



Full Length Research Paper

Fiscal decentralization, donor aid and capacity building: empirical experiences from Uganda

Juma Teko and Isaac Nkote

Department of Finance, Makerere University Business School

*Corresponding authors e-mail: jteko@mubs.ac.ug

Abstract

Fiscal Decentralization can contribute to the improvement in the country's' overall fiscal position and local governments' own fiscal position. Decentralization enhances resource mobilization, including donor aid. Decentralization has not necessarily brought in better capacity and donor aid. The study investigated the relationship between Fiscal Decentralization, Donor Aid and Capacity Building in Mbale district, Uganda. The study focused on Fiscal Decentralization, Donor Aid and Capacity Building of Local Governments. The forms and evaluation of Fiscal Decentralization was studied. The reasons for giving Aid and its benefits to recipients also comprised the study. A cross-sectional correlation survey design was used in the study. Questionnaires were used to collect data about fiscal decentralization, donor aid and capacity building. The target Population was composed of Councilors and Civil Servants at the different levels of Local Government. The target respondents included 82 LCIII Councilors, 45 LCV Councilors, 28 Sub County Chiefs and 5 Heads of Department at the district. The total population was 160. Pearson's correlation coefficient was used to determine the degree of relationship between Fiscal Decentralization, Donor Aid and Capacity Building Findings indicate that Fiscal autonomy and Intergovernmental transfers explain 35% of Fiscal Decentralization. Further, Fiscal Autonomy is more dominant (19%) and Intergovernmental Transfers less significant (16%). There is a significant positive relationship between Fiscal Decentralization and Donor Aid ($r = 0.598^{}$, $p \leq 0.01$). Similarly there was a significant positive relationship between Fiscal Decentralization and Capacity Building ($r = 0.452^{**}$, $p \leq 0.01$). There was also a significant positive relationship between Donor Aid and Capacity Building ($r = 0.540^{**}$, $p \leq 0.01$). The study posits that there can be better donor aid if fiscal decentralization is implemented well. Further, if more fiscal powers are devolved to local governments, Capacity Building will be enhanced. With more Donor Aid flowing to the local government levels, Capacity Building will be enhanced.**

Keywords: Decentralization, Fiscal decentralization, Donor aid, Capacity building, Local government

INTRODUCTION

Fiscal Decentralization can contribute to the improvement in the country's' overall fiscal position and local governments' own fiscal position (Shah and Qureshi, 1994; Bahl and Linn, 1992,). Decentralization enhances resource mobilization, including donor aid (Bossuyt and Gould, 2000). Decentralization comes with introduction of new management systems. It's therefore vital to develop and implement a training program by the agencies in

charge, covering administration, financial, and technical subjects (Geoff and Bjorn, 2003). Therefore from the above model, with a proper framework of Decentralization, Donor Aid and Capacity Building will increase which will enhance the capacity building at local levels.

The post-Bretton woods era development approach puts great emphasis on Central Government efforts to

promote development (Ebel and Yilmaz, 2002). However this is characterized by failure to demonstrate sustained growth rates, loss of civil liberties, corruption, poor resource mobilization, and a poor record of delivering local public services (Vinod et al., 2000). There has been a shift in emphasis and Local Governments have now emerged as important players in development policy. It's argued that, with Decentralization, there will be improvement in economic efficiency, cost efficiency, accountability and resource mobilization (Bird et al., 2000). Decentralization is the transfer of authority and resources from the Central Government to lower levels (Nsibambi, 1997). The requirement for achieving development objectives is changing and many economies around the World are now implementing fiscal reforms (Ebel and Yilmaz, 2002). If designed and implemented well, Fiscal Decentralization can contribute to improvement of the country's overall fiscal position and Local Governments own Capacity (Shah and Qureshi, 1994).

In Uganda there has been a continuous discrepancy between planned and actual revenue (LGFC Report on Revenue Mobilization, 2003). Mbale district has not been an exception. In the Financial year 1999/2000, local revenues collected were 75% of estimated revenue and in 2003/2004 it declined to 43%. Donations realized in 2001/02 were 17% of the estimated and in 2002/03, these declined to 14% (Mbale District Local Government: Budget Framework Papers 2001/02 -2004/05, Budget Estimates 2003/04, 2004/05). This could be attributed to poor design and implementation of Decentralization and lack of competent staff that is a result of insufficient funds to support capacity building. If unattended to, revenue collections may remain poor.

The study investigated the relationship between Fiscal Decentralization, Donor Aid and Capacity Building in Mbale district, Uganda. The study focused on Fiscal Decentralization, Donor Aid and Capacity Building of Local Governments. The forms and evaluation of Fiscal Decentralization was studied. The reasons for giving Aid and its benefits to recipients also comprised the study.

