

# The Challenges of Central Government Fiscal and Financial Policies on Local Government Programmes in Ghana

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## Abstract

Growing interest in the area of participation especially at the local level stems from the belief that democratic approaches to governance achieve better development outcomes. Over the past decade, World Bank has been promoting Community-Driven Development (CDD) programs, an approach that is believed to give local people total control over development projects. Using the qualitative approach to research, the study relies on secondary data and extant literature on decentralization theory and practice. Various legal frameworks in Ghana underpinning decentralization and local governance were utilized to extrapolate challenges of central government fiscal and financial policies on local government programmes, drawing very much on the history, structure and policies of decentralization in Ghana.

**Keywords:** Decentralization, Local governance, Local participation, Fiscal policies, Local government.

## Introduction

Local participation is a proposed method of achieving a variety of goals such as sharpening poverty targeting, improving service delivery, expanding livelihood opportunities, and strengthening demand for good governance. Growing interest in the area of participation especially at the local level stems from the belief that bottom-up approaches to governance achieve better development outcomes (Chambers1983, Crook & Manor1998). Decentralization is also believed to promote democracy through the inclusion of local voices in development processes (World Bank 2004). The purpose of these participatory programs is to enhance the involvement of the poor and the marginalized in community-level decision-making bodies in order to give citizens greater say in decisions that affect their lives.

Decentralization refers to efforts to strengthen village and municipal governments on both the demand and supply sides. On the demand side, decentralization strengthens citizens' participation in local government by, for example, instituting regular elections, improving access to information, and fostering mechanisms for deliberative decision making. On the supply side, it enhances the ability of local governments to provide services by increasing their financial resources, strengthening the capacity of local officials, and streamlining and rationalizing their administrative functions (Shah 2006).

Local government (LG) on the other hand, refers to specific institutions or entities created by national constitutions, by state constitutions, by ordinary legislation of a higher level of central government, by provincial or state legislation, or by executive order to deliver a range of specified services to a relatively small geographically delineated area. (Shah 2006).

Local governments deliver a wide variety of services but with varying degrees of authority and responsibility for the service provision. These services, such as pre and primary education, social welfare, health clinics, cemeteries, museums and libraries, water and sanitation, refuse collection, environmental protection and transport, are provided by the local government, but with varying degrees of authority and political responsibility for the service provision. The central government's inability to devolve completely authority to the local governments to operate fully makes the provision of the above services difficult. As Mohan, (1996) puts it, local institutions are to some a large extent established by central government and are hence not immune from central control. The Ghanaian decentralization programme is fraught with a lot of challenges when it comes to providing the needed services to the citizens at the local level due to certain constraints with the release of funds to support the various programmes. The government of Ghana fiscal policy on allocation of funds for decentralization programme is clear yet the implementation of this policy is always a challenge. This paper therefore examines the challenges of central government fiscal and financial programmes on local government programmes in Ghana.

## Methodology

This is a conceptual research paper that tries to assess Ghana's fiscal decentralization process and key challenges inherent in the system. The study utilizes the qualitative approach to social research. This approach is chosen in that it is deemed appropriate for exploratory and explanatory studies on which this study is based (Babbie, 2004). The study relies on secondary data and extant literature on decentralization theory and practice. Various legal

frameworks in Ghana underpinning decentralization and local governance, including the 1992 Republican Constitution, the Local Government Act (Act 462), the District Assembly Common Fund (Act 455), the Local Government Service Act (Act 656) and the National Development Planning Act (Act 480) are analyzed.

### Literature review

The concept of decentralization has been expressed by various authors to mean local participation in governance to achieve a variety of goals, including sharpening poverty targets, improving service delivery, expanding livelihood opportunities, and strengthening demand for good governance. Decentralization has been used extensively in the literature, and scholars have various perspectives regarding it. The concept of decentralization and its interpretations have become a battleground for a variety of disciplines and theories (Antwi-Boasiako, 2010: 168).

Falleti (2005: 329) defines decentralisation as “a process of state reform composed by a set of public policies that transfer responsibilities, resources, or authority from higher to lower levels of government in the context of a specific type of state.” This definition is characterized by four distinguishing features: which state inter alia

*Decentralisation is conceived as a process of public policy reform and not as a description of the state of being of a political or fiscal system at a point in time; Lower levels of government are recipients of the transferred responsibilities, resources, or authority; Because decentralisation is a process of state reform, transition to a different type of state necessarily implies commencement of a new decentralisation sequence; and The degree of authority devolved to Local Governments determines the levels and types of administrative, fiscal, and political decentralisation policies*

Decentralization in the Ghanaian context according to Ayee (2008), is the ‘transfer of significant authority, responsibility for services and fiscal and human resources to local government units for the development of their areas. It is the reduction of poverty and also involving legal and administrative measures to transfer authority, resources, accountability and rules from central government to local entities’.

