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**Rural Non-Farm Economy Project**

# **Local Government and the Rural Non-Farm Economy in Uganda**

**Michael Hubbard & Paul Jackson**

**(School of Public Policy, University of Birmingham)**

**&**

**Frederick Golooba-Mutebi**

**(Development Research & Training, Uganda)**

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*The views expressed in this document are solely those of the author  
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Resources  
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## **PREFACE**

### **Background**

This brief study of issues regarding local government and development of the rural non-farm economy (RNFE) in Uganda forms part of a larger study of the RNFE led by the Natural Resources Institute (University of Greenwich) for DFID and the World Bank. This project has two components related to developing countries. The Access component is focused on issues affecting peoples' access to non-farm livelihood activities and participation by households. Several reports on Uganda from this component are already available, and these are listed at the end of this document. There are also a number of general reports relating to the RNFE project, also listed there.

This report, *Local Government and the RNFE in Uganda* is part of the second component, which is on the role of Local Governance in relation to the RNFE, and the conditions which may create the best conditions for the growth of non-farm activities at the local level. This Local Governance component has been divided into two for analytical purposes: one examines the role and significance of formal local governance (basically, constituted forms of authority and power, and the current context of decentralisation of local government). That is the focus of this report in relation to the Uganda case study. The second part analyses the role and significance of non-constituted informal systems of power, in particular the role of the private sector, NGOs and civil society in relation to the RNFE. This will be covered in a further separate report on Uganda.

In addition to the case study in Uganda, there is a second case study of India, involving two States in fieldwork: Madhya Pradesh and Orissa. This work will be conducted from late 2001 into 2002, with reports on India expected to be issued from mid-2002.

### **RNFE and rural development**

As the International Food Policy Research Institute (IFPRI) points out:

The importance of the rural non-farm economy (RNFE) in contributing to growth, poverty alleviation, and reduced pressure on the natural resources base is now widely recognized, but policies for promoting the RNFE are still poorly developed. These include: (1) prospects and approaches for promoting the RNFE in regions where opportunities for agricultural growth are limited (resource poor areas, for example); (2) policies to ensure that growth in the RNFE benefits the poor, and particularly marginal farmers and landless agricultural workers who may otherwise degrade resources; (3) policies for promoting rural agro-industry and capturing more value added locally from agricultural production; (4) the impact of macroeconomic reforms and market liberalization policies on the RNFE; and (5) the backward linkages from the RNFE to agriculture, particularly for reducing income risks and providing capital for on-farm investment (IFPRI 1999).

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The impact and potential of local government in RNFE is also poorly understood. Local government is at the interface between national policies and local development. While there are numerous instances of local governments stimulating RNFE (e.g. from China, India, Thailand, South Korea, Europe) counter examples can be cited of local government hindering local economic development (e.g. heavy taxation by some allegedly 'predatory' local governments in China) (Bird 1990). In general, there is more experience and understanding of local government options for stimulating local economic development in higher income areas. In less developed areas the options, resources and capacities tend to be more limited and impacts less predictable. Greater understanding is needed of understanding of which national policies, and what actions by local government, favour RNFE development under varying local conditions and capacities of local government.

The purpose of this brief study is to raise issues and suggest priorities regarding the role of local government in stimulating RNFE in rural Uganda. The limited fieldwork covered only two Districts and involved a wide variety of issues. It is therefore important to keep in mind that the observations and results may not be entirely relevant to all parts of the country. The districts selected for study were Rakai in the south west and Kumi in the east. Both are less developed areas with low levels of urban development, and where livelihoods are primarily agricultural.

### **Acknowledgements**

We would like to thank the many officials and other people who were kind enough to give their time in assisting in the preparation of this report, both in Kampala and in the two districts.

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## CHAPTER 1

### INTRODUCTION AND SUMMARY OF POLICY IMPLICATIONS

#### FRAMEWORK, METHOD & HYPOTHESES FOR THE STUDY

There are three broad approaches to studying the relation between RNFE and local government:

*1. Estimating RNFE linkages and income multipliers from local government*

A thorough study of local government's RNFE impact would attempt to estimate linkages and multipliers, and the effect on them of government activities and policies.<sup>1</sup> The study would have to overcome the limitations imposed by lack of local economic data for production or employment, as in Uganda.

*2. Analysing RNFE businesses in the locality and how local government policies and practices affect them*

The emphasis is on the performance and opportunities of local RNFE business and how local government activities hinder or facilitate them. Required are case studies of businesses and how they are helped or hindered by local government.

*3. Analysing local government policy, services, regulations and practices and how they impact on RNFE*

The emphasis is on the policies and performance of local government, guided by research work on which activities are likely to be critical for RNFE, followed up by interviews with local businesses.

#### **1. Approach adopted in the present study**

The present study follows approach number 3 above, since the emphasis is on local government. Because of its brevity the focus is on raising issues rather than in-depth analysis, with particular reference to the impact of government's decentralisation policies on RNFE. The selection of issues is guided by the robust findings of RNFE literature summarised in Chapter 1. A checklist of issues in local government-local business relations (annex 2) was a further guide.

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<sup>1</sup> Using the concepts from the RNFE literature (Ch 1), if a local government is to achieve maximum growth of the local RNFE its:

**expenditures** should maximise the linkages to RNFE, by local sourcing of materials and services, and employment of local people;

**policies** should motivate investment in production and services with strong local linkages

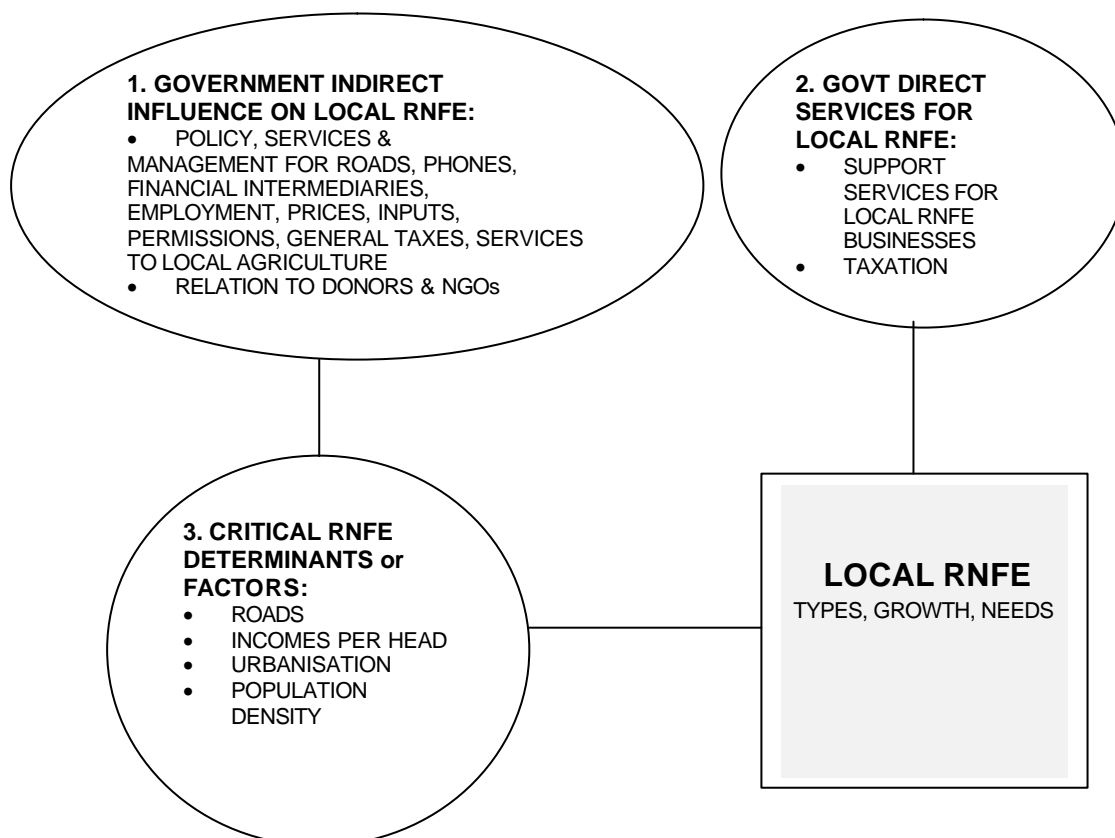
**services** should facilitate local business.

In this way local income generation from local expenditure (i.e. income multipliers) should be maximised - provided that there are not offsetting efficiency losses resulting from local government trying in this way to maximise local income generation.

The key areas explored by this study of local government's role in stimulating RNFE in Uganda are illustrated in Figure 2.1 below:

**Figure 2.1**

**HOW GOVERNMENT AFFECTS LOCAL RNFE**



Three critical points illustrated by Figure 2.1 are:

1. The effect of local government is part of the overall effect of government on local RNFE, with central government dictating the political and economic environment within which local government provides services and implements regulations.
2. Most activities of government (circle 1) bear only indirectly on local RNFE, via their effect on the critical factors which determine the level of RNFE (circle 3).
3. Direct services to and taxing/subsidising of RNFE businesses by governments (circle 2) are a more limited and specific area of government activity. This is often carried out by national or regional business development agencies rather than local governments. Town governments may be more likely than district governments to take on such direct

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services to local RNFE, because RNFE tends to concentrate in and around towns.

### **2. Structure of the study**

*The macro-economic environment* for local economic development is discussed in Chapter 2.

*The governmental context* is discussed in Chapter 3, focusing on decentralisation policies, and the limitations imposed by government processes, conduct and resources.

After brief *profiles of the two fieldwork Districts* (chapter 4) there is an analysis of *Local government services* as they affect RNFE in Chapter 5, with examples from Rakai and Kumi districts. Infrastructure, general services (such as health, education and policing) as well as agricultural services) and business services (agricultural and RNFE) are discussed.

*Local government regulations* as they affect RNFE are the focus of Chapter 6, again using examples from the fieldwork in Rakai and Kumi districts.

### **SUMMARY OF POLICY IMPLICATIONS**

The theory of RNFE development suggests that governments can stimulate RNFE:

A) *indirectly* by developing:

- rural infrastructure (particularly roads and communications),
- rural labour and financial markets
- agricultural incomes
- rural towns
- use of rural resources (e.g. tourism, mining and forestry development).

B) *directly* by providing a variety of facilitating services to local business

The broad hypotheses for the research of which this study forms part are that the quality of local governance influences RNFE. Given that policies of decentralisation of government are significant in many developing countries, especially Uganda, it is also part of the hypotheses that decentralisation policy has the potential to improve RNFE, since it is broadly intended to both improve local government and increase participation in locally-determined priorities for local economic development (with a significant increase in non-formal governance through enhanced role for civil society).

The results of this short study tend to support these hypotheses, with the following observations:

- ***renewed economic activity in Uganda appears to have concentrated in the main urban areas. It is difficult to determine how much this is a result of the poor infrastructure of rural areas, or a function of the***

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***type of activities that have re-emerged in Uganda's recent economic growth, or of other factors.***

However, Uganda may now be in a stronger position to stimulate RNFE by improving rural infrastructure and services, because:

- resources to finance infrastructure and services have increased.
    - Uganda has higher levels of non-farm investment than much of Africa
  - rising incomes and populations are expanding demand for both agricultural and non-agricultural goods and services
- ***indirect stimulation of RNFE (particularly through providing and maintaining roads) is the principal contribution that local government can make to RNFE, owing to lack of infrastructure, undeveloped natural resource use (particularly), and limited capacity of local government to provide effective direct services to RNFE businesses***

RNFE development is substantially about connectivity between town and country, and roads are likely to have considerable significance in its growth, and yet are in poor condition or absent in many areas. Given the limited resources (especially of personnel and financial) of local governments, the greatest contribution to RNFE growth that local government may be capable of making is investments in roads. In both the fieldwork districts there has recently been much improvement of roads. Casual observation suggests this has stimulated RNFE: in Rakai the majority of the many new shops and workshops are located on upgraded roads, particularly clustering in or near rural towns. The study was too brief to establish this more confidently.
  - ***improving local transport by investing in local feeder roads may be more stimulating for RNFE than investing in the main arterial roads to cities or borders, since they have been the most neglected area of road investment and are essential for local town development***

Arterial roads will be national priorities and be more easily funded than feeder roads. Further, feeder road investment encourages wider distribution of RNFE which tends to concentrate on transport routes. However, it is essential to keep in mind that the impact of roads can be 'negative' for some RNFE activities, when they enable the inflow of goods which compete with local rurally-produced goods.
  - ***donors are a major source of finance for rural infrastructure; therefore building a good working relationship with a donor may be critical for improving local government's RNFE contribution.***

So limited are the capital budgets at every level of local government that at present it is only contributions from outside sources that can enable substantial progress with infrastructure provision. Borrowing and public-private partnerships are unattractive for rural infrastructure, donors are practically the only source available. The study indicates that donor finance can be critical in getting adequate staffing for key government posts, by topping up salaries.

Both Rakai and Kumi benefit from a long term relationship with a donor (Danida and Irish Aid respectively). In Rakai there is a particularly



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substantial involvement of the donor, resulting in a higher standard of infrastructure compared to many other rural districts, and arguably better standards of financial management. However, this also means that many districts may find it difficult to form such a relationship, and alternatives need to be in place and donor-dependency guarded against.

- ***weaknesses in government internal processes and management are a major impediment to realising benefits from decentralisation***

Ensuring that government internal processes function well is a precondition for it being more effective, whatever strategy it tries to pursue. Given the resource limitations of local governments and the problems in their own processes they may better help local business by improving their overall responsiveness, and by simplifying their regulations, permissions, contract tendering and tax collection, than by any efforts to provide promotional services to businesses.

The brief fieldwork in Rakai and Kumi provided some evidence to support this contention, in that officers with dedicated sectoral or business promotion roles expressed frustration with their lack of resources and inability to make more of an impact. At the same time there were complaints about lack of consumer orientation of local governments.

- ***private business interests of local officials and councillors are often important in the local economy.***

This study suggested extensive involvement of local officials and politicians in local business, including council contracts, notably in Kumi. It also underlined the fragmented local business environment, with mutual distrust and hostility to collective action by business. Whether this state of affairs favours or disfavors RNFE requires further research.

- ***identifying constraints and opportunities facing rural town governments is important, to establish whether their greater autonomy under the decentralisation policy might stimulate RNFE.***

On the basis of experience in other developing countries, town and city governments have a strong interest in stimulating local non-farm business. The decentralisation process in Uganda may need to address the potential conflicts of interest and scope for enhancement of the rural economy through the integration of rural towns and their hinterlands.

## CHAPTER 2

### LOCAL GOVERNMENT AND THE RURAL NON-FARM ECONOMY

This chapter overviews current theory of rural non-farm economy (RNFE) development, with particular reference to research findings in Africa, in order to set out what is known and not known regarding RNFE development. The role local governments play in the rural non-farm economy is then discussed. The chapter concludes with a framework for analysing local government's role in RNFE development in Uganda, as used in the present study.

Regarding definitions, the literature on RNFE includes smaller 'rural' towns within the rural economy, since non-farm activities are often concentrated in small towns (or existing settlements become enlarged into towns as a result of such local economic growth). 'Local government' refers to local government with the particular level (e.g. district, county) being specified as needed.

#### **1. Theory of RNFE development: findings from existing research**

Applied research on RNFE benefits from wide ranging studies carried out in recent years and from the robust findings emerging from them (such as Haggblade et al 1989, Tomich, Kilby & Johnston 1995, Reardon 1997, Reardon et al 2001). The conclusions reached by these studies substantially reinforce each other, and are summarised below.

*General 'determinants' of the level of RNFE are found to be:*

- rural town development
- level of infrastructure development
- agricultural income per capita
- population density
- level of exploitation of rural resources (e.g. tourism, mining and forestry)

Growth in one or more of these are often seen as the drivers of RNFE development. However, while these 'determinants' suggests some scope for policy intervention (e.g. in a government role for infrastructure improvement), we need to be careful about the causal relationships involved (do rural towns promote, or are they a consequence of, RNFE growth?), or the fact that some may represent mutual interaction (levels of infrastructure may reflect demand from RNFE growth, rather than (or as well as) promoting it; agricultural income may rise because new crops are grown to provide inputs to a new agro-processing enterprise). It is vital to keep these interactions and relations of causation in mind in relation to policy interventions, since government needs to be reasonably certain of having the effect it intends in any given intervention or investment.

*RNFE businesses tend to be flexible and non-specialised*

Compared to businesses in urban economies or those trading internationally, rural non-farm activities tend to be flexible and non-specialised, sparing of

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imported inputs and material capital and rely heavily on labour inputs<sup>2</sup>. They produce mainly non-traded (i.e. for local consumption) services and goods, and generally use less sophisticated technology. These characteristics are partly the result of high transport and external trading costs (e.g. customs levies) which also give local RNFE business a level of protection from competition.

*Service-oriented RNFE is the growth area, whereas manufacturing RNFE is in decline in many rural areas*

As transport improves, local traditional manufactures (e.g. pots, baskets, tools) face more competition from outside goods coming into the rural area. But there may be other RNFE developments as a result of additional demand for services (e.g. repair, retail, fast food) generated by the RNFE 'drivers'. It is important to include services in pro-RNFE policies, and perhaps increase awareness of the problems for the promotion of manufacturing.

*Access to non-farm earnings improves the absolute income levels of the poor but does not show clear patterns of equity enhancement*

The poor tend to rely more heavily on non-farm activities (including employment by others) as a proportion of their income, but the RNFE tasks they undertake are the most menial and badly paid. Absolute benefit from RNFE tends to be highest among households round the middle of the local income distribution (Tomich, Kilby & Johnston 1995). A buoyant RNFE is associated with falling poverty but does not necessarily reduce inequality between middle and lower household incomes.

*Women are often reliant on RNFE*

They may be less able to commute over long distances because of child raising. Women tend to be strongly represented in both manufacturing and services components of RNFE. To the extent that manufacturing may be in decline, this may have negative consequences for women's participation in the RNFE, and they may not always be able to transfer easily to service sector activities.

*A predominance of small farms stimulates RNFE:*

RNFE tends to be more buoyant and have a larger retail component in localities with many smaller farms than where there are fewer but larger farms. However, the policy implications of this are difficult to determine, since this may be an artefact of population being denser where small farms predominate. Reliance by local households on non-farm income sources (from employment in RNFE and from remittances) tends to be greater where farm landholdings are small.

*Farm-RNFE linkages are seasonal:*

- rural blacksmith activity reaches its peak during the height of the agricultural season because of the demand for repair services;

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<sup>2</sup> The points in this paragraph are drawn mainly from Tomich, Kilby and Johnston (1995).

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- non-farm labour usage moves counter to the demands of the agricultural calendar, resulting in substantial seasonal labour flows between the rural farm and non-farm sectors.

*Forward linkages from farm to RNFE are stronger than backward linkages:*

- with current farm technology, backward linkages from farm to non-farm (i.e. farm inputs) appear far smaller than the forward linkages involving the distribution and transformation of agricultural production.
- oil extraction, sugar production, tea drying and packaging, coffee and cocoa dehulling and drying, fish cleaning and drying are often performed in rural areas, on both large and small scale.
- after agricultural processing, distribution of agricultural products generates the second largest of the forward linkages from agriculture; distribution is about 15-50% of total linkages to and from agriculture

*Consumption linkages to RNFE are much stronger to rural services than to rural manufactured goods or grains*

With rising farm incomes, there is a more rapid increase in consumption of local services, housing (including improvements), durable goods, livestock and horticultural products than there is demand for food grains or for goods manufactured in rural areas.

*Some RNFE is unsustainable, undermining the environment*

Intensified RNFE often includes over-exploitation of plants, trees and animals on common property – e.g. trees for timber, charcoal and basket making; animals for curios, meat, aphrodisiacs and exotic pets; plants for medicines. While this may be especially true in ‘distress’ non-farm activities, where it is difficult to devise policy which both protects the environment and improves peoples livelihoods, it is also a result of larger commercial operations which may be perceived by government as important local employers. Here the policy dilemma is the trade-off between growth and environment.