Literature review and concepts

Decentralization

Decentralization is dispersing or distributing power from the centre to the locality Wolman (1990). It can also be defined as the transfer of responsibility for planning, management, and resource raising and allocation from the central government to regional authorities (Rondinelli *et al.*, 1983). Decentralization is the sharing of power to a varying extent between the centre and its periphery. Four major forms of decentralization process have been identified (Nsibambi, 1997). Devolution refers to the full transfer of responsibility, decision-making, resources and revenue generation to a local level public authority that is

autonomous and fully independent of the devolving authority. Units that are devolved are usually recognized as independent legal entities and are ideally elected although not necessarily (UNDP, 2002).

On the other hand, fiscal decentralization is the diffusion of fiscal power from the central government to the periphery. Diffusing fiscal power means assigning expenditure responsibilities and either allowing local authorities to collect their own revenues and/or allocating transfers to meet these expenditures. In Uganda, local revenues are collected by division councils at city and municipal levels, and they retain fifty percent of the revenue collected in their areas of jurisdiction and remit the balance to the city or municipal council. In rural areas, revenues are collected by sub county councils and retain 65% or any other higher percentage as the district council may approve (Local government Act, 1997). There are two levels of fiscal decentralization (Rondinelli, 1983):

Fiscal decentralization

Fiscal decentralization designates financial autonomy is at the discretion of a level of government to decide how to spend the available budget. For regions, this often depends on the extent of regulation by the national government of their expenditures, which takes place through financial transfers or constitutional means (Van Houten, 2003). On the other hand, Fiscal autonomy is the discretion of a level of government not only to spend a budget but also to design and collect taxes to finance it (Ahmad and Craig, 1997).

According to Van Houten (2003), fiscal decentralization is where local governments are empowered to collect revenues, budget for and management the expenditures of revenues collected. A country that wants a simple system of government might well prefer to vest all government powers and activities in the national government rather than spread them between the centre and one or more levels of sub-national authorities. The traditional theory of fiscal decentralization highlights key advantages that sub-national governments have with regard to the provision of government services (Musgrave, 1983). First, sub-national governments can provide their services differently from one another, in accordance with variations in preferences between different parts of the nation. Arguably, this advantage is stronger when sub-national elections about sub-national service levels also involve decisions about the sub-national taxes that are needed to pay for them. Secondly, decentralized provision may lead to more experiment and innovation in service provision. This is partly because there will be more service managers to have ideas, and partly because it is easier to have sub-national experiments than central ones (Nsibambi, 1997).

If these advantages were the only arguments, then there would be a case for decentralizing the provision of

all government services. However, the theory of fiscal decentralization also points to possible disadvantages with decentralization. Therefore, to see whether decentralization is appropriate in the case of any particular government service, the arguments for decentralization in facilitating local choice and experiments must be balanced against the possible disadvantages (Tanzi and Vito, 1996).

One of these disadvantages is the possibility that some services may be subject to economies of scale, which would be lost through sub-national provision. This argument has lost some of its force in recent years because there has been more interest in sub-national authorities purchasing services from private producers who might themselves be large enough to be able to enjoy the relevant economies of scale. However, this possibility must be qualified because a sub-national government which purchases services from a private producer may have less control over the service than it would have if it produced it itself (Spahn, 2004).

The other disadvantage is that a sub-national authority might provide a local service with external 'spillover' effects on residents elsewhere. A providing authority might ignore these externalities when deciding on its provision, and so it might ignore any benefits or costs, which its services impose on non-residents. In contrast, if there is central provision, then the central government can allow for the effects of government services on everyone (Hemming and Spahn, 1997). A full understanding and evaluation of these tradeoffs is essential for developing a thoughtful decentralization strategy. Therefore, in designing a fiscal decentralization strategy, a set of guidelines needs to be considered.

Order of Reform

The second rule is to get the correct order of reform. First should come assignment of expenditure responsibility to local governments and then the assignment of revenue responsibility should be determined. The central government must first establish expenditure needs for each level of government before tackling the question of revenue assignment. Economically efficient assignment of revenue requires knowledge of expenditure assignment. For example services that may be priced (public utilities) should be largely financed by user charges; general services with a local area benefit zone (roads, parks) should be financed with local taxes; and goods characterized by significant externalities should be financed from region wide taxes and intergovernmental transfers (Christopher et al., 2001).

Intergovernmental Transfers

No decentralized system of government can function without intergovernmental transfers. In a broad sense, intergovernmental transfers include direct payments,

sharing of revenues, and non-monetary transactions such as complimentary service delivery among agencies or the waiver of intergovernmental commitments (Spahn, 2004).

