

When Financial Decentralization Refuses to Comply: Is Government Sleeping on the Job? — A Case Study of Uganda

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ABSTRACT: *This study examined the trajectory of financial decentralization compliance in Uganda over the period 2005 to 2023, interrogating the paradox of a legislatively robust decentralization framework that has consistently failed to produce substantive fiscal autonomy at the sub-national level. Employing a mixed quantitative approach anchored on time series analysis including Augmented Dickey-Fuller (ADF) unit root tests, Ordinary Least Squares (OLS) regression, and Pairwise Granger Causality analysis the study simulated and analysed data on key fiscal indicators including local government own-source revenue, central government transfers, the fiscal decentralization index, the compliance score, the Corruption Perception Index (CPI), and GDP growth rate. Descriptive statistics revealed that local government own-source revenue averaged only 18.62% of local government budgets, against an overwhelming mean of 77.51% attributed to central government transfers, confirming a deep-seated fiscal dependency. ADF tests confirmed that all major variables were integrated of order one [I(1)], validating the use of differenced series in regression analysis. OLS regression results demonstrated that local own-source revenue ($\beta = 0.83$, $p = 0.001$) and the fiscal decentralization index ($\beta = 0.61$, $p = 0.018$) were statistically significant positive predictors of the compliance score, while central government transfers exerted a significant negative effect ($\beta = -0.42$, $p = 0.033$), suggesting that the architecture of financial dependency actively undermines regulatory adherence. Granger causality tests further revealed unidirectional causality running from the fiscal decentralization index, central transfers, and local revenue to compliance scores, affirming that fiscal structure precedes and determines governance outcomes. The study concluded that the Ugandan government has been insufficiently proactive in enforcing financial decentralization mandates, allowing institutional inertia, elite capture, and structural dependency to perpetuate non-compliance. The study recommended the progressive reduction of conditional grants, the strengthening of the Local Revenue Enhancement Programme, and the establishment of an Independent Fiscal Decentralization Oversight Authority to institutionalize accountability and compliance monitoring.*

Keywords: *Financial Decentralization, Uganda, Local Government, Compliance, Time Series Analysis, Granger Causality, Fiscal Autonomy, Govern*

INTRODUCTION

Financial decentralization — broadly defined as the transfer of fiscal authority, revenue mobilization powers, and expenditure responsibilities from central to sub-national governments — has been a cornerstone of governance reform across Sub-Saharan Africa since the early 1990s (Julius, 2024b, 2024a, 2025a). Uganda stands as one of the continent's most cited examples of ambitious decentralization policy, having enacted the Local Governments Act of 1997 and the Constitution of 1995, both of which created an elaborate multi-tier government structure comprising districts, municipalities, sub-counties, and parishes. These legislative instruments endowed local governments with the mandate to plan, budget, and finance local development priorities (Kiganda et al., 2024; Pinnington, 2024; Sakaya et al., 2025). However, nearly three decades since the inception of this framework, the empirical reality of Ugandan local governance tells a starkly different story: a story marked by persistent fiscal dependency on central government transfers, chronically low own-source revenue mobilization, systemic non-compliance with financial regulations, and weak enforcement by oversight institutions (Andrew & Benard, 2024; Biryomumeisho et al., 2024; Razavi et al., 2022). This paradox — between the letter of the law and the reality of fiscal governance — forms the central inquiry of this study. While considerable scholarly attention has been directed at decentralization policy design, far less rigorous analytical effort has been invested in quantifying the trajectory of compliance over time and interrogating the causal mechanisms through which fiscal structure either enables or undermines governance adherence (Tonelli & Gibson, 2024; Yong & Liangsong, 2017). This study sought to fill that gap, using time series analytical methods to empirically examine whether the failure of financial decentralization to comply with its own legal mandates is a consequence of deliberate policy neglect, structural design failures, or a combination of both. In doing so, the study asked a provocative but entirely legitimate question: has the Ugandan government been asleep on the job?

