

# Journal of Finance and Accounting

ISSN Online: 2616-4965



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# Effect of Decentralized Tax Policies on District Development in Rwanda: A Case Study of Rwamagana District

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*How to cite this article:* Asimwe J., R. & Twesigye D. (2023). Effect of Decentralized Tax Policies on District Development in Rwanda: A Case Study of Rwamagana District. *Journal of Journal of Finance and Accounting*. Vol 7(11) pp. 44-64 <https://doi.org/10.53819/81018102t2273>

## Abstract

The main objective of this study was to evaluate the effect of decentralized tax policies on district development in Rwanda. The research was guided by the following specific objectives: to examine the effect of rental income tax policies on development of Rwamagana district, assess the effect of immovable property tax policies on development of Rwamagana district and identify the effect of trading license tax policies on development of Rwamagana district. This study used descriptive and analytical, whereas descriptive research also called statistical research the main goal of this type of research was to describe data and characteristics of what was being studied. Quantitative and qualitative data used to effect of decentralized tax policies on the development of district. The population of this study was 246 including tax collectors, District administration and Finance officers, Sector administration and Finance officers, Accountants, Ngali holdings staff and staff at cell level. Using Slovin's formula, researcher estimate how big of a sample they needed to get reliable findings. Each stratum has its own simple random sample selected 152 respondents from it, in a size that is proportionate to its result of the increasing number. The researcher gained the information from the primary data obtained through a questionnaire, interview and document review applied as to obtain secondary data. Descriptive statistics were used to obtain the frequencies and percentages, in addition inferential statistics, mainly the correlation model, Analysis of Variance to test the relationship among the variables (independent). The study used SPSS (Version 21) and Microsoft Excel to analyze the data. The model includes predictors such as Trading license tax policies, Immovable property policies, Rental income tax policies. The R value of 0.876 indicates a strong relationship between the predictors and the Development of Rwamagana District. The R Square value of 0.767 indicates that approximately 76.7% of the variability in the outcome variable can be explained by the predictors in the model. Overall, this model summary indicates a significant effect of the decentralized tax policies on the outcome variable Development of Rwamagana District Specifically, Rental income tax policies have a coefficient of ( $\beta= 0.473$ ,  $t=7.499$ ,  $p$  value=0.000), Immovable property policies have a coefficient of ( $\beta= 0.218$ ,  $t=3.912$ ,  $p$  value=0.000), and Trading license tax policies have a coefficient of ( $\beta= 0.354$ ,  $t=5.959$   $p$  value=0.000). All these coefficients are statistically significant on Development of

<https://doi.org/10.53819/81018102t2273>

Rwamagana District, as indicated by their associated Sig. Values below 0.05. This highlighted the concrete effect of decentralized tax policies on Development of Rwamagana District. District should maintain transparency in tax collection and allocation of tax revenues. Publish regular reports and updates on how tax revenue is utilized for local development projects, enhancing trust among taxpayers.

**Key words:** *decentralized tax policies, district development, immovable property tax policies, rental income tax policies, trading license tax policies*

## 1. Introduction

Despite the decentralization of tax policies in Rwanda and the potential for local revenue generation, many districts, including Rwamagana, have faced challenges in effectively financing basic services and critical investments. Key indicators of existing revenue sources and their potential for growth have been insufficiently understood. As a result, there has been a gap between the expectations and the actual results of fiscal decentralization policies in terms of their impact on the development of local entities (Nyangoma, 2018).

Specific challenges in Rwamagana district include inadequate tax collection skills, limited collections from taxes such as fees and trading licenses due to capacity constraints, unpredictability in tax revenue, and poor monitoring, which can lead to corruption. The taxation system in local government has not been progressive, with trading license fees not reflecting the capacity of the taxpayer. Furthermore, some districts have raised fees to unsustainable levels, hindering small business enterprises.

This research project aims to address the problem by evaluating the effect of decentralized tax policies on the development of Rwamagana district. It focuses on three specific objectives: examining the influence of rental income tax policies, assessing the effect of immovable property tax policies, and identifying the effects of trading license tax policies. The findings contributed to a deeper understanding of the challenges and opportunities related to tax decentralization and its effect on district development in Rwanda.

## 1.3 Objectives of the study

### 1.3.1 General objective

The main objective of this study was to evaluate the effect of decentralized tax policies on district development in Rwanda.

### 1.3.2 Specific objectives

The research was guided by the following specific objectives:

- (i) To examine the effect of rental income tax policies on development of Rwamagana district.
- (ii) To assess the effect of immovable property tax policies on development of Rwamagana district.
- (iii) To identify the effect of trading license tax policies on development of Rwamagana district.

## 1.4 Research hypotheses

This research was guided by the following null research hypotheses;

- (i) Ho1: There is no significant effect of rental income tax policies on development of Rwamagana district.
- (ii) Ho2: There is no significant effect of immovable property tax policies on development of Rwamagana district.
- (iii) There is no significant effect of trading license tax policies on development of Rwamagana district.

## 2. Literature review

Stansel (2015) extended the local government empirical literature by examining the link between tax decentralization and local entities during the 1960-1990 periods, using a new dataset of 314 U.S. metropolitan statistical areas. He found a negative and significant relationship between the central city share of metro population and population and real per capita income growth and a positive and significant relationship between the number of county governments per metropolitan area resident and population and real per capita income growth. Hence, his study shows evidence of a strong positive relationship between local decentralization and metropolitan statistical area economic growth.