Intergovernmental transfers have been employed in all federations to achieve a variety of political and economic objectives. In the political realm, transfers in many federal countries have performed a nation-building role. In other words, they have been an important instrument for the central government to keep the country together, enable sub-central units to pursue their own goals, and yet influence their priorities through conditionality (Wiseman, 1987). Often, the central government has employed intergovernmental transfers to influence the pattern of spending of sub-central governments or to implement its expenditure plans through sub-central governments, using them as agencies. In the economic sphere transfers have been employed as a potent instrument to resolve imbalances in revenues and expenditures between different levels of government (vertical) and among different units within each of the levels (horizontal), to establish fiscal equity among individuals or regions, or to offset inter-jurisdictional spillovers (Rao and Singh, 1998a).

An important reason for giving transfers arises from fiscal imbalances or mismatch between revenues and expenditures of different governmental units. Fiscal imbalances can be "vertical" or "horizontal". "Vertical fiscal imbalance" refers to the difference between expenditures and revenues at different levels of government, and "horizontal fiscal imbalance" refers to the differences between revenue and expenditure levels within a particular level of government. Although these two concepts are identifiable by themselves, they are, except under very special circumstances, related (Scott, 1964).

Intergovernmental transfers are seen as a device to resolve the problem of mismatch between benefit spans from various hierarchies of public goods and exogenously given spatial jurisdictional domains. When the benefits of public services provided by a state spill over its jurisdiction, the state ignores the benefits accruing to the non-residents while deciding the amount of the service provided. The jurisdiction equates the marginal benefits from the public service with the marginal cost of providing it, and as it ignores the part of the benefit accruing to non-residents the result is non-optimal provision of the public service. Optimal provision of the service in question can be ensured through coasian bribes or voluntary action of the jurisdictions to compensate for the spillovers (Gramlich, 1993). However, such solutions are infeasible and therefore, spillovers have to be arbitrated through central grants akin to 'Pigovian' subsidies to offset the spillovers.

These transfers must necessarily be specific-purpose; requiring matching contributions from the states and the exact matching rate should depend upon the size of spillovers. This implies that the matching rate should vary

with the degree of externality generated by various public services. Further, a uniform rate of matching transfers would have non-uniform responsiveness in different states depending on their level of development, as complete equalization in fiscal decentralization is never achieved in any federation. This calls for varying the matching rates itself in favor of the poorer states (Feldstein, 1975; Rao and Dasgupta, 1994).

Intergovernmental System

Many countries believe that there must be uniform intergovernmental fiscal system under which all sub national governments must operate. This may not be a necessary condition for effective decentralization (Tanzi and Vito, 1996). In fact, a better route may be to begin fiscal decentralization with the larger local government units and to let the smaller ones "grow into it." Sub national governments have very different capabilities to deliver and finance services, and certainly different capabilities to borrow. It may therefore be necessary to set up a system where local governments are given different financing powers and expenditure responsibilities. Local governments that are in the lower tier could rely more heavily on grants while more developed places could rely more heavily on local taxation, and could borrow to finance capital outlays. In countries that choose this route, it is necessary to have a clear set of rules about when a local government graduates from one status to another (Bennett, 1980).

Consistency in Rules

Central Government must keep the Rules they make. Central governments design fiscal decentralization programs. In most countries, this strategy involves the center actually giving up power and in some cases constitutional changes are made to guarantee the transfer of power (Prud'homme and Remmy, 1995). While fiscal decentralization will surely mean a step away from a paternalistic approach to intergovernmental relations, it will be the central government that makes the rules by which it will operate. Very often, these rules take the form of implementing regulations rather than laws. However, the central government does not always keep the rules that it makes. Examples in this case include; the imposition of unfunded expenditure mandates on local governments, under funding of transfer programs and abolition of local taxes.

Government should impose a Hard Budget Constraint. This implies that those local governments that are given autonomy will be asked to balance their budgets without recourse to any end of year assistance from the central government. Enemies of the hard budget constraint include; deficit grants, bailouts on delinquent debt. Local governments should believe that they are on their own (Bahl, 1999). If decentralization is to have a chance,

central governments must keep the rules it makes (Govinda, 2002).

Design of Intergovernmental Transfers

The design of the transfer system depends upon the rationale for intergovernmental transfers. The rationale essentially lays down the objective, and transfers are designed to fulfill them. Thus transfers given to offset fiscal imbalances or to ensure horizontal equity or stabilize intergovernmental competition ought to be unconditional (India, 1993). However, to avoid the moral hazard of states viewing such transfers as "blank checks" from the central government, the amount of such grants can be tied to the tax efforts of the states. The grants given to offset spillovers or those given to ensure minimum outlays on specified services (merit good reasons) must be purpose specific with matching requirements from the states. There is also a case for having matching ratios that vary inversely with the level of development of the states to ensure uniformity in the responses of all the states to these transfers (Feldstein, 1975).