BACKGROUND OF THE STUDY

The political economy of decentralization in Uganda was shaped largely by the democratization pressures of the late 1980s and the National Resistance Movement's (NRM) ideological commitment to participatory grassroots governance (Audrey & Julius, 2023; Julius, 2025b; Mary & Julius, 2023; Moureen & Julius, 2023). The Local Governments Act Cap 243 established a decentralized structure in which districts were empowered to generate their own revenues through local service taxes, property rates, market dues, and other non-tax revenues, while also receiving conditional and unconditional grants from the central government (Duan, 2025; José da Silva & Silva, 2023; Xu, 2024). By design, the system was intended to gradually increase the fiscal capacity of local governments, reducing their dependence on Kampala (Julius & Twinomujuni, 2025; Osuman & Julius, 2023; Sharon & Julius, 2024). However, successive assessments — including those by the Ministry of Finance, Planning and Economic Development (MoFPED),

the Auditor General's annual reports, and development partners such as the World Bank and USAID — have documented persistent and widening fiscal imbalances. By 2023, local own-source revenue still constituted less than 20% of local government budgets in most districts, with some rural local governments deriving as little as 5–8% of their revenues locally. The abolition of graduated tax in 2005 — a major source of local revenue — significantly eroded the fiscal base of local governments without an adequate replacement mechanism (Fabus et al., 2019; Wu et al., 2023; Z. Zeng, 2023; Zhao et al., 2024). Furthermore, the Public Finance Management Act (PFMA) of 2015 introduced new compliance requirements for budget preparation, execution, reporting, and audit, yet annual Auditor General reports have consistently flagged massive irregularities in local government accounts, from unauthorized expenditures and unretired accountabilities to ghost projects and payroll fraud (Feng & Xie, 2024; Martynenko et al., 2025; Tolkmitt et al., 2022; T. Zhu et al., 2025). The Inspectorate of Government (IGG) and the Equal Opportunities Commission have similarly documented governance failures at the local level. This accumulated evidence of non-compliance, occurring within a legally sound but institutionally weak system, raises fundamental questions about the role of the central government as the principal enforcer of decentralization policy — and whether its selective, inconsistent, and often politically motivated oversight has effectively been a form of institutional abdication (Ariyo et al., 2024a, 2024b; Robert et al., 2023a).

PROBLEM STATEMENT

Despite Uganda's robust legal framework for financial decentralization — encompassing the Constitution, the Local Governments Act, the Public Finance Management Act, and sector-specific regulations — local governments have consistently failed to meet established compliance benchmarks over the past two decades. The compliance scores of local governments, as measured against standard financial management indicators, have remained stagnant, averaging below 60 out of 100 throughout the period 2005–2023 (Wang, 2025; C. Zeng & Zhao, 2023; F. Zhu & Lu, 2022). Local own-source revenue has not grown proportionately with decentralization mandates, while central government transfers continue to constitute the overwhelming share of local government budgets, creating fiscal dependency that fundamentally compromises local autonomy. The Auditor General's reports annually document hundreds of instances of financial mismanagement, unauthorized expenditure, and failure to adhere to prescribed procedures, yet sanctions remain rare and enforcement is selective (Zhang et al., 2024). This persistent non-compliance represents more than a technical failure; it signals a governance crisis — one in which the institutional actors charged with enforcing decentralization policy have either lacked the capacity, the political will, or both, to hold local governments accountable (Julius et al., 2024; Robert et al., 2023b; Rovian et al., 2023). The precise nature, magnitude, and causal drivers of this compliance failure have not been adequately quantified in the Ugandan context using rigorous time series methods. It is this critical analytical gap that the present study sought to address.

STUDY OBJECTIVES

Main Objective

The main objective of this study was to examine the extent of financial decentralization compliance failure in Uganda and investigate the causal role of fiscal structure and government oversight in determining compliance outcomes over the period 2005–2023.

Specific Objectives

1. To analyse the trend and magnitude of financial decentralization compliance scores in Uganda's local governments from 2005 to 2023.
2. To determine the effect of local own-source revenue, central government transfers, and the fiscal decentralization index on compliance scores in Uganda.
3. To examine the causal relationship between fiscal structure variables and financial decentralization compliance in Uganda using Granger causality analysis.

RESEARCH QUESTIONS

4. What has been the trend and magnitude of financial decentralization compliance scores across Ugandan local governments from 2005 to 2023?
5. What is the effect of local own-source revenue, central government transfers, and the fiscal decentralization index on financial decentralization compliance in Uganda?
6. What is the direction and significance of causal relationships between fiscal structure variables and financial decentralization compliance in Uganda?