Lobao and Kraybill (2005) provided a timely review of the differences between metropolitan and nonmetropolitan county governments in the U.S. They reported findings from a national survey of county governments. They found that nonmetropolitan counties reported greater fiscal stress due to revenue requirements of decentralization. This finding is particularly important since counties play an important role in the American federal system in promoting local economic development and growth Jumadi et al, (2013), analyzed the impact of implementation of fiscal decentralization on local economic development in East Java. This study uses panel data across districts and cities in East Java Province, which consists of 29 districts and 9 cities in 2007- 2010. The data used, including direct expenditures and indirect expenditures, capital expenditures, grants, education index, health index, index of purchasing power, long road, electricity ratio, and economic growth, as well as other data that support this research. This research was conducted by using SEM to identify the effect of fiscal decentralization, human development, and physical development and input factors on economic growth.

Zumegah (2015) examined the impact of fiscal decentralization on local economic development in Ghana, evidence from the Ketu South Municipal Assembly (KSMA). The case study research design was used and the qualitative research method was adopted to collect and analyze data from twenty-five (25) respondents. Primary data was collected from respondents including the Fiscal Decentralization Unit (FDU) of the Ministry of Finance (MoF). The study identified that the current structure and practice of fiscal decentralization in KSMA is slightly different from what the Local Government Act 462 advocates and the major factors impeding the effective fiscal decentralization are inadequate reliable database on the revenue points within the assembly, logistics for IGF mobilization, challenges with human resources, and attitudinal problem on the part of local residents towards payment of taxes. The result further showed that all things being equal, an effective fiscal decentralization would lead to an improved local economic development. This research therefore confirmed the consensus in the literature that fiscal decentralization impacts local economic development. This impact could either be positive or negative depending on how it is influenced by structures such as effective community participation, availability of local resources, and local capacity to maximize these resources

Zakaria (2015) examined the impact of fiscal decentralization on quality financial reporting at local government level in Ghana. The study was based on the theory of local public 29 expenditures, which posits that fiscal decentralization may enhance local capacities for service delivery. The key research question examined the extent to which fiscal decentralization has influenced quality financial reporting at the local level. The research design was quantitative, randomly sampling stakeholders in the local government structures including traditional rulers, assembly members, principal spending officers, budget officers, auditors, and accountants (n = 65). Descriptive plots, Pearson chi-square, and multiple

regression analysis were used to examine the relationship between the dependent variable of quality financial reporting and the independent variables of expenditure responsibilities, taxation powers, intergovernmental fiscal transfers, and borrowing powers. The results of the analysis revealed taxation powers to be the most significant contributor to quality financial reporting. Quality financial reporting improved internally-generated resources, reduced audit queries, and served as a basis for granting funds to Metropolitan, Municipal, and District Assemblies (MMDAs) indicate that there is a significant and positive effect between Fiscal Decentralization on Human Development; Fiscal Decentralization on Physical Development; Human Development on Local Economic Growth; Physical Development to Local Economic Growth, and Input Factors on Local Economic Growth. In addition, this study also showed a negative effect between Fiscal Decentralization on Local Economic Growth.

Third, fiscal decentralization programs in many developing countries are under the direction of fairly bureaucratized, often competing, and poorly co-coordinated central agencies with a direct stake (loss of power) in decentralization. These include broad-purpose ministries, such as Local Government, Home affairs, Finance and Planning, as well as various sector ministries. In contrast, both Ethiopia and Uganda have developed special-purpose, somewhat more “neutral” and high-level mechanisms to oversee and coordinate decentralization and local government reform. In Ethiopia, the Regional Affairs Department in the Office of the Prime Minister has substantial overall responsibility in this regard, and a decentralization Secretariat was set up for similar purposes in Uganda.

Fourth, function off-loading and local revenue inadequacy are major concerns in many developing countries. Both Ethiopia and Uganda recognize that effective local governments must have adequate resources to meet their responsibilities under decentralization.

Accordingly, both countries have developed significant transfer programs that account for substantial proportions of total central revenues (around 30 per cent in Uganda and more than 40 per cent in Ethiopia). Thus, the basic policy frameworks for the decentralization programs in Ethiopia and Uganda can, at least in some respects, serve as models for other countries, but care must be taken to learn more from their mistakes in implementation.

A number of studies imply that fiscal autonomy is best indicated by the portion of own source funding (the so called "self-reliance rate") of local governments (Goetz and Margetts, 2016). Research in the field indicates that fiscal decentralization enhances local autonomy (Bahl, 2019). But local autonomy requires that local governments be allowed to act independently within their own sphere of competence, and with a careful consideration of both spending and revenue requirements. On the spending side, a local government that collects more money from own resources may have greater discretion in conducting its functions. In other words, a higher self-reliance rate helps to promote local fiscal autonomy

There are two reasons. First, by decentralizing financial resources in accordance with local spending requirements, the central government can induce local jurisdictions to make more responsible local decisions. Second, if a local government finances a substantial portion of its budget through own source revenues, it will be able to make more efficient and independent spending decisions (Shah, 2018). The question arises as to how different governments perceive the role of separate and independent local (municipal) budgets in addressing local needs? Separate municipal budgets can be interpreted as evidence that the central government has accepted the obligation to protect municipal rights on self-government and fiscal autonomy. Bird and Wallich (2017) criticize the common misinterpretation of the principle of "budgetary independence" in transition countries. In general, this principle implies financial

self-sufficiency and independence of local governments and diminishes the need of central transfers.

The obvious need for greater flexibility in the rapidly changing and uncertain environment of the transition period still tempts many central governments to preserve a certain degree of freedom by continuing with a negotiated transfer and tax sharing systems of the past (Bird and Wallich, 2015). Bird and Wallich imply the necessity of replacing the popular "bargained" approach with an intergovernmental fiscal framework of transfers, that is both firm enough to serve as a basis for action and flexible enough to be compatible with the on-going structural changes and reform.