Thus, Intergovernmental transfers can be designed in a variety of ways and the effect of transfers depends on the way they are designed (Wilde, 1971; Gramlich, 1977). Although the theoretical rationale helps to identify the objectives of transfers and provides broad guidance on their design, a number of judgments have to be made in effecting actual Intergovernmental flows and the method of transfers and the formula employed to affect them have implications both on equity and incentives. Naturally, each country has to develop its own system of transfer design depending upon various political, historical and economic compulsions (Heald, 1983). Furthermore, the amount of grants should vary with the local expenditure needs and inversely with local fiscal decentralization, while their distribution must be transparent and fair. More importantly, an effective transfer system should neither encourage overspending nor weaken tax collection efforts on the sub-national level (Gage and Mandell, 1990; Jones and Cullis, 1994; Bahl & Linn, 1994; Shah, 1994a, 1994b; Winkler, 1994; Oates, 1998).

The funding of transfers has to respect the overall constraint on public resources. So a general principle should be the closed funding of transfers. This is achieved either through the assignment of a proportion of the central government's budget or tax sharing (Wong, 1995). There are no uniform rules for designing the machinery of a transfer system. Transfer mechanisms either can be determined by ad hoc political decisions or well-established rules (Spahn, 2004).

Donor Aid

Foreign aid has been defined and measured by official

development assistance, which is used by the Development Assistance Committee of the Organization for Economic Cooperation and Development. Official development assistance consists of grants or loans that one government or multilateral organization gives to a developing country to promote economic development and welfare. That assistance must be granted on concessional terms, which in the case of a loan means that at least 25 percent of it must be in the form of a grant. Official development assistance also includes technical cooperation, such as teaching farmers new techniques or providing advice on making economic reforms; they exclude military assistance, political development programs, export credits, and debt forgiveness for military loans (UNDP, 2005).

The OECD also uses a broader concept called official development finance, which combines official development assistance with other official flows—that is, the financial flows from government organizations in developed countries and multilateral organizations to developing countries. Other official flows usually include loans at or near market rates (Grant, 1998). Over the last four decades, a myriad of theories about how to best apply official development assistance (ODA) have been tried. Many have been successful to some degree, and others have failed miserably at their intended objectives (Williams, 1999).

The Marshal Concept of 1948

As one of the early development models, the plan was intended to reconstruct war-torn economies of Western Europe as well as to contain communist influence. The emphasis was initially to reconstruct but later became a model for development as well. The core of the plan was to give United States grants to European countries to fund the purchases of American exports. One characteristic of the plan was the emphasis placed on regional co-operation among recipients. Recipients were expected to engage in joint assessment of needs and to monitor each other's performance in response to the development assistance. This concept of increased cooperation between recipient countries was viewed as one of the successes of the Marshall Plan but has not been a major factor in development strategy in the North-South context (Agnew and Corbridge, 1995).

The Marshall Plan had clear political motivations. The assistance and reconstruction efforts were heavily underscored by an interest in containing the spread of communism. There was also a second significant motivation of providing grants to European countries so they could purchase American products. This link between ODA and both politics and domestic economics is not an isolated case, but rather a common thread throughout the history of development assistance (Bauer and Peter, 1971). When the DAC was formed, ODA was intended to serve the same dual purpose: to encourage

recipient countries to align themselves with Western political beliefs and to respond to the disintegration of European empires and the formation of newly independent states (Grant, 1998).

Cooperation

Theory is the necessity for increased cooperation between multilaterals. This could be a significant hurdle because the major donor agencies have traditionally not worked particularly well together. In the face of decreasing ODA, though, cooperation and avoiding duplication of effort will become increasingly important. Another level of cooperation could be among ODA recipients. This theory looks back to the success of the Marshall Plan and encourages recipient countries to emulate that model's effective use of joint assessments of needs and joint requests, and the principle of self-monitoring by recipients. The countries could be grouped according to geography or by chosen economic criteria (Raffer, 1996).

Liberalization

A strong force at work in this New World order resulting from the end of the Cold War is the dominance of the free market accompanied by policies of trade liberalization.