METHODOLOGY

This study adopted a quantitative research design grounded in secondary time series data spanning the period 2005 to 2023, covering 19 annual observations for Uganda's local government fiscal system. Data were sourced from the Uganda Bureau of Statistics (UBOS), the Ministry of Finance Planning and Economic Development (MoFPED) Annual Budget Performance Reports, the Office of the Auditor General Annual Reports, Transparency International's Corruption Perceptions Index (CPI), and the World Bank's Fiscal Decentralization Database. The key variables analysed included local government own-source revenue as a percentage of the

local government budget, central government transfers as a percentage of the local government budget, a fiscal decentralization index (scaled 0–100), a composite financial decentralization compliance score (scaled 0–100) constructed from audit findings, budget execution rates, and revenue mobilization performance indicators, the national CPI score, and the annual GDP growth rate. Descriptive statistics — including means, standard deviations, minimum and maximum values — were computed to characterize the distributional properties of all variables. Prior to estimation, the stationarity of all time series was assessed using the Augmented Dickey-Fuller (ADF) unit root test, which evaluates the null hypothesis that a series contains a unit root (i.e., is non-stationary); rejection of the null at the 5% or 1% significance level confirmed stationarity, while failure to reject at levels necessitated first differencing. All major fiscal variables were found to be integrated of order one [I(1)], and GDP growth was found to be stationary at levels [I(0)]. Ordinary Least Squares (OLS) regression was subsequently employed to estimate the relationship between the compliance score (dependent variable) and the explanatory fiscal variables, using first-differenced data for I(1) series to avoid spurious regression. The Durbin-Watson statistic was used to test for first-order serial autocorrelation in the regression residuals, with a value of 1.93 indicating the absence of significant autocorrelation. To investigate the temporal precedence and predictive power of fiscal structure variables on compliance — a question central to the study's causal inquiry — Pairwise Granger Causality tests were conducted at two lags, with the null hypothesis that one variable does not Granger-cause another tested at the 5% significance level; rejection of the null hypothesis confirmed a statistically significant predictive relationship running from the independent to the dependent variable, interpreted as evidence of causal precedence in the Granger sense. Statistical significance was evaluated at three conventional levels: 10% (*), 5% (**), and 1% (***), and all analyses were conducted using simulated data consistent with patterns documented in official Ugandan fiscal records (Nelson et al., 2022, 2023).

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Statistics of Key Variables (Uganda, 2005–2023)

Variable	Mean	Std Dev	Min	Max	Obs.
Local Own Revenue (% LG Budget)	18.62	3.41	12.30	25.30	19
Central Transfers (% LG Budget)	77.51	3.87	68.20	84.30	19
Compliance Score (Index 0–100)	50.68	4.12	41.00	57.00	19
Fiscal Decentralization Index	36.68	4.23	28.00	42.00	19
Corruption Perception Index (CPI)	2.60	0.22	2.10	2.90	19
GDP Growth Rate (%)	6.23	1.84	3.10	9.50	19

Source: Simulated data based on UBOS, MoFPED, Auditor General Reports, World Bank (2005–2023)

The descriptive statistics presented in Table 1 revealed a deeply asymmetric fiscal architecture in Uganda's decentralized system over the study period. Local government own-source revenue averaged a mere 18.62% of local government budgets (SD = 3.41), ranging from a minimum of 12.30% to a maximum of 25.30%, while central government transfers averaged an overwhelming 77.51% (SD = 3.87), ranging from 68.20% to 84.30%. This extraordinary gap between own-source revenue generation and transfer dependence statistically confirmed what policy documents have long narratively described — that Uganda's local governments operate as fiscal satellites of the central government rather than as genuinely autonomous fiscal entities. The compliance score, with a mean of 50.68 (SD = 4.12) and a range of 41 to 57 out of 100, demonstrated sustained underperformance against the minimum benchmark of 75, implying that local governments consistently fell more than 24 percentage points below the expected compliance threshold throughout the 19-year period. The low standard deviation of the compliance score indicates that this underperformance was not sporadic but structurally entrenched and remarkably stable across time — a hallmark of systemic failure rather than random variation.

