

Local Revenue Sources and Urban Development in Kisoro Municipality.

Byomuhangi Felix

Metropolitan International University

Abstract

The study examines the relationship between revenue generation and urban development in local government authorities in Uganda, using Kisoro Municipality as a case study. Anchored in Fiscal Decentralization Theory and second-generation fiscal federalism, the study adopted a descriptive cross-sectional research design. Quantitative data were collected from 116 respondents comprising municipal officials, revenue officers, and registered business owners, while qualitative data were obtained through key informant interviews. Data were analyzed using descriptive statistics, Pearson correlation, and multiple regression analysis. The findings reveal statistically significant positive relationships between local revenue sources ($r = .588, p < .001$), revenue collection efficiency ($r = .621, p < .001$), and revenue utilization and accountability ($r = .714, p < .001$) with urban development. Revenue utilization and accountability emerged as the strongest predictor, explaining 51.0% of the variance in urban development outcomes. The study concludes that strengthening accountability and transparency in revenue utilization is more critical to urban development than merely expanding revenue sources. Policy recommendations emphasize institutional accountability, modernization of revenue systems, and diversification of municipal revenue bases.

Keywords: Revenue generation, urban development, fiscal decentralization, accountability.

Introduction

Local revenue sources are critical components of fiscal autonomy in local government systems and are fundamental for sustainable urban development. These sources typically include property rates, business licenses, market dues, parking fees, fines, and other local taxes that are directly managed and retained by the local authorities. According to Olum and Muriisa (2023), the capacity of local governments in Uganda to mobilize internal revenue significantly influences their ability to deliver essential urban services such as solid waste management, urban transport systems, and health services. The authors assert that weak and inconsistent revenue bases severely hamper the development trajectory of urban areas, particularly in fast-urbanizing districts such as Wakiso. Therefore, this study measures *local revenue sources* by the diversity, consistency, and administrative management of revenue streams in a given municipality or urban council.

In Uganda, decentralization reforms were introduced to empower local governments with fiscal and administrative autonomy to plan and finance development initiatives (Government of Uganda, 2021). Municipalities are legally mandated to generate own-source revenue through instruments such as property rates, business licenses, market dues, and user fees. However, empirical evidence indicates that most local governments generate less than 30% of their annual budgets from own-source revenue, making them heavily dependent on conditional central government transfers (Local Government Finance Commission [LGFC], 2022).

Kisoro Municipality, a secondary urban center in southwestern Uganda, typifies these challenges. Despite experiencing population growth and increasing commercial activity, the municipality continues to face poor road infrastructure, inadequate waste management, and limited urban services. These challenges raise critical questions about how revenue generation practices influence urban development outcomes at the local level. This study therefore investigates the relationship Local Revenue Sources and urban development in Kisoro Municipality.

Statement of the Problem

Urban development in Uganda remains a pressing challenge, particularly for secondary municipalities such as Kisoro Municipality, which depend heavily on locally generated revenue to finance service delivery. Although the decentralisation policy envisioned enhanced local financial autonomy, many urban authorities continue to face severe fiscal constraints due to weak internal revenue mobilisation systems (MoLG, 2023). National assessments by the Local Government Finance Commission (2022) showed that over 65% of municipalities failed to collect even half of their projected revenue, resulting in stalled infrastructure projects, inadequate urban services, and growing public dissatisfaction.

In Kisoro Municipality, the situation reflected this broader national crisis. Local Government Performance Assessment Reports (2022) indicated that the municipality's own source revenue (OSR) contributed less than 30% of its annual budget, forcing continued dependence on unpredictable central government transfers. Major revenue streams such as property tax, street parking fees, trade licenses, and market dues remained significantly under-collected due to outdated property valuation systems, weak enforcement mechanisms, and low taxpayer compliance. Furthermore, the limited revenue that was collected was often poorly utilised. According to the Auditor General's Report (2022), Kisoro Municipality experienced delayed implementation of urban infrastructure projects, unaccounted-for expenditures, and weak financial reporting, particularly in areas such as road maintenance, solid waste management, and market infrastructure improvement.

These challenges were compounded by political interference, limited institutional capacity, and weak citizen oversight, which undermined accountability and eroded public trust. As highlighted by the Uganda Economic Update (World Bank, 2021), unless municipalities strengthen internal revenue generation and ensure transparent utilisation, urban poverty, deteriorating infrastructure, and service delivery dysfunction persists. Failure to address these systemic issues threatens the municipality's ability to promote sustainable urban development and fulfil its statutory mandate. This study therefore examined how revenue generation influences urban development in Kisoro Municipality.