Local economic development was the most recent concern for fiscal decentralization and a critical aspect of this was the role of local authorities in its achievement. Local economic developments are a process by which public, business and non-governmental sector partners work collectively Local economic development to create better conditions for economic growth and employment generation. Local development aims to stimulate the local economies to grow and create more jobs, by making better use of locally available resources. The rising importance of local economic development across sub-Saharan Africa is signaled by the activities of the United Cities and Local Governments of Africa (UCLGA) (Swinburn et al., 2017).

Local economic development itself advances decentralization and invariably fiscal decentralization. Even though the practice started in cities of the Northern Europe and America during the late 1960s and early 1970s, its current adoption and practice is more relevant to the third world, especially in Africa because it is a tool to improve production and reduce the adverse effect of poverty on not only the citizenry but also the environment (Rodriguez-Pose, 2019). An active adoption and practice of local economic development make local institutions more transparent and accountable.

For improvement in the welfare and quality of lives of the people, governments and indeed sub-district structures should be more interested in project financing rather than funding. Fiscal decentralization allows resources to be allocated together with responsibilities. Fiscal decentralization has both external and internal sources of funding as components. The formula and specific sources of generation and methods of revenue mobilization differ from country to country depending on their history and tradition (Ayee, 2014). For example, there are special-purpose local government bodies and school districts and or school boards in the United States that are required to "deliver the deals" (Shah, 2016)

## **2.2 Research Gap**

The studies primarily focus on the United States and a few developing countries, such as Ghana and East Java. There is a research gap in understanding how fiscal decentralization impacts district or local development in a broader international context. Research in other regions could reveal different dynamics and outcomes.

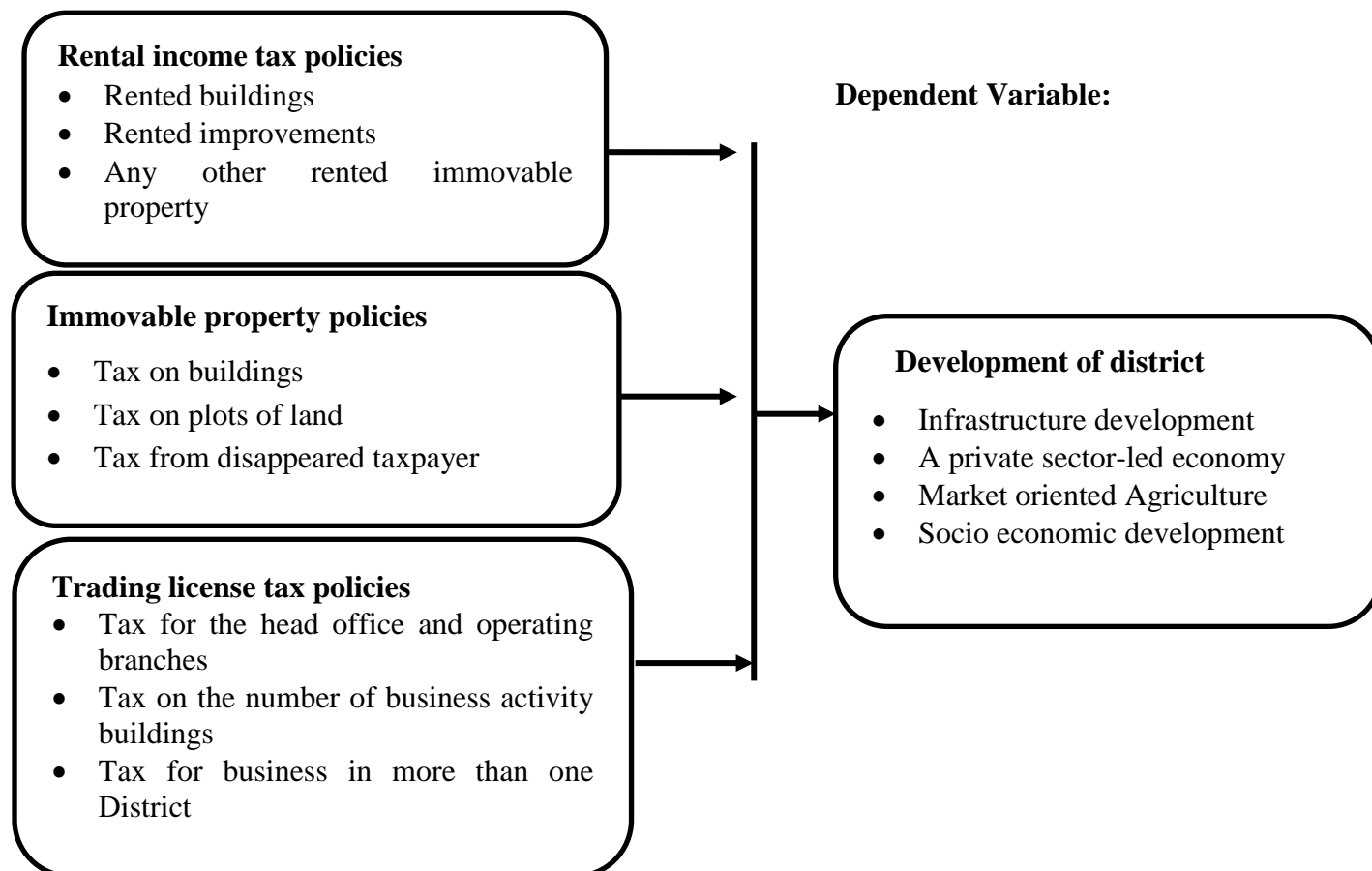
The research does not deeply explore the different models of fiscal decentralization and their impacts. There is a research gap in examining the variations in fiscal decentralization models and how they affect local economic growth, financial reporting, and quality of services. While the studies mention special-purpose mechanisms for overseeing decentralization in Ethiopia and Uganda, there is a research gap in understanding how these mechanisms operate and whether they serve as effective models for other countries like Rwanda.