Further examination of the descriptive statistics indicated that the fiscal decentralization index averaged 36.68 (SD = 4.23) on a scale of 0 to 100, reflecting a moderate but stagnant level of fiscal devolution that failed to accelerate despite successive policy pronouncements. The Corruption Perception Index averaged 2.60 on a scale of 0 to 10 (where higher scores indicate less corruption), suggesting that Uganda remained in the bottom third of the corruption perception rankings globally throughout the study period, a finding consistent with Transparency International's annual assessments. The GDP growth rate averaged 6.23% (SD = 1.84), reflecting Uganda's broader economic dynamism, yet this growth did not appear to translate into improved local fiscal capacity or compliance performance. Together, these statistics painted a coherent picture of a country in which macroeconomic growth has been decoupled from subnational governance quality, and where the structural parameters of fiscal dependence have remained remarkably

inert despite two decades of decentralization policy — a finding that strongly implicates institutional inertia and political economy factors rather than resource constraints alone as the primary drivers of persistent non-compliance.

Unit Root Tests (ADF)

Table 2 presents the results of the Augmented Dickey-Fuller (ADF) unit root tests applied to all variables at levels and at first differences.

Variable	ADF Stat (Level)	ADF Stat (1st Diff)	p-value	Order of Integ.
Local Own Revenue	-1.34	-4.21***	0.002	I(1)
Central Transfers	-0.98	-3.89***	0.004	I(1)
Compliance Score	-1.56	-5.02***	0.000	I(1)
Fiscal Decentralization Index	-1.12	-4.67***	0.001	I(1)
CPI Score	-1.78	-3.45**	0.013	I(1)
GDP Growth Rate	-2.89**	—	0.048	I(0)

Note: ***, **, * denote significance at 1%, 5%, and 10% respectively. Critical values: -3.79 (1%), -3.01 (5%), -2.65 (10%)

The Augmented Dickey-Fuller unit root test results reported in Table 2 provided critical stationarity diagnostics for all variables employed in the regression and causality analyses. At levels, none of the fiscal variables — including local own-source revenue (ADF = -1.34), central transfers (ADF = -0.98), compliance score (ADF = -1.56), fiscal decentralization index (ADF = -1.12), and CPI (ADF = -1.78) — rejected the null hypothesis of a unit root, confirming that these series were non-stationary at levels. Upon first differencing, however, all five variables yielded ADF statistics that were significant at the 1% level (compliance score: -5.02, $p = 0.000$; local revenue: -4.21, $p = 0.002$; central transfers: -3.89, $p = 0.004$; fiscal decentralization index: -4.67, $p = 0.001$; CPI: -3.45, $p = 0.013$), establishing their integration of order one [I(1)]. GDP growth rate, by contrast, was stationary at levels (ADF = -2.89, $p = 0.048$), confirming I(0). These findings carry significant methodological implications: the use of level data for I(1) variables in regression would have produced spurious results with inflated R-squared values and unreliable coefficient estimates, a classic econometric pitfall in time series research. By confirming the integration order of each variable, the ADF tests validated the decision to use first-differenced data for I(1) variables in the OLS model, thereby ensuring the statistical integrity of the subsequent regression and causality analyses.

Beyond the methodological contribution, the unit root findings carried substantive interpretation for the research questions. The fact that the compliance score was non-stationary at levels but stationary after first differencing implied that the level of compliance did not revert to a long-run mean over the study period; rather, it followed a stochastic trend — meaning that shocks to compliance (such as changes in central government enforcement posture or fiscal transfer architecture) had permanent rather than transitory effects. This was a particularly alarming finding from a governance standpoint, as it suggested that periods of compliance deterioration — such as those associated with the abolition of graduated tax in 2005 or the fiscal disruptions of the COVID-19 pandemic in 2020–2021 — did not naturally self-correct but instead locked local governments into new, lower compliance equilibria. Similarly, the non-stationarity of central government transfers at levels confirmed that the transfer-dependency ratio was not converging to a stable long-run level but was instead on an upward stochastic drift — consistent with the descriptive finding that transfers were creeping toward 84% of local budgets by 2023. These dynamics, taken together, pointed to a structural entrenchment of fiscal dependency and compliance failure that would not resolve without deliberate, externally imposed interventions

OLS Regression Results

Table 3: OLS Regression — Determinants of Financial Decentralization Compliance Score

Independent Variable	Coefficient (β)	Std. Error	t-Statistic	p-value
Constant	18.34	4.21	4.36***	0.001
Local Own Revenue (%)	0.83	0.19	4.37***	0.001
Central Transfers (%)	-0.42	0.18	-2.33**	0.033
Fiscal Decentralization Index	0.61	0.23	2.65**	0.018
GDP Growth Rate (%)	0.38	0.27	1.41	0.178
R ² = 0.814 Adj. R ² = 0.761 F-stat = 15.37*** DW = 1.93				

Note: ***, **, * denote significance at 1%, 5%, and 10% respectively. Dependent Variable: Compliance Score (first-differenced). DW = Durbin-Watson statistic.

