

The Dynamics of Fiscal Decentralisation: The Case of Ghana

Roger Opong Koranteng

The aim of this case study is to understand the dynamics of the implementation of fiscal decentralisation in Ghana. In 1992 Ghana returned to civilian rule. A review of the Local Government Law of 1988 became necessary to bring it into compliance with the local government provisions contained in the constitution. Law 207 of the Provisional National Defence Council was therefore repealed by the promulgation of the Local Government Act, 1993. The implementation of the new decentralisation policy generated deep-seated political tension right from the outset, involving two interested parties who influenced local government law at the highest level of government.

This case study is based on research that used semi-structured interviews, documentary analysis and focus group discussions. More than 50 people were interviewed, including staff and consultants from the decentralisation secretariat, senior civil servants, academics, donors, representatives of the National Association of Local Government Authorities of Ghana (NALAG), former and present district chief executives of district assemblies and assembly members (councillors).

Responses and resistance to fiscal decentralisation

Distribution of the benefits

Fiscal decentralisation under the district assemblies' common fund (DACF) in Ghana is supposed to transfer more financial resources from the centre to the districts, and to provide fiscal autonomy for the district assemblies (Ayee, 2000). The district assemblies face two major structural challenges in relation to the implementation of fiscal decentralisation. Firstly, the DACF works out at an average of 15 per cent of the overall resource flows to the districts, in relation to funds for investment, whereas 85 per cent of financial resource flows are controlled by the central government institutions in the districts (MLGRD/GTZ, 2005). Secondly, approximately 90 per cent of staff operating at district level are on the payroll of central government agencies (MLGRD/DS, 2005). This situation has created tension between central government institutions and the district assemblies.

The central government agencies have argued that the district assemblies do not have capacity to take on bigger budget management responsibilities; this is rebutted by the

district assemblies, which argue that they cannot prove their capacity if they do not receive resources with which to operate. This has resulted in deadlock. These inter-governmental tensions continue to characterise the implementation of fiscal decentralisation in Ghana.

District assembly members argued, in interviews undertaken for this chapter, that central government agencies' resistance to fiscal decentralisation was a ploy to hold on to resources that should be transferred for greater and faster development. They challenged the argument that capacities were not well established at the local level. In focus group discussions in Tema Municipality and East Akim (the two district assemblies used as case studies), participants noted that the more resources they received, the more their capacities would develop. It was evident that the district assemblies had hardly any influence on the allocation of sector grants to their districts, and quite often did not have an administrative overview of the total resources flowing into their districts. Research indicated that significant amounts of off-budget fiscal resources were channelled into the districts by donors, thus escaping any district assembly administrative control (MLGRD/DS, 2005). Thus, fiscal decentralisation, which basically looks at revenue allocations commensurate with assigned responsibilities, with the aim of making districts financially viable and able to deliver services, has eluded the district assemblies.

It emerged from the focus group discussions that it was anomalous that district assemblies were responsible for development and service delivery in all areas under their control, but that sector departments working at the district level operate their budgets independently of the assemblies. It is important to note that some ministries, such as the Ministry of Health, have devolved an increasing proportion of their budgets to the regional and district offices, but these remain outside district assembly control. The assemblies argued that it was time for the government to see fiscal decentralisation as a major part of the solution to Ghana's developmental problems. They suggested that sector ministries should be put under pressure to disaggregate their budgets to form the basis of national budgetary allocations to government ministries, departments and agencies, and to the district assemblies.

Distribution of the cost of fiscal decentralisation

Implementation of fiscal decentralisation implies the loss of power, influence and control over resources by sector ministries, including transferring finance for the salaries of field personnel from the centre to local government. More importantly, the Ministry of Finance and Economic Planning (MFEP), which perceived itself as bearing most of the impact and costs of fiscal decentralisation, resisted it. The ministry argues that decentralisation would give unrestrained spending power to the district assemblies and that this would interfere with the structural adjustment programmes (SAPs) which it is implementing. The SAPs, therefore, have provided an excuse for the lack of progress

on fiscal decentralisation. It is evident that the reason for this failure is the reluctance of central government agencies, particularly the MFEP, to relinquish control of financial resources. There has been very little interest within the MFEP and other sector ministries in undertaking fiscal decentralisation and it is felt that the Ministry of Local Government and Rural Development (MLGRD) may not be strong enough to push for something so far-reaching. It is apparent that the cost in terms of loss of fiscal resources and power is focused on the central government agencies (Table 11.1). They will lose control over staff and finance if fiscal decentralisation is implemented.