## 2.5 Conceptual Framework

Figure 2.1 Conceptual framework

### Independent Variables:

#### Decentralized Tax policies:



## 3. Research Methods and materials

This study employed a mixed-methods approach, utilizing both descriptive and analytical research designs to explore the impact of tax decentralization on local financial autonomy in Rwanda, focusing on the case study of Rwamagana district (Kisilu D, 2022). Descriptive research aimed to provide a comprehensive understanding of the subject, while analytical research involved critical thinking and the evaluation of facts and information relevant to the research (Kisilu D, 2022). This design allowed for a nuanced exploration of tax decentralization effects, incorporating both qualitative and quantitative data.

The target population comprised 246 individuals, including tax collectors, district administration and finance officers, sector administration and finance officers, accountants, Ngali Holdings staff, and cell-level staff (Chapple & Ziebland, 2018). The sample size of 152 was determined using Slovin's formula to ensure a representative subset for the study (Lutabingwa, 2018). The sampling technique employed was stratified randomization, ensuring proportional representation from various strata within the population (Lutabingwa, 2018).

Data collection methods included questionnaires, interviews, and document reviews. These instruments aimed to gather both primary and secondary data, providing a comprehensive understanding of the effects of decentralized tax policies on the development of the Rwamagana district (Justin & Mohamed, 2020). The researcher applied a variety of techniques, such as documentation, to review and analyze texts, ensuring a robust data collection process (Hannah, 2019).

The study demonstrated a rigorous approach to ensuring validity and reliability in data collection. Questionnaires were pretested with a sample of professionals to check for clarity, consistency, and intelligibility (Ochieng, 2016). The use of documentary analysis, interviews, and questionnaires enhanced the validity of the research by triangulating data from different sources (Ochieng, 2016). Furthermore, the study obtained necessary permissions from the University of Kigali and Rwamagana district, ensuring ethical compliance and the protection of participants' rights (Ochieng, 2016).

Data analysis involved both descriptive and correlational techniques. Descriptive statistics, including frequencies, percentages, mean, and standard deviation, were used to summarize responses and identify patterns in the data. The Pearson Correlation was applied to quantify the quantitative associations between variables (Ochieng, 2016). Additionally, linear regression analysis helped derive conclusions from the survey, exploring the relationships between independent and dependent variables (Ochieng, 2016).

However, the study acknowledged certain limitations, including a narrow scope, data availability constraints, methodological limitations, and time constraints. The focus on a specific region, Rwamagana district, may limit the generalizability of the findings to other contexts. Access to relevant data and potential biases in data collection were also recognized as challenges that could impact the study's outcomes.

In conclusion, this research contributed to the understanding of how tax decentralization affects local financial autonomy in Rwanda, employing a robust mixed-methods approach. The study's findings can inform policymakers and practitioners, although the acknowledged limitations should be considered when interpreting and applying the results. Ethical considerations were paramount, ensuring participant confidentiality and voluntary participation throughout the research process.

## **4. Research findings**

### **4.1 The effect of rental income tax policies on development of Rwamagana district.**

This section presents the findings extracted from those questionnaires. Respondents were asked to the effect of rental income tax policies on development of Rwamagana district a scale of 1-5, where Strongly disagree=1; Disagree=2; neutral =3; agree=4; strongly agree=5. The percentage means and standard deviations for the variable were computed and presented as shown in table 1.



**Table 1: effect of rental income tax policies on development of Rwamagana district.**

rental income tax policies	Strongly disagree %	Disagree %	Neutral %	Agree %	Strongly agree %	Mean	SD
Rental income tax policies positively contribute to the development of infrastructure in Rwamagana district.	0.0	1.0	18.3	37.1	43.6	4.23	.779
Rental property owners in Rwamagana district find the tax policies to be equitable and fair.	0.0	2.0	25.2	37.6	35.1	4.06	.826
Rental income tax policies encourage property owners to invest in improving their properties.	0.0	14.4	7.4	46.5	31.7	3.96	.984
The revenue generated from rental income taxes significantly supports socio-economic development in Rwamagana district.	2	0.0	8.4	40.6	49.0	4.34	.797
<b>Overall</b>						<b>4.15</b>	<b>.845</b>

**Source: Primary data, 2023.**

The table 1 includes the percentage distribution of responses, the mean, and the standard deviation for each statement. Rental income tax policies positively contribute to the development of infrastructure in Rwamagana district. The majority of respondents 37.1% agreed and 43.6% strongly agreed that rental income tax policies positively contribute to the development of infrastructure in Rwamagana district. The mean score of 4.23 falls within the range of 3.5 to 4.2, indicating a high mean. This suggests strong agreement with the statement. The standard deviation of 0.779 indicates that responses are heterogeneous.

Rental property owners in Rwamagana district find the tax policies to be equitable and fair. A significant portion of respondents 37.6% agreed and 35.1% strongly agreed that rental property owners find the tax policies to be equitable and fair. The mean score of 4.06 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement. The standard deviation of 0.826 indicates that responses are heterogeneous.

Rental income tax policies encourage property owners to invest in improving their properties. A considerable number of respondents 46.5% agreed and 31.7% strongly agreed that rental income tax policies encourage property owners to invest in improving their properties. The mean score of 3.96 falls within the range of 3.5 to 4.2, indicating a high mean, reflecting a relatively strong agreement. The standard deviation of 0.984 indicates that responses are heterogeneous.

The revenue generated from rental income taxes significantly supports socio-economic development in Rwamagana district. The majority of respondents 40.6% agreed and 49.0% strongly agreed that the revenue from rental income taxes significantly supports socio-economic development in the district. The mean score of 4.34 falls within the range of 4.3 to 5.0, indicating a very high mean and strong agreement. The standard deviation of 0.797 indicates that responses are heterogeneous..

