the results reveal that most of the respondents agreed that tenders are involved in revenue mobilization (66.7%). The analysis also reveals that 60% of the respondents agreed that the public is aware of the tax obligation. In addition, an average number, 56.7% of the respondents also agreed that enforcement of revenue is a necessity and 51.7% agreed that officers collecting revenue treat clients well. However, 78.3% of the respondents disagreed with the statement that sensitizing tax payers has been done properly. Also, 76.7% disagreed that revenue mobilized is well managed in the district. In addition, a very low figure (45%) disagreed with the statement that revenue mobilization is for councilors although an equal number also agreed with this statement.

Table 3: Responses on the mobilization capacity demonstrated to deliver basic services

Response	S.A & A	N	D & S.D
	%	%	%
1. Sensitizing tax payers has been done properly	15.0	6.7	78.3
2. Revenue mobilization is for councilors	45.0	10.0	45.0
3. Tenderers are involved in revenue mobilization	66.7	3.3	30.0
4. Enforcement of revenue is a necessity that you support	56.7	8.3	35.0
5. Revenue mobilized is well managed	18.3	5.0	76.7
6. Public is aware of the tax obligation	70.0	8.3	21.7
7. Officers collecting revenue treat clients well	51.7	16.7	31.7

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

4.3 Testing the effect of the existing mobilization capacity on service delivery

A correlation analysis was also employed to determine the relationship between the existing mobilization capacity and service delivery. Results support the hypothesis that there is a positive and significant relationship between existing mobilization capacity and service delivery ($r = .419^{**}, p < 0.0001$) as indicated in table 2. In addition, the regression results also show that improving the mobilization capacity has a strong effect on the delivery of essential services to the community ($\beta = .417, t = 3.218, p < 0.0002$) as indicated in table 5. This implies that the more the improvement on mobilization of revenue, the higher the service delivery other things being equal. It is noted however that descriptive statistics has already indicated that the revenue mobilized in Masaka is not well managed which is a recipe for disaster. In other words there is perceived corruption tendencies by the tax payers in this regard.

4.4 Descriptive statistics on practicing transparency to deliver community services in the district

It can be deduced from table 4 that just more than an average number of respondents (57.8%) agreed that management systems and controls are in place and 51.1% also agreed that there is a district budget desk in place. Similarly, it is noted that 50% of the respondents agreed that tax base has increased with transparency and that there is an average transparency practice demonstrated in the district procurement activities (55%). Moreover, less than average number (48.4%) disagreed with the statement that enumeration of markets is done fairly which means that it is unfairly done. Similarly, 45% of the respondents disagreed with the statement that markets are tendered out to qualified persons, 66.7% disagreed that there is transparency in assessment of market dues and licensees and that there is information sharing in the assessment process (41.6%). Above all, 51.7% disagreed that licenses are tendered in using a competitive method while another lower than average figure (46.6%) disagreed that there is transparency in tendering revenue collection for the district. The analysis

here points to the existence of perceived corruption in the revenue collection process.

Table 4: Responses on practicing transparency revenue collection to deliver services

Response	S.A & A	N	D & S.D
	%	%	%
1. Transparency in assessment of market dues and licenses	25.0	8.3	66.7
2. Licenses are tendered in a competitive way	38.4	10.0	51.7
3. There is information sharing in the assessment process	16.6	41.7	41.6
4. Transparency in the district procurement activities	55.0	15.0	30
5. Transparency in tendering revenue collection for the district	45.0	8.3	46.6
6. Tax base increase with transparency	50.0	8.3	41.7
7. Enumeration of markets is done fairly	33.3	18.3	48.4
8. Markets are tendered out to qualified persons	36.7	18.3	45.0
9. Management systems and controls in place	57.8	26.7	15.5
10. There is a district budget desk in place	51.1	35.6	13.3

SA; Strongly Agree; A: Agree; N: Neutral; D: Disagree; SD: Strongly Disagree

4.5 The influence of practicing transparency on service delivery in the district

In order to test the hypothesis that whether there is a significant relationship between practicing transparency and service delivery, a correlation analysis was first performed before the final regression analysis. As indicated in table 2, there is a negative and insignificant relationship between practicing transparency and service delivery ($r = .088, p > .504$). To support this, the regression results in table 5 further registered an insignificant and negative effect of practicing transparency on service delivery with ($\beta = -.182, t = -1.408, p > 0.165$). This confirms that the current revenue collection practices in Masaka lack transparency and are perceived to be characterized by corruption in the above areas of transparency investigated.

Table 5: The results of the regression of the three (3) variables against service delivery as a dependent variable

Variable	Predicted sign	β	t-value	p-value
Intercept	+-	.246	-1.100	.921
Existing tax base	+	.316	2.650	.010
Existing mobilization capacity	+	.417	3.218	.002
Practicing transparency	+	-.182	-1.408	.165

5. Discussion

The study here confirms the general trend which has been reported countrywide that while the existing tax base and mobilization need to be widened further, the current methods, tools and professionalism with which the taxes are collected and their ultimate impact still remain insignificant. Therefore not only have local governments a challenge in increasing their tax base from the existing ones such as transfer of property taxes, administrative fees, licenses and

property income, but they have to judiciously ensure that there is transparency in its collection. Moreover, the Ministry of Local Government publication (2003) provides that local government annual budgets shall reflect all revenues to be collected or received by the local governments for each financial year. This seems not to be implemented at the local level. In addition, a classical economist Adam Smith in 1776 is quoted to have put forward the canons or general principles of taxation which should be observed when imposing a tax which include equity, certainty, convenience, productivity, buoyancy and economy. Regrettably, as Kabwegere noted in 2004, these have not been observed. It has been noted that low revenue is a challenge to the decentralization model of government in that it affects its ability towards service delivery due to the limited and narrow tax base.

Similarly, Hoffman (2005) emphasized that the challenges in revenue collection include among others politicizing of local government financial affairs. The research by Carnegie and Baxter (2006) supports the view that local revenue if properly mobilized constitutes 75% of the revenue used in the provision of services to the local communities in the developed countries. This is the direction in which Masaka Local government should follow.

Meanwhile in Uganda, Moureen (2013) concludes that the removal of graduated tax which was a major source of revenue of local government affected the quality of service delivery greatly. This research adds that while there are challenges in widening the tax base and mobilization skills, there is need for transparency in order to not only register significance in revenue collection but also ensure that the current collections are put to proper use that has meaning and tangible benefits for the community.

6. Conclusion

In conclusion, this study documented a significant influence of district local revenue collection and service delivery using one of the oldest districts in Uganda. Mobilization capacity and the widening the existing tax base influence service delivery as indicated. However, the existing transparency at the local level needs to be reviewed and improved so that there is meaning and significance in the basic services delivery process. Local governments are capable of providing public services, mobilizing community resources and stimulating private investments if they practice transparency. Therefore compliance from the tax payers is a function of this transparency and ensuring that revenue collection by local governments is accounted for and linked to the basic services delivered to the community. It is therefore recommended that if district local governments are to succeed in their revenue collection efforts, there must be significant steps taken towards ensuring that there is transparency in terms of tax assessment, tendering and procurement of survives. This aspect remains paramount in the delivery of services to the communities.

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