## **2. RNFE development in Africa**

A survey by Haggblade et al (1989) contrasts African RNFE characteristics with those of Asia (especially India). The comparison is of particular interest to this study since its fieldwork is in both Africa and India.

*Backward linkages of farm to non-farm tend to be lower in Africa than in Asia:*

- type & magnitude of backward linkages from farm to non-farm depends on agricultural technology, size of holdings, type of crop and whether production is irrigated or rain-fed
- fertiliser, then equipment, then cement and building materials are the three key material inputs to farming
- Africa has less fertiliser production and use, and less irrigation (thereby reducing the demand for pumps and other irrigation equipment, cement and building materials) than Asia. Therefore backward linkages of farm to non-farm tend to be lower in Africa than in Asia.
- However, available measures may bias the estimates of African rural linkages downward because of the high share of non-marketed goods and

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services in total consumption - particularly unpaid family labour in domestic services such as cooking, cleaning, laundry, childcare, and agricultural investments in the form of labour time invested in tree planting, land clearing, levelling and ridging.<sup>3</sup>

*African spending patterns support far less rural non-farm activity than do those in Asia:*

- African consumers spend more of their income on food (produced on-farm) relative to non-foods (produced off-farm), compared to Asia
- better transport and greater proximity to rural towns appear to contribute to the much higher Asian incremental consumption of rurally produced non-food goods and services

*African non-farm rural enterprises tend to be relatively small*

- large firms tend to be trading establishments

*Africa's poorer farmers tend to be less diversified into non-farm activities than are richer farmers (Reardon 1997) the reverse of what is often found elsewhere, e.g. Pakistan (Adams 1995).*

### **3. Policy implications from research findings**

(derived mainly from Haggblade et al 1989)

- rural towns are the focal point in development of the RNFE: there is much higher density of RNFE in rural towns than in dispersed rural settlements - because of better sales prospects in towns, and availability of inputs and services. Removing constraints on the development of rural towns may be important to foster RNFE growth.
- agricultural growth is important for promoting RNFE growth. This requires raising farm productivity to boost per capita incomes to levels that enable diversification of consumption from foods towards services and non-food goods.
- rural commerce and services rather than rural manufacturing are the key RNFE growth sectors. It may be better to put effort into support for these.
- rural services in particular are well insulated from urban competition. They are less likely to be negatively affected than rural manufacturing when transport costs to major urban areas are reduced e.g. by road investment.
- road access to rural towns is important in stimulating farm:non-farm linkages and developing rural towns.
- availability of skilled labour and finance tend to be significant as constraints.
- providing workshop facilities has had only partial success.
- credit projects have been more successful.
- identifying and providing a single missing ingredient necessary for enterprise success (e.g. finance) is more successful than programmes

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<sup>3</sup> It is not clear what the difference is in the amount of any extra participation in such activities in Africa compared with Asia, since in village households the tasks are very similar. In Asia some of these might be paid for through hired labour (laundry, some domestic services).

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which try to provide a complete package of financial, technical and management assistance (e.g. nursery industrial estates)

- women dominate many RNFE activities with the best growth potential (e.g. food processing and preparation, tailoring and trading) as well as declining RNFE occupations (e.g. basket and mat-making, ceramics and weaving). Therefore women's activities are key in building RNFE and should be targeted in assistance programmes.
- effective management of common property resources is needed for resource based RNFE to be sustainable.

### **4. The role of local governments in RNFE**

By contrast with the clear findings regarding RNFE dynamics described above, less prescription is possible regarding the role of local government in stimulating RNFE because localities differ and so do governmental systems, capacities and cultures. For example, there will be variation from area to area in means for ensuring that RNFE growth benefits the poor or that structural adjustment and decentralisation stimulate RNFE. 'Local economic development is very specific in time and place' (Coulson 1997:28).

Prominent examples of local government stimulating RNFE in developing countries illustrate the differences in approach. Chinese rural township governments, particularly in some coastal provinces, are directly involved in ownership and operation of firms set up to generate incomes for local people who can no longer find work in agriculture. Indian district and block government, which have been the administrative backbone for implementation of the federal 'Integrated Rural Development Programme' providing assets and credit to the poor, both in rural and urban areas.

#### *Ways in which local government can affect local RNFE*

Local government affects RNFE as

- a key provider of rural services (particularly roads, clinics and schools but also direct services to enterprise, such as agricultural and business advice)
- a key local procurer, putting spending power into the local economy through buying labour and services
- a key decision maker on public investments (type, size, location)
- a key enforcer of regulations (including taxes and licences).

#### *Conduct of local government which is likely to be stimulating or hindering to RNFE*

The effect of governance on the local economy is either stimulating, neutral or damaging. In general, the local economy is stimulated when government is operating well in the following four areas:

- **POLICY ENVIRONMENT:** a stable political and economic environment is provided by central government, favouring overall economic growth; investment promotion policies and agencies favour investment in rural areas

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- **PUBLIC SERVICES:** the road, communication, power and water network is extensive and well-maintained; advisory services for farm and non-farm businesses are managed innovatively; politicians and bureaucrats do not harass local business; police do not harass the poor
- **REGULATIONS AND TAXES:** local taxes and licensing do not discourage investment or employment; planning permission and information are straightforwardly obtained;
- **GOVERNMENT PROCESSES:** staff are motivated, and there is an effective and responsive ministry of local government; resources are increasing; transfers of resources to and from local governments are on time and reliable, local government is able to pursue a local procurement policy where possible.

Conduct of government which hinders and damages the local economy are:

- demotivated, under-resourced staff
- demotivating and ineffective collection of public revenue
- wasteful public expenditure, low public savings, inadequate services
- poor financial management, unclear division of tasks
- too limited local autonomy, delaying decisions and biasing policy away from local interests
- elites ruling in their own interests
- procurement not favouring local or smaller suppliers of goods and services
- creating obstacles to competition in order to protect favoured firms

### *The level of development sets priorities for how local government can stimulate RNFE*

In high income countries government activities are usually a larger proportion of the economy and often more decentralised than in lower income countries. Agriculture, and its input supply and output marketing links to RNFE, are usually well-developed. Local governments operate with greater resources and in a context of more developed local markets. Their larger budgets tend to put more money into the local economy through their larger procurement needs and employment of local people. Their multi-stranded strategic efforts to stimulate the local economy draw on wider investment funds (including international bond markets) and involve partnership arrangements and much direct assistance to businesses. This is made possible by their greater financial and human resource capacity. It should be stressed that some local governments in middle and lower income countries (e.g. in China, India, Brazil) have similar reach and capacity.

But local government in rural areas in lower income countries often has few resources, lower expenditure, and in remote areas operates in an environment where agriculture and the local economy are undeveloped. Improvement of roads, water, power and use of local natural resources (agriculture, forestry, mining) is likely to be the priority for RNFE growth. Further, such local governments usually have few resources to devote to

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direct promotion of business, and there is heavy reliance on transfers from the centre, NGOs and donors for development funds.

### *Constraints on benefits from decentralisation in rural local government*

Decentralisation theory emphasises the gains in efficiency and investment choice which can be made by putting decision-making for local public goods and services into the hands of local people and taxpayers, and by use of local revenues for local investments. Constraints on realising such benefits in rural local government include limited local democracy (particularly where most people are semiliterate) and limited management capacity<sup>4</sup>. Successful decentralisation in underdeveloped areas is not achieved immediately and requires strong external support with resources and management. The immediate benefits of decentralisation for the local economy are likely to come mainly from the greater local spending by the development programmes supporting the decentralisation effort.

Given that RNFE is often concentrated in rural towns, and that governance (services, management and politics) tends to be better in towns, it is possible that decentralisation may yield more RNFE gains in towns.

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<sup>4</sup> Bird & Rodriguez 1999 note the common practice of local governments having to earn greater autonomy in a decentralisation process (for example in the Philippines) by demonstrating their capacity.



## CHAPTER 3

### MACROECONOMIC ENVIRONMENT FOR RNFE DEVELOPMENT IN UGANDA

#### 1. Background

Uganda's political recovery and liberalisation policies since the mid-1980s has been accompanied by relatively rapid economic growth. Investor confidence ratings<sup>5</sup> for Uganda have risen quickly in recent years, reflecting the greater stability in economic policy, domestic prices and the exchange rate (Collier P & Pattillo C eds, 2000), although confidence ratings are still low by international standards beyond Africa.<sup>6</sup> The general impression of improvement has been highlighted in a recent government report:

Albeit from a small base, the manufacturing sector has shown steady growth, increasing its share in total domestic output from 4.7 percent in 1986 to 9.0 percent in 1997. The industrial sector, as measured by the index of industrial production, has had an average annual growth of 14.5 percent per annum since 1990 (i.e. more than twice the rate of growth of the whole economy).

More recently, Uganda has witnessed considerable improvement in its overall investment rates. Gross domestic investment has averaged 14.3% since 1988 and 15.3% since 1990; testimony to the success of policy reforms implemented under the National Resistance Movement (NRM) Government and increased business confidence in the domestic environment. Investment was almost 17% of GDP in 1996.

Foreign investment, which has historically been quite low, has risen to over 2% of GDP since 1996 compared to an average of 0.4% of GDP since 1975. It increased substantially to roughly US\$ 135 million in 1996. The ability to attract higher rates of foreign investment signals a favourable business environment and encourages domestic firms to invest, creating a circle of investment and growth. Foreign direct investment in Uganda has grown in recent years largely in response to a more favourable environment for the private sector. (MEDIUM-TERM COMPETITIVE STRATEGY FOR THE PRIVATE SECTOR (2000-2005): Making Institutions Support Private Sector Growth, Ministry of Finance, Planning and Economic Development).

GDP grew at 8-10% in the mid 1990s, 4-6% in the late 1990s, with the index of industrial production rising from 100 in 1987 to 550 by early 2000. Agriculture grew more slowly, the value of production rising by just over one

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<sup>5</sup> Data from 'Institutional Investor' 1992-2000, cited in 'Background to the Budget 2000/01', p53. Ministry of Finance, Planning & Economic Development, Uganda.

<sup>6</sup> A recent survey of investors (World Bank 1999) indicates that typically foreign investors demand payback periods of 3-5 years for investment in Uganda.

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third during the 1990s.<sup>7</sup> Annual growth in Uganda's gross domestic investment was estimated at 9.9% during 1990-99, compared to 3.6% for Sub-Saharan Africa as a whole.<sup>8</sup>

However, economic recovery appears to have concentrated in the main urban areas. Relatively slow recovery in agriculture and finance, plus undeveloped infrastructure and unreformed public institutions hinder achievement of Government's small and medium enterprise growth targets. Given the favourable macro-economic environment there is potential for more rapid RNFE development provided these hindrances can be reduced. The difficulties for RNFE activities are related to those affecting MSME (micro, small and medium size enterprises) more generally, and are the subject of significant government concern, as expressed in the recent strategy paper on the private sector:

Given the small modern formal sector, the MSE sector (which is largely informal) is a significant source of employment and of income to the poor. It is estimated that there are more than 800,000 MSEs employing about 90% of the total non-farm economically active population and contributes about 20% to GDP. Despite its importance, the MSE sector is faced with severe constraints that limit the sector's economic growth potential and poverty reduction. Some of these constraints are general to the entire private sector but many of them are specific to the sector. (*Uganda: Medium Term Competitive Strategy for the Private Sector 2000-05: Making Institutions Support Private Sector Growth Final Report-August 2000, Ministry of Finance Planning and Economic Development*).

The strong bias of business growth in urban areas is in the context of Uganda being one of the least urbanised countries in the world. Uganda's urban population was equal to only 15% of the rural population in 1992. By contrast, in Sub-Saharan Africa as a whole, urban population is now almost half of total population. This pattern may be the result of Uganda's unusual RNFE parameters:

- rural population density may be unusually low.
- incomes per head in rural areas may be unusually low compared to urban areas. Per capita consumption expenditure in rural areas was estimated to only 1/3 to 1/2 of that in urban areas during the 1990s<sup>9</sup>
- agricultural incomes may be unusually low. Although agricultural output increased more than rural population in the 1990s (36% against 12% 1992-1999<sup>10</sup>) yields are low, and water and roads undeveloped in many

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<sup>7</sup> 'Background to the Budget 2000/01', p53. Ministry of Finance, Planning & Economic Development, Uganda, graphs 1 & 2

<sup>8</sup> 'World Development Report 2000' Table 11, World Bank

<sup>9</sup> 'Background to the Budget 2000/01' Ministry of Finance, Planning & Economic Development, Uganda. Table 32b

<sup>10</sup> 'Background to the Budget 2000/01' Ministry of Finance, Planning & Economic Development, Uganda. Tables 3 & 31

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rural areas. Agricultural outputs share of GDP declined from 1991 to 1999 (53% to 42%). In contrast manufacturing output more than trebled during 1991-99, increasing its proportion of GDP from 6% to 10%. Slow institutional reform in cash crop marketing may be partly responsible for the slow recovery of agriculture, particularly of cash crop exports (Belshaw, Lawrence & Hubbard 1999).

- rural town population may be unusually low. The rural population tends to be scattered in homesteads rather than concentrated in rural villages which offer an opportunity for town growth.

Other factors, common to many African countries, may also make for an urban bias. Government's priorities for the private sector are indicative:

While competitiveness entails reducing cost and improving quality, the extent to which private sector firms can attain these goals is very limited at the moment. Firms cannot reduce the cost of their operations and become competitive because of the myriad of constraints still in public domain that they are faced with. Government is committed to removing these constraints. However, because not all of them can be addressed at one and the same time, a few priority areas for Government focus in the short to medium term have been identified.

The priority actions fall into eight areas. The five top priorities include: (i) reforms in infrastructure provision; (ii) strengthening the financial sector and improving access; (iii) commercial legal sector reforms; (iv) institutional reforms which include dealing with corruption, reforms in public procurement, simplifying administrative procedures and improving tax administration; and (v) removing export sector specific impediments'. (Uganda: Making Institutions Support Private Sector Growth, Final Report, August 2000) .

The top two priorities (strengthening infrastructure and the financial sector) could benefit rural investment particularly. Government policy views the present regulatory environment for small businesses as the key constraint on its growth:

It is therefore essential that the deregulation and commercial law reforms proposed in this strategy paper are implemented without delay in order to create a formal and stable operating environment for MSEs. A supportive legal environment for micro finance institutions/ organizations will also have a positive effect on the performance of MSEs. (ibid.).

## **2. Infrastructure**

Infrastructure development currently favours urban areas. Roads, water and power are undeveloped in much of rural Uganda and generally recognised as being the critical public investment for stimulating both the farm and non-farm economy. Head-loads along paths are still the main means of transporting agricultural produce in Uganda (Programme for the Modernisation of Agriculture 2000:68). There are a number of road projects funded by donors which are parcelled into the Ten Year Road Sector Development Programme.

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The Programme for Modernisation of Agriculture (PMA) is the main current rural policy initiative and stresses the importance of better infrastructure, but does not appear to bring new resources to it. The Government's 'Medium Term Competitive Strategy for the Private Sector' (MFPED August 2000) indicates that the main change in infrastructure policy is involvement of the private sector in operation, financing and ownership of infrastructure. But rural infrastructure tends to be less attractive to private investors than urban (e.g. toll roads between cities, telecommunications, electricity) because there are fewer paying users. In the case of rural electrification this is claimed to be recognised by the subsidies to private sector electrification in rural areas (Poverty Reduction Strategy Paper, March 2000).

### **3. Finance**

Recovery in Uganda's banking sector has been slow and uncertain. Four bank failures have occurred in Uganda since 1998 and there are '...still signs of weakness in the overall earnings and quality of assets in the banking sector'<sup>11</sup>. Wide spreads between lending and deposit rates probably reflect inefficiencies in the banks as well as lending risks. Changes are underway in the banking law to reduce abuse of banks by their main shareholders.

The Bank of Uganda is to put in place a legal and regulatory framework for financial institutions and organisations that specialise in the provision of financial services to micro and small enterprises. A micro-finance institution (MFI) law will soon be drafted and presented to Parliament. Some MFIs offering credit to micro and small enterprises will be permitted to take deposits and re-invest them, provided they meet minimum equity requirements, have adequate loan loss reserves, place a limit on the percentage of deposits that could be lent, and maintain proper accounting standards, as will be articulated in the MFI legislation ('Uganda: Medium term competitive strategy for the private sector: Making Institutions Support Private Sector Growth', Final Report, August 2000. Ministry of Finance, Planning & Economic Development).

Most people wanting to engage in RNFE activities rely minimally on bank finance even when it is available through local branches. Instead they mainly use trade credit where they can get it, plus their own savings. It is possible that banking inadequacies may hold back RNFE development as much through restricting general consumer credit (and thereby restricting local demand) as by restricting credit to RNFE investors. Micro-finance services were provided by the failed Co-operative Bank; the six micro-finance agencies have now been taken over by Commercial Micro Finance Ltd. The experience of Rakai district indicates that for micro-finance to make a significant impact much capacity building is required.<sup>12</sup>

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<sup>11</sup> 'Background to the Budget 2000/01' Ministry of Finance, Planning & Economic Development, Uganda, p 29

<sup>12</sup> Support by the Rakai Rural Credit Scheme to the Centenary Rural Development Bank provides an example of strengthening a micro-finance institution. See K. Bird et al 2000

#### **4. Business taxes**

There is uncertainty regarding the impact of taxes on businesses in Uganda (Chen & Reinikka 1999). Even when the country's level of public revenue is low at the macro-economic level, rapidly increasing taxation may pose a constraint on private investment in two ways. The first is when formal enterprise is a small share of output but a high share of the effective tax base. The second is where access to credit is limited and interest rates are high, causing most of the finance for investment to be drawn from profits and owners' equity. These factors appear to apply to Uganda, where the tax environment is less attractive to foreign investors than in neighbouring countries. (This is despite Uganda's tax revenue in relation to GDP being low (10.7% in 1997) when compared to Kenya (22.7%) and in Tanzania (11.2%).

Uganda's tax disadvantages for investors are with regard to:

- Property tax on buildings, which are the most highly taxed assets in Uganda - so those sectors investing heavily in them (e.g. tourism, manufacturing, communications) are subject to higher taxes
- Higher fuel taxes
- Lack of allowances for investment in buildings, which Kenya provides
- Abolition of corporate tax holidays and replacement by initial investment allowance on machinery probably disadvantaged business as a whole, though benefiting machinery investors.

However, in practice it is difficult to conclude whether taxation is a disincentive to investment in Uganda because there is widespread tax evasion and widespread exemptions given to specific firms. Tax administration is also a problem for investors, owing to corruption and inadequate means for resolving disputes with the tax authorities.

#### **5. Capacity of public institutions**

An important issue for this research is whether changes to public institutions favour RNFE or not. The key policy change affecting the organisation of rural government is decentralisation (discussed in the next chapter), designed to increase the discretion and capacity of local governments. Under decentralisation policy, in 1997 sub-counties became corporate entities, with the discretion to use for development purposes the 30% of local revenues they retain. Typically these are used for protection of water sources (e.g. springs), sanitation in primary schools and health units. In addition there is increased initiative being taken by District Councils. For example, Rukungiri council has recently negotiated with private investors regarding power supply to the district.

To be effective in stimulating RNFE local government needs to be able to carry out a development agency role. But there are important questions here. Is central government enabling local government to take on an effective development role? In particular is there co-operation between ministries and local governments in relation to development objectives? And do local governments have the capacity to take on a development role effectively,

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particularly at the sub-county level, to which greater responsibility has been given?

The few indications available in the literature reinforce the impression that implementation capacity of government is low. Uganda is not perceived as operating an effective 'one-stop shop' system for investors (World Bank 1999). Tax administration is weak, as discussed above. A fundamental question is whether local governments are capable of spending additional resources effectively.<sup>13</sup>

### **6. Conclusion**

The macro environment for economic development in Uganda strengthened considerably in the 1990s, resulting in much economic growth. The weakness has been in the relative unattractiveness of rural areas - investment and growth appears to have occurred in urban areas, particularly around Kampala, Jinja and Entebbe. Factors influencing this 'urban bias' may include relatively slow recovery of agricultural incomes, most population living in low density rural areas with limited rural town formation, and poor local infrastructure in rural areas.