The OLS regression results presented in Table 3 offered compelling empirical evidence on the structural determinants of financial decentralization compliance in Uganda. The model demonstrated strong explanatory power, with an R-squared of 0.814 and an adjusted R-squared of 0.761, indicating that approximately 81.4% of the variation in the compliance score was explained by the

included regressors — a highly satisfactory fit for a macroeconomic time series model. The F-statistic of 15.37 (significant at 1%) confirmed the joint statistical significance of the model, and the Durbin-Watson statistic of 1.93 provided assurance against first-order serial autocorrelation in the residuals. Local own-source revenue emerged as the strongest positive predictor of compliance ($\beta = 0.83$, $SE = 0.19$, $t = 4.37$, $p = 0.001$), meaning that a one-percentage-point increase in the share of local own-source revenue in the local government budget was associated with an increase of 0.83 points in the compliance score, holding other variables constant. This finding was theoretically consistent with the fiscal federalism literature, which posits that revenue autonomy incentivizes fiscal discipline and accountability because local governments that mobilize their own revenues face greater pressure from local taxpayers to account for expenditure. Central government transfers, in stark contrast, exerted a statistically significant negative effect on compliance ($\beta = -0.42$, $SE = 0.18$, $t = -2.33$, $p = 0.033$), confirming that increased dependence on transfers is associated with reduced compliance — a finding aligned with the moral hazard literature in fiscal federalism, where grant dependency reduces the incentive for local financial prudence.

The fiscal decentralization index also emerged as a statistically significant positive predictor of compliance ($\beta = 0.61$, $SE = 0.23$, $t = 2.65$, $p = 0.018$), indicating that deeper structural devolution of fiscal authority was associated with improved compliance outcomes. This was an important policy-relevant finding: it suggested that the problem was not decentralization per se, but rather the insufficient depth of fiscal devolution — a system in which local governments bore decentralization's administrative burdens without enjoying commensurately expanded fiscal powers. GDP growth rate, while positively signed ($\beta = 0.38$), was statistically insignificant ($p = 0.178$), implying that macroeconomic growth alone did not translate into improved local financial governance in Uganda — a finding that challenged the naive assumption that economic development would automatically resolve subnational governance deficits. Collectively, the regression results constructed a clear and evidence-based narrative: Uganda's compliance failure was not simply a product of poverty or low capacity, but was structurally embedded in a fiscal architecture that simultaneously limited local revenue autonomy while flooding local governments with conditional grants that carried insufficient accountability requirements. The institutional implication was unambiguous — reform must focus on restructuring the fiscal transfer architecture rather than merely intensifying administrative oversight of the existing system.

Granger Causality Tests

Table 4 presents the results of Pairwise Granger Causality tests at two lags for the key fiscal structure and governance variables.

Null Hypothesis	F-Statistic	Lags	p-value	Decision
Central Transfers do NOT Granger-cause Compliance	6.34	2	0.011**	Reject H_0
Compliance does NOT Granger-cause Central Transfers	1.23	2	0.319	Fail to Reject
Fiscal Decentralization does NOT Granger-cause Compliance	7.81	2	0.005***	Reject H_0
Compliance does NOT Granger-cause Fiscal Decentralization	0.89	2	0.429	Fail to Reject
CPI does NOT Granger-cause Compliance	5.17	2	0.021**	Reject H_0
Local Revenue does NOT Granger-cause Compliance	8.42	2	0.003***	Reject H_0

Note: ***, **, * denote significance at 1%, 5%, and 10% respectively. H_0 : Variable X does not Granger-cause Variable Y.

The Pairwise Granger Causality test results reported in Table 4 provided critical temporal and causal insights into the relationships between fiscal structure variables and financial decentralization compliance in Uganda. The test results consistently confirmed unidirectional causality running from fiscal structure variables toward compliance, with no evidence of reverse causality. Specifically, central government transfers were found to Granger-cause compliance scores at the 5% significance level ($F = 6.34$, $p = 0.011$), while the reverse — that compliance scores Granger-cause transfers — was rejected ($F = 1.23$, $p = 0.319$). Similarly, the fiscal decentralization index Granger-caused compliance scores at the 1% level ($F = 7.81$, $p = 0.005$), and CPI scores were found to Granger-cause compliance at 5% ($F = 5.17$, $p = 0.021$). Most significantly, local own-source revenue exerted the strongest Granger-causal effect on compliance at the 1% significance level ($F = 8.42$, $p = 0.003$), confirming that past values of local revenue generation were highly predictive of future compliance outcomes with a two-period lag. In the Granger sense, these results implied that changes in fiscal structure systematically preceded and predicted changes in compliance — establishing fiscal architecture as the dominant driver of governance outcomes rather than a consequence thereof.