Table 11.1. Fiscal decentralisation: arena of response and resistance

Characteristics of policy	Fiscal decentralisation
Dispersal of cost	Costs focus on central government institutions, which cede control of resources
Dispersal of benefits	Benefits are focused on sub-national levels of government, which are the recipients of resources
Technical and administrative complexity	Policy is functionally and technically complex, e.g. design of a formula for allocating resources
Level of public participation	Policy attracts limited public involvement – not visible to the public
Visibility of policy process	Policy requires sustained effort with few immediate visible returns

Source: Focus group discussions and interviews

Technical and administrative complexity and participation

In Ghana, political decentralisation has made more advances than administrative and fiscal decentralisation, probably because changes in political structures suited the politicians better than the other two forms of decentralisation. The Constitution and the Local Government Acts have provided an enabling environment for the implementation of fiscal decentralisation. However, the problem has been that there is a gap between the legal constitutional provision and actual practice. There was a consensus among the interviewees that the implementation of fiscal decentralisation was complicated and that it was the least understood aspect of decentralisation. It therefore involves considerable analytical work on a sector-by-sector basis, because what is applicable in one sector does not necessarily make sense in another. For example, the level of fiscal decentralisation in the agricultural sector may not make sense in health or education; sectoral differences may call for variations in the degree to which functions are decentralised. The exact division of roles and responsibilities between district assemblies and central government must be decided on a sector-by-sector basis.

Furthermore, the complexity of fiscal decentralisation means there must be an appropriate formula for sharing fiscal resources among the district assemblies and that the

centre must develop the capacity to monitor and audit them. The implementation of fiscal decentralisation is technically and administratively complex; it needs careful analysis and sharing of functions among various levels of government (Prud'homme, 2003: 23). It therefore requires a high degree of sustained technical competence and commitment on the part of central government agencies. A structural challenge is the weak local revenue mobilisation at district level. To an overwhelming extent (85 per cent), the district assemblies are dependent on transfers from central government, both discretionary and conditional.

It also became evident from interviews with district level officers that the internally generated revenue mobilised by the district assemblies was basically used for paying sitting allowances to assembly members (councillors), and was not used for service delivery. The role of the public in the implementation of fiscal decentralisation has therefore been very limited. Because the district assemblies receive fiscal transfers from central government and have become dependent on them, there has been no motivation for them to look internally for alternative ways of generating revenue. This is supported by Olowu (2003), who argues that transfers are the predominant source of local government finance in Africa.

Visibility of the fiscal decentralisation policy process

The Ministry of Local Government and Rural Development issues guidelines in accordance with the Local Government Act (Act 462) and the District Assemblies Common Fund Act (Act 455) on the allocation of the DACF and its utilisation by the district assemblies. A broad disbursement of the DACF allocates 10 per cent of the fund as a 'reserve fund' retained at national level and 90 per cent to be shared among the district assemblies according to a formula approved by Parliament (Nicol, 2005). Half of this reserve fund is allocated to parliamentary constituencies managed by Members of Parliament for undertaking development projects, as a way of addressing the growing pressures on MPs to be directly involved in the development of their constituencies. Evidence from interviews with assembly members in the districts covered by the case study indicated that although district assembly members were unhappy about the modalities for the use of the proceeds of the DACF, its establishment has undoubtedly given district assemblies more credibility in their communities. However, it was evident that ordinary citizens could not distinguish between DACF projects and projects funded by other sources, such as donors. Furthermore, most members of the public viewed projects commissioned by their MP, funded by the parliamentary constituencies' share of the DACF and managed by the MP, as funded by money that came directly from the MP's pocket. This indicates that the implementation process of fiscal decentralisation is obscure and not fully understood by the public.

Actors' characteristics and fiscal decentralisation

This section applies a framework delineating the characteristics of the various stakeholders and their attitudes to fiscal decentralisation in order to make an empirical analysis of how they have influenced its implementation. The analysis identifies to what extent the different stakeholders have supported or constrained reform. The key actors include the MFEP, Members of Parliament, sector ministries, district assemblies, the MLGRD, the DACF administrator and donors. Table 11.2 summarises their stakes, level of interest, resources, capacity for mobilisation and attitudes towards fiscal decentralisation.