The findings indicate that, according to the respondents, rental income tax policies in Rwamagana district are generally viewed positively. They are believed to contribute to infrastructure development, are considered equitable and fair by property owners, encourage investment in properties, and significantly support socio-economic development. The high means of 4.15 and standard deviations of 0.845 indicate a strong consensus among the respondents in these areas. This data indicates a favorable perception of the effect of rental income tax policies on the development of Rwamagana district.

One of the tax collector said that “*the rental income tax policies have had a positive impact on the development of infrastructure and services in the district. The tax revenue collected is a crucial source of funds for infrastructure projects such as road construction, public facilities, and service improvements. This revenue plays a significant role in enhancing the overall quality of life for the local community*”.

The findings, supported by the research of Stansel (2015), emphasized that tax decentralization, and in particular, rental income tax policies, play a crucial role in fostering local development and infrastructure improvement. Stansel's work on U.S. metropolitan statistical areas offers insight into the positive relationship between local decentralization and economic growth.

#### **4.2 The effect of immovable property tax policies on development of Rwamagana district.**

Respondents were asked to rate the effect of immovable property tax policies on development of Rwamagana district. a scale of 1-5, where Strongly disagree=1; Disagree=2; neutral =3; agree=4; strongly agree=5. The percentage means and standard deviations for the variable were computed and presented as shown in Table 2.

**Table 2: Effect of immovable property tax policies on development of Rwamagana district.**

Immovable property tax policies	Strongly disagree %	Disagree %	Neutral %	Agree %	Strongly agree %	Mean	SD
The revenue generated from immovable property taxes is effectively utilized for infrastructure development in Rwamagana district.	0.0	11.4	6.4	39.6	42.6	4.13	.966
Property owners in the district believe that immovable property tax policies are essential for local development.	5.4	7.4	7.4	51.5	28.2	3.90	.967
Immovable property tax policies have a positive impact on market-oriented agriculture in the district.	0.0	2.5	23.8	39.6	34.2	4.05	.824
The revenue generated from immovable property taxes is effectively utilized for infrastructure development in Rwamagana district.	0.0	11.4	6.4	39.6	42.6	4.13	.966
<b>Overall</b>						<b>4.05</b>	<b>.930</b>

**Source: Primary data, 2023.**

The table 2 includes the percentage distribution of responses, the mean, and the standard deviation for each statement. The revenue generated from immovable property taxes is effectively utilized for infrastructure development in Rwamagana district; this statement indicates that 39.6 % of respondents agreed and 42.6% strongly agreed that the revenue from immovable property taxes is effectively used for infrastructure development in Rwamagana district. The mean score of 4.13 falls within the range of 3.5 to 4.2, indicating a high mean. This suggests strong agreement with the statement. The standard deviation of 0.966 suggests some variability in responses but still demonstrates a substantial consensus.

Property owners in the district believe that immovable property tax policies are essential for local development; the majority of respondents 51.5% agreed and 28.2% strongly agreed that immovable property tax policies are essential for local development. The mean score of 3.90 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement with the statement. The standard deviation of 0.967 suggests some variability in responses.

Immovable property tax policies have a positive impact on market-oriented agriculture in the district; A significant number of respondents 39.6% agreed and 34.2% strongly agreed that immovable property tax policies have a positive impact on market-oriented agriculture in the

district. The mean score of 4.05 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement. The standard deviation of 0.824 suggests some variability in responses.

The revenue generated from immovable property taxes is effectively utilized for infrastructure development in Rwamagana district; this statement shows that 39.6% of respondents either agreed and 42.6% strongly agreed that property owners perceive immovable property tax policies as fair and reasonable. The mean score of 3.98 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement with the statement. The standard deviation of 0.944 suggests some variability in responses.

*An interviewee stated that “Immovable property tax policies have made a substantial contribution to the district's development. The revenue generated from these taxes has been utilized effectively for infrastructure development, including the construction of schools, health centers, and the improvement of roads. This has had a direct and positive impact on the quality of local services and the overall development of the district”.*

The findings suggest that, according to the respondents, immovable property tax policies in Rwamagana district are viewed favorably. They are believed to be effectively used for infrastructure development, essential for local development, supportive of market-oriented agriculture, and perceived as fair and reasonable by property owners. The high mean of 4.05 and relatively standard deviations of 0.930 for statements indicate a strong consensus among respondents on these issues. These findings provide valuable insights into the perception of immovable property tax policies and their impact on the development of Rwamagana district.

The findings, as corroborated by Lobao and Kraybill (2005), emphasized that metropolitan and nonmetropolitan areas differ significantly in their response to decentralization. This study reflects a parallel outcome as it highlights that property owners in Rwamagana district, much like their nonmetropolitan counterparts, strongly agree that immovable property taxes effectively drive local infrastructure development and are crucial for local development and market-oriented agriculture.

#### **4.3 The effect of trading license tax policies on development of Rwamagana district.**

Frequencies and percentage were preferred statistic for analysis of the objective three this to effect of trading license tax policies on development of Rwamagana district, the investigation in this manner open with clear insight for the level of the concurrence. Respondents were asked the effect of trading license tax policies on development of Rwamagana district.. On a scale of 1-5, where Strongly agree=1; Agree=2; neutral =3; strongly Disagree=4; Disagree=5. The percentage means and standard deviations for the variable were computed and presented as shown in Table 3

**Table 4.3: The effect of trading license tax policies on development of Rwamagana district.**

trading license tax policies	Strongly disagree %	disagree %	Neutral %	Agree %	Strongly agree %	Mean	SD
Trading license tax policies positively contribute to the economic development of Rwamagana district.	0.0	11.9	7.4	35.1	45.5	4.14	.995
Businesses operating in the district find trading license tax policies to be reasonable and proportionate.	5.4	7.4	6.4	50.0	30.7	3.93	.977
The revenue generated from trading license taxes is effectively used for infrastructure development.	0.0	2.0	18.3	32.7	47.0	4.25	.821
Trading license tax policies encourage businesses to operate in multiple districts, benefiting the local economy.	0.0	8.4	5.9	29.7	55.9	4.33	.922
<b>Overall</b>						<b>4.16</b>	<b>.928</b>