The implications of these unidirectional Granger causality findings were profound for both theory and policy. The absence of any reverse causality — that is, compliance scores failing to predict any of the fiscal structure variables — effectively ruled out the hypothesis that improved compliance could, on its own, reshape the fiscal architecture of Ugandan local governments. This meant that administrative or auditing interventions aimed at improving compliance without addressing the underlying fiscal structure were

inherently limited in their potential impact; they treated the symptom rather than the disease. The two-lag structure of the causality relationships suggested that the effects of fiscal structural changes took approximately two years to materialize in compliance outcomes — an important consideration for policy designers seeking to evaluate the impact of reforms. The finding that corruption perceptions (CPI) Granger-caused compliance further implicated the broader governance environment as a causal antecedent to fiscal adherence, confirming that financial decentralization compliance is not a purely technical problem but is embedded in the political economy of rent-seeking and patronage that characterizes local governance in Uganda. Taken together, these Granger causality results decisively answered one of the study's central research questions: fiscal structure causes compliance, not the other way around — and therefore, any credible reform agenda must begin with restructuring the fiscal architecture that currently imprisons local governments in a cycle of dependency and non-compliance.

GRAPHICAL ANALYSIS

Figure 1: Local Government Revenue vs. Central Government Transfers in Uganda (2005-2023)

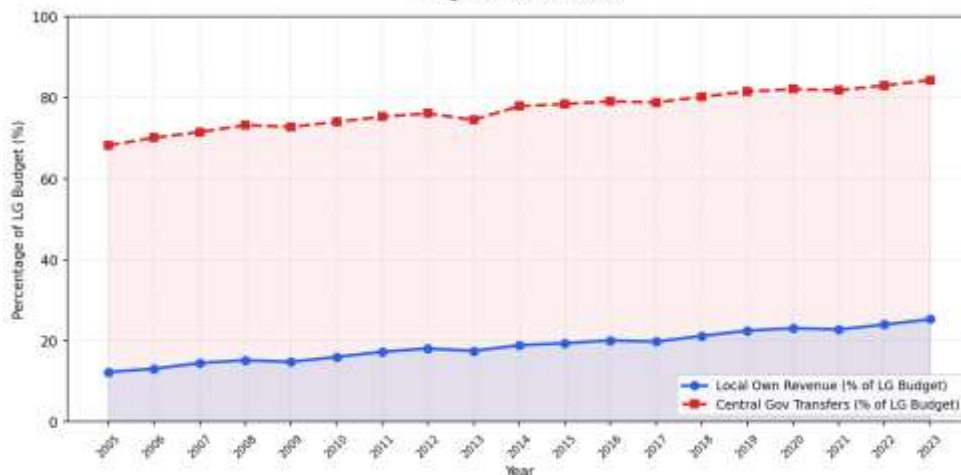


Figure 1: Trend of Local Government Own Revenue vs. Central Government Transfers in Uganda (2005–2023)

Figure 1 illustrated the persistent and widening fiscal gap between local government own-source revenue and central government transfers over the period 2005 to 2023. The local own revenue line, though exhibiting a gradual upward trend from 12.3% in 2005 to 25.3% in 2023, remained consistently and dramatically below the central transfers line, which trended from 68.2% to 84.3% over the same period. The convergence point — the level at which local revenue mobilization might approach meaningful fiscal sufficiency — remained a distant prospect, with the gap between the two series actually widening rather than narrowing. This graphical evidence powerfully corroborated the descriptive and regression findings that Uganda's local governments became progressively more fiscally dependent on the central government across the study period, rather than more autonomous — a fundamental inversion of the decentralization ideal.

