

EFFECTS OF COVID – 19 ON LOCAL GOVERNMENT REVENUE AND EXPENDITURE IN UGANDA

By

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Abstract

To fight the continuous spread of the Corona Virus in Uganda, many measures were put in place by the government which involved total lockdown where movements of people were restrained, businesses were closed, schools and institutions of learning were closed among others. The lockdown significantly disrupted the systems of the local government especially service delivery and revenue mobilization which consequently affected the development, health, and people's livelihoods. Therefore, this paper makes a critical analysis on how COVID-19 has affected the local government revenue and expenditure in Uganda. The design used in this study was descriptive in nature and utilized only quantitative approaches. The study used secondary data obtained from published research by UN and Government of Uganda. An independent sample t-test was employed to assess whether there was a significant difference between variables. There was a significant difference between Local government annual per capita OSR during planned and during COVID-19 period in different regions in Uganda (UGX) as indicated by a p-value (0.0001) which is less than 0.05 level of significance. The study concludes that the outbreak of COVID-19 affected the LG revenue mobilization and expenditure in Uganda. The study recommended that there is need for emergency measures by the government to ensure that local governments economically recover from the recession. This may help to increase on revenue collection to cater for the expenditure needs in the districts.

Keywords: Covid-19, Local Government, Revenue and Expenditure, Uganda

1.0 Introduction

1.1 Background

To fight the continuous spread of the Corona Virus in Uganda, many measures were put in place by the government which involved total lockdown where movements of people were restrained, businesses were closed, schools and institutions of learning were closed among others. The lockdown significantly disrupted the socio-economic structures of the systems of the local government especially service delivery and revenue mobilization which consequently affected the

development, health, and people's livelihoods¹. Therefore, this paper makes a critical analysis on how COVID-19 has affected the local government revenue and expenditure in Uganda.

1.2 Objectives

1.2.1 Study purpose

To examine the effect of COVID 19 on local government revenue and expenditure in Uganda

1.2.2 Specific objectives

- i. To examine whether there was a difference in Local government annual per capita Own Source Revenue (OSR) between planned period and during COVID-19 period in different regions in Uganda.
- ii. To examine whether there was a difference in Local government annual per capita expenditure between planned period and during COVID-19 period in different regions in Uganda
- iii. To establish whether there was a difference in Local government expenditure between FY 2018/19 and FY 2020/21 by different sectors in Uganda

1.2.3 Hypotheses

Ha₁: There is a significant difference in Local government annual per capita Own Source Revenue (OSR) between planned period and during COVID-19 period in different regions in Uganda.

Ha₂: There is a significant difference in Local government annual per capita expenditure between planned period and during COVID-19 period in different regions in Uganda

Ha₃: There is a significant difference in Local government expenditure between FY 2018/19 and FY 2020/21 by different sectors in Uganda

2.0 Literature Review

¹ United Nations & GOV. (2020). The ImpactoftheCOVID-19 on Local Government Fiscal Space and Service Delivery in Uganda.

The Coronavirus Disease 2019 (Covid-19) that emerged in late December, 2019 in Wuhan, China and later spread to the rest of the world has had devastating effects on the global economy, with widespread outcomes on health, social, and economic systems. Global statistics obtained from the World Health Organization (WHO) Covid-19 Dashboard show that, as of June 7th, 2021, there were over 173 million confirmed cases of Covid-19 and 3.7 million deaths (Mulenga & Mulenga, 2021). In order to contain the spread of the disease, governments in Africa and around the world rapidly adopted various policy measures, among them complete lockdowns, partial lockdowns, and no lockdown (Brief, 2020; Rashid, Ng, Cheng, & Grozdanic, 2020). This resulted into disrupting social and economic structures especially the local government systems of service delivery with significant consequences on health, livelihoods and general economic development. For instance, the lockdown measures and restriction of movement of people have severely impacted various sectors of the economy. For example, the manufacturing sector has experienced reduced production of goods, affecting the supply of goods and services resulting in the disruption of key service delivery systems in the local governments as well.

According to Mugume and Muhumuza (2021) the Covid-19 pandemic has also had far reaching impacts on human well-being, thereby changing how governments the world-over operate and deliver their services. Governments at all levels have been forced to rapidly organize, implement, and finance responses to both public health and economic crises (Green & Loualiche, 2021; Tsakok, 2021; Van Nieuwkerk, 2020). One key level of government adversely affected by the Covid-19 pandemic has been the local government services sector, which forms a significant part of the services sector. More to that, the different containment measures imposed by health authorities in different countries around the world due to the fear of contracting the virus this has caused local government service consumers to be affected the way local authorities operate, thus preventing them from efficiently and effectively providing the essential services that they are mandated to provide to their local people (Mulenga & Mulenga, 2021).