The main rationale for decentralization is to promote participatory democracy and to bring governance closer to the people as well as to improve service delivery thus making government more responsive to local needs and preference. The point has been argued that the basis for decentralization ‘stems largely from the idea that decentralization will promote better governance as local officials are supposedly more aware of, and more responsive to, local needs’ and provides locals with the chance to have control (Duncan, 2007: 713, cited in Antwi-Boasiako, 2010). The overall goal is to redress the over-centralization of power at the national level, improve the rural–urban imbalance and enhance local participation in national decision making (Ahwoi, 1992; 2011).

White (2011) argues that, Ghana’s decentralization as a government system encompasses three main facets that are commonly related. The first which is *deconcentration* is the process whereby the central government disperses responsibilities for certain services to regional branch offices without any transfer of associated authority. According White, many scholars do not consider this as true decentralization. The second, *delegation* refers to a situation in which the central government transfers responsibility for decision making and administration of public functions to subnational governments. Here, local governments are accountable to central governments but are not fully controlled by the central governments; and the third which is *devolution* happens when the central government transfers authority for decision making, finance, and administrative management to quasi autonomous units of local government.

White (2011) posits that, a lot of literature considers devolution to be the most extensive form of decentralization. Ayee (1996) reiterates this view that Ghana’s approach to decentralization appears to place much emphasis on devolution which involves the transfer of power to Metropolitan, Municipal and District Assemblies (MMDAs) and are given the absolute autonomy and associated responsibility to determine the level of services required, the best methods to ensure their provision and the sources and type of funds to finance such services efficiently and make them more effective.

The literature on inter-governmental decentralization distinguishes three different forms of decentralization as follows; administrative decentralization, political decentralization and fiscal decentralization.

### Administrative decentralization

Administrative decentralization may be in the form of deconcentration where local officials have no decision making power or delegation where local officials may have some minor decision-making powers (Crook & Manor, 1998: 6–7). The local government administration is usually headed by a centrally appointed executive official who is accountable directly to the central government.

### **Political Decentralization**

Political or democratic decentralization refers to transfer of some powers from central government politicians to elected local government politicians who are given autonomy to determine all their local processes of development (Smith, 1996). Such autonomy may be enshrined in a country's constitution or be legislated. For political decentralization to move beyond platitudes, a set of constitutional amendments, legal instruments, and electoral reforms is designed to open new or reactivate existing but dormant spaces for representation of LG politics. The reform may result in election instead of appointment of councilors and mayors; creation of local councils with the power to make laws and authorize the use of budgeted finance by executives; enabling of citizens to recall their councilors for underperformance or vote them out during elections; and autonomy of local councils to hire, motivate, manage and fire local bureaucrats without central government interference.

### **Fiscal Decentralization**

Fiscal decentralization has become a major concern for many countries in the decentralization process and Ghana is no exception. This is mainly in the areas of externally and internally generated sources of revenue (Ankamah, 2012). This has become very important for subnational governments in their quest to achieve their desired development goals and objectives at the local level (Dick-Sagoe, 2012). Fiscal decentralization is seen as a system of government which involves the "assignment of responsibilities" comprising of the functions and activities at the various sectors of government as well as the assignment of locally generated revenues to local or subnational governments (Smoke, 2003).

The UN report in 1996 puts this in a very polished manner as "...The establishment of effective and transparent financial management is at the core of any effort to reform the public sector...To be genuinely supportive of a decentralization process, the basic characteristics of a system for decentralized financial management should include:

*Transparency of allocation, predictability of the amounts available to local institutions and local autonomy of decision making on resource utilization.*

In contrast with the widespread practice of ad hoc grants driven by politics, the allocation of resources should be based on transparent formulas. In spite of the unpredictable nature of most central-to-local transfer mechanisms prevailing in developing countries, the process should provide local institutions with an up-front indication of how much money will be available in the next multiyear planning cycle. This makes local strategic planning possible and provides a financial ceiling that makes such planning a meaningful exercise and an opportunity for local communities to take autonomous decisions on the use of limited resources" (UN, 1996).

In a period of globalization, the World Bank craves for local discretion and devolution of power as a major force shaping governance and development as far as fiscal decentralization is concerned (World Bank, 1997). In his analysis of some 58 countries in the early 1990s, Oates (1993) also demonstrated a more cordial and positive relationship between economic growth and fiscal decentralization and suggests some role for subnational governments especially in infrastructure development.

