

**Revenue Generation and Urban Development in Local Government Authorities in Uganda: Evidence from**

**Kisoro Municipality**

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**Abstract**

The study examines the relationship between revenue generation and urban development in local government authorities in Uganda, with a focus on Kisoro Municipality. Grounded in Fiscal Decentralization Theory (Oates, 1972) and second-generation fiscal federalism (Rodden, 2006), the study adopted a descriptive cross-sectional design. Data were collected from 116 respondents using questionnaires and key informant interviews. Quantitative data were analyzed using descriptive statistics, Pearson correlation, and regression analysis, while qualitative data were thematically analyzed. The findings reveal statistically significant positive relationships between local revenue sources ( $r = .588, p < .001$ ), revenue collection efficiency ( $r = .621, p < .001$ ), and revenue utilization and accountability ( $r = .714, p < .001$ ) with urban development. Revenue utilization and accountability emerged as the strongest predictor, explaining 51.0% of the variance in urban development. The study concludes that strengthening accountability mechanisms is critical for sustainable urban development in secondary municipalities.

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

**Kisoro Municipality, Uganda**

**Introduction**

Urbanization is accelerating globally, with over 56% of the world's population now living in urban areas (UN DESA, 2022). In Sub-Saharan Africa, urban growth is occurring faster than institutional and fiscal systems can adapt (AfDB, 2023). In Uganda, municipalities are mandated under the Local Government Act (Cap. 243) to mobilize and manage local revenues to finance development (Government of Uganda, 2021). However, many urban authorities struggle with weak revenue bases, inefficient collection systems, and limited accountability (EPRC, 2022; MoLG, 2023).

Kisoro Municipality typifies these challenges. Own-source revenue contributes less than 30% of its annual budget, limiting its ability to fund infrastructure and services (Local Government Finance Commission [LGFC], 2022). This study therefore investigates how revenue generation practices influence urban development in Kisoro Municipality.

**Statement of the Problem**

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

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projected revenue, resulting in stalled infrastructure projects, inadequate urban services, and growing public dissatisfaction.

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

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

### **General Objective**

To examine the relationship between revenue generation and urban development in local government authorities in Kisoro Municipality, Uganda.

### **Specific Objectives**

- i. To determine the relationship between local revenue sources and urban development in Kisoro Municipality.
- ii. To evaluate the relationship between revenue collection efficiency and urban development in Kisoro Municipality.
- iii. To analyze the relationship between revenue utilization and urban development in Kisoro municipality.

### **Methodology**

A descriptive cross-sectional design was adopted (Kothari, 2023). Data were collected from municipal officials, revenue officers, and business owners using questionnaires and interviews. Instruments were validated using the Content Validity Index (Polit & Beck, 2021) and tested for reliability using Cronbach's Alpha (Nunnally & Bernstein, 1994).

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Quantitative data was analyzed using SPSS version 28 with Pearson correlation and regression analysis. Qualitative data were analyzed using thematic analysis (Creswell, 2018).

**Results**

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

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

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

The data presented in Table 1 reveals a generally pessimistic perception of the state of local revenue sources in Kisoro Municipality, with a composite mean score of 2.90 (SD = 0.95), which falls at the lower end of the moderate agreement

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range. This indicates a consensus among respondents that the municipality's internal revenue base is inadequate. The most critical deficits are seen in the sufficiency of revenue for infrastructure needs (LRS2, M = 2.42) and the transparency of revenue collection (LRS5, M = 2.59), both rated as low. This suggests that stakeholders not only feel the available funds are insufficient but are also skeptical about the processes governing them, a combination that severely undermines the social contract between taxpayers and the local government (Fjeldstad & Heggstad, 2012). A more nuanced finding is the moderate rating for the regular review of revenue policies (LRS3, M = 3.65). This indicates that the technical and legislative frameworks for revenue generation may exist on paper, as mandated by national policies like the Local Government Act. However, the low scores for diversification (LRS1) and sufficiency (LRS2) suggest a significant implementation gap. This aligns with the observations of Kato and Mukwaya (2023), who noted that while Ugandan municipalities often have sound revenue laws on the books, their effectiveness is crippled by narrow tax bases, outdated valuation rolls, and poor enforcement. The existence of policy, therefore, does not automatically translate into a robust or sufficient revenue stream, pointing to deeper administrative and political failures.