Uganda may now be in a stronger position than many other African countries to stimulate RNFE by improving rural infrastructure and services, because:

- resources to finance infrastructure and services have increased. Uganda has higher levels of non-farm investment than much of Africa
- rising incomes and populations are expanding demand for both agricultural and non-agricultural goods and services

But such RNFE growth is hampered by the inadequacy of resources to finance the investments in infrastructure and services, while the current capacity of local government to manage the process is likely to be inadequate.

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<sup>13</sup> A study by Ablo & Reinikka (1998) gives cause for concern over the ability of government to spend education funds effectively. They found that:

- at best 39% of intended non-salary public resources allocated to schools reached schools in 1995
- bulk of the capitation grant was retained by district authorities
- at best only one third of compulsory tuition fees paid by parents was retained by schools, the rest being remitted to district education officers
- overall there was a rise in primary school attendance of about 60% during 1995, suggesting a positive response to greater budgets, despite the shortcomings above
- in health units 70% of the drugs supplied were being sold for personal gain in order to supplement low salaries
- there was a high variation in performance between administratively stronger and weaker districts

## CHAPTER 4

### DECENTRALISATION AND GOVERNMENT PROCESSES IN UGANDA

This chapter discusses government process in Uganda, to clarify the wider governmental context in which local government operates. The focus is on decentralisation, which is now affecting most internal processes of government in Uganda. Aspects of civil service management are then discussed, followed by an overview of issues to do with trust and culture between public and private sectors, information technology and financial management.

#### **1. Decentralisation**

Uganda has made a clear choice to undertake decentralisation via devolution, recognising local governments as separate levels of government with their own powers. These are outlined in Article 176 of the constitution, with specific powers stated as:

- (1) The system of local government in Uganda shall be based on the district as a Unit under which there shall be such lower local governments and administrative units as parliament shall by law provide.*
- (2) The following principles shall apply to the local government system: The system shall be such as to ensure that functions, powers and responsibilities are devolved and transferred from the government and in particular from the higher to lower government units to ensure people's participation and democratic control in decision making.*
- (3) Appropriate measures shall be taken to enable local government units to plan, initiate and execute policies in respect of all matters affecting the people within their jurisdiction;*
- (4) Persons in the service of local government shall be employed by the local governments; and*
- (5) The local governments shall oversee the performance of persons employed by the Government to provide services or the implementation of projects in their areas.*

These articles are designed to develop a strong local government system with wide-ranging powers. They further imply that there will be support for the necessary increase in capacity within local government to deal with all of these new roles. One point of specific interest is that it is clear that local governments are not only responsible for their own human resources but also for the central government staff deployed to provide devolved services. Importantly, local governments have the power to hire and fire through District Service Commissions (DSC) and to supervise through the Chief

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Administrative Officers (CAOs). In addition, there are other supervisory functions carried out by the District Tender Board and the Local Government Public Accounts Committee.

There are five levels of rural local government in Uganda, from LC (local council) I to V:

- LCI Village
- LCII Parish
- LCIII Sub-county
- LC IV County
- LC V District

Town councils are usually at level 3. Levels 3 and 5 are where administrative capacity is concentrated. While the overall structure of local government continues, the effect of decentralisation appears to be enhancement of the roles of the district level and the sub-county level.

### *Is decentralisation improving the policy process?*

In policy terms, decentralisation in Uganda was launched on a wave of optimism about the impact it would have on the policy-making process. Essentially, through it the government sought to take decision-making as close to the grassroots as possible.

Recent research<sup>14</sup> suggests people generally regard decentralisation as a good thing, not least because there is a general understanding that districts are now responsible for managing their own affairs. However, the process was implemented rapidly, without sufficient awareness creation. Understanding of decentralisation and the structures, roles and responsibilities of local government is limited. People generally feel decentralisation has not translated into increased levels of consultation and participation. Once elected, councillors do not return to their constituents for consultations. If popular participation and availability of skills are taken as criteria for judging whether or not decentralisation has improved the policy process, it can be concluded that it has generally not.

However, there is a feeling that decentralisation has gone a long way in fostering the inclusion of once marginalised groups in decision making at the local level. But it is recognised that there are still groups (such as women, the very old and very young, ethnic minorities (such as the Batwa in Kisoro) and refugees and the disabled) which are still unable to participate effectively and whose views are ignored. Besides the absence of consultation, policy-making is hampered by councillors' lack of knowledge and capacity for planning, policy-making and implementation. Nonetheless, in some districts (such as Kotido), people generally feel more in control when it comes to identifying their problems and arriving at 'local solutions'. There, people associate their participation in decision making with improvement in policy making.

Is there a risk that the concept of decentralisation is too confined to government, rather than thinking of it more broadly as encouraging self-

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<sup>14</sup> Uganda Participatory Poverty Assessment Process.



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management, coupled with independent ownership of some services (e.g. schools, hospitals), thereby neglecting needed commercialisation?

Decentralisation in Uganda is of the devolution type. Specified powers were handed over legally by the centre to local governments. Under the arrangement the latter are able to make certain decisions free from interference by the central government. Generally local governments have neither consciously encouraged, nor actively discouraged, the development of independent ownership of services. Therefore, independent schools and private medical clinics are very much part of the local service delivery landscape. In addition to saving public facilities from coming under heavy pressure due to excessive demand, they provide alternative services and widen the range of choice.

In many cases better-off people have shunned public provision and opted for services in the private sector. This has in turn forced public facilities to raise standards of provision, often through semi-commercialisation by way of instituting cost sharing arrangements between the service provider and the consumers.

### **2. Civil service management**

#### *Functions of District Service Commissions and local government structures*

District Service Commissions (DSCs) were established under Article 198 of the Constitution and under the Local Government Act of 1997. Every District has a DSC comprising between 5 and 7 members selected from local governments within the District,<sup>15</sup> and appointed by the District Council with approval from the Public Service Commission. The DSC members are defined as persons of 'high moral character and prove integrity' as well as having worked for at least ten years and be resident in the District (Local Government Act, 1997).

The powers of the DSC are primarily to appoint and to dismiss persons within the public sector and to exercise wider disciplinary control over the District. This power extends from the lowest employee to the CAO. The DSCs are vested with local power and the centre can only intervene if the DSC is held to have acted against the law. It is clear that the DSCs have a critical role in developing the human resources of the Districts. The DSC system does have numerous advantages. Apart from the independence arguments, the DSCs are held to be the source of a reduction in overhead costs, and of the risk associated with political interference. The disadvantage, from the Districts' point of view is that the costs are borne by them. But despite their formal independence, the DSCs have still been subject to some attempts by local governments to control them. Above all, the DSCs are designed to overcome the common fear accompanying decentralisation that local politicians will exercise considerable patronage in terms of political appointments. DSCs provide an independent body for ensuring compliance with national policies for the public service.

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<sup>15</sup> At least one of which has to be from an urban authority.

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One of the main difficulties in firing personnel is the cost to the District. Section 62 of the Local Government Act requires local governments to compensate employees whose services are terminated by the local council if this termination is against the ruling of the Public Service Commission or contrary to the terms and conditions of the public service. If this is done, then the following compensation applies: one year's gross pay in lieu of notice; pension; basic salary with respect to leave; severance package equivalent to 6 months' basic pay for every year of completed service; and transport costs to the District of origin.

This makes it very expensive to fire staff under these circumstances. Perversely it may even pay councils to retain inefficient staff rather than fire them, leading to the accumulation of ineffective employees. Certainly, unless the activities of the staff member are illegal, officials in Rakai and Kumi regard firing personnel as too expensive. If a member of staff is fired, then that member of staff has leave to appeal to the DSC itself, which will then make a final decision. The CAO does not have the power to overrule the DSC in decision making.<sup>16</sup>

### ***Major constraints in Recruitment and Management of Staff***

The main constraint faced by local government in recruiting and retaining adequate staff is financial. The first issue raised by many local governments is the role of the DSC, the funding of which derives from local government itself. Initially it was intended that funds saved at the centre in devolving and decentralising services would be transferred downwards to cover these costs, but to date this has not happened. The law states that DSCs must be paid within a limit of 15% of the previous year's locally collected revenue - quite a significant gap in funding for local governments.

This can obviously have a detrimental effect on the role of the DSC in scrutinising. For example, figures quoted by Obwona et al (1999) for Lira District cite DSC members as being paid Ush.80,000 per day of sitting, whereas a CAO gets Ush.30,000 per working day minus allowances. If meetings are held once a month, then this amounts to an expenditure of around Ush.7 million per annum on DSC allowances. Bearing in mind the role of the DSC as controlling disciplinary hearings, hiring and firing and virtually everything to do with personnel, this hardly seems adequate time and so the effectiveness of DSCs needs to be questioned.

Funding constraints reach into the heart of local government staffing since local governments are unable to offer attractive wage packages, particularly for professional staff such as accountants or surveyors, who are able to earn elsewhere. Continuous advertising to fill vacancies is a further drain on resources. High staff turnover in specific roles can also be a problem. This is usually the case in skilled roles. For example, surveyors come to local government, get their training and three years experience and then move on

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<sup>16</sup> The CAO can request the DSC to look at cases again if there has been a mistake.

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to the private sector where the returns are higher. This is repeated in other professionals.

Staff turnover is less of a problem in administrative roles, particularly in rural areas where there may be less opportunity to move across to the private sector. In addition, under the decentralisation rules, staff are no longer transferable between Districts or Urban Authorities. This has led to complaints from staff in terms of limiting their promotion prospects and experience and there are discussions currently to establish a formal system of exchanges between different cadres of staff.

The absence of reasonable wages and career development opportunities among other incentives, have seriously undermined the capacity of local governments to retain staff. This is particularly so where young, ambitious and professionally mobile officers are concerned. In addition to experiencing problems related to retention, local governments also experience problems related to recruitment. In some cases, especially in the remoter and more insecure districts, job advertisements do not attract many suitably qualified applicants. Indeed, there are cases where newly recruited officers abandon duty not long after their appointment. Besides poor remuneration, factors leading to poor staff retention include geographical isolation and lack of social services.

### ***Decision-making***

There are local councils consisting of elected members at all levels of local government from the LCI level (village) up to LCV level (District). There are specific rules laid down in law for governing the actions of these councillors. In particular they must consult regularly with voters, must hold public meetings, and consult with their technical heads to ensure decisions taken are legal.

The technical side is headed at District level by the CAO.<sup>17</sup> He is supported by whatever technical officers are said to be required. At Sub-County level in rural areas, the head is known as the Sub-County Chief again supported by other technocrats. Conflict can arise between the two (both of which can only be fired by the DSC) particularly over tax. Tax is gathered at lower levels and then passed up to the District. Lower levels retain their share. The problem arises when this share is insufficient to pay staff and sitting allowances of councillors. There have been cases of conflict where Sub-Counties were retaining around 80% of the tax, and the DSC had to intervene and compromise.<sup>18</sup>

### ***Staff and politicians***

There have been significant examples of conflict, usually between councils and the CAO, and usually involving suspicions over finance. Rakai was

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<sup>17</sup> CAOs are very respected positions and can become well known by the population. For example, in Rakai, during fieldwork in a bank in Kyotera, the CAO came in. Virtually everyone on the street and in the Bank greeted him with a 'Hello, Mr CAO'.

<sup>18</sup> In Lira for example, Sub-Counties were retaining 80%. The DSC intervened and now they retain 65% but the District now pays Sub-County staff.

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subject to a serious conflict in 1998/99 when even Danida stopped all funding to the District in response to corruption by the then CAO, his finance officer and another signatory to the District accounts. There were also suspicions of some collusion amongst some councillors and the CAO. Eventually this resulted in an election where the membership of the council virtually all changed. All the chief officers of Rakai were fired by the DSC and investigated by the Auditor General.

Despite a proliferation of anti-corruption institutions in the country in recent years, levels of corruption have risen considerably. Indeed, it remains a major public concern according to a recent opinion poll.<sup>19</sup> At both the national and local levels the performance of anti-corruption bodies has not been impressive. According to recent research in 9 districts, people are disgusted with the worsening trend of corruption in the country, in all aspects of service delivery: judiciary, police, health services, education, etc. Remarkably, employees of anti-corruption bodies are also guilty of corruption, as a number of them have been caught and convicted.

In Moyo District people accuse the Office of the Inspector General of Government and local councillors of concealing – rather than exposing – cases of corruption by public officials.<sup>20</sup> The local press routinely reports corruption, mostly involving embezzlement of public funds in various districts all over the country. And as indicated above, it is not only anti-corruption bodies that are inefficient and ineffective. Local government audit departments do not fare any better. All of this signifies the difficulties involved in the potential involvement of local government in the stimulation of the RNFE, and its wider role as an agent of local economic development.

#### ***Local government and the centre***

Officially, central government no longer has any formal relationship with staff at local government level. The main relationship is with the District, which acts as the chief government entity. Most communication between the District and the centre is co-ordinated by the CAO and the District Chairperson, as well as through the various centralised associations that act as lobbying interests.

In general the relationship between the Districts and the Ministry of Local Government has been reasonable, whereas the Districts and the Ministry of Finance have had a more strained relationship. This is perhaps unsurprising and is certainly not uncommon across Sub-Saharan Africa, but in this case it became stretched in the early days of decentralisation when cash was not forthcoming from Finance, whereas responsibility had already been devolved to the localities. The formation of the Uganda Local Authorities Association (ULAA) and the Local Government Finance Commission has led to a thawing of the relationship. At the same time, relations with the Ministry of Local Government have declined as the view has spread that it has been 'captured' by the central government. The ULAA is certainly of the opinion that the Ministry of Local Government has changed its role from representing local

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<sup>19</sup> *The New Vision*, Sunday 14 January, 2001.

<sup>20</sup> Uganda Participatory Poverty Assessment Project (Moyo District Report).

## ***Local government and the RNFE in Uganda***

authorities to representing government against local authorities. Whether or not this is actually true or not it is certainly believed by those authorities that are members of the ULAA.<sup>21</sup>

### ***Attraction and retention of skilled staff***

In a classic study of decentralisation across several developing countries, it was asserted that decentralisation may create greater shortages of skilled manpower because it encourages more levels of governance to undertake development activities (Nellis & Rondinelli, 1986)<sup>22</sup>. In many ways, Uganda conforms to this view. Kampala City<sup>23</sup> and other big urban authorities like Jinja, have virtually all of their posts filled. But smaller, rural authorities such as Kotido have up to 60% of their posts unfilled. Furthermore, skill shortages tend to be concentrated in particular areas, even if there are no hard and fast rules across all of Uganda.

Many councils find high level management positions difficult to fill, particularly in those areas that are far away from a major urban centre. The main difficulty however, is technical middle management. Even in Rakai, where the consistent Danida funding has significantly reduced the staff shortages, the internal audit department, for example, just has one member of staff instead of three.

Obwona et al (1999) identify a number of factors from central government studies of staffing shortages that contribute to an understanding of staff shortages. These include: inadequate revenue bases leading to unreliable remuneration; poor infrastructure (schools, transport, health, communications); low level of donor activity within the region. Donors in particular are associated with higher levels of remuneration, better career pathways and more professional experience. They may also provide opportunities for overseas study in professional roles.

One of the other main features of staff shortages is a significant shortfall in lower level staff. In many ways this should be the category where there is a higher pool of labour to recruit from. It appears that Districts are reluctant to fill all of these posts because of financial constraints. In general it may be better for a District to restrict lower level recruiting in favour of paying more to higher paid, higher level staff.

### **3. Outsourcing**

Contracting-out services is an obvious alternative for local authorities where this is likely to lead to more flexibility in dealing with its own staffing and is also more cost effective. In effect, large capital projects are already contracted out where the investment has come from donors or central government (in the

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<sup>21</sup> Interestingly, DFID is currently trying to reform the Ministry to make it responsive to local authorities.

<sup>22</sup> Dennis A. Rondinelli and John R. Nellis, "Assessing Decentralization Policies in Developing countries: The case for Cautious Optimism," *Development Policy Review*, Vol. 4 no.1 (March 1986)

<sup>23</sup> Kampala actually provides additional cash incentives for its staff.

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case of trunk roads), where the relevant oversight is taken by the organisation in question. However, the emphasis on decentralisation and the policy of some donors directly involves the tendering committees of some Districts and their oversight facilities. In Kumi, for example, Irish Aid and CARE are undertaking renovation of several buildings in the health and education sectors and many of the contracts are handled locally through the District. Consequently, the Districts themselves, particularly in rural areas, control sizeable opportunities for the private sector. Access to these projects can therefore be critical in developing business opportunities.

It is not only donor projects that are contracted out, as most Districts contract out a whole range of activities. Kumi, for example contracts around 80% of its services, including food provision to hospitals and prisons, road maintenance, engineering, construction, water management, maintenance and waste management. All of this is handled by the District Tender Board within the District. One area where the Districts have undertaken to contract out without donor guidelines is revenue collection. Most local authorities contract out the collection of revenue, including market fees (a major source of revenue in Kumi). In all cases, the DTB handles the contracts and the District Council has a responsibility to monitor the performance of that contract.

### **4. The effect of civil service reform on local authorities**

Since decentralisation got underway in the 1980s, Uganda as a whole has been subject to a series of civil service reforms at a national level. These reforms, in common with most of Sub-Saharan Africa, have addressed administrative, fiscal, political and planning reforms. The basic thrust of the reform process has been to ensure that control of services is within the control of local authorities, and the loyalty of local staff is to the District, not the national level.

The *Public Sector Reform* of 1989 was mainly aimed at the national level, but has implications for the local staff. In particular, it lays out the framework for streamlining of organisational structures, introduction of management information systems, training and support, and improving staff working conditions. These policy directions led to the weeding out of 'ghost' employees, increasing the 'hiring and firing' threat through DSCs, the formation of new units at local level (for example, the planning units at District level) and the channelling of more resources into training of politicians and staff in issues such as value for money and 'results oriented management'.

These reforms have largely been carried out, but with mixed results. The DSCs have a great deal of responsibility without the time to cope with the volume of decisions. In keeping with much of the rest of the local authority structure, the role of the DSC requires some form of rationalisation to be able to address the new demands and responsibilities within decentralisation. For example, there were no water engineers or planning units at the time of decentralisation. The chief problem, however, has to be funding. Reorganisation requires some degree of retrenchment at the local level and, as stated above, this is expensive. Added to this, the decentralisation of

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pension responsibilities to local government has placed added fiscal pressure on local government coffers and many have failed to meet their obligations because of this.

It is a common act of most local governments in fiscal crisis to cut the training budget, thus saving cash in the short term, but exacerbating problems in the long term. This has certainly been the case in Uganda, and even though several organisations have tried to rectify this, there is still a shortfall in trained staff. The ULAA has run several courses for its members recently including accounting, computing and stakeholder relationships. However good this training is, it is still inadequate.

### **5. Trust and culture between public and private sectors**

There is neither a culture of trust nor a healthy incentive structure at the local government level. First, the business community tends to see local government as being out to over-tax them. Then, where tendering is concerned, members of the business community believe there is neither fairness nor transparency in the way contracts are awarded. The belief by members of the business community that contracts are awarded on dubious grounds often leads to divisions within the business community. It is of course, virtually impossible to verify that there has been unfairness, but the fact that it was cited in so many discussions with private businesses is testament to its prevalence, and the perception is probably more important than the truth in this circumstance.<sup>24</sup>

There are indications that where development or promotion of the business sector is concerned, neither local bureaucrats nor their political masters are motivated by the desire for economic development per se. Many of them, as is the case in Rakai District, run local businesses that did not exist prior to their election or appointment to office. Indeed, usually the local scene is rife with stories of 'big people' having invested in such business interests. Those without businesses of their own usually use members of the business community as fronts to win tenders for the supply of various goods and services<sup>25</sup>.