What has propelled the "renewed interest" in fiscal decentralization as a reform in many countries are the three basic reasons outlined by Kee (2003); First of all, central governments are increasingly finding that it is impossible for them to meet all of the competing needs of their various constituencies as well as local areas and are now attempting to build local capacity by the delegation of responsibilities to their regional subnational governments. Secondly, central governments are looking to local and regional governments to assist them on "national economic development strategies" and finally, regional and local political leaders are demanding more autonomy and want the taxation powers that come along with the associated expenditure responsibility.

Fiscal decentralization, although encourages the devolution of resources, it does not only involve the transfer of resources to different levels of government. According to UNDP (2005), fiscal decentralization is also about how local governments are given more power to have "authority and control" in the use and management of their financial resources. This according to the UNDP is seen in their control over the following; (1) The provision of the basket of local services for which they are responsible; (2) The level of local taxes and revenues (base rates and collection); and (3) The grant resources with which they finance the delivery of local public services.

Of all the typologies, administrative deconcentration represents the weakest form of decentralization because it provides the fewest direct links between decision-makers and local population. Political decentralization is the strongest. If administrative decentralization takes place and the organizational capacity of the local bureaucracy is improved through, for example, training, but it is worth noting that, without transfer of funds and authority to make and implement decisions, the degree of local government autonomy is constrained (Awortwi, 2010). Similarly, transfer of requisite funds without administrative capacity can create serious fiscal constraints at both local and national levels.

The choice of any of the three different decentralization policies involves political and strategic calculations by the interest groups that initiate them. The overarching issue here is that politicians at the center

have no intention to cede their vast powers, notably those over public finances, decision-making, hiring and firing, to the local level, and potentially resist all three decentralization policies. Interest group politics heavily influences how decentralization reforms are designed (Awortwi, 2014).

### **History of Local Government in Ghana**

Local governance in Ghana did not start with the coming of Europeans. Local communities and societies had their own unique ways of governing themselves. During the period before colonisation, Local Government and administration centered on the chiefs or some local loyalty which was basically undefined. The chief was the head of government in the communities and he was supported by his elders. With the settlement of Europeans in the Gold Coast (now Ghana), the dynamics of local governance changed (FES, 2010). This led to the first local government system which was introduced in the Gold Coast in 1878, during the colonial era, by the British. The introduction of Local Government during this era conferred a legal basis for traditional authorities to perform limited local government roles including judicial and legislative activities and resources management.

Officially, decentralization in Ghana is said to have started in the late 1870s when the British Government established the indirect rule which lasted until 1951. The colonial administration ruled the people of Ghana indirectly through the chiefs by making the chiefs and elders in any given districts as the local authorities, with powers to perform local government functions (Crawford, 2004). During this period of colonial rule, decentralization was attributed to mere de-concentration of the central government administrative structure, where the colonial authorities used this means to strengthen its power and control over the entire nation. Thus decentralization became a political tool for the British through the local chiefs and their elders to reemphasize on the wishes of colonial government (Antwi-Boasiako, 2010). Between 1957 and 1988 successive governments attempted to devolve administration. Decentralization after Ghana's independence era in 1957 was described by many scholars as ineffective. This according to Antwi-Boasiako (2010), was due to the fact that, the era was characterized by changes through military coups which became rampant after Kwame Nkrumah was overthrown in 1966. It was during the mid-1970s under the Lt. Col. Ignatius Kutu Acheampong's military regime that the government tried to empower the local people (Nkrumah, 2000).

### **The Nkrumah regime**

Decentralization after independence in 1957, was administrative decentralization in the form of deconcentration, with sectoral ministries organized in territorial hierarchies whose apex was in the national capital, and agencies at the local level (Ayee, 1994; 2008). Conyers (1983), notes that the interest in decentralization in the late 1950s and early 1960s was associated with the transition to independence and the desire to create democratic structures after the imposition of colonial rule. From the 1960s to early 1970s, planning and implementation of development policies and programs in education, housing, health, electricity, water and sewerage, roads, and postal and telecommunications services were transferred to parastatals and agencies attached to central ministries (Amonoo, 1981; Tordoff, 1980). During this period, the Local Government Act (Act 54) of 1961 was enacted, with features which included efforts of a central government body, which dealt with national issues and the local authorities as central government agencies (Inanga and Osei-Wusu, 2004).

This was accomplished through an activist strategy of institution-building that was designed to penetrate local communities, micro-manage key political and social processes within towns and villages, and link localities directly to the state. Through successive reforms of the institutions of rural government inherited from colonial rule, the Nkrumah regime shifted local balances of power and strengthened its presence and influence at the grassroots. Local councils, which exercised considerable clout in the Ghanaian administrative system, were brought under party control and empowered at the expense of pre-existing organs of rural government. Working toward the same end, the regime invested tremendous effort in marginalizing the many chiefs and other provincial notables who contested the Nkrumah's leadership. Co-operative indigenous authorities were drawn into the embrace of the regime, but the centralization of authority compromised their prerogatives and constricted their room for maneuver on the local level (Boone, 1998).