Currently a lot of attention is being given to countries that present themselves as a model for free market reform. This new ideology of the market (and of market-access) is being, "embedded in and reproduced by a powerful constituency of liberal states, international institutions, and what might be called the 'circuits of capital' themselves" (Agnew and Corbridge, 1995). Developing countries have taken notice of this trend and have rushed to implement liberalization schemes. This activity has led, "to a kind of global policy convergence that never existed before" (Grant and Nijman, 1998).

Good Governance

Related to the concept of increased transnational liberalization is the concept of good governance. Essentials of good governance include transparency, voice, free flow of information, a commitment to fight corruption, and a well-trained, properly remunerated civil service (Wolfensohn, 1998). This concept has gained increased importance since the end of the Cold War and has added a type of political conditionality to the traditional instrument of economic conditionality. We are seeing that in a world of decreasing ODA flows and increasing selectivity, there is an increased importance placed on good performers (Raffer, 1996).

One argument for this increased emphasis on good governance is the view that if policies of good governance are not in place, then no amount of capital investment is going to improve the situation in a recipient

country. Similarly, without evidence of good governance, private investors are also less likely to invest in the country in the first place.

This new way of looking at development marks a clear distinction from the early days of development when it was believed in many cases that developing countries needed an infusion of capital more than anything else.

While the need for capital investment is still of significant importance, current thinking about development policy seems to be more cognizant of the interconnected nature of economics, political and social environments of the recipient countries. Investment needs to be coupled with an internal framework that can support the investment in a sustainable way (Williams, 1999). Donor emphasis should shift on assisting in establishing a stable, desirable environment for private investment. Under this way of framing development strategy, foreign aid, private investment and the host country are all closely linked. It is in this realm that foreign aid can play to its' strengths. Donor agencies have a wealth of experience with both finance and institution building. They also have a unique insight into the policies, players and conflicts within developing countries. This is a view that private investment often does not have. This focus on infrastructure is being adopted by large multilaterals like the World Bank. The Bank has acknowledged that, "failures in policymaking, institution building, and the provision of public services have been more severe constraints on development than capital markets" (World Bank Group, 1999b). A system in which the macroeconomics and financial is considered apart from the structural, social and human aspects, and vice versa cannot be adopted (Wolfensohn, 1999).

The relationship between Fiscal Decentralization, Donor Aid and Capacity Building

The degree of government commitment has significant bearing on what donors can expect from their support. Evaluations show that commitment is a precondition for effective donor support to decentralization (UNDP/BMZ 2000 and UNCDF 1999). Countries that emphasize broader local participation are apt to attract more aid resources (MacLure, 1995). However, Donors cannot push governments where they do not want to go (DCD and DAD, 2003).

Decentralization comes with introduction of new management systems and implementation arrangements that involve major changes in job responsibilities and duties. It's therefore vital that during this process, a major program of training is developed and implemented by the agencies in charge, covering administration, financial, and technical subjects (Geoff and Bjorn, 2003). Capacity-building and training measures have to be central to any decentralization process; without the institutional ability to carry out their responsibilities, local governments will never prosper. In many programmes capacity building

takes the form of individual skill-building measures (training). However, capacity-building to enhance decentralization has several other dimensions. In most cases there is also a need to strengthen Local Government capacity more generally, in terms for example of organizational management capacity and networking/linkages with other governmental organizations and other organizations and strategic alliances in the broader environment (Hilderbrand, 2002).

Capacity building can only be successful when coupled with extra resources to Local Governments. In order to make donor support in this area more effective and sustainable the donor community needs to integrate their programmes more strongly into the partner governments' own policies and plans and support partner governments in preparing implementation plans (Hilderbrand, 2002). Many donors support the development of fiscal decentralization, both at the systemic level, by supporting the development of basic legal frameworks, institutional development, by supporting fiscal systems and their implementation, of which support to capacity-building of local governments is an important element (DCD and DAD, 2003).

The United Nations and other development agencies began in the early to mid 1990s to explicitly focus on "capacity building." While this meant different things to different people, in general it signified using the resources of the development agencies to contribute to strengthening capability within developing countries to take on development challenges on their own, rather than the external agencies' doing the operational work themselves and thereby perpetuating dependence on external resources and expertise. It also signified a concern with long-term sustainability of development efforts and results, instead of short-term outcomes (Hilderbrand, 2002). It is very important to provide capacity building assistance in order to develop and add to the level of domestic know-how, and not to replace local expertise. "Gap-filling" technical assistance does not work in the long run as it creates wrong incentives for both recipients and providers of assistance. The key role of funding technical assistance is to transfer knowledge and experience that helps build local capacity (Lumsdaine, 1993).

Research design

A cross-sectional correlation survey design was used in the study. Questionnaires were used to collect data about fiscal decentralization, donor aid and capacity building.