**Source: Primary data, 2023.**

The table 3 includes the percentage distribution of responses, the mean, and the standard deviation for each statement. Trading license tax policies positively contribute to the economic development of Rwamagana district; this statement shows that 35.1% of respondents agreed and 45.5% strongly agreed that trading license tax policies positively contribute to the economic development of Rwamagana district. The mean score of 4.14 falls within the range of 3.5 to 4.2, indicating a high mean. This indicates strong agreement with the statement. The standard deviation of 0.995 indicates some variability in responses.

Businesses operating in the district find trading license tax policies to be reasonable and proportionate; a significant number of respondents 50.0% agreed and 30.7% strongly agreed that businesses in the district find trading license tax policies reasonable and proportionate. The mean score of 3.93 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement. The standard deviation of 0.977 indicates some variability in responses.

The revenue generated from trading license taxes is effectively used for infrastructure development; this statement indicates that 32.7% of respondents agreed and 46.0 strongly

agreed that revenue from trading license taxes is effectively used for infrastructure development. The mean score of 4.25 falls within the range of 3.5 to 4.2, indicating a high mean. This indicates strong agreement with the statement. The standard deviation of 0.821 indicates some variability in responses.

Trading license tax policies encourage businesses to operate in multiple districts, benefiting the local economy; the majority of respondents 29.7 agreed and 55.9% strongly agreed that trading license tax policies encourage businesses to operate in multiple districts, benefiting the local economy. The mean score of 4.33 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement. The standard deviation of 0.922 indicates some variability in responses.

*Another interviewee narrated “Based on my interactions with taxpayers, I have observed that trading license tax policies play a crucial role in encouraging businesses to operate in the district. The reasonable and proportionate tax rates, along with efficient tax collection processes, have created a conducive environment for businesses. This has led to an increase in the number of businesses operating in multiple districts, which, in turn, has benefited the local economy through job creation and increased economic activity”.*

The findings suggest that, according to the respondents, trading license tax policies in Rwamagana district are generally viewed favorably. They are believed to contribute positively to economic development, are considered reasonable and proportionate by businesses, effectively support infrastructure development, and encourage businesses to operate in multiple districts, benefiting the local economy. The high means of 4.16 and standard deviations of .928 for all statements indicate variability among respondents on these issues. These findings provide valuable insights into the perception of trading license tax.

The findings, as supported by the review by Zakaria (2015), emphasized that the favorable perceptions of trading license tax policies in Rwamagana district reflect the positive impact of these policies on economic development. These results align with the broader literature on fiscal decentralization and its role in promoting local economic growth and encouraging businesses to operate in multiple districts. Zakaria's expertise in this field indicates the significance of these findings.

#### 4.4 Development of Rwamagana district

The section below presents the findings regarding Development of local entities in Rwamagana district.

**Table 4: Indicators on Development of Rwamagana district**

Activities	2017	2023	Variation
Roads projects	17	20	3
Number of Ha of radical terraces constructed	6134	8154	2,020
Electricity rate (%)	34.1	48.3	14
Modern market	5	8	3
Total 9&12 schools	32	43	11
Number of TVTs	9	14	5
Health centers	15	17	2
Health posts	11	19	8

**Source: Rwamagana district reports**

<https://doi.org/10.53819/81018102t2273>

Indicators presented in Table 4 and draw a conclusion regarding the development of Rwamagana district: In 2017, there were 17 road projects in Rwamagana district. By 2023, the number of road projects had increased to 20, an increase of 3 road projects. The increase in the number of road projects indicates that the district has invested in improving its transportation infrastructure, which is essential for connectivity and economic development.

Number of Hectares of Radical Terraces Constructed: In 2017, a total of 6,134 hectares of radical terraces were constructed. By 2023, this number had increased to 8,154 hectares. There is an increase of 2,020 hectares. The substantial increase in the construction of radical terraces reflects efforts to combat soil erosion and enhance agricultural sustainability, contributing to food security and environmental preservation. Electricity Rate (%): In 2017, the electricity rate in Rwamagana district was 34.1%, By 2023, the rate had increased to 48.3%. A significant increase of 14 percentage points. The notable rise in the electricity rate indicates improved access to electricity, which can spur economic activities, improve living standards, and support various sectors such as industry and education.

Modern Market: In 2017, there were 5 modern markets in the district. By 2023, the number of modern markets had increased to 8. There is an increase of 3 modern markets. The expansion of modern markets suggests an improved trading environment, facilitating commerce and potentially boosting the local economy.

Total 9&12 Schools: In 2017, there were a total of 32 9&12 schools in Rwamagana district. By 2023, the number of these schools had increased to 43. There is an increase of 11 schools. The increase in the number of schools indicates a commitment to expanding educational opportunities, potentially enhancing the skills and knowledge of the population.

Number of TVTs (Technical and Vocational Training Centers): In 2017, there were 9 TVTs in the district. By 2023, the number of TVTs had increased to 14. There is an increase of 5 TVTs. The growth in TVTs signals an investment in vocational and technical training, which can contribute to a more skilled workforce and support economic development.

Health Centers: In 2017, there were 15 health centers in Rwamagana district. By 2023, the number of health centers had increased to 17. There is an increase of 2 health centers. The addition of health centers indicates an improvement in healthcare infrastructure, which is essential for providing medical services to the population.