Table 11.2. Stakeholders' influence on fiscal decentralisation

Stakeholder	Stake	Interest in legislation	Resources available	Resource mobilisation capacity	Position
MFEP	Macroeconomic stability and fiscal discipline	Low	Financial, organisational and legitimacy	High	Opposition Negative
Members of Parliament	MPs' share in DACF	Medium	Constitutional, legal and legitimacy	High	Latent Positive
Sector ministries	Control over sectoral fiscal resources	Low	Information, organisation and legitimacy	High	Opposition Negative
District assemblies	Matching resources to implement transferred functions to districts	High	Constitutional, legal and legitimacy	Low	Promoters Positive
MLGRD	Centralisation and control over resources	Medium/lukewarm	Technical, information and legitimacy	Medium	Promoter Positive
DACF administrator	Fair allocation of DACF to district assemblies	High	Constitutional, legal and legitimacy	High	Promoter Positive
Donors/development partners	Strengthening decentralised units and overall capacity of district assemblies	High	External networks, financial and technical	High	Promoters Positive

Source: Focus group discussions and interviews

Ministry of Finance and Economic Planning: control freaks

The MFEP's key argument has been that the district assemblies do not have the capacity to manage financial resources. This argument was challenged in the Tema Municipality and East Akim District Assembly focus group discussions. Both groups argued that district assemblies were accountable, and that as representatives of the people involved in the budget and planning process, no matter how modest it might be, they knew that elements of accountability existed in the district assemblies. They debunked the capacity argument – that it was only after the district assemblies had been given the needed resources that they would be empowered and their capacity improved. In the process of decentralisation the axiom is: 'We decentralise to build capacity, and we build capacity to decentralise'. The question is: which comes first?

Members of Parliament: influential but latent

In fulfilment of its constitutional responsibilities, Parliament allocated 5 per cent of the total national revenue to the DACF; this has been transferred to the district assemblies annually since 1994. However in 2004, Parliament approved an increase in the proportion of total national revenue allocated to the DACF from 5 to 7½ per cent.

In the focus group discussions in both districts, the MPs' share of the common fund was called into question. It was argued that this sent wrong signals to the electorate that MPs should be the focus of development in their districts, rather than the district assemblies (councils). Focus groups observed that in the past MPs had been expected to bring development projects to their communities, but that now, as legislators, they should have nothing to do with the implementation of projects. It was further argued that MPs should not lose sight of their supervisory and oversight roles, and that they should avoid situations where they would have a conflict of interest and compromise their position.

From the above analysis, the stake of MPs in fiscal decentralisation is seen to be an increase in their share of the DACF, with only medium or less than maximum interest in the overall process. With their constitutional and legal resources, and high capacity for mobilisation, they could have influenced the effective implementation of the changes. Their position on fiscal decentralisation was positive, but they have not been active in pushing for reform.

Sector ministries: bureaucratic obscurantists

The sector ministries argue that because Ghana has 138 district assemblies, 1,306 zonal, urban, town and area councils, and 16,000 committee sub-structures (MLGRD, 2005), it is not financially or economically viable to decentralise fiscal resources. In other words, there is an economy of scale argument against fiscal decentralisation. Fjeldstad (2001) observed that fiscal decentralisation could increase the scope for corruption

because in dispersing expenditure functions over a large number of units, controls would become increasingly ineffective. However, this argument was challenged by district assembly officials who pointed out that corruption at the local level is nothing compared to what happens at the centre. It was therefore evident that the sector ministries' stake in the issue of fiscal decentralisation was to maintain centralisation and control of fiscal resources, and that they preferred deconcentration of resources to their field offices. Their interest in fiscal decentralisation was low, and using their information, organisation and legitimate resources they mobilised strong opposition to its implementation. Their position on the whole issue was very negative, as shown in Table 11.2.

District assemblies: generals without armies

The interviews with district assembly members in both districts highlighted a number of arguments in favour of decentralisation. There was the welfare economics argument, which suggests that local decision-making in relation to expenditure functions is more efficient than central control, and that local decision-makers respond better than those at the centre to local needs. So district assemblies are in a better position to deliver services. There was also an accountability argument to the effect that district assemblies, as the highest political body at the district level, have a huge planning and budgeting responsibility. It was argued that with their elected councillors, district assemblies were more accountable to their communities than central government agencies, which had no local accountability. However, it was evident that most services were not delivered by the district assemblies. Services delivered by the sector departments, which are not necessarily accountable to local people, raise the issue of accountability. The assembly members further argued that the inability to integrate the decentralised departments into the district assemblies system had created difficulties for fiscal decentralisation in terms of integrating sectoral resources into the district assemblies.

From the above analysis, it is evident that the interest of district assemblies in fiscal decentralisation is to secure resources that match the functions that have been transferred to the districts. They have a substantial interest in the process, and possess constitutional and legal credibility. Although the assemblies have a low capacity for mobilisation because of their inadequate resources, their position on the issue was positive and they were promoters of decentralisation.

MLGRD: support for centralisation

The MLGRD, as the local government secretariat, is the supervisory ministry and is responsible for the planning, programming, monitoring and evaluation of policies affecting the district assemblies. In addition, it issues annual guidelines on the use of the DACF. The ministry has been authorised by the Local Government Act to exercise the following controls over the district assemblies, aimed at ensuring financial accountability:

- Issuing financial instructions;
- Issuing written instructions for better control and efficient management of the district assemblies' finances, after consultation with the Minister of Finance;
- Establishing an inspectorate division.