Where local businesses are not used as fronts, the practice is to solicit kick-backs from individuals who wish to win contracts. While on the surface it appears as though the tendering process is corruption-free, in reality it is corrupt. According to well-informed sources, usually favoured individuals are provided with all manner of insider information prior to applying, in return for

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<sup>24</sup> So many market relations rely on trust, and trust relies very heavily on perceptions of those you are trusting (or not in this case)

<sup>25</sup> In Kumi, one businessman was said to control around 90% of tenders awarded by the District. In fact he admitted this to us, but claimed that he was the only businessman capable of supplying the capital. This may be true, but it is also something of a self-fulfilling prophecy - how are his competition going to develop the capital base? He also admitted to being 'very close' to a number of officials on the DTB, one of which he sub-contracts under a tender he won.

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specified amounts of cash.<sup>26</sup> As already pointed out, all this combines to make the business community suspicious of local government and leads to the former being factionalised.

### **6. Information and information technology in local authorities**

An integral element of organisational reform in local authorities is the introduction of information technology to improve administrative effectiveness. Overall, these efforts began with UNDP pilot programmes within District Planning Units (DPUs). Each selected DPU was given computers and a pick-up truck to facilitate the collection and management of data. These efforts were followed by centrally co-ordinated training in use of the computers.

These initial efforts were backed up by the efforts of individual donors in specific Districts. In Rakai, for example, Danida encouraged the development of a District database and the computerisation of first the payroll and then the accounting system. The finance applications are being introduced across local governments in Uganda in a programme supported by Danida and the GOU. The World Bank is also adding resources for supplying computers to all local government finance offices with the aim of improving financial management and data management in time for the LGDP. All of this has been backed up with substantial training and workshop programmes.

Having said this, information management within local governments is generally poor. Information technology is still yet to arrive in most of rural Uganda. Information storage is still manual: filing cabinets, shelves and boxes. Retrieval is therefore slow and difficult. Some districts do not even have central registries, although some, such as Moyo and Kalangala,<sup>27</sup> have had theirs renovated under the Local Government Capacity Building Programme, and their personnel trained in records management. Others, such as Kisoro and Bushenyi (thanks to the Uganda Institutional Capacity Building Project),<sup>28</sup> have fully-functional registries where information storage is good and retrieval fairly quick.

As is the case in other matters, lower-level local governments fair much worse than their higher-level counterparts. Information storage is much poorer, the consequence of negligence and/or lack of storage facilities. At the sub-county level, in almost all districts, there are no specific places where certain types of information (save for financial records locked up in cupboards) can be found. There are often no properly trained personnel in information or records management.

Looking beyond storage, information gathering in the majority of districts also leaves a great deal to be desired. Rakai District is one of the few exceptions

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<sup>26</sup> Interview with local government supplier in Kyotera, Rakai District (Nov. 2000).

<sup>27</sup> See Capacity Assessment Reports, Moyo & Kalangala Districts. Uganda Participatory Poverty Assessment Project.

<sup>28</sup> Capacity Assessment Reports, Kisoro & Bushenyi Districts. UPPAP.



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to this rule. With funding from Danida, attempts have been made to set up an organised and structured mechanism for gathering and storing different types of information in a District databank was set up. Feeding the data bank has been, among others, the Village-wise Impact Monitoring System (VMS). It is not clear to what extent the information gathered is used, and a recent evaluation of the Rakai District Development Programme suggests the information use has been minimal. However, when this study visited Rakai, it was running, officers claimed it is useful and demonstrated that information can be extracted from it.

Compounding the problem of poor information gathering, storage and retrieval is the lack of adequately skilled personnel. Much of the information available at local government level, especially at lower levels of the LC hierarchy, is related to finances and, often, council meetings. Information about matters such as trade, health, water and education is virtually non-existent, except at the district headquarters. Even then, it is not always sufficiently detailed.

At the core of many future problems for local economic development and RNFE policy is that data gathering is difficult and expensive. Civil strife across most of Uganda has meant that much data collection activity stopped for a considerable length of time. Local governments have therefore to start from scratch in developing basic data on the country.

### **7. Financial management capacity**

Given the nature of decentralisation and the resulting pressures on fiscal management at a local government level, financial resource management become critically important. The initial financial planning instrument used for resource allocation is the development plan. Districts that have been supported by donor funding such as Rakai have such plans. Others that do not have the necessary resources, both in cash and in expertise, like Kumi, have not. The plans are aimed at optimising resource use, but also at sourcing funds for these activities. There are generally three main sections to these reports: situation analysis; development goals and objectives; activities and costing.

The other chief function of the plans and of the consultation process before and after the plans is to enhance transparency and efficiency in the achievement or otherwise of goals and targets specified within the plans. Part of this process is the opening out of financial decision-making away from the narrow focus of Finance Committees onto broader political stages. In Rakai this has led to regular financial reporting by the officers, not only to the Finance Committee, but also to a new oversight committee, to the politicians in general and to the crucial Heads of Department meetings.

#### ***Accounting Controls***

Districts generally comply as much as possible with the financial and accounting guidelines and regulations provided by the Decentralisation Secretariat. In many cases books are well posted, accounts up to date, and

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accounting principles observed. However, available information suggests adherence to control deteriorates the lower the level of local government.

Under normal circumstances the Chief Internal Auditor audits books at the district level. At the sub-county level, district-based 'external auditors' perform that function. However, auditors are not always beyond reproach. According to press reports, external auditors, even from the Office of the Auditor General, are routinely corrupted by accounting officers. Moreover, understaffing within finance departments means that auditing can be done only once a year, usually when it is too late to correct mistakes. For instance, Kalangala District has only two internal auditors covering 6 sub-counties and 1 town council spanning 84 islands.<sup>29</sup> In many districts supervision is lacking or lax due to logistical difficulties such as lack of transport, or sheer lack of interest in, or understanding of, financial matters by local leaders.

Where donor funds are concerned, accounting standards rise considerably.<sup>30</sup> Disbursement of donor funds is tied to work plans with the approval of the donors and the local leadership. In many cases donors furnish district administrations with guidelines on how to put the funds to use.

### ***Budgeting & flow of funds***

According to the Local Government Act (1997), local governments have the right and obligation to formulate, approve and execute their budgets and plans provided the budgets are balanced. The need to balance budgets often prolongs the process, with some local governments passing their budgets months after the statutory requirement of June.

Budgets reflect all revenue to be collected and received each year. Until FY1999-2000, budget making was the preserve of local technocrats headed by Chief Finance Officers. The politicians' role was to debate and pass the budget. However, starting with FY1999-2000, local governments are expected to subject their budget-making processes to wider consultation. The processes began with training workshops designed to equip local officials with the skills required to draw up Budgetary Framework Papers.

Budget Framework Papers should be prepared through consultation with a wide range of stakeholders, including members of local communities. However, in reality consultation is restricted to local technocrats. Little or no effort is made to consult members of the wider community. However, where resources and time allow, council members, opinion leaders, and NGO (and donor) representatives are included.

Preparation of the papers includes mid-term reviews of sector performance using various performance indicators such as revenue collection and resource

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<sup>29</sup> See UPPAP, 2000. Capacity Needs Assessment Report, Kalangala District.

<sup>30</sup> Lawrence Banyoya, Secretary to the Local Government Finance Commission revealed that the Ministry of Local Government wanted to consolidate all of the donor funding to local governments into one fund and stop direct funding to individual Districts, but this remains an unresolved argument.

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mobilisation, immunisation coverage, road maintenance, etc. The process also includes forecasting or projection of future revenue based on past resource mobilisation. The paper takes into account national priorities such as health care, universal primary education, feeder roads, agricultural extension, water and sanitation, etc.

Budget conferences follow the development of the framework paper, and are attended by various stakeholders as mentioned above, though the business community is noticeably absent. They discuss the paper and set priorities. Budget conferences are followed by reviews of priorities by various sectoral committees before final discussions are held. Sector work plans are then developed, budgeted for, and sent to the Budget Desk in the Finance Department for consolidation into an integrated document. Following integration the budget is defended by the Finance department and endorsed by the council. The chairman then authenticates it before it is ready for implementation.

Annual expenditure estimation involves technocrats from all sectors, the local council and finance committees. At the district level the finance committee produces draft estimates and sends them to the council for perusal. The council recommends changes if necessary, followed by approval.

At the sub-county level each sector prepares its own estimates. They are then scrutinised by the finance committee. The committee makes necessary adjustments before forwarding them to the sub-county executive committee. The executive committee analyses the estimates and presents them to the council for approval. Even here the business community is not represented.

Overall, the formulation of estimates is not a rigorous analytical and reflective process. And estimates are based neither on indicators, nor on a thorough review of performance during the preceding year(s). Departments are usually allocated funds on the basis of previous allocations.

## **8. Conclusions**

Decentralisation is the principal influence shaping change in Ugandan local governments. It is giving them additional responsibility for the delivery of basic services. Whilst there has been some decentralisation of funding following the services, it is clear that this has been insufficient to cover all of the functions expected at District level. In particular, the arrangements for severance pay and pension provision have proved to be inadequate and problematic, and the position of many poorer Districts in more remote areas has worsened under decentralisation with a lack of directly posted central staff and the absence of donor funding. Without direct donor support, poorer Districts have been unable to offer sufficient incentives for qualified staff to locate there. Many poor Districts have vacancies in around 60% of their nominal strength.

The main variable governing the ability to be effective in terms of staffing has been the presence of a donor. Where donor funding has been present, Districts have been able to attract and retain better qualified staff who see

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better career prospects, better infrastructure and more opportunities to study abroad.

The new organisational structure under decentralisation has produced some benefits, despite the problems outlined above. In particular, there is more financial accountability within Districts with better financial reporting, oversight committees of various types, improved training for politicians that sit on Finance Committees and the introduction of IT. The use of the DSC structure to govern staffing issues is also a transparent and effective system, even with some of its problems of expense and a small number of meetings for the large number of decisions to be made.

The financial problems coupled with staffing issues have served to hamper attempts to build trust between the District personnel and the private sector. The significance of the tendering process and its central position in developing rural markets is subject to severe criticism by private sector actors who have missed out on contracts. In one of the Districts visited, virtually all of the contracts were awarded to one contractor, who then sub-contracted to others. The perception here was that the government was biased towards this particular contractor. This view was reinforced by his failure to join in the formation of the local Chamber of Commerce and its subsequent collapse. Whether all of this is true or not, trust has already been broken because much of the business community believes it to be true and refuses to tender 'because there is no point'. This has the immediate effect of cutting down the competition for a diligent DTB, and a missed opportunity to build a viable business community.

## CHAPTER 5

### PROFILES OF RAKAI AND KUMI DISTRICTS

The brief profiles here of the characteristics of Rakai and Kumi districts provide background for the discussion of fieldwork observations in subsequent chapters.

#### A. RAKAI

##### 1. Introduction

Rakai district is located in South-western Uganda. At the time of the last census (1991), it had a population of 383, 501 and is one of the less densely populated in the country. It relies heavily on its natural resource base that includes forests, lakes, wetlands and rangelands as well as arable land.

There is no district-level data on production, so comment is restricted to general observations of those interviewed. Agriculture is by far the main economic activity, and the main occupation of over 80 percent of the working population. The majority of the farmers are small holders who rely on domestic labour, traditional techniques and implements. Production is predominantly subsistence, with surplus produce sold for cash.

Animal husbandry, mostly cattle rearing, is the second most important economic activity. Large herds of cattle are to be found in the dry counties of Kabula and Kooki, where arable agriculture is practised on a more limited scale. Communal grazing and pastoralism are still the dominant techniques of animal husbandry, particularly for cattle and other small ruminants such as goats and sheep. There are opportunities for non-farm development in fishing, and perhaps in minerals. The District appears to have experienced some recent agricultural income growth, but much less than in the main cash-cropping areas further to the south-west. There has been considerable growth in the District's towns during recent years. But the vast majority of Rakai people live in scattered small farmsteads.

Rakai was selected in part because its investment in local government capacity and infrastructure (both sponsored by Danida over the last eight years) may indicate how improved local governance relates to growth of local economic development and the RNFE. A variety of other donors (Lutheran World Federation, Concern International, Orphans Community Based Organisation, Irish Fund for Cooperative Development, International Care and Relief, Medecins du Monde, and World Vision) are also involved, mainly owing to the severe impact of HIV/Aids in the District.

Danida's presence has brought about significant improvements in the quality of management, particularly in the spheres of revenue collection and financial management. In revenue collection the new district administration introduced new forge-proof graduated tax tickets, thereby raising the proportion of tax

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revenue that accrued to local government. Prior to its introduction unscrupulous local officials would print counterfeit tickets, sell them to unsuspecting members of the public and pocket the proceeds, a practice that deprived the local administration of much-needed revenue.

On the financial management side, the District was able, with Danida's assistance, to computerise its accounts, thereby minimising fraud. These and other achievements such as the improvements in infrastructure – including roads – have turned Rakai into a popular destination for officials from districts seeking to learn from its experience.

Road construction and rehabilitation have opened up previously inaccessible areas to trade in both agricultural and non-agricultural merchandise, thereby raising local incomes. Rising incomes have in turn stimulated growth in RNFE. One of the growth areas has been the construction sector, thanks to the building boom that has seen a tremendous increase in the number of buildings in rural towns and trading centres.

The construction boom has led to growth in employment opportunities for builders and sellers of construction materials, and other goods and services to employees of the construction industry. Moreover, the construction boom has not been restricted to residential or business premises. During the last decade Danida, the European Union, the central government and the NGO fraternity have financed the construction and renovation of hundreds of clinics, health centres, schools, offices and staff residences. All this has boosted the incomes of people connected with the construction industry both directly and indirectly, including stone masons, carpenters, welders, brick makers and layers, sellers and transporters of construction materials, sellers of food and drink (both on and off construction sites), etc. Road construction and rehabilitation have also created employment opportunities for local people as casual labourers.

## **2. Characteristics of RNFE in Rakai**

In the absence of any sample or census data on the growth of agricultural and non-agricultural occupations in the district, the remarks here are based on personal observation and opinions of informants.

- The most numerous small businesses are food retailers. Larger operations include coffee de-hulling, a fish factory (but much fish is still sent to Kampala for processing) and building contractors. There used to be a sugar factory on the southern border with Tanzania but it closed with the expulsion of Asians in the 1970s.
- There are about 50 small maize mills. The district's Chief Administrative Officer (CAO) thinks agro-processing has the most potential for stimulating RNFE since some 90 percent of the population work in agriculture.
- Most other rural industrial activities are small and some were initiated only as a result of donor assistance. An association of army veterans have a (struggling) welding shop, a women's group make concrete water butts to collect rainwater from roofs; there is a successful pottery with a retail outlet

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in the famous craft village in Kampala. There is also charcoal making and brick making.

- In the towns there is a variety of fabrication and repair-related workshops, retailers and service providers. One business visited was a metal fabricator in Kyotera, whose activity may signal the difficulties of future enterprises. He constructs a variety of products (including table and treadle mechanisms for foot-operated sewing machines). This seemed a clear example of versatile local production protected from outside goods by high transport costs, which may suffer as these costs fall and competitive products arrive from outside.

### **3. Donor relations**

For the last eight years Rakai District has had one major donor, Danida, operating from within the district. Other donors have considered the district to be Danida territory, and have largely kept out. During this time Danida has worked closely with the District Administration under the Rakai District Development Programme (RDDP) to develop the district's social, economic, physical, as well as political infrastructure. Under the programme numerous development projects and activities have been financed across all sectors, ranging from infrastructure development and rehabilitation projects to activities seeking directly to boost people's incomes and improve their livelihoods. A recent evaluation of Danida's contribution to Rakai district is a useful source of development information on the district. Some of the main outputs of the evaluation are summarised below:

#### *Direct Assistance to Organised Self-help Groups*<sup>31</sup>

Assistance to organised self-help groups took place under the first phase of the District Development Fund (DDF1) and involved giving them grants to finance activities aimed at boosting their incomes, each group according to its own plans, but under specified conditions. Unfortunately, the conditions set for eligibility for grants were not enforced, and a number of groups did not achieve their objectives. However, some did, leading to great improvement in members' incomes and welfare.

#### *Infrastructure Development*

Projects under DDF2 spanned education, health, production, public administration, rural communication and urban amenities, and fell into four broad categories: community projects, sub-county projects, joint community and sub-county projects and district-wide projects.<sup>32</sup> For a project to be approved for funding, certain conditions had to be met, among them demonstration by applicants of both their ability and willingness to contribute to, and participate in, its implementation. Prior to funding them, projects were assessed for sustainability, judged on the basis of proof by applicants for funding, of their capacity to meet additional costs in the long term; and their

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<sup>31</sup>For details see Golooba-Mutebi, 2000b.

<sup>32</sup> Districts are divided in ascending order of size into villages, parishes, sub-counties, and counties. Community projects would be those undertaken at the villages and parish levels.

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willingness to use local contractors and appropriate technology. Despite some problems, DDF2 did achieve its objective of infrastructure development along the lines of community self-help.

The key to the success of DDF2 lay in the close collaboration between Danida and the District Administration, and other organisations (especially NGOs) working in the district, as well as the high popular demand. In the case of schools, for example, communities were eager to upgrade their buildings and in cases where pupils still had lessons under tree shade, to build classrooms.

Infrastructure development and rehabilitation projects resulted in the construction and rehabilitation of schools, health units, and staff housing across the entire district from the most accessible to the most remote and isolated areas. The requirement that projects use local contractors as far as possible was a much-needed boost to the local construction industry and activities closely associated with it such as brick making.

In sum, recent years have seen progress in Rakai District, particularly owing to the Danida-funded Rakai District Development Programme (RDDP).

### *Micro-credit*

Besides the direct assistance given to organised self-help groups, Danida also financed two micro-credit schemes under the RDDP: the Rakai Rural Credit Scheme [RRCS] and the Danida Women's Credit Scheme (DWCS). The RRCS led to the establishment in the district of a bank branch (the Centenary Rural Development Bank, CERUDEB) to manage it, while the DWCS provided a lifeline to an ailing local micro-finance institution once it was entrusted with the responsibility to manage it. The two institutions came up to provide much-needed competition to a pre-existing bank whose services were available to only a small number of people in the district. They therefore widened the range of choices people had for sources of credit and loans. And the two schemes have been the sources of much-needed credit and loans for a wide range of categories of people from the better-off to the poorest that prior to their establishment had no access to the conventional banking system.<sup>33</sup>

## **B. KUMI**

### **1. Introduction**

Kumi district is located in eastern Uganda, bordering the districts of Mbale in the East, Soroti in the north and west, and Pallisa in the south. It comprises three counties and 16 sub-counties. The 1991 population and housing census puts its total population at 236, 694 (48% men and 52% women), with the vast majority living in rural areas.

About 40% of the population (36.8% men and 63.2% women) were said to be illiterate. Significantly, enrolment in primary schools increased by 88%

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<sup>33</sup> For details of the two schemes, see Bird, Jackson et al., 2000.



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between 1995 and 1998, mostly as a result of the introduction of universal primary education. By 1997 the enrolment of girls had outstripped that of boys in the first year of primary school. The number of secondary schools increased from 9 in 1995 to 19 in 1998.<sup>34</sup>

The majority of the district's inhabitants (90%)<sup>35</sup> are small subsistence farmers whose surplus production is sold for cash in local markets and to middlemen who transport it to big towns and cities such as Kampala and Jinja in the case of sweet potatoes. There is no district-level data on production. However, arable agriculture provides an important source of household income, with farmers relying on domestic labour and traditional farming techniques as do their counterparts in Rakai. A minority of prosperous farmers practice large-scale, uniform farming. In addition, the district relies on earnings from formal and informal sectors such as petty trade and smuggling.

While Rakai was the epicentre of the HIV/AIDS pandemic in the country and suffered a great deal from its effects, Kumi was the victim of insecurity resulting from armed insurgency and cattle rustling by the neighbouring Karimojong people during the mid-1980s and early 1990s. Rustling has also been a feature of the last two years. Both activities have played a significant role in the impoverishment of local people in recent decades. They have led to the destruction or theft of assets such as cattle, and to the displacement of people from their homes into camps, thereby rendering them unable to engage in productive activities.