The importance of local authorities around the globe and Uganda inclusive cannot be overlooked. Local authorities perform a wide range of functions and also play a crucial role in the governance system of any country around the globe. Their mandate is centered on tackling key developmental challenges faced by people in different areas within a country. Mulenga and Mulenga (2021). Local authorities can only achieve this, Local authorities can by ensuring access for all too safe and

affordable housing and basic services, investing in public transport, creating green public spaces, and improving human settlement planning and management in participatory, integrated and sustainable ways (Mulenga & Mulenga, 2021).

Although the local authorities have an important role in providing public services to communities and businesses, they often face challenges in discharging their functions. One of the major challenges the local authorities are confronted with is that of raising sufficient revenue, which hinders them from delivering their services (Chikulo, 2009) and this has been made worse during the corona pandemic that has crippled the performance of local government operations all over the world and Uganda inclusive. For that matter, Covid-19 affected the operations of different levels of government, by affecting their budgets and operations. Governments generally had to shift their focus from activities such as capital projects to Covid-19 containment activities. Equally so, the local governments had to shift their attention to operational issues. Due to the fact that local authorities are also critical in the implementation of containment measures. As a result, the pandemic has had an impact on expenditure as well as revenues for the local authorities to the extent that it has widened the gap between expenditure and revenue (Green & Loualiche, 2021).

Green and Loualiche (2021) further emphasized that emphasized that Local governments are facing large losses in revenues and increased expenditures because of the COVID-19 crisis due to the fact that the pandemic encouraged demand for government services that has coincided with a significant decline in the tax revenues collected by state and local governments. Thus, posing a threat to effective service delivery at the local levels. Hence posing an important question to the central government for informing policy response to the pandemic is how fiscal pressures on state and local governments affect their ability to respond to the crisis, and continue to function in the potentially prolonged economic downturn.

In Uganda, the constitution provides for a system of decentralization and local governments, which is further consolidated in the Local Governments Act 1997 (Cap. 243) (G. o. U. GoU, 1997). In urban settings, there are city, municipal, division/town, ward and cell councils. In rural areas, there are district councils, counties (which are administrative units without a council), sub-county councils, parish councils and village councils. The primary sources of revenue are transfers from central government; however local governments are mandated to raise revenue locally, including property taxes, licensees and user fees (Livingstone & Charlton, 2001). Responsibility for transport

and environmental protection is shared between central and local governments. Districts and municipal councils are also responsible for the provision of primary and secondary education, safe water supplies and public health and are encouraged to devolve some services to the lower tiers. Local economic development (LED) is the responsibility of the districts and lower tiers of government (Golooba-Mutebi, 2008).

The Constitution of Uganda and the Local Governments Act allow Local Governments in Uganda to collect revenue from a number of specified sources, formulate plans and budgets, allocate expenditure, and make investments in a wide range of services (GoU, 1995; G. o. U. GoU, 1997). The development budgets of Local Governments are funded with conditional and equalization (discretionary) grants. Uganda has a relatively low level of total local government expenditure per capita compared to other countries in the region including Kenya, Tanzania Rwanda and South Africa (Kasalirwe, Mbabazi, Kirungyi, & Akena, 2020; MoFPED, 2020; Muhwezi et al., 2020). Where the staff expenditure makes up over one half of the total local government expenditure reflecting the predominance of recurrent finance in the expenditure structure and minimal capital transfers and direct investment (BMAU, 2020).

With the first infections of Covid-19 being detected at the end of 2019 in China, the pandemic only reached Uganda in March 2020. The first confirmed case was reported on 21 March brought in by a traveler from Dubai (Government of Uganda, 2020) Since then, there has been a steady rise in new infections, and update Uganda is experiencing sharp increases in the cases due to the new variant of Covid -19 called omicron. like in other countries of the world who adopted measures to control the spread of the virus, likewise, in Uganda, adopted measures through its government basing on the advice of scientists measures such as partial lockdown of movement of people and closure of places that involve close public interactions among others have disrupted the social and economic structures of service delivery with significant consequences on lives, livelihoods and general economic development of the world.