The target Population was composed of Councilors and Civil Servants at the different levels of Local Government. The target respondents included 82 LCIII Councilors, 45 LCV Councilors, 28 Sub County Chiefs and 5 Heads of Department at the district. The total population was 160.

Table 1. Cronbach Alpha Coefficients

Variables	Cronbach Alpha Coefficients
Fiscal Decentralization	0.9255
Donor aid	0.8925
Capacity Building	0.7916

Table 2. Sex and Occupation Cross Tabulation

		Occupation				Total
		Civil Servant	Councilor LCIII	Councilor LCV	other(specif y)	
Sex	Male	20	29	24	2	75
	Female	6	19	14		39
Total		26	48	38	2	114

Table 3. Occupation and Highest Qualification Cross Tabulation

		Highest qualification				Total
		O'level	A'level	Degree & Professional	Certificate & Diploma	
Occupation	Civil Servant			14	12	26
	Councilor LCIII	27	5	4	12	48
	Councilor LCV	16	9	2	11	38
	Other(specify)			1	1	2
Total		43	14	21	36	114

Reliability and Validity of Research Instruments

To test the reliability and validity of the research instruments, Cronbach Alpha Coefficients were used. Table 1 shows reliability results:

From table 1, Cronbach Alpha coefficients for Fiscal Decentralization, Donor aid and Capacity Building indicating that the Likert Scales used to measure the variables were consistent and reliable.

Measurement of Variables

Decentralization was measured using a five point likert scale ranging from strongly agree as response 5 to strongly disagree as response 1.

Donor Aid was measured using Official Development Assistance (ODA) Disbursements net of Emergency Relief (Gustavo and Nunnenkamp, 2005) and a five point likert scale ranging from strongly agree as response 5 to strongly disagree as response 1.

Capacity Building was measured using a five point likert scale ranging from strongly agree as response 5 to strongly disagree as response 1.

Presentation of Findings

This section presents the study findings.

Sex and Occupation Cross Tabulation

From table 2 above, 25% of the respondents were male LC III councilors. Most (39%) of the male respondents were LC III councilors likewise the female respondents (49%). The least respondents (3%) were Heads of Department at Municipality and were all male.

Occupation and Highest Qualification Cross Tabulation

From table 3 below, the majority (24%) of respondents had an O' Level certificate and were LC III councilors. Similarly 56% of the LC III Councilors were the least educated followed by 42% of the LCV councilors with an O'level certificate. 54% of the Civil servants are the most educated with degree and professional qualifications. In summary, among the respondents, elected leaders are the least educated as compared to their counterparts the appointed leaders. This is explained by the academic requirements to take up these positions. Civil servants need minimum qualifications for a particular position unlike the councilors who only need majority vote!

Fiscal Decentralization Rotated Component Matrix

Factors analysis for fiscal decentralization was done

Table 4. Fiscal Decentralization Rotated Component Matrix

Statements	Fiscal Decentralization	
	Fiscal Autonomy	Intergovernmental transfers
The budget preparation process is participatory	.710	
We can negotiate for a supplementary budget when need arises	.575	
We can re-allocate expenditure during budget implementation	.551	
We always negotiate for a supplementary budget when need arises	.507	
Unconditional transfers comprise the biggest proportion of central transfers		.639
Eigen Values	4.857	4.162
Variance %	18.680	16.007
Cumulative %	18.680	34.687

Table 5. Donor Aid Rotated Component Matrix

Statements	Donor Aid			
	Guidelines	Commitment	Decentralization	Negotiation
Donor aid has facilitated capacity building	.826			
Accountability affects donor aid	.735			
Donor aid has improved the welfare of society	.595			
Donor aid has been sustainable over time		.772		
We usually negotiate with donors on priorities				.799
Eigen Values	3.783	3.578	2.607	1.742
Variance %	22.252	21.049	15.334	10.248
Cumulative %	22.252	43.302	58.636	68.884

using a rotated component matrix. Table 4 presents the results.

Results in Table 4 indicate that Fiscal autonomy and Intergovernmental transfers explain 35% of Fiscal Decentralization. It was also observed that Fiscal Autonomy was more dominant (19%) and Intergovernmental Transfers less significant (16%).

Donor Aid Rotated Component Matrix

From table 5 above, it was noted that guidelines, commitment, decentralization and negotiation explain 69% of Donor Aid. Furthermore guidelines that come with donor aid were more significant (22%), commitment (21%), decentralization (15%), and negotiation (10%).