Health Posts: In 2017, there were 11 health posts in the district. By 2023, the number of health posts had increased to 19. There is an increase of 8 health posts. The substantial increase in health posts at the grassroots level demonstrates efforts to expand healthcare access and reach underserved areas.

The data in Table 4.10 indicates positive development in Rwamagana district between 2017 and 2023. There have been improvements in infrastructure, education, healthcare, agriculture, and access to electricity. These indicators collectively suggest that the district has made significant progress in various areas, which can contribute to enhanced living standards and economic growth. The data reflects a commitment to development and improved quality of life for the district's residents.

**Table 5: Development of Rwamagana district**

Development of district	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	SD
	%	%	%	%	%		
Infrastructure development in Rwamagana district effectively addresses the needs of the local community.	0.0	12.4	8.4	37.6	41.6	4.08	.996
The private sector in Rwamagana district plays a significant role in driving economic growth.	5.4	7.4	5.9	52.0	29.2	3.92	.966
Market-oriented agriculture activities in the district result in improved income for farmers.	0.0	3.0	23.3	37.6	36.1	4.06	.843
Socio-economic development programs have a positive impact on the quality of life in the district.	0.0	0.0	12.4	43.1	44.6	4.32	.684
<b>Overall</b>						4.09	.872

**Source: Primary data, 2023.**

The table 5 provides findings from a survey where respondents were asked to assess the development of Rwamagana district. The table includes the percentage distribution of responses, the mean, and the standard deviation for each statement. The majority of respondents 37.6% agreed and 41.6% strongly agreed that infrastructure development in Rwamagana district effectively addresses the needs of the local community. The mean score of 4.08 falls within the range of 3.5 to 4.2, indicating a high mean. This suggests strong agreement with the statement. The standard deviation of 0.996 indicates some variability in responses.

A significant number of respondents 52.0% agreed and 29.2% strongly agreed that the private sector in Rwamagana district plays a significant role in driving economic growth. The mean score of 3.92 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement with the statement. The standard deviation of 0.966 indicates some variability in responses. A considerable number of respondents 37.6% agreed and 36.1% strongly agreed that market-oriented agriculture activities in the district result in improved income for farmers. The mean score of 4.06 falls within the range of 3.5 to 4.2, indicating a high mean and strong agreement. The standard deviation of 0.843 indicates some variability in responses.

The majority of respondents 43.1% agreed and 44.6% strongly agreed that socio-economic development programs have a positive impact on the quality of life in the district. The mean



score of 4.32 falls within the range of 4.3 to 5.0, indicating a very high mean and strong agreement with the statement. The standard deviation of 0.684 indicates some variability in responses. The findings suggest that, according to the respondents, the development of Rwamagana district is viewed positively. Infrastructure development is seen as effective in meeting local needs, the private sector is recognized for its role in economic growth, market-oriented agriculture is associated with improved farmer incomes, and socio-economic development programs are perceived as having a positive impact on the quality of life.

An interviewee said that *“The effective implementation of tax policies has not only strengthened our infrastructure and services but has also enhanced the overall well-being of our residents. The combined efforts of taxpayers, businesses, and the government have contributed to the development of our district, making it a place we can all be proud to call home”*.

The findings align with Davulis, Peleckis, Slavinskaitė, (2020)' emphasize on the process of decentralization in the public sector economy - which supposes an increase in the financial independence of local authorities, separating the functions of the local and central government in the public sector of economy enhance the performance of the local entities.

#### 4.6 Inferential statistics

In order to ascertain the nature of the relationship between the independent and dependent variables of the study and establish the statistical significance of the hypothesized relationships, multiple correlation analysis was used. This was performed using the field data and tested at 5% level of significance. The findings of the multiple correlations are summarized in the following tables.

**Table 6: Correlation**

		Rental income tax policies	Immovable property policies	Trading license tax policies	Development of district
Rental income tax policies	Pearson Correlation	1	.577**	.636**	.793**
	Sig. (2-tailed)		.000	.000	.000
	N	130	130	130	130
Immovable property policies	Pearson Correlation	.577**	1	.577**	.677**
	Sig. (2-tailed)	.000		.000	.000
	N	130	130	130	130
Trading license tax policies	Pearson Correlation	.636**	.577**	1	.760**
	Sig. (2-tailed)	.000	.000		.000
	N	130	130	130	130
Development of district	Pearson Correlation	.793**	.677**	.760**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	130	130	130	130

\*\* . Correlation is significant at the 0.01 level (2-tailed).

In Table 6, strong positive correlations are evident between various tax decentralization factors and Development of local entities of Rwamagana District. Rental income tax policies exhibit a strong positive correlation of 0.793, highlighting that well-structured Rental income tax policy is closely linked to better Development of Rwamagana District. Similarly, Immovable property policies show a strong positive correlation of 0.677, indicating that effective immovable property policies contributes significantly to improved Development of Rwamagana District. Trading license tax policies demonstrates a positive correlation of 0.760, emphasizing the importance of trading license tax policies in Development of Rwamagana District. These correlations, all statistically significant at the 0.05 level, collectively indicates that enhancements in Rental income tax policies, Immovable property policies and trading license tax policies are associated with improved overall Development of Rwamagana District.

The findings align with the study by Swinburn *et al.*, (2017). Local economic development was the most recent concern for fiscal decentralization and a critical aspect of this was the role of local entities in its achievement. Local development aims to stimulate the local economies to grow and create more jobs, by making better use of locally available resources. This highlights the relationship between tax decentralization and Development of local entities of Rwamagana District.

**Table 7: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876 <sup>a</sup>	.767	.762	.32638

a. Predictors: (Constant), Trading license tax policies, Immovable property policies, Rental income tax policies

Table 7 presents the model summary for a regression analysis. The model includes predictors such as Trading license tax policies, Immovable property policies, Rental income tax policies. The R value of 0.876 indicates a strong relationship between the predictors and the Development of Rwamagana District. The R Square value of 0.767 indicates that approximately 76.7% of the variability in the outcome variable can be explained by the predictors in the model. Overall, this model summary indicates a significant effect of the decentralized tax policies on the outcome variable Development of Rwamagana District, with a good fit to the data.