Uganda is a democratic republic with a governance system comprising central and local governments. Nevertheless, as mandated by the Local Government Act, local authorities play an important role in the enforcement of these measures despite of the consequences of the measures. The consequences of these measures have been a drastic disruption of social and economic activities across all sectors of the local and national economy. According to the findings revealed

by the Ministry of Finance Planning and Economic (MoFPED) Covid -19 has affected negatively the Local Government LGs 's operations and systems that has had an alarming effect on the revenues and expenditures of the local governments in Uganda (MoFPED, 2021b). For instance, that LGs in Uganda are unable to hold meetings as they have no facilities and technology to work from home given the lock-down (Mulenga & Mulenga, 2021) causing the delay in passing the LGs budgets because of the limitation of the number of people in meetings to five, LGs are unable to collect local revenue, which process is manual, because most business sources such as shops and cattle markets are closed. This has affected provision of basic services that were dependent on local resources (MoFPED, 2021a).

According to MoFPED, the LGs are likely to lose about UGX 180 billion in local revenue collections and for the case of urban LGs that rely more on own revenues the total fiscal loss of own revenues is estimated at five to 10 percent only. Modelling of the COVID-19 impact on the local revenue collection in 2020, since the most sources of revenue to the local governments that is property tax, user fees and other fees are hit mostly by the pandemic contributing 30% to the overall decline in local revenues for all LGs (MoFPED, 2021b).

Further still, the analysis shows COVID-19 has had direct impact on LG fiscal space which majorly consists of own source revenues, intergovernmental fiscal transfers (grants), leading to projected fiscal gap of UGX 15.7 trillion (Mulenga & Mulenga, 2021) based on the modelling of the local governments fiscal space, the total fiscal gap is projected at UGX 15.7 trillion, with district governments being most seriously affected and accounting for 88 percent of the total loss. The difference between rural and urban governments is explained by the fact that rural governments are more reliant on central government grants and receive about 90 percent of total annual transfers.

On the other hand, urban governments will be more affected by the loss of own source revenues accounting for 66 percent of the total own source revenue decrease. Raising a concern that the fiscal pressure may cause the central government to reduce the share of development grants, which would be an undesirable outcome with serious longer-term implications for local development, service delivery and recovery (MoFPED, 2021). This further emphasized by (Muhwezi et al., 2020) who stressed that most LGs are financed by central government grants to a tune of 95% on average. And this situation is in obvious contradiction with an effective epidemic response which

requires a sector-wide approach, increased noncapital expenditures for community awareness and mobilization, enforcement of public order and restructuring of public service delivery to ensure its continuity (Muhwezi et al., 2020).

Consequently, there was a threat to the provision of traditional basic healthcare services at the local level, as the health service delivery in districts in the process were and are still stressed by Covid-19, resulting into a likely increase in number deaths due to malaria, pneumonia, injuries, neonatal conditions, anemia, and tuberculosis which have traditionally been leading causes of death in Uganda. Still further, there arose a challenge among HIV infected patients in accessing Anti-Retroviral Treatment (ART) while immunization campaigns could drop due to restrictions in the movement of people and distances involved to move to the nearest health facility. Also, there could be a drop in the deliveries in health facilities with an increase in maternal and infant morbidity and probably even mortality increases due to lack of public transport and other Covid-19-induced guidelines (Muhwezi et al., 2020).

Additionally, depending on the severity of the lockdown and others that had an adverse effect on the revenue collections of the local governments in Uganda. Thus, the expenditure on many development or capital projects is slowing down at local government level in the country. This means that the LGs in Uganda due to the situation are in not in position to spend on their long-term obligations such as new permanent payroll staff or new large infrastructure requiring operation and maintenance. However, the little that is available can be used for (temporary) staff costs, goods and services, and small-scale capital items (for example, medical equipment or motorcycles). This is backed by the fact that balanced budget rules impact nation's fiscal response to deficit shocks those with more stringent balance requirements react with greater tax increases and spending cuts as cited by Green and Loualiche (2021). Subsequent work by Pescatori and Pisani (2006). Further, re-emphasized the role of balanced budget requirements for fiscal policy. Hou and Smith (2010) show how other institutional constraints, specifically politically divided state governments, make government policy less responsive to revenue shocks and this was confirmed by Alt and Lowry (1994).