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

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

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

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

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

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

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

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

**Table 2: Descriptive Statistics for Urban Development (UD) Indicators**

Statement	SAA (5)(4)	N (3)	D (2)	SD (1)	td.	Deviation	Interpretation
UD1: Revenue has positively influenced urban infrastructure.	7	20	25	45	19	2.53 1.17	Low
UD2: Local revenue supports essential services.	9	25	28	38	16	2.69 1.21	Low
UD3: Urban planning considers local revenue availability.	22	38	30	18	8	3.34 1.16	Moderate
UD4: Increased revenue has improved urban living standards.	6	18	22	52	18	2.46 1.15	Low
UD5: There is adequate funding for sustainable urban growth.	5	15	20	55	21	2.38 1.14	Low

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<b>Composite Scale (UD1-UD5)</b>	<b>2.68</b>	<b>0.93</b>	<b>Low</b>
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Note. N = 116. SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree.

**Source: field Data, 2025**

The data in Table 2 reveals a concerning perception of urban development in Kisoro Municipality, with a composite mean score of 2.68 (SD = 0.93), which falls within the low agreement range. This indicates a consensus among stakeholders that urban development outcomes remain substantially below expectations. The most critical deficits are observed in adequate funding for sustainable growth (UD5, M = 2.38) and the impact of revenue on living standards (UD4, M = 2.46). These scores suggest that current revenue levels and their application are insufficient to drive meaningful improvements in the quality of urban life, reflecting the broader challenges faced by secondary municipalities in Uganda as documented by UN-Habitat (2023).

A notable finding is the moderate rating for the integration of revenue considerations in urban planning (UD3, M = 3.34). This indicates that municipal planners are theoretically aware of fiscal constraints when making development plans. However, the stark contrast between this score and the low ratings for actual infrastructure development (UD1, M = 2.53) and service provision

(UD2, M = 2.69) reveals a significant implementation gap between planning and execution. This aligns with the World Bank's (2023) assessment of Ugandan urban authorities, where planning capacity often outstrips implementation-capacity due to fiscal and institutional constraints.

The consistently low scores across most urban development indicators paint a picture of a municipality struggling to meet the basic expectations of its residents. The fact that all but one indicator scored below the midpoint of 3.0 suggests systemic rather than isolated challenges in urban management. This pattern is consistent with the findings of Kaggwa and Ndyabahika (2023), who noted that rapid urbanization in Ugandan municipalities has outpaced the capacity of local governments to provide adequate infrastructure and services. The low composite score of 2.68 for urban development provides crucial context for understanding the consequences of the revenue generation challenges identified in previous sections, demonstrating how deficiencies in revenue sources, collection efficiency, and accountability ultimately manifest in poor urban outcomes.

The quantitative findings on urban development are vividly illustrated by qualitative data from key informant interviews, which provide concrete examples of the development stagnation captured by the low scores in the survey. A registered business owner in the central market, interviewed on October 30, 2025, expressed frustration with the infrastructure deficits:

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"We have been hearing about plans to tarmac this market road for three years now. Every rainy season, the drainage overflows into our shops, and customers cannot access our businesses. The municipal officials collect taxes regularly, but we see no improvement in our working environment. How can we grow our businesses under these conditions?" This testimony directly correlates with the low scores for UD1 (infrastructure influence) and UD4 (living standards), highlighting how poor infrastructure directly constrains economic activity. Furthermore, a Municipal Physical Planner, during an interview on November 2, 2025, confirmed the disconnect between planning and implementation:

"Our development plan clearly identifies priorities for road maintenance, market upgrades, and waste management facilities. We know exactly what needs to be done [UD3]. However, when we present these plans to the finance department, we are told there are no funds [UD5]. This creates frustration for us as planners and for the residents who see well-documented plans that never materialize."

This account reveals the institutional paralysis caused by fiscal constraints, where technical capacity in urban planning is undermined by insufficient revenue generation and accountability mechanisms, creating a gap between municipal aspirations and tangible urban development outcomes in Kisoro Municipality.

### **Discussion**

The findings support fiscal decentralization theory by confirming that local revenue capacity is essential for urban development (Oates, 1972; Ahmad & Brosio, 2021). However, the strongest determinant was accountability in revenue use. Weak transparency and delayed project implementation undermine development outcomes (Office of the Auditor General, 2022; Transparency International Uganda, 2023).

This aligns with studies showing that municipalities with strong audit and oversight systems achieve better service delivery and infrastructure outcomes (Muhumuza & Agaba, 2022; Nabukeera & Mwesigwa, 2021).

### **Conclusion**

Urban development in Kisoro Municipality is significantly shaped by how revenue is sourced, collected, and utilized. Among these, accountability and transparency in revenue utilization are the most critical drivers. Without strong institutional controls, increased revenue alone cannot guarantee development.

### **Recommendations**

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

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

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

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

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