The depletion of cattle herds has also had a negative effect on arable agriculture, as the local people (unusually for much of Africa) traditionally use ox-drawn ploughs for cultivation. The consequence has been increasing food insecurity, as loss of oxen has reduced people's ability to grow food and cash crops. To make matters worse, the years 1990-95 were subject to drought and, consequently, famine.<sup>36</sup> Further, as is the case with the rest of the country, Kumi district is also in the throes of the devastation of HIV/AIDS.

Though on a much smaller scale than in Rakai, fishing is a significant source of livelihood in the district. Unlike in Rakai, it is a seasonal activity, taking place mostly during the dry season (December – April) when there is not much farming activity.

The trend in the country of development agencies, NGOs and CBOs stepping in where government provision of services has left gaps has also benefited Kumi District. Major development actors include CARE, DFID, and World Learning Inc. There are also a host of small NGOs and CBOs operating in several spheres of development activity. Altogether there are 13 registered NGOs and 67 CBOs in the district, some covering the whole district, others only parts of it.<sup>37</sup> The proliferation of NGOs and CBOs has served to

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<sup>34</sup>UPPAP, Kumi District Report, p.71.

<sup>35</sup>UPPAP, Kumi District Report, p.50.

<sup>36</sup> UPPAP, Kumi District Report.

<sup>37</sup>Kumi District Capacity Needs Assessment Report, 2000, p.26.

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complement the district's limited human and economic resources, as the two sides work together.

In Kumi Irish Aid is the main donor agency and financier of the multi-sector Kumi District Development Programme (KDDP). However, its involvement has not been as deep and far-reaching as Danida's in Rakai, and has not translated into transformation in the sphere of general development, management, and revenue collection.

The district still faces major difficulties. Most significant is the lack of financial resources as manifested in its continued failure to rehabilitate and upgrade the road network over most of the areas it covers. Besides Kumi town, the seat of the district administration and towns along the main Soroti-Mbale highway, other areas are characterised by poor roads, most of them impassable during the rainy season. Most areas in the district have limited access to markets for their produce,<sup>38</sup> something that has hampered the growth of rural towns and the district's economy on the whole.

### **2. Work carried out in Kumi**

The team spent several days in and around Kumi District and in Soroti town interviewing a large number of government officials, businessmen and NGO officials. Soroti town was included as it was clear that it was a significant regional centre with trade linkages with Kumi, although it is actually the capital of the neighbouring District of Soroti. Interviews were carried out with many officials at District and Town levels in Kumi, including the Chair of the Tendering Committee, Head of Human Resources, the Finance Director and the Enterprise Officer, amongst others. We also carried out a number of interviews with local entrepreneurs, including most of the now defunct Chamber of Commerce in Kumi. These covered a number of economic sectors including retailing, ginning, milling, brewing, catering and carpentry. We also talked to a number of traders engaged in marketing agricultural produce in Kampala. The team also managed to interview the main businessman in Kumi, who dominates the contracting for local government. Currently, he is the only entrepreneur with sufficient financial backing to carry out much of this activity and is therefore pivotal to the NFRE in the area.

We visited a number of mills, cotton gins, 'breweries' and other enterprises outside Kumi as well as NGOs engaged in enterprise activities (e.g. TESO, the local Catholic Church, etc.) and credit activities, in Kumi District and in Soroti town. In Kampala we visited the Ministry of Local Government, the Uganda Local Authorities Association, Irish Aid, CERUDEB and DFID.

### **3. Characteristics of RNFE in Kumi**

As already pointed out above, there are no sample census data on the size or growth of the agricultural and non-agricultural in Kumi. The following

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<sup>38</sup> UPPAP, *Ibid.*, p.81.

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information is therefore based on personal observation and the opinions of informants.

- Food retailing, trading in used clothes, brick-making and (beer) brewing, metal crafting (Kumi & Bukedea) and black-smithing dominate the small-scale business scene. There is vegetable-oil processing (1 mill) and cotton ginning (2 in Kachumbala & Mukongoro). Larger businesses consist of grain millers, building contractors and produce buying and sale to areas outside the district, especially the large towns and cities in the Eastern and Central regions.
- Using grants and loans from the Presidential Commission for Teso, demobilised soldiers and war widows have set themselves up in activities such as carpentry, blacksmithing, and grain milling.
- There are a number of people engaged in direct trade with the regional centre, Soroti town and the capital, Kampala. This trade is seasonal and is dominated by a small number of traders with good connections in the markets of Kampala. The trade is frequent and generates not only a good deal of direct employment, but also much indirect employment, particularly in transport, metal bashing, maintenance and service activities such as catering.
- Given the relative paucity of RNFE activities in Kumi, the importance of the District Council cannot be overestimated. It was estimated locally that around 80% of the non-farm economic activity is directly related to fulfilling government contracts, largely for catering and construction, but also for smaller items such as furniture<sup>39</sup>. Access to these contracts is therefore a critical issue for local businesses. To date around 80% of all contracts have been awarded to one individual in Kumi.<sup>40</sup> To date he is the only individual who has sufficient capacity to guarantee fulfilment of the contracts. In a sense this is therefore a foregone conclusion that he gets the contracts. The main issue for Kumi is, therefore, how to extend this contracting system to other entrepreneurs.

The situation with the RNFE overall is mirrored by the fate of the Chamber of Commerce. Several businesspeople and the District have tried to establish a Chamber of Commerce in Kumi for some years. In fact, they succeeded for a time, but the Chamber soon folded as members felt they were getting no benefit from it. The businessman who runs several of the government contracts did not join, and so the split between the two groups widened instead of coming together (the District's aim). It is difficult to see how this situation will be resolved.<sup>41</sup>

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<sup>39</sup> Interview with the Enterprise Officer

<sup>40</sup> Interview with the Chair of the Tendering Committee

<sup>41</sup> During the course of the study we interviewed several former members of the Chamber of Commerce and the story remained very consistent.

## CHAPTER 6

### LOCAL GOVERNMENT SERVICES AND RNFE IN RAKAI & KUMI

This chapter discusses Ugandan local government services in relation to RNFE, and then makes reference to Rakai and Kumi districts. There is no means of assessing RNFE impact of local government services specifically, since there are no data on production and occupations and results may be long term. The approach is to raise policy issues with regard to services.

The chapter is divided into infrastructure services (roads, water transport, water, sanitation and sewerage), general services (health, education, borders and customs, policing) and services to facilitate business (information, markets, liaison with government, promoting associations, education and training for SMEs). Finally the key issue of working with donors (a major source of infrastructure development finance in both Kumi and Rakai) is discussed.

#### **1. Infrastructure services**

It is widely believed that a developed infrastructure is necessary in promoting social and economic development of a country, and this is recognised by the Ugandan Government in the *Medium Term Competitive Strategy for the Private Sector 2000-2005*. This chapter defines infrastructure and service provision (ISP) as the systems put into place to serve the needs of the community as a whole. In Uganda this includes education, health, transport, and energy as well as urban development, waste management and community services.

Currently the level of infrastructure is 'woefully inadequate'<sup>42</sup> to cope with the growing urban and rural populations. Overall the population is growing at around 2.5% per annum on a population of 16.5m in 1991. Around 90% of Uganda's population live in rural areas with very poor health, sanitation and road infrastructures. In addition, the average life expectancy is only 48, which compares unfavourably with the average of 59 for other least developed countries.

With regard to infrastructure, the government has been pursuing a decentralisation strategy whereby administrative and financial responsibility is being devolved to the local governments, whilst national government retains responsibility for policy formulation, oversight and management of National programmes. The provision of most of the infrastructure services is the mandate of local governments, but at the same time, national government has been trying to attract private investment in and management of infrastructure.

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<sup>42</sup> Obwona et al (1999)

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### *Who provides the infrastructure?*

Table 6.1 shows the basic division of responsibilities in relation to the provision of services and infrastructure in Uganda. At first sight this table looks very clear, but it is also obvious that there is considerable overlap in terms of management and provision of services. In practice little integration exists between different management levels, leading to significant conflicts between different stakeholders. The picture is further complicated by the provision of some community services, including health, water and education, by NGOs and donors. Whilst in some Districts donor funding is integrated into local government accounts (e.g. in Rakai), this is not always the case. This leads to management conflicts in some instances and in others a feeling of lack of sovereignty on the part of local government.

**Table 6.1: Infrastructure services responsibilities**

<b>Service</b>	<b>Central Government</b>	<b>State Owned Enterprises</b>	<b>Local Government</b>
Water supply			
Sewerage			
Solid waste			
Education facilities			
Health facilities			
Electricity			
Trunk roads			
Urban/District roads			
Community roads			
Drainage			
Street lighting			
Fire cover			
Housing facilities			
Land development			
Environment			
Markets			

Source: Obwona et al (1999)

The general picture of Ugandan infrastructure is one of decline since its heyday in the 1960s. At that time the road network was well-maintained and managed with clear guidelines and responsibilities as well as funding. In addition there was a well-developed road building programme aimed at enhancing the economic growth of the period. Continuous civil strife throughout the 1970s and the early 1980s led to a loss of resources from the sector, and infrastructure gradually declined across most rural areas.

### *Roads and transport*

More than 90% of Uganda's passenger and freight transport travels by road. Whether it is international trade with trucks, or farmers being able to transport

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crops to market by bicycle, it is clear that the road network plays a critical role in economic development. The road network itself consists of the classified network (trunk roads) connected by District networks, in turn fed by urban roads, community and institutional roads and innumerable tracks and paths within rural areas. In terms of responsibility, the road network can be demarcated as follows:

Classified	9,600km	Central Government
District (feeder)	22,300km	District Councils
Urban	1,000km	Urban Councils
Community	30,000km	Sub-Countries
Private	-	Private <sup>43</sup>

The importance of roads has been recognised by government and by donors. From 1992/93 to 1998/99 the government increased its own recurrent expenditure budget allocation for roads by more than 600% (Statistical Abstract, 1998). The main source of funding has, however, remained donors. Over the period 1995-1999, the government provided 30% of total road related funds, whereas donors provided 60% (Obwona et al 1999). Districts such as Rakai and Kumi have had to develop decentralised management involving stakeholders and communities in order to keep up maintenance demands. In Rakai, Danida has identified roads as a major area of intervention over the twenty years of the RDDP.

Rakai district has a total of 35 km of tarmac and about 275 km of grade 1 murrum (all weather) roads. There are also 435 km of grade 2 murrum (gravel or earth) roads, which can be used most of the year. Tarmac and feeder roads serve only major towns and trading centres whereas most rural households have no roads and are served by footpaths.

Maintenance of the tarmac and some of the grade 1 murrum roads is the responsibility of the Central Government. That of other grade 1 and grade 2 murrum roads as well as other types of feeder roads is the responsibility of the District Administration. Other motorable tracks and village paths are the responsibility of local communities through their village councils. While the district's road network has improved tremendously as a result of Danida's support, many village roads remain in a bad shape and are for the most part impassable during the rainy season. The poor state of roads therefore interferes with the movement of goods and services between towns and rural areas, with negative consequences for RNFE.

Kumi district has a total of 473 km of road network of which 75 km are tarmac, 231 km all weather murrum roads, and 167 km is dirt road. This network was adversely affected during the period of insurgency and most of the rural roads have deteriorated almost beyond use due to lack of maintenance. This poses a major obstacle to trade, as some rural areas are virtually unreachable by motor vehicles, especially during the rainy season.<sup>44</sup> The central government

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<sup>43</sup> Private road include plantation or estate roads as well as other corporate roads

<sup>44</sup> Ibid.

## ***Local government and the RNFE in Uganda***

is supposed to manage trunk roads while the district administration manages the rural road network. Village authorities are supposed to oversee the maintenance and management of village feeder roads. None of the three authorities has performed well in terms of managing the road network in Kumi and the District now faces severe problems of finance for maintenance. In fairness, this has partly been the result of continuing insurgency and raids by Karamajong in the more remote areas. The district is crossed by a major highway connecting Kampala and much of central Uganda to the East, North-east and North of the country. Government has concentrated on maintaining this main trunk road.

### ***Rail***

Rail services are confined to the east-west connecting Kampala to Kenya. There are no rail services to Rakai. Railway services to the east and north-east of the country were terminated during the late 1980s due to civil war.

### ***Water transport***

Historically water transport has been important in Uganda, particularly in those Districts bordering on Lake Victoria and Lake Albert. Rakai, which is on Lake Victoria, has recently been attempting to revive water transport, particularly between Uganda and Tanzania (mainly because the road is so bad). Donor funding from Danida has been used to construct new landing facilities along the lake, primarily to help the fishing industry, but also to aid small-scale transport across the border. The availability of many Tanzanian goods in Kyotera is testament to this trade.

From the point of view of major transportation, however, the water network is inadequate, except perhaps for the interstate transit wagon ferry service. The MoWTC road ferries are old, difficult to maintain and expensive to run, as well as being too small to match the demand for transport. In addition, there is a shortage of port infrastructure and most landings are restricted to smaller craft.

The navigation infrastructure is also very poor. Navigation beacons, lighthouse materials and other equipment has been vandalised or stolen and there are no up-to-date navigation charts for either major lake. Finally, since 1989, water hyacinths have infested Ugandan waters causing a severe obstacle to navigation.

### ***Power***

As is the case with other parts of the country, electricity supply in Rakai and Kumi districts is frequently interrupted, at times due to load-shedding. A lot of SMEs such as grinding mills suffer significantly from these power failures. And, although the districts are well-supplied with power in the towns, most of the rural areas are without mains electricity. In Rakai, thanks to Danida's assistance, some areas previously without electricity, such as the district headquarters, are now connected to the national grid.

### ***Water***

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Ugandan water supply is managed by a para-statal company, the National Water and Sewerage Corporation (NWSC) established in 1972 to improve water and sanitation in urban centres of Uganda. All components of the water supply, excluding public standpipes and private connections, are the responsibility of NWSC. All major towns in Kumi and Rakai have piped water. The marginal profitability of small and medium enterprises in Ugandan towns leads many to rely on public taps rather than pay for their own connections (Davis, Kang, Vincent & Whittington 2001).

The outlying population relies on bore-holes and protected as well as unprotected springs and wells, with many areas, especially in Kooki county suffering acute shortages of potable water, especially during dry seasons. Efforts by the district administration and its development partners to sink bore-holes have not solved the problem because of the high chemical content of the ground water. Scarcity of water has meant that both people and animals share the same sources. Water sources therefore often get polluted, leading to worm infestation and gastro-enteritis infection and outbreaks of cholera and dysentery. Many diseases that are common in the district are related to poor environmental health.

The Government has introduced a Rural Water and Sanitation Reform with the aim of ensuring service provision to rural areas through decentralisation of finance and managerial support. The government intends that local government take over the running of rural services, increase performance and cost effectiveness and to carry out Central Government's commitment to 'equitable and sustainable domestic water provision'.

There are a number of implementation problems with this approach, not least of which is the lack of technical capacity at the local government level. This is further exacerbated by confusion over responsibilities for planning, i.e. District Health Officers and District Water Officers developing independent plans and budgets. In addition, the proposed involvement of the private sector involves further problems, including its drilling capacity.

One of the main problems with rural water supply has been the dearth of clear guidelines. For example, the local government planning guidelines provide broad responsibilities for District and Sub-County levels, but in practice most detailed operational practices are found at the level of specific water projects. Hidden within this problem is a deeper issue of ownership. The National Water Policy establishes that 'all protected water sources including gravity flow schemes in rural areas belong to the users' (Draft Water Policy, p.19). However, the Local Government Act clearly establishes Local Government as the responsible institution for all water supplies outside the jurisdiction of the NWSC<sup>45</sup>. As yet, this remains an unresolved issue.

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<sup>45</sup> One of the leading rural water projects in Uganda, RUWASA, hands over a 'certificate of ownership' to users once a project is completed. There are two major projects, RUWASA supported by Danida covers 10 Districts and WES, supported by GOU and UNICEF supports the others.



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Similar to the road network, the funding of water infrastructure is provided by Central Government, largely through conditional grants, and through donors. In Rakai Danida has been supporting water infrastructure for ten years through budget support to the District. The current investment in rural water across Uganda is around \$30m, plus \$3m from the GOU rehabilitation funds (Obwona et al 1999). The RUWASA and WES programmes are reasonably integrated into the District Governments through District management teams and committee structures, but much decision making happens at community level where both projects are active.

In keeping with most of Sub-Saharan Africa, there are several NGO and donor sources of finance for water projects. In Uganda, these include the EU, Water Aid, the Netherlands Development Organisation and Lutheran World Federation. In general these projects are separate from local government.

### ***Sanitation, sewage and drainage***

In Uganda, environmental sanitation has traditionally been accorded low priority (Obwona et al 2000). This position is reflected in the lack of adequate legislation or policy, lack of staff and very few resources. In addition, there has been little or no research into appropriate technological paths or consultation with stakeholders. A National Sanitation Forum produced a Kampala Declaration on Sanitation in 1997, which led to a National Accelerated Sanitation Improvement Programme (NASIP). This strategy calls upon Districts to provide leadership in tackling sanitation problems, but as yet, there has been little response, even from within the major water programmes.

In most areas, the pit latrine remains the main source of sewage disposal. Given the height of the water table in some areas, there is a continuous risk of water contamination, not least to Lake Victoria itself, a major source of food for large parts of Rakai. In urban areas this can be worsened by poor flood infrastructure resulting in extensive flooding with all of the sewage implications that implies.

Solid waste management is the responsibility of District and Sub-County levels, although currently only urban councils provide the service to residents. In most Districts there is no standardised provision of waste management services and in most rural areas residents dump waste around the house or in open dumping grounds. This has led to problems in many rural areas, particularly those with high water tables, since much of the waste dumped is no longer biodegradable. Rural households all use batteries, plastics and synthetic fibres, which are currently dumped.

### ***Telecommunications***

By international standards telecommunications are poor in Uganda. Liberalisation has greatly improved the sector, however, particularly with the advent of MTN and Celtel phones in most small towns across the country. The mobile phone has also become extremely popular. Districts have no responsibility for telecommunications, this being taken up by a para-statal and also increasingly by private companies.

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Kumi district is served by posts and telecommunications services. It has a main post office in Kumi town and sub-post offices in other towns. However, it lacks modern telecommunications equipment and infrastructure, other than access to the MTN network.

The national fixed telephone service serves mainly the urban centres of Rakai (Kyotera, Rakai, Kalisizo and Lyantonde), thereby excluding the majority of the population. However, recently the two private mobile telephone companies (MTN and Celtel) have extended their services to cover much of the district, including areas that previously had no access to telephone services. Nonetheless, the cost involved in securing and maintaining connections are still prohibitive for many locals, including members of the business community. Other telecommunication services such as radio call remain inaccessible to most people and businesses.

Rakai has two departmental post offices, in Kyotera and Lyantonde towns. In addition, there are 7 sub-post offices in smaller trading centres. However, the services they offer are poor and unreliable. Private couriers (Yellow Pages & DAKS) try to cover the gap, but only in major towns.

### *Fuel*

All major towns are well supplied by the various petroleum companies in the country, as is the case in many parts of the country. It is not clear that there is much the local government can do to influence the availability or not of fuel, save for the availability of wood fuel. In the case of the latter, its availability in adequate quantities depends on the degree to which natural resource protection laws and regulations are implemented. For example, in a district such as Rakai with limited forest cover, stringent application of anti-logging laws, would put non-farm economic activities such as charcoal burning and pottery into serious jeopardy. However, excessive laxity in their application can rid the district of its forest cover and, in the long run threaten the same activities that depend on forest resources.

Only a few people (5%) in Kumi use electricity or petroleum products as sources of energy. Most (90%) of the population rely on biomass related energy sources: firewood, charcoal and crop residues. Demand for charcoal and firewood keeps growing, and necessitates cutting down more and more trees. Consequently deforestation has become a threat to people's livelihoods. Only a few people, mainly in urban areas, use electricity or petroleum products as sources of energy.<sup>46</sup>

## **2. General services**

### *Health*

Health care in Uganda is provided through the Ministry of Health, local governments and the private sector.<sup>47</sup> Local governments are responsible for

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<sup>46</sup> See, for example, UPPAP's Kumi District Report, p.61.