In spite of the reduction in the revenue collected by the local government. The local government expenditure increased at local levels due to the increase in the operation costs that have been prompted by the need to sensitize, ensure adherence to guidelines, increased patrols and

inspections, and the acquisition of face masks, disinfectants and sanitizers. Findings according to (Petek, 2021) found that globally, operation costs in local authorities arose from additional employment costs such as overtime and introduction of new protocols to provide services amidst the pandemic and has been the case in Uganda.

Notwithstanding, in amid of the challenges and the negative effects of the pandemic to the performance of local government in Uganda and world all over it's important to note that local governments are uniquely positioned to shape, adapt and deliver a holistic response to epidemics (UNCDF, 2020). This is because local governments have stood-up to the COVID-19 challenge, just like they have done for other health challenges like Ebola, Congo Hemorrhage fever, Marburg fever, and disasters like landslides and floods as well as taking care of refugee communities. Therefore, the need for central governments to implement appropriate localized measures and also consider the impact of these efforts of curbing COVID-19 are minimized.

As people observe Covid-19-induced guidelines. It is public knowledge that as a result of the lockdown, there have been multifaceted socioeconomic ramifications that threaten the social, governance and economic fabric. This imposes a requirement for a cohesive response across sector boundaries to ensure alignment and synergies between different sector interventions in a particular locality. It is also important to take into account by the central government to reorganize the position of local governments in the fight against the covid-19 pandemic in Uganda. Since local governments are often the closest and most direct form of governance. They are essential and need to be open, accessible and responsive to citizen needs. Thus, how local governments respond to the COVID-19 crisis will influence citizen trust and societal well-being (Muhwezi et al., 2020).

In conclusion, as Local governments have been for long considered as engines for democracy there is need to improve local governments' readiness for the future, the National Planning Authority, MOLG and OPM should urgently ensure disaster risk preparedness and management is incorporated in the local government planning guidelines and LGs appropriately guided on planning and budgeting for disaster risks, including its financial and nonfinancial aspects since they are relied on to ensure effective fight against the pandemic in order to ensure the wellbeing of communities. And also, the need by Local government leaders to implement innovations, creative solutions, ideas and strategies in response to COVID 19 crisis, while consolidating the delivery of democratic governance to all citizens (NDI, 2020).

3.0 Methodology

The design used in this study was descriptive in nature and utilized only quantitative approaches. The study used secondary data obtained from published research by UN and Government of Uganda. The study used normality test to examine the behaviors (variations) of the variables. An independent sample t-test was employed to assess whether there was a significant difference between variables. An independent sample t-test compares means between two independent variables which are continuous.

3.0 Findings

This section presents the normality tests and independent sample t-tests to examine how COVID-19 pandemic has affected local government revenue mobilization and expenditure in Uganda.

3.1 Normality test

The study used Shapiro-Wilk test to examine whether the variables followed a normal distribution or not at 5% significance level. The findings are presented in table 1 below.

Table 1: Test for normality of the variables

Variables	Shapiro-Wilk		
	Statistic	df	Sig.
Government annual per capita OSR for different regions (UGX) (Planned)	.954	6	.772*
Government annual per capita OSR for different regions (UGX) (during COVID-19)	.954	6	.770*
Local government per capita expenditure by different regions (Planned)(000s)	.974	6	.916*
Local government per capita expenditure by different regions (during COVID-19) (000s)	.971	6	.901*
Local government expenditure by different sectors in 2018/19 (million shillings)	.782	9	.013
Local government expenditure by different sectors in 2020/21 (million shillings)	.769	9	.009
<i>*Variables are normally distributed at 5% level of significance (Ho: Normal distribution of variables assumed)</i>			

Source: Author's computations based on data from UBOS and MoFPED (2021)

The findings from the normality test reveal that all the variables followed a normal distribution at 5% level of significance except the variable for local government expenditure of 2018/19 and

expenditure by LG sectors increased during COVID-19 which could have been attributed to increased demand for services from key sectors like health.

5.0 Recommendations

There is need for emergency measures by the government to ensure that local governments economically recover from the recession. This may help to increase on revenue collection to cater for the expenditure needs in the districts.

The LGs should be encouraged to expand its revenue base which would help them generate revenue even during COVID-19 lockdown. The LGs should create environment which attracts more investment in manufacturing industries. This would help to increase in OSR by LGs.

The government should increase on the budget allocated to the LGs especially during the period of COVID-19 in order to manage their expenditure needs.

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