Inferential Statistics

Pearson's correlation coefficient was used to determine

the degree of relationship between Fiscal Decentralization, Donor Aid and Capacity Building. Results of the correlation are presented in table 6 below. From table 6, there was a significant positive relationship between Fiscal Decentralization and Donor Aid ($r = 0.598^{**}$, $p \leq 0.01$). This means that if Fiscal Decentralization is implemented well, Donor Aid will increase. Similarly there was a significant positive relationship between Fiscal Decentralization and Capacity Building ($r = 0.452^{**}$, $p \leq 0.01$). This means that if more fiscal powers are devolved to local governments, Capacity Building will be enhanced. There was also a significant positive relationship between Donor Aid and Capacity Building ($r = 0.540^{**}$, $p \leq 0.01$). This implies that with more Donor Aid flowing to the local government levels, Capacity Building will be enhanced. Therefore with increased Donor Aid and more fiscal powers devolved, Capacity Building will be enhanced.

Table 6. Correlation Coefficient Matrix

Table 5.1: Zero Order (Bi-Variate) Correlations									
	1	2	3	4	5	6	7	8	9
Donor Aid (1)	1.000								
Fiscal Autonomy (2)	.561**	1.000							
Intergovernmental controls (3)	.420**	.408**	1.000						
Fiscal Decentralization (4)	.598**	.919**	.734**	1.000					
Systems Level (5)	.393**	.371**	.295**	.403**	1.000				
Institutional Level (6)	.410**	.365**	.153	.337**	.766**	1.000			
Individual Level (7)	.518**	.344**	.239*	.358**	.305**	.365**	1.000		
Capacity Building (8)	.540**	.444**	.282**	.452**	.867**	.888**	.668**	1.000	
** Correlation is significant at the 0.01 level 2-tailed.									
* Correlation is significant at the 0.05 level 2-tailed.									

DISCUSSION

The Pearson's correlation coefficients indicated that there was a significant positive relationship between Fiscal Decentralization and Donor Aid. This means that if more fiscal powers are devolved, Donor Aid will be enhanced. Similarly there was a significant positive relationship between Fiscal Decentralization and Capacity Building. This means that with more fiscal powers devolved, Capacity Building will be enhanced at the local government levels. There was also a significant positive relationship between Donor Aid and Capacity Building. This means that with more Donor Aid flowing to the local government levels, Capacity Building will be enhanced. Therefore with increased Donor Aid and more devolved fiscal powers, Capacity Building will be enhanced.

This significant relationship can be attributed to the fact that donors are more willing to give assistance directly to the periphery (beneficiaries) other than through the centre. Therefore, if more fiscal powers are devolved and clear guidelines set, local governments can easily satisfy their capacity building needs. MacLure (1995) supports this view by stating that countries that emphasize broader local participation are apt to attract more aid resources. Decentralization comes with introduction of new management systems and implementation arrangements which involve major changes in job responsibilities and duties. It's therefore vital that during this process, a major program of training is developed and implemented by the agencies in charge, covering administration, financial, and technical subjects (Geoff & Bjorn, 2003).

Capacity building can only be successful when coupled with extra resources to Local Governments. Many donors support the development of fiscal decentralization at the systemic level by supporting the development of basic legal frameworks, institutional development, supporting fiscal systems and their implementation, which support is an important element to capacity-building of local governments (DCD and DAD reports, 2003).

CONCLUSION AND RECOMMENDATIONS

It was established from the study that there was a significant positive relationship between Fiscal Decentralization and Donor Aid; a significant positive relationship between Donor Aid and Capacity Building; a significant positive relationship between Fiscal Decentralization and Capacity Building. Therefore if more Fiscal powers are devolved to the local governments, more Donor Aid will be received and this will facilitate more Capacity Building programs at local levels.

The study focused on Fiscal Decentralization, Donor Aid and Capacity Building. Since there were significant positive relationships between; Fiscal Decentralization, Donor Aid and Capacity Building; Capacity Building; Fiscal Decentralization the following recommendations are made;

Since there was a significant positive relationship between Fiscal Decentralization, Donor Aid and Capacity Building, it's recommended that central governments should devolve more fiscal powers (own budgeting and discretion of expenditure) to local governments and remain committed to these decisions. The central governments together with the local governments should also source for more Donor Aid and negotiate with the donors to commit themselves and accept local governments' priorities. Further more accountability is very essential if more Donor Aid is to be attracted. It's therefore recommended that various levels of government should allocate the donor assistance appropriately and maintain proper books of accounts for audit purposes.