<sup>47</sup> 'Private sector' is here taken as including traditional birth attendants (TBAs), NGOs, Churches, private medical clinics and drug stores.

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public hospitals, clinics and health centres within their areas, which serve around 40% of Ugandans, the others using private services. Generally speaking, the system consists of four levels:

1. *Community*: usually run by communities and consisting of partially trained staff like traditional birth attendants (TBAs) and health workers.
2. *Health centres*: at Sub-county level with between 20-80 beds and emphasising preventive care.
3. *District/rural hospitals*: District referral centres and health centres.
4. *Referral hospitals*: specialist care at both regional and national level.

District and regional centres are the responsibility of local governments and therefore have a huge impact on the expenditure of local government. At the same time, hospitals are huge organisations and provide large markets for private sector providers of contracted services such as maintenance, construction, food provision, washing, sanitation and cleaning. Local governments control this tendering process for such contracts and are thus in a privileged position.

Apart from the common problems of poor management, lack of technical and clinical skills and poor infrastructure, most of the Ugandan health service suffers from lack of funding. Currently over 64% of funding is allocated to hospitals, which exacerbates the problems faced by local governments in running local health services at community levels. Poor pay for community health workers is also a major problem facing the health sector.

Consequently, in rural areas in particular, the population relies a lot on NGO and church provision of medical services

It is difficult to estimate the potential for local government to charge user fees to any meaningful level. That is not to say that people do not already pay, but there may be limits on how much they are prepared to pay. Total per capita health expenditure is between \$7 and \$12, with only \$4 attributed to government or donors and the rest being funded by patients (Background to the Budget 1998/99).

The health sector has also proved to be popular with donors. Around 13% of all aid money is allocated to health projects. Whilst this is a great benefit to Uganda, the requirements for counterpart funding have led to increased allocations of funds to the health sector from government.

Generally the health situation of the people of Rakai (as in much of Uganda) is poor, owing to illiteracy, poverty, disease, lack of water, poor nutrition, and poor sanitation. Poor living and working conditions expose people to a lot of health hazards. Most of the population live below the poverty line, with over 70% of the households situated below the subsistence line of Ushs. 5000.

Ten major (and common) diseases afflict people in Rakai: malaria, upper respiratory tract disease, trauma, lung-related infections, diarrhoea, intestinal worms, skin diseases, eye infections, anaemia and ear diseases. The most prevalent are malaria and respiratory diseases. In addition, it is estimated that over 12% of the district's population between the ages of 15-50 are HIV

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positive. HIV/AIDS has had a debilitating impact on the population and, consequently, socio-economic activities. The pandemic is leaving a trail of orphans, some living in households without adults.

On the positive side, each of the district's 23 Sub-Counties is served by a health unit. However, health facilities are generally poorly equipped, lacking the basic tools necessary to offer a reasonable level of service. Drug supplies are inadequate to satisfy demand. The district has two hospitals: Kalisizo and Rakai. They too suffer from lack of basic equipment and shortage of drugs. Moreover, in many cases health facilities are located at a considerable distance from people's places of abode. Consequently, people without easy access to means of transport cannot use them; they have to fall back on the unregulated private sector (including traditional healers) for services of dubious quality. Rakai district has recently adopted user charging, at the discretion of sub-counties, which now have responsibility for clinics, the district level confining itself to broad policy and supervision. Clinics use surpluses above drug replenishment costs to supplement staff pay, thereby reportedly improving both drug supply and staff motivation.<sup>48</sup>

Kumi district has 2 hospitals and 26 health units. 40% of the population live within a 5km radius of either a hospital or health unit. Health facilities in the district are generally inadequate. This, coupled with lack of drugs and trained personnel, is responsible for the high infant mortality rate and low level of life expectancy. The quality of services offered is poor. Drugs are often not available and when available are expensive. The most prevalent diseases are malaria, measles, syphilis, cholera, pneumonia, eye infections, cough, diarrhoea, tuberculosis, tetanus, and measles. HIV/Aids has also had a significant impact on the district's population.<sup>49</sup>

Due to the inadequacy of water sources, both people and animals rely on the same sources (see Water Services section above) leading to gastro-enteritis, worm infestation, cholera and dysentery. Environmental health is therefore a key issue. The breakdown of health services during the years of instability reportedly greatly increased such diseases, and preventive health services have yet to recover fully.

Given this environmental health problem it is difficult to believe that user charging (as adopted in Rakai) will have significant impact on health outputs or outcomes, since preventive health care cannot be charged for. Government experimented with user charging in the early 1990s but with disappointing results. There is now currently no national policy on user fees, with districts having their own policies.

### ***Education***

The Ugandan education system, much like the health sector, has several different providers, including the central government, local governments, missionaries and the private sector. Whilst education remains extremely

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<sup>48</sup> Interview with Rakai district council chairman, Sept 2000.

<sup>49</sup> Uganda Participatory Poverty Assessment Process [UPPAP], Kumi District.

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important in Uganda, the years of civil strife took a heavy toll on the educational infrastructure. Consequently it is not uncommon to see classes being taken under trees, in the open air or in temporary structures. In addition, a large number of teachers are not formally trained.

Pre-school education, for children between 3 and 6, is operated by local governments, although most nursery schools are privately owned. At primary level, schooling is provided by local governments, and by the private sector. After seven years of primary education, children sit a Primary Leaving Examination (PLE) and then either leave, go on to secondary education, or take vocational courses. Universal primary education was introduced in 1997 and this has resulted in huge increases in enrolment from 2.9m in 1996 to around 5.3m in 1997. Perhaps unsurprisingly this had led to increased pressure on the failing infrastructure and resources. One of the main problems facing the education system is the inability of the secondary system to meet the demand for places following this increase.

As is the case with much of rural Uganda, education standards in Rakai and Kumi Districts are poor.<sup>50</sup> A number of factors are responsible for this: lack of qualified teachers, scholastic materials and basic infrastructure in the form of classrooms and furniture. Rakai's poor educational standards can be judged from the high illiteracy rate of 64 per cent, and Kumi's by its own illiteracy rate of 40%, according to the 1991 census. During the last two years in Rakai, standards have been steadily rising, as evidenced by the district's good performance in Primary Leaving Examinations in both 1999 and 2000. The improvement in educational standards reflects the strong emphasis within the Danida programme on education and educational infrastructure.<sup>51</sup>

Despite the influence of donors and of these positive effects, basic problems remain. In particular, the inadequacy of infrastructure, the lack of trained teachers and educational resources, including books, may seriously compromise children's ability to perform. Even if they do pass the PLE, they may still find it difficult accessing secondary education given the shortage of places.

### ***Policing***

There is no police presence outside major towns and trading centres. Security in rural areas is provided by locally-organised para-military local defence units. In the urban centres and towns where they are to be found, police personnel are regarded as corrupt, and neglectful of their duties. Uganda's national police force is perhaps among the worst paid, least facilitated and most demoralised in the world, leading to a recent Commission of Inquiry into the activities of the police force (the Sebutinde Commission). Poor pay has turned police officers into among the most corrupt public servants in the country, according to Transparency International.

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<sup>50</sup> See UPPAP, Kumi District report, chapter 5.

<sup>51</sup> see, for instance, Golooba-Mutebi, 2000b.

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Despite their obstructiveness and tendency to seek bribes, the police are not regarded by most business people as a serious obstacle to their activities. One businessman in Kumi summed up the situation by saying: 'we try to avoid them and then they don't bother us'.

### ***Borders and Customs***

Border policing and customs clearance are reserved for the central government's Uganda Revenue Authority and its para-military Revenue Protection Service (RPS) at one time operating out of President's Office.

In Rakai, anecdotal evidence from members of the local business community suggests there is ample smuggling activity of various types of merchandise from across the border. Partly as a consequence of the smuggling, there has been growth in trade within the district, and between the district and neighbouring ones. Towns such as Kyotera in Rakai and Mbale over in the South East have witnessed considerable growth in the construction sector as newly-prosperous members of the business community have sought to invest their earnings in both residential and other property. Kumi does not have an international border, unlike Rakai. But goods smuggled into the country through Mbale and Tororo districts are reported to end up on local markets in Kumi.<sup>52</sup>

From such sketchy information (all that is available) one can conclude that lax cross-border controls have led to growth in the non-farm rural economy. Liberalisation of cross-border trade and the removal of barriers may be an important element in efforts to promote growth in the non-farm rural sector. This, though, is beyond the competence of local governments to do.

### ***Planning***

Rakai district has had a planning unit since 1991. It is staffed by an economist, statistician, population officer and environment officer and has compiled an environmental profile of the district showing its resource endowment and a study of the agricultural sector. In addition, it manages the district's databank funded by Danida. Through its planning unit Rakai, more than any other district in the country, has made an attempt at systematic collection of information using the Village-wise Impact Monitoring System (VIMS). Initial assistance which consisted of computer equipment and training was provided by the United Nations Development Programme. Later Danida funded the development of a District database and more training for personnel of the Planning Unit.

Despite the early arrival of information technology in the district and the consequent improvement in storage and retrieval of information, its management is generally poor and the extent to which it is put to use is unclear. A recent evaluation of the Rakai District Development Programme considered it has been put to minimal use, and recommended scrapping the databank.

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<sup>52</sup> Interview with District Commercial Officer [1 November, 2000].

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Here, too, the lower-level LC3 fares much worse than its LC5 counterpart, not least because the arrival of information technology is still awaited. Information storage is therefore still poor as is the case in other districts due to lack of storage facilities and trained records-management personnel. Information gathering is often almost non-existent.

Kumi district claims to use participatory approaches in planning, in the process leading to the formulation of the district development plan. This involves collection of data from all the five levels of the local government, with consultations with civil servants, councillors, representatives of NGOs, CBOs and locally-based donors, as well as religious leaders. The intention is to ensure voices of the poor are taken account in the formulation of the district development plan and plans for the other levels of local government. Presumably these voices are captured via NGOs and CBOs of which many are active in the district and also claim to use participatory approaches in planning and implementing their projects. Remarkably, the business community is not specifically involved in these consultations.

### ***Waste disposal***

As non-industrial districts, questions related to waste disposal do not feature among issues of immediate concern to Rakai or Kumi. Where questions of waste disposal arise, they are restricted to the few towns and trading centres. Even then, whatever waste disposal issues arise in such places have to do with the disposal of organic waste, the bulk of it domestic refuse. As far as businesses generate waste, it is mainly restaurants and a few other food-processing concerns. Waste disposal is not an issue of immediate concern, nor apparently a significant contributor to RNFE through sorting and recycling by the poor, as in major cities.

## **3. Business Services**

Direct assistance to business by local governments varies, but often includes an effort to facilitate location in the area by providing relevant information about local resources and opportunities, simplifying the tasks of obtaining licences and other permits ('one stop shops'), and liaising with national and regional organisations for business promotion. Where there is concern to promote SMEs, support for training and collaboration with NGO and central government initiatives (e.g. on finance for SMEs) is common.

In developing countries much of the effort to assist local production has been concentrated on advisory, research, input and marketing services to agriculture. In the past these services would often be under a local branch of the agricultural ministry, or of a commodity para-statal (e.g. coffee marketing board). Now, with the dissolution of marketing para-statals and emphasis on decentralisation of government, public agricultural services are commonly the responsibility of local governments. Uganda is currently seeking to raise the performance of local services to agriculture through the Plan for Modernisation of Agriculture (PMA). Services to agriculture might be thought the most important direct services which local government can provide to stimulate the local economy. In Rakai and Kumi, despite the predominantly

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agricultural basis of livelihoods, the resources for agricultural services are minimal (a handful of advisers) and undermines the crucial role which agricultural development can play in stimulating RNFE (see Ch 1). However, since neither district has clear production or locational advantages to provide the basis for rapid growth in agriculture, investment in basic infrastructure (feeder roads, water) may be more important for getting agriculture moving than increasing advisory and agricultural research services.

### ***Improving local business cultures***

The *Medium term competitive strategy for the private sector 2000-2005*, makes no provision for public services to business other than at a national level. At local level it concentrates on cutting down government corruption and streamlining the tendering process to make for a more open and competitive culture between government and business.

In Kumi there appeared to be a need for such change. Testimonies of respondents claimed that it helped a business person to do business with the local administration if he/she were personally known to local officials.<sup>53</sup> In other words, the more trust there was between an individual and those responsible for making decisions, the better for the business person and their business interests. This state of affairs had rendered many members of the business community suspicious of the local administration and discouraged them from making any attempts at doing business with it. Informants considered that some of the enterprises that carried out brisk business with the local administration were those whose proprietors acted as front-men for local officials.<sup>54</sup> It is therefore possible that the local officials had an interest in promoting the business sector not because they were interested in economic development so much as their own financial gain.<sup>55</sup> However, there were small businesses - such as carpentry workshops - that did appear to do business with local government solely on merit.

Lack of transparency in awarding tenders has damaged trust within the local business community and rendered its nurturing difficult. In many ways the relationship between sections of the business community and the local administration damaged whatever trust there might have been<sup>56</sup>. It was therefore hardly surprising that the business community in Kumi was highly factionalised. However, some suggest that the business community in Kumi has always been fractured. The words of the District Commercial Officer sum up the situation: "Traders here do not work together. Everyone wants to be on

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<sup>53</sup> This was raised in several interviews with local business people in Kumi and Rakai.

<sup>54</sup> Again this was a common theme in both Rakai and Kumi and is perhaps a function of the small size of the business community. In addition several public officials also run their own companies in areas related to their public roles, e.g. planning, construction, transport, as well as in generic activities such as trading.

<sup>55</sup> This is neither uncommon nor surprising. It does not immediately imply corruption, but rather more fluidity between public and private sectors.

<sup>56</sup> In interviews with those business people that had been excluded, e.g. the Chamber of Commerce in Kumi, virtually all of them stated this. Even if it is not true per se, it is still important that it was a common perception.



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their own – to prosper on their own”.<sup>57</sup> Lack of trust is also evident from failure by produce buyers and sellers to form an association through which they could organise the transportation of their merchandise to markets outside the district and pursue other common interests.<sup>58</sup>

### *Provision of information*

Rakai district administration does not have any organised way of providing business-related information (e.g. one stop shop, local resources, markets, how to ensure quick response to queries) save for, perhaps, to the businesses that supply it with goods and services through tendering. Indeed, at no point during interviews did members of the business community mention or allude to receiving business-related information from the district administration.

The business advisory service formerly funded by Danida through the defunct local branch of the Uganda Small-Scale Industries Association (USSIA) did not achieve much.<sup>59</sup> Nonetheless, USSIA achieved substantial success at writing fundable business proposals for its members. Some of the proposals enabled members to acquire loans and establish new businesses or expand existing ones.<sup>60</sup>

Attempts by a few businessmen to secure funding from the UNDP to set up a private sector promotion centre did not succeed.<sup>61</sup> Although Danida has a promotion programme for the private sector, it is not suitable for the majority of businesses in Rakai, since it seeks to facilitate the development of joint ventures between Danish and Ugandan companies. According to one businessman, businesses in Rakai are ‘not prepared for joint ventures at that level’.<sup>62</sup>

Other bodies that might provide business services, such as the Rakai district Small Scale Industries Association (RASSIA), are finding it difficult to function due to lack of resources. Meanwhile both the district administration and donors are unwilling to support organisations that do not show any potential for self-sustenance through membership subscriptions.<sup>63</sup> So far RASSIA has not been successful at collecting membership fees.<sup>64</sup>

Provision of information to the local business community by the local administration in Kumi is at a minimum, although a major obstacle to the development and growth of RNFE in Kumi District is said to be lack of

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<sup>57</sup> Interview, 1 November, 2000.

<sup>58</sup> Interview with a prominent produce buyer and seller [1 November, 2000].

<sup>59</sup> MTB Consult, 1999, pp.5-6.

<sup>60</sup> MTB Consult, 1999.

<sup>61</sup> At the time of the fieldwork RASSIA was engaged in forging collaborative links with the UNDP-funded private sector promotion centre in neighbouring Masaka District.

<sup>62</sup> Interview with Ayambira Kayemba, chairman RRIIC and UNNCI, Rakai Branch, 15 November, 2000.

<sup>63</sup> Interview with the Chief Administrative Officer (15 November, 2000).

<sup>64</sup> Interview with Kayemba Keziimbira, Executive Secretary (14 November, 2000).

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markets for its products, particularly regarding markets outside the district.<sup>65</sup> As in Rakai, the RNFE is dominated by people with modest education and limited horizons. They lack the capacity to acquire such information on their own. Moreover, enterprises are constrained by limited differentiation in the goods they sell. According to an informed observer, “they sell the same things to a limited market. Most have difficulty identifying what they should do, so they do what others are already doing”.<sup>66</sup> There is no Business Advisory Service in the District. Attempts by the private sector promotion centre in neighbouring Soroti District to fill the gap were not encouraged by either the business community or the district leadership.<sup>67</sup>

As far as the research team was able to establish, the type of information provided to the local business community by the local administration in Kumi came in the form of price surveys for agricultural products, posted on trees around the town. Interviews suggested that such information does not seem to be of much use either to traders in agricultural commodities or to the wider business community with both farm and non-farm business interests. It is also important to note that the local administration did not have much useful information regarding the number or nature of local enterprises. In present circumstances such information seems to be beyond the capacity of the local administration to collect.

### *Workshops and serviced land*

Provision of workshops and serviced land is not undertaken outside the largest towns. Mbarara town (in a district near Rakai) has reportedly set up an industrial park, but in Rakai and Kumi there are no initiatives of this type planned. The only premises provided are houses to a few select personnel.

### *Facilitating finance for small-scale business*

In Rakai there are two schemes involving the District government which aim at facilitating access to finance for small-scale business: the Rakai Rural Credit Scheme (RRCS) and the Danida Women’s Credit Scheme (DWCS), set up under the Rakai District Development Programme (RDDP) funded by Danida.

The RRCS helped finance and establish a branch of the Centenary Rural Development Bank (CERUDEB), to provide micro-finance. According to a recent report, “Danida saw the targets of the scheme as being ‘peasant farmers, traders, small-scale industrialists’ and recognised co-operatives, cash crop buyers and other entrepreneurs operating in Rakai District but without access to other credit lines”.<sup>68</sup> The Danida Women’s Credit Scheme had its origins in the limited access by women to RRCS loans by 1995, partly the consequence of its ‘stringent collateral requirements’. When it started operating, the DWCS helped shore up an ailing local micro-finance institution,

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<sup>65</sup> Interview with John Mukoli, District Commercial Officer [1 November, 2000].

<sup>66</sup> Interview with Father Mubiru, Director, Soroti Catholic Diocese Development Organisation [2 November, 2000].

<sup>67</sup> Interview with Joseph Akol, Soroti District Private Sector Promotion Centre [3 November, 2000].

<sup>68</sup> See Bird, Jackson, et al., 2000.

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the Victoria Building Society (VBS), through a fresh injection of resources. As its name suggests, the DWCS sought to focus on poor women who were by then without access to relevant financial services.<sup>69</sup>

The recent evaluation of these two schemes shows that they have achieved much in terms of loans to people and businesses that would have had little chance of securing them through traditional banking institutions. In particular, the DWCS has been instrumental in penetrating the countryside and availing credit to some of the district's poorer women, thereby not only boosting their income-earning potential, but also aiding the growth and diversification of the rural non-farm economy. A look at the activities funded under the scheme shows that resources have tended to go into retail trade, agriculture, small-scale manufacturing and services.

The RRCS has gone a long way to avail capital to previously disadvantaged sections of the business community and individuals wishing to set up businesses. But latterly it became more and more exclusionary via stringent collateral requirements. In addition, the involvement of local government went beyond simply policy making and monitoring to actual involvement in determining who got access to loans and who did not. As a consequence, loans tended to go to people with the right political connections. Although in due course loan provision became more and more detached from open political considerations, the need by CERUDEB to protect itself against risk led to the imposition of collateral requirements many in need of loans and credits could not fulfil. In addition, logistical constraints and the high costs involved in reaching out to a wider clientele rendered it difficult for CERUDEB to avail loans outside the major trading centres. Consequently, its role in the development of the rural non-farm economy has fallen short of the initial objectives of the scheme.