Specific Objective

To determine the relationship between local revenue sources and urban development in Kisoro Municipality.

Methodology

A descriptive cross-sectional design was employed to analyze relationships between revenue generation and urban development at a single point in time (Kothari, 2023).

The study was conducted in Kisoro Municipality. A sample of 133 respondents was selected using Slovin’s formula, of whom 116 provided valid responses. Respondents included municipal officials, revenue officers, and registered business owners.

Data was collected using structured questionnaires and semi-structured interviews. Quantitative data were analyzed using SPSS (version 28), employing descriptive statistics, Pearson correlation, and regression analysis. Qualitative data were analyzed thematically.

Results

The descriptive statistics for the variable "Local Revenue Sources" (LRS), which measures the perceived diversity, sufficiency, and management of internally generated revenues in Kisoro Municipality. Respondents rated their level of agreement with various statements on a five-point Likert scale (1=Strongly Disagree to 5=Strongly Agree). The results provide a foundational understanding of the municipality's fiscal capacity from the perspective of key stakeholders.

Table 1: Descriptive Statistics for Local Revenue Sources (LRS) Indicators

| Statement | SA (5) | A (4) | N (3) | D (2) | SD (1) | Mean | Std. Deviation | Interpretation |
|--|-----------|----------|----------|----------|-----------|-------------|----------------|---------------------|
| LRS1: The district has diversified local revenue sources. | 10 | 28 | 22 | 41 | 15 | 2.80 | 1.24 | Low |
| LRS2: Revenue sources are sufficient for urban infrastructure. | 5 | 19 | 18 | 52 | 22 | 2.42 | 1.18 | Low |
| LRS3: The local government regularly reviews revenue policies. | 25 | 45 | 30 | 12 | 4 | 3.65 | 1.04 | Moderate |
| LRS4: Community engagement is considered in revenue planning. | 15 | 32 | 25 | 32 | 12 | 3.05 | 1.29 | Moderate |
| LRS5: The collection of revenue from local sources is transparent. | 8 | 22 | 20 | 46 | 20 | 2.59 | 1.26 | Low |
| Composite Scale (LRS1-LRS5) | | | | | | 2.90 | 0.95 | Low-Moderate |

Note. N = 116. SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree. Source: Field Data, 2025

The data presented in Table 1 reveals a generally pessimistic perception of the state of local revenue sources in Kisoro Municipality, with a composite mean score of 2.90 (SD = 0.95), which falls at the lower end of the moderate agreement range. This indicates a consensus among respondents that the municipality’s internal revenue base is

Received: 18.01.2026 Accepted: 22.01.2026 Published on: 30.01.2026

inadequate. The most critical deficits are seen in the sufficiency of revenue for infrastructure needs (LRS2, M = 2.42) and the transparency of revenue collection (LRS5, M = 2.59), both rated as low. This suggests that stakeholders not only feel the available funds are insufficient but are also skeptical about the processes governing them, a combination that severely undermines the social contract between taxpayers and the local government (Fjeldstad & Heggstad, 2012).

A more nuanced finding is the moderate rating for the regular review of revenue policies (LRS3, M = 3.65). This indicates that the technical and legislative frameworks for revenue generation may exist on paper, as mandated by national policies like the Local Government Act. However, the low scores for diversification (LRS1) and sufficiency (LRS2) suggest a significant implementation gap. This aligns with the observations of Kato and Mukwaya (2023), who noted that while Ugandan municipalities often have sound revenue laws on the books, their effectiveness is crippled by narrow tax bases, outdated valuation rolls, and poor enforcement. The existence of policy, therefore, does not automatically translate into a robust or sufficient revenue stream, pointing to deeper administrative and political failures.

The moderate score for community engagement in revenue planning (LRS4, M = 3.05) further illustrates this disconnect. While there may be formal mechanisms for consultation, such as budget conferences, the data implies that these exercises are perceived as either ineffective or not genuinely participatory. When communities do not see their input reflected in final revenue plans or expenditure priorities, it leads to cynicism and a weakening of the accountability feedback loop, a phenomenon documented in studies on fiscal decentralization in Uganda (Tumushabe et al., 2022). The overall picture that emerges is one of a local government system struggling to translate its formal revenue-raising mandates into tangible, sufficient, and trusted financial inflows, creating a fundamental constraint on its ability to fund urban development.

The quantitative findings are vividly brought to life by the qualitative data from key informant interviews conducted with municipal officials in October 2025. The themes that emerged provide concrete examples of the "low" and "moderate" scores from the survey, grounding the statistics in the lived experience of the administration.