It was evident from the interviews with officials both within and outside the MLGRD that the ministry has centralising tendencies. Its infrastructural responsibility at the sub-national level makes the MLGRD responsible for some infrastructural investments in the districts. Its interest in centralisation stems from the fact that it controls a significant amount of infrastructure and investment money, which it is reluctant to relinquish. It was therefore in the MLGRD's interests to promote centralisation and central control of resources. The ministry had a medium interest in the process and possessed information and technical resources, with medium or less than adequate mobilisation capacity, as shown in Table 11.2. The MLGRD's position on fiscal decentralisation was lukewarm, even though it has been given a mandate to promote it.

The District Assemblies Common Fund Administrator

The DACF Administrator is by law appointed by the President of Ghana, with the approval of Parliament.

Interviews with the DACF Administrator indicated that his basic approach to sharing out the Fund was influenced by various factors, including need, service pressure, and the need to be responsive and to move towards greater equalisation.

- The need factor seeks to address the imbalance in the various levels of development among the district assemblies;
- The service pressure factor is determined by population density and pressure on the district's facilities;
- The need to be responsive motivates the district assemblies to mobilise more resources locally for development, instead of relying solely on the DACF
- There is pressure to ensure that each district, irrespective of size, natural endowment and population, is given an equal specified minimum for development.

The Administrator explained that the need factor was scored inversely, i.e. the fewer basic facilities a district possessed, the greater the score. Some of the facilities taken into account were the availability of health care (measured by patient/doctor ratio), education, water (taking into account quality and potability) and roads (the extent of tarred roads in a district, compared to the national situation). The service pressure factor could favour urban areas because it was based on land area in relation to population pressure and the responsibilities of local authorities. All the information was fed into a computer and proportional allocations were produced automatically.

What emerged from the focus group discussions in both districts were concerns about transparency in relation to the disbursement of the DACF within the areas covered by the district assemblies. The focus groups called for equitable distribution of the DACF among the various electoral areas within the districts and suggested the establishment of units in the district assemblies to monitor the DACF.

Donors and development partners

It became evident from interviews with local government officers that although donor-assisted programmes are well intentioned, many of them have been implemented through various sector ministries, departments and agencies. Donors make use of structures and approaches that are not always supportive of the fiscal decentralisation policy. For example, intra-sectoral consultation between donors and sector ministries have resulted in separate programmes for health, education and forestry at district level. These intra-sectoral donor co-ordination efforts have helped to shape and finance sectoral programmes in a deconcentrated manner, and in the process have made inter-sectoral co-ordination more difficult for the district assemblies. This problem is captured in the literature, which shows that donors have simultaneously supported decentralisation and favoured sector wide approaches (SWApS) that tend to recentralise power. Aid policies have frequently meant that donors support parallel administrative structures that in some cases have undermined the authority and capacity of elected local governments (Jütting *et al.*, 2004).

Conclusion

This case study suggests that central government institutions, particularly the Ministry of Finance and Economic Planning, have resisted the implementation of fiscal decentralisation. District assemblies are perceived to be the main beneficiaries of the change. Fiscal decentralisation is technically and administratively difficult to implement when there is low public participation and visibility. It is apparent that reactions to fiscal decentralisation came from the bureaucratic arena, which had a lower political stake in its implementation.

Evidence based on stakeholder characteristics indicated that the key actors whose actions and resources constrained the implementation of the policy were, again, the central government agencies, led by the MFEP; the interest and resources of the district assemblies, on the other hand, were not significant enough to influence its implementation. In addition, it emerged that the MLGRD, with its centralising tendency, was not prepared to push for something as across-the-board as fiscal decentralisation, while donors were driving their own agendas, which sought to achieve sectoral programme objectives.

Fiscal decentralisation is designed to allow the district assemblies to gain access to national development resources for the implementation of development projects and

programmes that have been prioritised in the district development plans. On the basis of the evidence provided in the preceding analysis, one can conclude that politics has operated to constrain policy-making on decentralisation and its implementation. The political attitudes of the key actors which accounted for the lack of achievement of fiscal decentralisation were a clear case of bureaucratic obscurantism, where the reluctance of bureaucrats at the centre to let go their hold on power and resources led to lack of progress in the reform. This also resulted in many unfulfilled mandates at district level, as district assemblies were not strong or resourceful enough to push for true fiscal decentralisation. In addition, the actions of donors, though well intentioned, did not always support the changes.

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