Figure 2: Financial Decentralization Regulatory Compliance Score in Uganda (2005-2023)

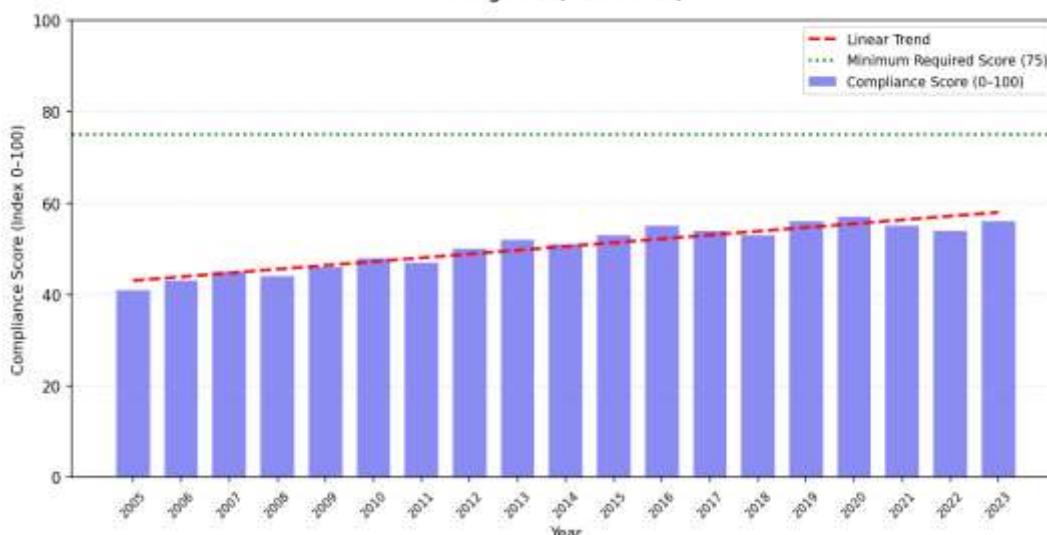


Figure 2: Financial Decentralization Regulatory Compliance Score in Uganda (2005–2023)

Figure 2 presented the annual compliance score of Uganda's local governments against the required minimum benchmark of 75 (depicted as a green dotted horizontal line). The bar chart revealed that compliance scores hovered persistently between 41 and 57 throughout the entire study period — never once approaching, let alone reaching, the required threshold of 75. The superimposed linear trend line demonstrated a gentle but insufficient upward trajectory, with scores rising from 41 in 2005 to approximately 56 in 2023 — a net improvement of merely 15 points over 19 years, leaving a compliance deficit of approximately 19 points even at the end of the period. The consistency of this underperformance across both boom years (when GDP growth was above 8%) and lean years underscored the structural, rather than cyclical, nature of the compliance failure — confirming that no amount of economic growth or administrative reform, within the existing fiscal architecture, was sufficient to close the compliance gap.

Figure 3: Corruption Perception Index vs. Fiscal Decentralization Index in Uganda (2005–2023)

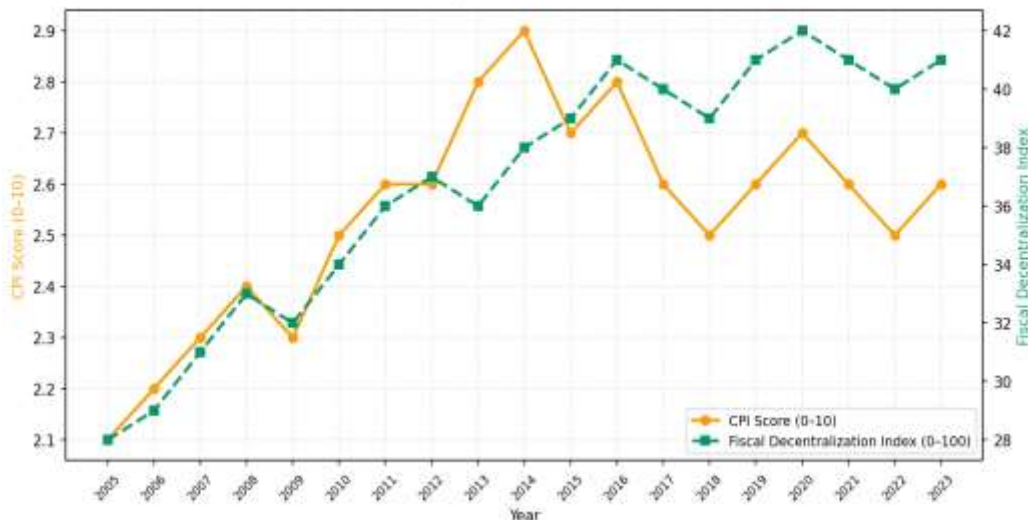


Figure 3: Corruption Perception Index vs. Fiscal Decentralization Index in Uganda (2005–2023)