### *Working with central government and national institutions*

There are no joint efforts among the central government, national institutions and the Rakai District Administration actively seeking to promote SMEs. Interviews with local business people in Kyotera revealed that their interaction with national-level bodies such as the Uganda Investment Authority and the Uganda National Chamber of Commerce is conducted outside the structures of the District Administration. The *Medium term competitive strategy for the private sector 2000-2005* barely mentions local government as an agent of economic change, preferring to concentrate instead on the establishment of national bodies for investment.

### *Working with, and helping to promote, regional and local business associations*

In terms of business associations, the clear leader is the Uganda National Chamber of Commerce and Industry, which does not operate across the entire country and has been accused of 'Kampala bias'.<sup>70</sup>

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<sup>69</sup> Ibid.

<sup>70</sup> This is not surprising. Across Sub-Saharan Africa smaller, rural entrepreneurs are consistent in their accusations that large, centralised organisations are biased

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Besides the Rakai branch of the Uganda National Chamber of Commerce and Industry formed at the instigation of the central government<sup>71</sup>, there are two major (and to an extent rival) local business associations: Rakai Small Scale Industries Association (RASSIA), and Rakai Rural Industries Innovation Centre (RRIIC).

Respondents from both associations alluded to working closely with the District Administration without specifying exactly how that happened. On the other hand, the two associations have close links with the local branch of the Uganda National Chamber of Commerce and Industry (UNCCI) and, in the case of RRIIC, the Uganda Investment Authority and some donor agencies.

RASSIA was formed following the collapse of USSIA and in response to perceived need for a body to represent the interests of small-scale industrialists whose lives were being made difficult by banks.<sup>72</sup> Its major objectives included influencing district and central government policies on small and medium industries, and assisting its members with loan acquisition. Both the district administration and Danida provided the initial resources needed to get it off the ground. However, future assistance depended on the organisation coming up with an activity plan and budget, doing enough to mobilise resources from its membership, and convincing its financiers that it could be trusted with money.<sup>73</sup>

RRIIC is registered as an NGO and functions more like a private consultancy than an association of local businessmen and women. At the moment it is struggling, as the idea of consultancy services is still alien to members of the business community. The organisation's leadership claimed to work closely with the District Administration without specifying exactly how that happened. Incidentally, the Chairman of RRIIC also chairs the local branch of the UNCCI and claims close links with the Uganda Investment Authority and donor agencies. Meanwhile RASSIA's leadership denounced both RRIIC and the local UNCCI as 'briefcase outfits meant to benefit a few operators'.<sup>74</sup>

Prior to its demise due to internal conflict, mismanagement and Danida's decision to stop funding it, USSIA worked closely with the District Administration. Funded through the Rakai District Development Programme (RDDP), the association had a good working relationship with various

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towards the capital (usually the main business centre) and towards large enterprises (higher fees, more articulate managers, more influence).

<sup>71</sup> It was the central government that, through the direct efforts of the President, some say for political reasons, urged the UNCCI to go out and form local branches throughout the country. Indeed, the UNCCI is represented on the ruling Movement's National Executive Committee. As is the case with Kumi, the UNCCI in Rakai is virtually redundant. At the time this study was carried out (November 2000), the majority of so-called members (116 out of 156) had not paid their subscription fees.

<sup>72</sup> Interview with Kayemba Keziimbira, Executive Secretary, RASSIA, 14 November, 2000.

<sup>73</sup> Interview with the CAO, 15 November, 2000.

<sup>74</sup> Interview (13 November, 2000).

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departments of the District Administration. It had particularly close working relations with the District Planning Unit and the Trade Development Office. Both heads of department occasionally served as its resource persons in technical and planning matters. Further, in addition to the funding channelled through the District Administration by Danida, the district provided some funding to the association from its own resources.

Besides a moribund chamber of commerce and industry, there are no business associations in Kumi district. The Chamber, established at the prompting of the central government through the Uganda National Chamber of Commerce and Industry, collapsed after a short while as a consequence of the pre-existing fissures within the local business community. According to respondents, only a few members of the business community showed interest in it. Even fewer showed a willingness to assume the responsibility of sustaining it through membership subscriptions, not least because the annual subscription fee of Ushs. 100,000 was seen as being too hefty. Moreover, some members felt they could not trust the leadership with their money.<sup>75</sup>

There is no doubt that, prior to its establishment, members of the local business community felt no active need for such a body. Neither did they know what purpose it would serve, as evidenced by the absence of efforts to establish one without prompting from the central government. Further, even while efforts were being made by a few enthusiasts to establish the UNCCI branch, not many knew what purpose it would serve.<sup>76</sup> One businessman pointed out “these things stop in Kampala; here we don’t know anything. Even if we set up an association, we wouldn’t know what to do next”.<sup>77</sup> Also, the district administration did not provide the Chamber with the kind of support that would have helped it survive. For example, a request for office space was unsuccessful.<sup>78</sup>

At the time of the research the business community was factionalised, with no mechanism for collective interest aggregation and articulation. Therefore the local administration had no business associations to work with. Only individual local officials worked with individual businessmen and women to promote their mutual interests.

### ***Supporting training and education for SMEs***

With specific reference to the non-farm sector, the Rakai branch of Uganda Small-Scale Industries Association ran training programmes funded by DANIDA (1997-99) for local entrepreneurs, prior to its slide into dormancy. The training covered pottery, ceramics, carpentry and joinery, leather products, grain and maize meal maintenance, bee-keeping and honey processing as well as production of small machines. Training also included managerial and technical skills. In addition, participants received material benefits such as cash as well as analysis and voucher books.

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<sup>75</sup> Interview with a member of the business community [3 November 2000].

<sup>76</sup> Interviews with prominent members of the business community [November 2000].

<sup>77</sup> Interview with Stanislas Isiagi, proprietor, Green Top Hotel [2 November 2000].

<sup>78</sup> Interview with Joyce Asekenye, Vice-chairperson, UNCCI [2 November, 2000].

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Beneficiaries of the training were appreciative of the knowledge they had acquired, not least because the training had been provided in vernacular. They testified to the improvement of the quality of their products and turnover. However, in some cases the training fell short of imparting its recipients with adequate skills or any new skills at all, particularly for individuals that that had been trained in technical institutions.

In addition to formal training, USSIA organised study tours to Kenya, Egypt and South Africa for some of its members. These tours enabled members to learn about new technologies and acquire state of the art information about various aspects of their work.

The Rakai District Development Programme, funded by DANIDA, initially supported production extension activities but found these less productive than anticipated and switched the programme more towards infrastructure development. But the programme has funded a number of vocational training programmes and institutions for young people. Examples include Kammengo Technical Institute, Kalisizo OCBO<sup>79</sup> Vocational Training Centre, and many village-based apprenticeship programmes spread throughout the district.<sup>80</sup> Many young men and women – tailors, stone masons, bricklayers, welders, and carpenters – have left these institutions and programmes to become self-employed artisans and craftsmen and women<sup>81</sup>, thereby contributing to the expansion of RNFE. In addition, the district administration supports vocational training institutions through the purchase of goods made by students. For example, in line with the requirement that contractors/suppliers of goods and services to local governments be locally-based,<sup>82</sup> Kiteredde Technical Institute has been a major supplier of furniture to government-aided schools under both the Universal Primary Education Programme and Poverty Action Fund (PAF) programmes.

### **4. Working with donors on service provision**

Donors play an important role in policy development in Uganda. As stated above, large proportions of capital investment have accounted for much infrastructure development in the country. This high level of donor involvement has bred a familiarity amongst government staff at a national and local level. This may be either advantageous or disadvantageous. There is an ease of dealing with staff who are familiar with the language and the demands of donor project finance, but at the same time, the familiarity with the language can lead to donors funding projects on the basis of language rather

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<sup>79</sup> Orphans Community Based Organisation.

<sup>80</sup> See Golooba-Mutebi, 2000b.

<sup>81</sup> Ibid.

<sup>82</sup> See, for instance, Ministry of Education and Sports, 2000. 'Poverty Action Fund Programmes: School Facilities Grant (SFG) for Primary schools'. July, p.8.

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than merit.<sup>83</sup> In addition, there may be a certain amount of 'seminar fatigue' amongst government staff.<sup>84</sup>

The donor connection in Rakai has been evident in much of the previous discussion. Danida has been present for a number of years and has developed a rapport with the Rakai administration that will be difficult to replicate. Their assistance has been significant in monetary terms and in terms of the advisors that have been present in the field. However, there has been no enterprise advisor, and Danida's main effort with regard to stimulating the local economy (besides road rehabilitation) has been the provision of the two micro-credit schemes through two local financial institutions. Both of these have been aimed at poor women and have supported micro-schemes such as brewing, milling and retail activities. Also, with the support of the District Administration, Danida has funded a vocational training programme for orphans and other vulnerable children through various local organisations such as OCBO, a local welfare NGO.

In addition, through the District Administration Danida attempted to promote income generating projects in various parts of the District. Cash grants were given to organised groups seeking to engage in a wide variety of activities (brick making, pottery, drama & theatre, metal crafting, etc.) to boost their incomes. Unfortunately, many of the activities funded ended up in failure as group after group, for a variety of reasons, fell apart.<sup>85</sup>

Kumi is one of the districts where particular donors have established themselves and set out to contribute to local development efforts. There are two major donor agencies operating in the district: CARE and Irish Aid. Their main areas of interest are education and health, where they have financed the construction and/or renovation of physical infrastructure. Both health units and school buildings are constructed or renovated on the basis of community participation, whereby local communities are encouraged to contribute locally available construction materials and non-specialised (unskilled) labour while the donors contribute funding for specialised labour and other construction materials such as roofing sheets and cement. Specialised labour is sourced from local contractors while construction materials are sourced from local enterprises through tendering. Throughout these processes donors work closely with various echelons of the local government system. Tendering is through the District Tender Board. Respondents indicated that the tendering involving donor projects is much more transparent than where contracts are purely local government contracts.

It is evident from the foregoing account that donors, through working with a variety of local actors to implement development programmes and projects,

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<sup>83</sup> Interview with Irish Aid officials, Kampala.

<sup>84</sup> In the Ministry of Local Government, staff calculated that many of them could attend a seminar every day of the week. On mentioning participation in Luwero, I was greeted with groans of: 'we don't want any more participation, we want a road!'

<sup>85</sup> For a detailed study of some of the funded groups, see Golooba-Mutebi, 2000b.

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have contributed towards the development of local enterprises and the rural non-farm economy as a whole.

Both districts have had extensive experience of working with donors to develop infrastructure. This has managed to stimulate the local economy, particularly in Rakai through facilitating access to markets and local urban centres. In both districts, relationships with donors have been critical in developing economic growth through infrastructure.

### **5. Conclusions**

The focus of government services in rural Uganda has not been on developing a viable private sector. Neither of the field-work districts has a private sector plan, even though there is a designated officer in each one, and neither has a related budget. The closest intervention remains the provision of local markets, but even there, these are used almost exclusively for agricultural produce. The provision of information useful to the private sector is minimal, and there are very few interventions with regard to training or funding of activities.

Health and Education services, in common with much of Sub-Saharan Africa, are generally poor in rural Uganda, although investment by Irish Aid in Kumi and by Danida in Rakai has led to improvements in performance.

Road investment is critical, particularly local feeder roads. Whilst many feeder roads remain poor, the condition of most trunk roads has improved. In general, however, this has led to an increase in trade with Kampala. In Kumi, for example, regular lorries travel from the District carrying agricultural produce. Roads are important for small farmers. Even though it is difficult to measure, the increased traffic on the roads to urban centres and their markets is striking, and the roads undoubtedly make it easier for the 'bicycle economy' to flourish.

Perhaps this picture is unsurprising given the nature of the reconstruction required in rural Uganda. In areas such as Rakai and Kumi, infrastructure and basic services such as education and health are a far greater priority than entrepreneurial training, either for farm or non-farm production.<sup>86</sup> In essence, this type of pro-enterprise government service is unlikely to appear unless revenues increase, but paradoxically this is unlikely without a private sector to pay taxes.

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<sup>86</sup> The new 'Programme for the Modernisation of Agriculture' (2000) will hopefully strengthen agricultural advisory services and agricultural investment.



## CHAPTER 7

### TAXES, REGULATIONS AND RNFE IN RAKAI & KUMI

This chapter discusses local taxes and government regulations in rural Uganda with a view to how they help or hinder local business. Many regulations are national, with local government having the duty to enforce them. Regulations can play a key role in constraining opportunities for local business but also in preserving the environment and protecting the health of consumers and workers. However, there is not always a direct and clear impact of particular regulations on local business, especially in less developed rural areas, where opportunities for evasion tend to be greater and enforcement weaker.

Revenues and expenditure are discussed first, then trade regulation and controls on use of resources (labour laws, land use regulations, property rights, building regulations, public health and natural resources protection).

#### **1. Revenues and expenditure**

Local governments have considerable autonomy under Ugandan Law with regard to the collecting revenue. The basic system is one of central government block grants to local governments which can then disperse funds as they see fit. The law requires local governments to budget in accordance with law and they have to balance budgets. In addition, expenditure on councillors and politicians cannot exceed 15% of the budget. Interestingly, it has been this condition that has been most publicly resisted by local governments.

Local governments are one of the most significant expenditures of the GOU and account for more than 20% of the total public expenditure and revenue accounts. Local government expenditure has been rising at around 10% per year, and yet expenditure on local governments has actually declined in relation to overall government spending.

#### ***Expenditure***

Local governments in Uganda have relatively large recurrent expenditures (about 80% of the total), leaving very little for capital expenditure. Education, health and feeder roads are easily the biggest sectors, accounting for 60%, 13% and 4% respectively of total recurrent expenditure for 1997/98. Within the recurrent budget, wages and salaries account for more than 50% of expenditure.

Capital expenditure is relatively low for Sub-Saharan Africa, although several attempts are being made to decentralise development budgets to the local level. The large number of donor-funded projects in this area has had two contrasting effects. Firstly, the influx of funds into the Districts has been partly matched by District spending through donor agreements, producing an increase in spending. At the same time, continuity has to be questioned in

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situations such as Rakai where capital spending has been undertaken by Danida for so long that the District barely makes any provision for capital expenditure.

It is expected that the Local Government Development Programme, due to start in 2001, will further strengthen local government capital expenditure through provision of funding, but also through strict compliance rules and capacity regulations.

### ***Revenues***

In common with many governments in Sub-Saharan Africa, the issue of government revenue is a difficult one. The primary source of local government revenue in Uganda is from Central Government. Local government revenue increased from Ush.198bn in 1995/96 to Ush.448.8bn in 1998/99, coming primarily from Central Government. In general the share of central government transfers in local government revenue is around 60-70% and when added to donor funding this rises to 80% of all local government revenue sources. Of this, between 60-80% comes in the form of conditional grants.

Total central government transfers to local government increased by more than 40% from 1995/96 to 1996/97, a trend that appears to have continued. On one level these funds have been transferred in line with the transfer of responsibilities under decentralisation. At the same time most local government officials claim that the funding is inadequate to fulfil all of the new responsibilities for service provision. The Local Government Association estimates that around 80% of key services have been transferred to local governments, but that many have in fact been unfunded mandates. This is currently a matter for dispute between central and local governments.

Under the Local Government Development Programme (LGDP), around \$48.8m of the total \$80.9m is set aside for local government finance of basic services. However, one of the minimum requirements of the capital expenditure element is that local governments bear the full costs and responsibility for operations and maintenance of these investments.

Undoubtedly, the main source of funding for this support will come from Central Government, whose grants come in three varieties: conditional, unconditional and equalisation.

There has been a strong move to increase conditional grants to local governments, earmarked usually for health, education, roads and water, whereas unconditional grants have lagged significantly behind. This has obvious implications for the decentralisation process as a whole in terms of who holds power over policy and local priorities. Nominally the conditional areas are decided jointly between central and local government, but in reality they are decided by central government.<sup>87</sup> Around 60% of the unconditional

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<sup>87</sup> This was repeated in interviews several times, including in the Ministry of Local Government

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grant is earmarked for wages and salaries, further reducing the leeway for making policy at a local level.

The third category of grant is the equalisation grant designed to give the poorer areas of the country some additional help with basic service provision. The equalisation grant has only been in operation since the 1999/2000 budget.

### ***Local government revenues***

Local revenue includes numerous different sources that can be divided into three basic categories:

1. *Taxes*: graduated tax, property tax
2. *User charges*: licenses, permits, market dues
3. *Others*: fines, fees and disposal of assets

Graduated tax is the biggest area of revenue generation, accounting for around 70% of local revenue in rural districts like Rakai and Kumi. The tax schedule is set by central government and administration is carried out at the sub-county level. Property tax is also administered at sub-county level, but local governments have far more leeway within maximum and minimum levels. Property tax contributes around 20% of total tax revenue.

In fact in Rakai and Kumi, the Districts rely almost totally on graduated tax as local revenue. Property tax is only viable within towns, and rural areas such as Rakai therefore suffer as a result. This is a function both of the lack of urban areas in Rakai, but also the outdated valuation system on the property that does exist.

One of the central problems of local government revenue concerns incentives. Firstly graduated tax is notoriously difficult to collect, and costs of collection are high with dispersed population. The tax is collected by sub-counties, which then pass the money to Districts. They may then receive some back. At the District level, the security of continually increasing central government transfers reduces incentives for collection. It is estimated that less than 60% of local revenue potential is realised (Obwona et al 1999).

However, Rakai district has witnessed tremendous improvement in the collection of graduated personal tax since 1998 under the new leadership that came to office following the elections of 1997. Collections improved from Ushs.800 million in 1998 to Ushs.1640 million in 2000, the consequence of the introduction of forge-proof tax tickets. Over the same period evasion of tax was reduced and the number of taxpayers increased from 35,000 in 1997, to 62,000 in 2000.

Benefits from the improved revenue collection include improved services (roads, health facilities, etc.) Supervision, previously impaired by logistical difficulties, has also improved. For example, health facilities have improved due to the availability of a vehicle at headquarters to enable supervisors to visit the clinics.

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### *Other sources of local revenues*

Nationally, user charges and other revenue sources increased, but this is only partially reflected in local government accounts, contributing some 10% to total revenues.<sup>88</sup> Many user fees are accounted for by the institution rather than by the local government itself. Local governments have the power to collect a wide variety of fees, trading licenses, parking fees, etc., but probably the most significant are trading licenses and market fees. The most obvious reason for this is that they are relatively easy to collect. Interviews in Kumi and Rakai confirmed that traders often found that they were not paying any tax, but were invariably paying annual licenses and fees to local government. Frequently these fees were demanded up front constituting a significant early expenditure for a developing business.

Districts also benefit from significant donor support. One of the most significant problems is the discrepancy between local governments in terms of such funding. This partly arises out of the early policy of donors adopting particular local governments. Danida has been in Rakai for ten years for example, but is not really active in any other District. There is a significant number of Districts that have not been adopted by donors and may not be able to access additional funds. Kumi for example, does not receive budget support, just conditional aid based on construction.

### *Impact of taxes on businesses in Rakai and Kumi*

It is not clear to what extent taxation is an incentive or disincentive to RNFE.<sup>89</sup> Currently government expenditure in Rakai district is met by about 10% from taxation in the district, 20% from donors (the source of most of the capital expenditure) and 70% by transfers from central government (most of which is used for recurrent costs).

Rakai district's major source of local revenue (90%) is graduated personal tax. Other local income sources include trading licences, market dues and fees (8%). However, inefficiencies in collection and evasion limit the amount of revenue derived from this source. The district's capacity to generate its own financial resources for development is low, leading to heavy dependence on resources from outside.

As collection improves, cries of over-taxation become louder, for example from members of the business community. It is not clear how much the complaints are due to general aversion to taxation (as claimed by the local leadership), or to taxes hurting business (as claimed by members of the business community). Anecdotal information suggests the privatisation of revenue collection has led to over-taxation by over-zealous collectors<sup>90</sup> and some local businesses have closed as a result.