The findings supported by Ayee (2017) highlighting that quality and effectiveness of the service delivery influenced by how the operations of central government decentralized and the ability of these sub-national bodies to be able to generate and to mobilize resources in order to deliver the needed services. Ayee emphasize align well with the findings in table 8 showing that the decentralized tax policies displays a significant relationship with Development of Rwamagana District.

**Table 8: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.222	3	14.741	138.376	.000 <sup>b</sup>
	Residual	13.422	126	.107		
	Total	57.644	129			

a. Dependent Variable: Development of district

b. Predictors: (Constant), Trading license tax policies, Immovable property policies, Rental income tax policies

Table 8, with an F value of 138.376, indicates the results of an Analysis of Variance (ANOVA) for the regression model. The associated significance level (Sig.), denoted as .000, is less than the typical significance threshold of 0.05. This implies that the overall model, which includes predictors like Trading license tax policies, Immovable property policies, Rental income tax policies is statistically significant. In simpler terms, there is strong evidence to assume that at least one of the predictors in the model has a significant effect on the dependent variable, Development of local entities of Rwamagana District. This indicates the importance of these decentralized tax policies factors in influencing Development of local entities of Rwamagana District. The findings supported by Ahwoi (2020) emphasized how improving public goods and service delivery was one of the predominant challenges facing governments worldwide. The attention is on the decentralization of funds, functions and representations that will make governance closer to the rural people and to engage them actively in decision-making. This highlights the effect of decentralized tax policies on the Development of local entities of Rwamagana District.

**Table 9: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.046	.176		.260	.796
1 Rental income tax policies	.473	.063	.443	7.499	.000
1 Immovable property policies	.218	.056	.218	3.912	.000
Trading license tax policies	.354	.059	.352	5.959	.000

a. Dependent Variable: Development of district

In Table 9, the constant term, representing the estimated intercept of the regression model, has an unstandardized coefficient of 0.046 with a standard error of 0.176, and it is not statistically significant with a Sig. Value of 0.897. The unstandardized coefficients for the predictor variables show their effect on Development of district. Specifically, Rental income tax policies have a coefficient of ( $\beta= 0.473$ ,  $t=7.499$ ,  $p \text{ value}=0.000$ ), Immovable property policies have a coefficient of ( $\beta= 0.218$ ,  $t=3.912$ ,  $p \text{ value}=0.000$ ), and Trading license tax policies have a coefficient of ( $\beta= 0.354$ ,  $t=5.959$   $p \text{ value}=0.000$ ). All these coefficients are statistically significant on Development of Rwamagana District, as indicated by their associated Sig. Values below 0.05. the findings supported by Pauliat (2004) states that local financial autonomy is one of the basic conditions of a real management freedom that is not a way to manifest independence from the state, and requires to the state to guarantee a stable and enough resources that allows the local community to exercise fully and relevant the decentralized competences. This highlighted the concrete effect of decentralized tax policies on Development of Rwamagana District.

**Table 10: Hypotheses results**

Hypotheses	P Value	Comment
Ho1: There is no significant effect of rental income tax policies on development of Rwamagana district.	$p < 0.05$	<b>Rejected</b>
Ho2: There is no significant effect of immovable property tax policies on development of Rwamagana district.	$p < 0.05$	<b>Rejected</b>
Ho3: There is no significant effect of trading license tax policies on development of Rwamagana district.	$p < 0.05$	<b>Rejected</b>

The results of the hypotheses testing in Table 10 provide significant overviews into the effect of decentralized tax policies on Development of Rwamagana District. Each null hypothesis (Ho1, Ho2, Ho3) has been rejected ( $p < 0.05$ ), indicating strong evidence against the idea that these decentralization tax policies have no significant effect on the Development o of Rwamagana District. Specifically, Trading license tax policies, Immovable property policies and Rental income tax policies, all demonstrate a significant influence on the Development of local entities of Rwamagana District. These findings emphasize the critical role of comprehensive decentralized tax policies in achieving the Development of Rwamagana District.

## 5. Conclusion

The assessment of tax decentralized policies in Rwamagana district indicates a generally favorable perception among respondents. Rental income tax policies, immovable property tax policies, and trading license tax policies are all believed to have a positive impact on various aspects of the district's development, including infrastructure, local development, market-oriented agriculture, and economic growth. These findings suggest that the surveyed tax policies are viewed positively by property owners, businesses, and the local community, indicating a consensus on their beneficial effects on the development of Rwamagana district. The results of the hypotheses provide significant overviews into the influence of decentralized tax policies on Development of Rwamagana District. Each null hypothesis (Ho1, Ho2, Ho3) has been rejected ( $p < 0.05$ ), indicating strong evidence against the idea that these decentralization tax policies have no significant effect on the Development o of Rwamagana District. Specifically, trading license tax policies, Immovable property policies and Rental income tax policies, all demonstrate a significant influence on the Development of Rwamagana District. These findings emphasize the critical role of comprehensive decentralized tax policies in achieving the Development of Rwamagana District.

## 6. Recommendations

The study proposes key recommendations aligned with its objectives. Firstly, Rwamagana District should prioritize tax education and awareness campaigns to ensure community understanding of tax policies and their positive impact on local development. Additionally, maintaining transparency in tax collection and revenue allocation through regular reports is advised. The government is urged to invest in staff training for identifying tax evasion, periodically review tax policies, and consider further research on the nationwide impact of tax decentralization, as well as its correlation with poverty reduction in Rwanda.

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