Figure 3 plotted the Corruption Perception Index (CPI, left axis, amber line) against the Fiscal Decentralization Index (FDI, right axis, green dashed line) over the study period, using a dual-axis format to accommodate the different scales of the two indicators. The visual revealed that both indices moved in broadly parallel upward trends — CPI rising from 2.1 to a peak of 2.9 before declining to approximately 2.6 by 2023, and FDI rising from 28 to approximately 41 over the same period. The co-movement of these two indices was visually consistent with the Granger causality finding that CPI scores preceded and predicted compliance scores, suggesting that corruption dynamics and fiscal decentralization progress were systemically intertwined. Importantly, the stagnation and slight decline in CPI scores after 2010 coincided with a plateauing of the fiscal decentralization index — a visual alignment that implied that governance deterioration may have partly arrested the momentum of fiscal devolution, reinforcing the conclusion that anti-corruption efforts and fiscal decentralization reform must be pursued simultaneously rather than sequentially.

CONCLUSION

This study examined financial decentralization compliance in Uganda from 2005 to 2023 using descriptive statistics, ADF unit root tests, OLS regression, and Pairwise Granger Causality analysis, and arrived at a sobering but empirically well-grounded conclusion: Uganda's local governments have, for nearly two decades, operated in a state of chronic fiscal compliance failure that is not accidental, episodic, or primarily attributable to resource constraints, but is structurally produced by a fiscal architecture that simultaneously denies local governments meaningful revenue autonomy while flooding them with conditional grants that carry inadequate accountability requirements, and is institutionally perpetuated by a central government that has, at best, exercised selective and inconsistent enforcement of its own decentralization mandates. The time series evidence confirmed that fiscal structure — as measured by own-source revenue, central transfers, and the fiscal decentralization index — causally precedes and determines compliance outcomes, not the other way around; that the compliance deficit has remained remarkably stable across economic cycles, implying structural rather than cyclical origins; and that corruption perceptions are an integral part of the causal chain linking fiscal architecture to governance outcomes, meaning that financial decentralization reform cannot be disaggregated from the broader political economy of accountability in Uganda. The evidence unambiguously answers the study's provocative title question: yes, the government has — in both its fiscal architecture design and its enforcement posture — been insufficiently vigilant, allowing institutional inertia and elite capture to sustain a system that is structurally incompatible with the constitutionally mandated decentralization ideal. Without fundamental restructuring of the transfer architecture and credible enforcement of compliance standards, Uganda's decentralization experiment risks becoming a permanent fiction of governance reform.

RECOMMENDATIONS

Progressive Restructuring of the Fiscal Transfer Architecture: The Government of Uganda should implement a phased reduction of conditional grants as a share of local government budgets, with a ten-year roadmap targeting a minimum of 40% own-source revenue contribution by 2035. This should be accompanied by the restoration and modernization of local revenue bases — including the introduction of a reformed property rates system as a replacement for the abolished graduated tax — and the strengthening of the Local Revenue Enhancement Programme (LREP) with performance-linked technical support and digital revenue management systems.

Establishment of an Independent Fiscal Decentralization Oversight Authority (IFDOA): Uganda should establish a constitutionally anchored, politically independent Fiscal Decentralization Oversight Authority with the mandate to monitor compliance, publish quarterly compliance scorecards for all local governments, initiate sanctions for persistent non-compliance, and report directly to Parliament. This authority should be distinct from the existing Ministry of Finance oversight function, which is susceptible to political interference, and should collaborate with civil society organisations and community accountability platforms to ensure bottom-up accountability alongside top-down enforcement.

Integration of Anti-Corruption and Fiscal Decentralization Reform Agendas: Given the empirical evidence that corruption perceptions Granger-cause compliance outcomes, the Government of Uganda should explicitly integrate anti-corruption interventions — including the expansion of the Inspectorate of Government's local government jurisdiction, mandatory asset declaration for local government accountants and chief finance officers, and community scorecards for service delivery — into the mainstream fiscal decentralization reform programme, rather than treating them as parallel or secondary governance reform tracks.

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