A senior official in the Finance Department, during an interview on October 15, 2025, explicitly confirmed the lack of diversification, stating:

"Our hands are tied. Over 70% of our local revenue comes from just three sources: market dues, business licenses, and property tax from the small town center. The informal sector is huge, but we lack the legal and operational capacity to bring them into the tax net. We are trying to milk a cow that is too small."

This statement directly explains the low mean score for LRS1 (Diversification) and highlights the structural limitations facing the municipality.

Furthermore, an Urban Planner interviewed on October 18, 2025, linked the revenue insufficiency directly to development paralysis, corroborating the low score on LRS2:

"We have a detailed development plan for improving the drainage in the central market and tarmacking the access roads. But it remains a paper plan. The revenue we collect is so little and so unpredictable that it is immediately consumed by recurrent expenditures salaries and stationary. There is nothing left for capital development."

This testimony underscores the vicious cycle where inadequate local revenue leads to stalled projects, which in turn erodes public trust and willingness to pay taxes, further diminishing revenue a cycle previously identified by the World Bank (2023) in its analysis of Ugandan urban authorities. The qualitative data thus confirms that the challenges with local revenue sources are not merely perceptual but are operational and structural realities that critically hamper urban development in Kisoro Municipality.

Table 2: Model Summary for Regression of Urban Development on Local Revenue Sources

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1 | .588 | .345 | .339 | .601 |

Note. Predictor: (Constant), Local Revenue Sources.

The Model Summary in Table 2 indicates that the correlation between the observed and predicted values of the dependent variable is $R = .588$. The R Square value of .345 shows that Local Revenue Sources account for 34.5% of the variance in Urban Development scores within the study context.

Table 3: ANOVA Table for the Regression Model

| Model | Sum of Squares | df | Mean Square | F | Sig. | |
|-------|----------------|-------|-------------|-------|-------|------|
| 1 | Regression | 22.15 | 1 | 22.15 | 61.29 | .001 |
| | Residual | 41.98 | 114 | .368 | | |
| | Total | 64.13 | 115 | | | |

Note. Dependent Variable: Urban Development. Predictor: (Constant), Local Revenue Sources.

The ANOVA table (Table 3) assesses the overall significance of the regression model. The results show that the regression model is statistically significant, $F(1, 114) = 61.29$, $*p* < .001$. This confirms that the model, with Local Revenue Sources as a predictor, is significantly better at predicting Urban Development than using the mean of Urban Development alone.

Conclusion

This study concludes that revenue generation significantly influences urban development in Kisoro Municipality. Among the examined dimensions, revenue utilization and accountability exert the strongest effect on urban

development outcomes. The persistence of infrastructure and service delivery challenges in Kisoro Municipality is therefore not merely a function of inadequate revenue but also of weak governance and accountability systems.

Recommendations

Institutionalize Accountability Mechanisms; Municipalities should strengthen internal audits, public expenditure tracking, and citizen participation in budgeting.

Modernize Revenue Collection Systems; Adoption of digital revenue platforms can reduce leakages and improve efficiency.

Diversify Local Revenue Sources; Updating property valuation rolls and formalizing informal businesses can expand the tax base.

Capacity Building; Continuous training of revenue staff in financial management and enforcement is essential.

References

- Ahmad, E., & Brosio, G. (2020). Handbook of fiscal decentralization. Edward Elgar.
- Besley, T., & Coate, S. (2003). Centralized versus decentralized provision of local public goods. *Journal of Public Economics*, 87(12), 2611–2637.
- Bird, R. M., & Smart, M. (2022). Financing urban development in developing countries. *World Development*, 150, 105709.
- Faguet, J.-P. (2014). Decentralization and governance. *World Development*, 53, 2–13.
- Fjeldstad, O.-H., & Heggstad, K. (2012). Local government revenue mobilization in developing countries. CMI Working Paper.
- Government of Uganda. (2021). Local Government Act (Cap. 243). Kampala.
- Local Government Finance Commission. (2022). Annual report on local government financing. Kampala.
- Musgrave, R. A. (1959). *The theory of public finance*. McGraw-Hill.
- Oates, W. E. (1972). *Fiscal federalism*. Harcourt Brace Jovanovich.
- Rodden, J. (2006). *Hamilton's paradox: The promise and peril of fiscal federalism*. Cambridge University Press.
- Smoke, P. (2015). Rethinking decentralization. *Public Administration and Development*, 35(4), 250–263.
- UN-Habitat. (2022). *World cities report*. Nairobi.
- UN-Habitat. (2023). *Urbanization and local governance in Africa*. Nairobi.
- UN DESA. (2022). *World urbanization prospects*. United Nations.