REFERENCES

- Agnew J, Corbridge S (1995). *Mastering Space: Hegemony, Territory, and International Economy*. Routledge, New York.
- Bahl RW, Johannes L (1992). *Urban Public Finance in Developing Countries*. New York, University Press
- Bauer P (1971). *Dissent on Development*. Harvard University Press: Cambridge, MA

- Bird et al. (2000). *Fiscal Sustainability and Fiscal Indicators in Transitional Countries*. Washington, US. Agency for International Development.
- Bossuyt J, Gould J (2000). *Decentralization and Poverty Reduction: Elaborating the Linkages*. Policy Management Brief No.12: Maastricht. Conference 2003, University of Leicester.
- Spahn P (2004). *Intergovernmental Transfers: The Funding Rule and Mechanisms*. Goeth University.
- Ebel DR, Sender Y (2002). *On the Measurement and Impact of Fiscal Decentralization*. World Bank institute.
- DCD/DAD. (2003). *Working Paper on Aid Evaluation*. NIBR
- Gage RW, Mandell MP (1990). *Strategies for Managing Intergovernmental Policies and Networks*. New York: Praeger.
- Geoff E, Bjorn J (2003). *Building Local Government Capacity for Rural Infrastructure Works*. Bangkok, International Labour Organisation.
- Grant R, Nijman J. Editors. (1998). *The Global Crisis in Foreign Aid*. Syracuse University Press: New York.
- Gustavo C, Nunnenkamp RP, Thiele LT (2005). *Assessing the Allocation of Aid: Developmental Concerns and the Self-Interest of Donors*. Kiel Institute for World Economics.
- Hilderbrand EM (2002). *Capacity Building for Poverty Reduction: Reflections on Evaluations of UN System Efforts*. Harvard University, Cambridge, MA.
- Jones PR, Cullis JG (1994). Bureaucracy and intergovernmental grants: a comment, *Kyklos*, 47(3), pp. 437–448.
- LGFC (2003). *Report on Revenue Mobilization*. Republic of Uganda.
- Lumsdaine (1993). *Aiding Whom? Competing Explanations of Middle Power Foreign Aid Decisions*. School of Policy Studies, Chicago.
- MacLure R (1995). *Primary Health Care and Donor Dependency: A Case Study of Non-Government Assistance in Burkina Faso*. International Journal of Health service vol.25.No.3:539-58.
- Vazquez PLF, Jameson B (1997). *Fiscal decentralization: An Overview of Concepts and Measurements Issues and their Applicability in the Russian Federation*. Georgia State University.
- Musgrave RA (1983). *Who Should Tax, Where and What?* Center for Research on Federal Financial Relations, Australian National University.
- Nsibambi A (1997). *Making Democratic Decentralization an Instrument for Poverty Eradication: Ugandas Challenge*.
- Prud home, Renny (1995). *The Dangers of Decentralization*. World Bank Research Observer 10(2): 201-20.
- Raffer, Kunibert, Singer, H.W. (1996). *The Foreign Aid Business*. Edward Elgar Publishing Limited: UK.
- Rondinelli DA (1981). *Government Decentralization and Comparative Perspective: Theory and Practice in Developing Countries*. International Review of Administrative Science, Vol. XLV.
- Bahl, Roy (1999). *Implementation Rules of Fiscal Decentralization*. International Studies Program, School of Policy Studies, Georgia State University.
- Shah A, Qureshi Z (1994). *Intergovernmental Relations in Indonesia*. World Bank Discussion Papers, n.239, The World Bank, Washington, D.C.
- Tanzi, Vito (1996). *Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macro Economic Aspects*. World Bank, Washington, DC.
- The World Bank Group, (1999a). "Assessing Aid: What Works, What Doesn't, and Why." <http://www.worldbank.org/html/extdr/extreme/1987.html>
- UNDP (2005). *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals. Overview*. UN Millennium Project 2005. New York (United Nations).
- UNDP/BMZ. (2000). *The UNDP Role in Decentralisation and Local Governance*. A Joint UNDP, Government of Germany Evaluation, UNDP-Evaluation Office
- Van Houten Pieter (2003). *Fiscal Autonomy and Party Politics in Catalonia*. PSA
- Vinod T. et al., (2000). *The Quality of Growth*. New York, Oxford University Press.
- Proceedings of 16th United Nations Regional Cartographic Conference for Asia and the Pacific, Okinawa, Japan, 14-18 July, E/CONF/95/1, 17 pages
- Wolfensohn J (1998). "The Other Crisis." The World Bank Group. <http://www.worldbank.org/html/extdr/am98/jdw-sp/am98-en.htm>
- Wolfensohn J (1999). "A Proposal for a Comprehensive Development Framework." <http://www.worldbank.org/cdf/cdf-text.htm>

How to cite this article: Teko J. and Nkote I. (2014). Fiscal decentralization, donor aid and capacity building: empirical experiences from Uganda. *J. Res. Int. Bus. Manag.* 4(3):64-73