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<sup>88</sup> local governments also have the power to raise loans, but they must not exceed 25% of the locally generated revenue

<sup>89</sup> See discussion in Chapter 3 regarding uncertain impact of national taxes on businesses

<sup>90</sup> Interviews with traders in Kyotera town, November 2000.

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Perhaps more immediately important for businesses, particularly young businesses is the licensing system. Both Kumi and Rakai Districts put out tenders for the licensing of specific activities, and these frequently result in intense competition. In Kumi, for example, there is an annual competition for the license to run boda-boda ranks along the main street. One carpenter who had moved from Soroti to Kumi because of better markets explained that the licensing system almost put him off because payment was demanded immediately before his business had started to generate revenue, thus adding significantly to the start up costs in town.

Market fees were not held to be significant in Rakai. In Kumi available information indicates that market fees have sky-rocketed since management of markets was contracted out. Moreover, traders have to pay them before they enter the market and sell their merchandise.<sup>91</sup> As a result market fees constitute a serious threat to the survival of many small-scale rural traders. Accusations were made of corruption in the setting of market fees.<sup>92</sup> If it is true then the workings of the contracting system and the regulation of charges may become increasingly important for RNFE as contracting out increases

### **2. Trade regulations**

The Uganda Government's *Medium Term Competitive Strategy for the Private Sector 2000-2005* (Ministry of Finance, Planning & Economic Development), includes a number of policies addressing import and export regulations in general. The thrust of the document is very much to encourage liberalisation, more specifically to 'remove the anti-export bias' in the economy (p.31). Broadly this consists of a bundle of measures including tax harmonisation with competing countries, tax breaks for exporters, establishing a manufacturing bonded warehouse and a duty drawback system. In addition, the GOU is establishing a system of export finance and guarantees.

One of the main areas identified within the strategy is fish exporting. This is likely to affect Rakai in particular, with its long coastline and recently developed transport links and landing places. GOU is undertaking to provide incentives to the fisheries, strengthen inspection and water quality control services, improving facilities at landing sites and to provide government testing facilities for pesticides in the fish. If all of this is carried out, then the increase in demand will affect Rakai's fishing industry positively.

Neither Kumi nor Rakai are major import/export Districts within Uganda, but both have widespread contacts with international smuggling routes. In Rakai, Kyotera acts as a border town and the shops stock many goods that have come from Tanzania, frequently via fishing boat. In Kumi many businesses look southward towards Mbale as a source of goods crossing the border from Kenya. Several businessmen we talked to cited this route as the main one for getting hold of specific items (mainly cigarettes). The border to the north of

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<sup>91</sup> Ibid.

<sup>92</sup> This was repeated frequently in interviews within the District and in interviews with businessmen and traders.

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Kumi is hazardous, even for smugglers, due to Karamajong activity. Neither District has an export industry to speak of, although fishing in Rakai is probably the closest.

### **3. Labour laws and regulations**

In Uganda generally, labour unions are weak and subject to intimidation by the government (Beckman 2000). Regulations for employment and for health and safety exist only on paper for the most part. With unions weak and law enforcement agencies weak and/or corrupt, employers, including the public sector, flout laws and regulations with impunity. This state of affairs favours the flourishing of the SME sector given the absence of enforcement of rules and regulations that might stifle its members' operations.

While legislation setting minimum work conditions does exist, enforcement (as with other legislation) is far from uniform. Only in the case of urban-based and mostly large companies employing a lot of people (construction companies, hotels and multinationals) is there evidence of labour unions playing a role in dispute resolution. However, even then there are cases where the government has stepped in on the side of employers and prevented employees from realising their demands and unions from 'fighting' on their behalf.

As far as the local government goes, teachers are the prime responsibility in terms of monitoring pay and conditions (aside from District staff themselves). There had been no disputes with the local authority either in Kumi or in Rakai recently. In part this can be put down to the ability of both councils to pay roughly on time on a regular basis, but also to Irish Aid in Kumi and Danida in Rakai, both of which have been channelling significant resources into school expansion, including new classrooms and equipment.

### **4. Land use regulations**

Powers over land for local governments are specified in the Constitution under Articles 237-243. These articles design a system that allows for a great deal of local government autonomy and wide-ranging powers. For example, the constitution grants local governments the right to acquire land in the public interest and to enforce planning and development. These articles are further reinforced by the Land Act of 1998 that established four basic types of land tenure: customary; freehold, mailo and leasehold.

Under the act there is no such category as 'public ownership'. This effectively means that the Government does not own significant amounts of land. There is a specific provision in the law that allows National and Local Governments to acquire land from individuals who are using land in an inappropriate manner, so long as this does not affect other land users. This appropriation may be compulsory or voluntary. Thus, Government must purchase land before it can convert its use. Given the shortage of funding, local governments regard the need for full compensation as an obstacle to land ownership and redistribution by local government. This is certainly borne out by the lack of

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government ownership of land and may explain some of the lack of formal physical planning.

Section 45 of the Land Act 1998 also provides for Government, including local government, to take a stewardship role in caring for lakes, rivers, ground water, ponds, streams, wetlands, forests, national parks and other ecological or tourist reserves. This land is held to be 'in trust' for the people of Uganda. Furthermore, section 46 provides for government ownership of this trust land where it threatens the livelihood of the community, the environment or accessibility. In these circumstances, compensation is required<sup>93</sup>.

There are a number of problems faced by local governments in undertaking significant land programmes. Even if the setting-up of business parks and serviced enterprise zones were considered a valid strategy, it would be difficult to implement. Firstly, there is a lack of funding for compensation payments. In the case of roads being built by donors, for example, compensation is usually paid by them, as in Rakai. This may lead to deeper problems, since there is a lack of adequate qualified staff in District land offices to enforce physical plans. Consequently as soon as a road is built, private development encroaches, leaving local communities in the road reserves requiring further compensation. The third main problem hindering local government planning is a lack of surveyors. Makerere University has recently started a programme to train more, but currently surveyors charge high rates due to skill shortages.

District Land Boards are the chief organs for the control of land at the local level and are empowered to acquire and sell land, and to alter, demolish, enlarge or improve any buildings on that land. The Land Committees carry out these functions at lower levels where required and are appointed by the District Boards, which also have the power to dissolve them.

As is the case with other districts Rakai and Kumi administration do not have much land under their control. As far as land use is concerned, their powers are fairly limited. It is individual owners who decide what to do with their land. There are different land tenure systems of which customary tenure is the most widespread.<sup>94</sup> There is little land use planning by districts, particularly in areas where *mailo* and communal ownership exist. Overall the districts do not have a land use policy. A few laws and archaic bye-laws exist on the statute books, but these need to be reviewed. This state of affairs favours the flourishing of SME, as proprietors of small business are able to build shops and kiosks almost wherever they choose, unencumbered by planning laws and regulations or the obligation to pay rent or premiums for the land they occupy.

## **5. Property rights**

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<sup>93</sup> In Rakai, there was a financial scandal in 1998/99, which involved payment of compensation to local people when a road was built across common land in villages.

<sup>94</sup> Other land tenure systems are: *mailo*, freehold, and leasehold. *Mailo* land is owned by private individuals but occupied by tenants.

## ***Local government and the RNFE in Uganda***

The Uganda Constitution confers certain rights on property owners and offers them protection against expropriation. Even where expropriation is provided for, as in the case of land being taken by the state in the national interest, the owner must be fairly compensated. However, recent legislation pertaining to land ownership seems to threaten the very rights to property ownership enshrined in the 1995 Constitution. According to the Land Act, people living on land owned legally by other individuals for a period of twelve years without challenge are entitled to certificates of occupancy. These certificates allow them even to secure loans against it. Implications for RNFE are not clear.

### **6. Building regulations**

Specific, detailed information is difficult to come by in both Kumi and Rakai and building regulations are governed by the Local Government Act, which is a broad measure. Basically, the regulations are governed by the District Land Boards, which has the power to buy and sell land and to alter any building on it. They also have the power to order the demolition of any building that is regarded as unsafe or does not comply with building regulations. Judging from the disorganised manner in which buildings spring up everywhere and anywhere (particularly in towns and trading centres), it seems that mechanisms for enforcing building regulations may be weak. Districts are severely hampered by their lack of qualified staff both to create but also to enforce planning regulations and physical plans.

However, in Districts such as Kumi where the District capital is so important, building regulations can have a crucial effect in terms of location. For shops and hotels, for example, proximity to the main Mbale-Soroti road through the centre of the town is critical. In fact there is only one hotel in Kumi itself (the Green Top). According to local businessmen, there were plans to erect another hotel nearby, that progressed as far as laying down foundations. However, the planning authorities belatedly cancelled the permission to build (for an undisclosed reason) and the hotel was never built. Whilst much has been read into this episode by the local business community,<sup>95</sup> the potential impact is obvious. The uneven and unexplained enforcement of planning regulations can clearly affect competition in the District. A healthy business sector requires the impetus of competition and this can be hindered by adverse planning decisions in preventing building.

The other side of the coin is a reluctance to enforce building regulations on street traders who erect small stalls. In towns such as Kumi, such trading is at the heart of the RNFE and so the failure to enforce these laws may actually provide a spur to growth by encouraging and allowing such 'informal' building activity.

In conclusion, we can actually say very little about building regulations except that the business community does not view them as being an impediment to doing business in the countryside.

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<sup>95</sup> Particularly since the owner of the Green Top is also the main winner of contracts from the Council and is reputed to act as a 'front' for council staff.



### **7. Public health and consumer protection**

There is a budding Uganda Consumers Protection Society and a Uganda National Bureau of Standards. However, the activities of both bodies seem to be confined to Kampala, and it will be a while before they penetrate rural areas. In rural districts like Rakai and Kumi there are no departments of pollution control, and therefore there are no regulations to stifle the expansion of the RNFE. The main problems emanate from solid waste disposal addressed earlier. Fortunately there is no immediate pollution threat evident to us from SMEs or the few large enterprises that exist.

### **8. Protection of natural resources**

The rules governing the local government's role in protecting natural resources are discussed above. Basically, local governments are said to hold these resources in trust for the population. However, forests are being degraded at an alarming rate by being encroached upon, mostly by cultivators. There has been no large-scale production of timber since the expulsion of Asians in the early 70s. Nonetheless, there is ample legal and illegal pit-sawing going on, the latter being the consequence of inadequate capacity to prevent it. Although data on fuel-wood consumption is sketchy, it is the major source of energy for households and also the major contribution by the forestry sector to the district's economy. Indeed, the woody biomass stock has been removed to a point where many parts of the district suffer from acute shortages of fuel-wood.

In Kumi, the town has been expanding rapidly. At the time of the fieldwork, it seemed to be *the* place for carpenters to locate. Several local businesses spoken to had moved from Soroti to Kumi on the grounds of the rapid growth of commerce in the town, due to the increase in agricultural trade with Mbale and Kampala. The number of new buildings being erected seemed to provide evidence for this. Such an expansion in an already deforested District poses a threat to the local forest reserves.

### **9. Conclusions**

Local governments are not in a position to respond to local needs very easily, because they lack adequate funding and also have to accept that much of the transfers from the centre are earmarked for particular uses. This could mean that projects that would be beneficial to the private sector are given lower priority than national objectives such as health and education. Whilst this is a laudable policy in rural Uganda, the limited local revenue sources leave little room for generating projects to benefit the local economy.

The influence of donors is felt in larger capital projects, and in budget support in the case of Rakai. However, the new strategy on the private sector does identify fishing and food processing as key industries to drive an export economy. New investments in the infrastructure of the fishing industry, complemented by those already in place within Rakai for example, could

### ***Local government and the RNFE in Uganda***

produce significant benefits for rural areas. Rakai with fishing, and Kumi with its links to the beef industry and more recently with goats, could benefit from this new emphasis on food processing.

Government revenue raising does not appear to be a major hindrance to private sector activities. Because local governments are relatively poor at collecting tax, this could be construed as beneficial to business. The main revenue raising activities that affect the RNFE are market fees, trade licenses and fees tied to specific operations. Trade regulation appears to be felt mainly through the obstruction to trade across borders created by customs posts. Extensive smuggling leaves open the question of how deeply this affects local business. There are very few regulations enforced in rural areas regarding buildings, waste and environmental degradation.

## ***Local government and the RNFE in Uganda***

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## **ANNEX 1**

### **PERSONS INTERVIEWED DURING FIELDWORK**

#### **KAMPALA**

Martin Onyach-Olaa Decentralisation Secretariat, Ministry of Local Government.

Edward Mugabi Decentralisation Secretariat, Ministry of Local Government

Francis Wagaba Decentralisation Secretariat, Ministry of Local Government

John Okidi Economic Policy Research Centre, Makerere University

Marios Obwona Economic Policy Research Centre, Makerere University

Alwyn Chilver DFID, Kampala

Lawrence Banyoya Local Government Finance Commission

Harry Nayar Ministry of Finance, Planning and Economic Development

Amuge Akol Local government commissioner, Ministry of Local Government

#### **RAKAI DISTRICT**

##### **Headquarters**

Joseph Mukasa Mulindwa Chairman, Rakai District Council

Blasio Katukore Forestry Officer

Charles Mujunarinda District Planning Unit

Mr. Kyobe District Personnel Officer

George Kasumba District Planner

Suzanne Willerup Danida Advisor

Mary Frances Owuor Resident District Commissioner

Mr. Iga Acting Chief Administrative Officer

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Mwesigwa Agabas	Production Officer
David Ssekandi	Trade Development Officer
Lawrence Katanda	Supplies Officer (store keeper)

### **Kabira sub-county**

John Lubega	Sub-county Chief
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### **Byakabanda sub-county**

Sub-county officers, bicycle repair men, fishermen, orphans engaged in organic production

### **Kyotera town**

Suleiman Seremba	Rakai multi-technology vocation centre
Deo Mweruka	Deopro Drapers
Kayemba Keziimbira	Executive Secretary, RASSIA & Metal fabricator
Mr. Sengabi	Maize miller
Ayambira Kayemba	Rakai rural industries innovation centre

### **Lwanda sub-county**

Coffee dehuller manager

Veterans blacksmithing workshop

## **MASAKA DISTRICT**

Mayanja Gonzaga & Kaboine Ndyahika

## **KUMI DISTRICT**

### **Headquarters**

Mathiew Olemo	Chief Finance Officer
Steven Ongaba	District Economist
Johnson Opolot	Secretary, District Tender Board

### **Kumi town**

Joyce Asekenye	Vice Chair, Kumi Chamber of Commerce and Industry
Stanislas Isiagi	Green Top Hotel

### ***Local government and the RNFE in Uganda***

Peter Ekodeu                      Carpenter

Manager, Uganda Women's Finance Trust

John Ileo Mukoli                District commercial officer

#### **SOROTI DISTRICT**

Joseph Akol                      Micro finance specialist, Soroti District Private  
Sector Promotion Centre

Sam Okiror                        Director, Soroti Diocese Development Office

Father Mubiru                    Soroti Catholic Diocese Development Organisation

George Oguli                      Chairman, Presidential Commission for Teso

Veterans blacksmithing workshop



## **ANNEX 2**

### **CHECKLIST FOR LOCAL GOVERNMENT -RNFE RELATION**

#### **FOUR KEY AREAS IN WHICH TO RESEARCH IMPACT OF GOVERNMENT ON RNFE**

##### **1. CONTEXT FOR RNFE**

POLITICAL RISK: STABILITY OF POWER AND POLICY  
FINANCE

BUSINESS FRIENDLINESS OF INSTITUTIONAL ENVIRONMENT: HAVE  
OBSTRUCTIVE PUBLIC INSTITUTIONS BEEN SUCCESSFULLY  
REFORMED ? (E.G. IN BANKING, TRADE, AGRICULTURE, UTILITIES)

##### **2. PUBLIC SERVICES BY REGIONAL & LOCAL GOVT**

and how they help and hinder RNFE development

###### ***General services:***

HEALTH

EDUCATION & TRAINING

WASTE DISPOSAL

POLICING

PLANNING (INCLUDING CONSULTATION)

BORDER AND CUSTOMS

TAXATION

###### ***Business services:***

PROMOTION OF LOCAL RNFE THROUGH:

- providing information for business and assistance in locating (one stop shops, business information etc, quick response to queries from business)
- policy and planning for effective SME development
- working effectively with central government and national institutions
- working effectively with, and helping to promote, regional and local business associations
- regulating, promoting and developing local financial institutions (credit unions, co-operatives, local banks, micro-finance institutions, etc)
- municipal finance issues and the link with SME development (local taxation, municipal bonds, etc)
- using incubators and redundant/abandoned property resources
- liaison with other regional and local government departments (e.g., social welfare, education, public works) to maximize regional and local SME leveraging effects
- promoting a healthy local financial environment (taxation, transparency, corruption issues, etc)
- using local and regional SME funds to promote key SMEs and SME sectors
- promoting the local co-operative (producer and financial) and social economy

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- maintaining and further developing local and regional business support centres (BSCs), especially in view of current sustainability problems and eventual donor withdrawal
- supporting local technology and innovation processes in SMEs
- supporting training and education for SME
- promoting SMEs as an aspect of refugee and DP return
- developing local and regional clusters, networks and SME partnerships
- working with local large firms to support their activities through developing the local SME sector
- maximizing SME leveraging effects from FDI
- working with minority groups and disadvantaged in SME development
- facilitating cross-border SME trade

### ***Infrastructure:***

ROADS

RAIL

POWER

WATER

TELECOMMUNICATIONS

FUEL

MARKETS

PROVISION OF PREMISES, WORKSHOPS & HOUSING

SERVICED LAND PROVISION

### **3. TAXES & REGULATIONS**

and how they help and hinder RNFE development

TAXES

TARIFFS

MARKET FEES

PRICE CONTROLS

IMPORT & EXPORT REGULATIONS (phytosanitary, information requirements)

EMPLOYMENT REGULATIONS: UNION RIGHTS, REGISTRATION, HEALTH & SAFETY

DISPUTE RESOLUTIONS, MINIMUM PAY & CONDITIONS

LAND USE REGULATIONS

WATER AND MINERAL RIGHTS REGULATIONS

WILDLIFE REGULATIONS

PROPERTY RIGHTS

BUILDING REGULATIONS

PLANNING REGULATIONS

PUBLIC HEALTH & CONSUMER PROTECTION

POLLUTION CONTROL

PROTECTION OF THREATENED NATURAL RESOURCES

### **4. GOVERNMENT ORGANISATION & PROCESSES**

how they affect the performance of government policy development, services and regulation with regard to RNFE. Provide concrete examples wherever possible.

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POLICY PROCESS (particularly as affecting local govt's performance in RNFE):

- CULTURE (is there a culture of trust and a healthy local incentive structure? Does local government promote businesses, including RNFE, because it wants economic development *per se*, rather than because individual officials want private financial gain? If not, why not?)
- USE OF INFORMATION
- WORKING WITH BUSINESS ASSOCIATIONS

GOVERNMENT STRUCTURES & FUNCTIONS: to what extent to they hinder and help business development and RNFE in particular? How do they affect the ability of local government to foster RNFE? What is role of Trade & Industry Ministry? How significant are national, regional, local development agencies?

FINANCIAL MANAGEMENT:

- ACCOUNTING CONTROLS
- BUDGETING & FLOW OF FUNDS

CIVIL SERVICE MANAGEMENT:

- ENFORCEMENT MECHANISMS
- ANTI-CORRUPTION MEASURES
- STAFFING ISSUES:
  - INCENTIVES FOR STAFF
  - STAFF TURNOVER
  - EXPERIENCE
  - RATES OF PAY
  - HIRING AND FIRING



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Enterprise Trade and Finance Group  
Natural Resources Institute  
University of Greenwich at Medway  
Central Avenue  
Chatham Maritime  
Kent ME4 4TB  
United Kingdom

Tel: +44 (0)1634 883199  
Fax: +44 (0)1634 883706  
Email: [nri@greenwich.ac.uk](mailto:nri@greenwich.ac.uk)  
<http://www.nri.org/rnfe/index.html>