The central government established nine regional administrative units to serve as links between the center and 65 local councils. Legislative instruments to establish local councils required them to facilitate the collection of local revenue for the central government and supervise sanitation and hygiene. Council works were undertaken by civil servants appointed by the central government. The institution of chieftaincy, which forms part of the traditional authority in Ghana, was recognized only at the community level. For instance, chiefs mobilized their people for collective action through town development committees and wielded tremendous power over their local people but had no powers to legislate and prosecute. All decision-making, whether it concerned acquisition of a license to operate a small business or ride a motorcycle or an application for a passport to travel abroad, had to be processed in the nation's capital. The regional offices and their civil servants became the conduits through which local councils reached the central government (Awortwi 2010).



### **The Post – 1980 Era**

In the 1980s, three factors led to change; the first being the military regime of the Provisional National Defence Council (PNDC) led by Flt. Lt. Jerry John Rawlings (1981–92) which banned political party activities; the second, a deteriorating national economy (1980–4) which reduced the real income of bureaucrats by more than 50 percent (Merode & Thomas, 1994); and lastly the structural adjustment policies (1983–8) initiated by the World Bank, forcing governments to develop decentralization policy reform meant to reduce the size and responsibilities of central government (Mohan, 1996). In 1988, the Provisional National Defence Council (PNDC) introduced the current practice of decentralization process which was backed by the Local government law (1988) PNDC Law 207 (Assibey-Mensah, 2000). This led to the creation of 110 District Councils and the setting up of the 17 District Assemblies. As argued by Antwi-Boasiako (2010:171) after over a decade of military dictatorship under Chairman Rawlings (1981–1991), the 1992 Republican Constitution provided a transition from a military rule to multi-party democracy at the national level, which also authorized the 1988 local government reforms. Decentralization was within the overall context of a liberal democratic constitution, yet essential democratic elements remained compromised, especially through the retention of presidential appointments instead of local elections in the districts.

In an attempt to strengthen the decentralization process as well as local government, the Fourth Republic, with the promulgation of the 1992 Constitution, has devoted chapter twenty to such a purpose. The Constitution states emphatically in Article 240 that local government and its administration shall be decentralized, and that the functions, powers, responsibilities and resources should be transferred from the central government (Flagstaff House) to the local governments (Metropolitan, Municipal and District Assemblies). The autonomy and independent role of local governments, with discretionary powers at the grassroots, was subject to a provision in Article 240(2b), which stipulates and directs that measures should be taken to enhance the capacity of local government authorities to plan, initiate, co-ordinate, manage and execute policies in respect of matters affecting local people.

### **The legal framework of decentralization in Ghana**

The 1992 Republican Constitution spells out the legal framework that establishes Ghana's current decentralization. Under this arrangement, Article 242 requires the District Assembly (DA) to be non-partisan in nature; and it is the highest political authority in the district, comprising one person elected from each electoral area; the member of parliament (MP) from constituencies that fall within the jurisdiction of the DA; the district chief executive (DCE) appointed by the president with executive powers and with the prior approval of not less than a two-thirds majority of the members of the assembly present voting at the meeting; and the other members being not more than 30% of all the members of the DA appointed by the president in consultation with the traditional authorities and other interest groups.

Other legislation by act of parliament such as the Local Government Act 462, 1993; District Assembly Common Fund Act 455, 1993; The National Development Planning Systems Act; legal instruments establishing the DAs; and the Local Government Service Act 656, 2003 have all sought to enhance and strengthen Ghana's decentralization. For instance, Section 2 of Article 240 of the 1992 Constitution stipulates that 'Parliament shall enact appropriate laws to ensure that functions, powers, responsibilities and resources are at all times transferred from central government to local government units in a coordinated manner'. The consequent establishment of the Local Government Service Act 656, 2003 was to ensure a better local government whose main objective was 'to secure effective administration and management of local government in the country'. It was charged with the following responsibilities: the commencement of functioning decentralized departments at the DAs, transfer of functions to the relevant decentralized departments, transfer of staff from the Civil Service to the Local Government Service, and establish a performance-based management system for both human resource and service delivery.

The DAs are tasked to perform 86 functions that to empowers them to provide deconcentrated and devolved local public services and also the overall development of the district...shall ensure the preparation and submission... for approval of the plan and budget for the district (Local Government Act, 1993). The DAs act on the advice of District Tender Boards; DAs are the sole taxing authority in the districts; and they also make byelaws.

The above prescriptions notwithstanding, decentralization has not been able to entrust to local governments enough autonomy or real power to initiate and execute their plans and policies. The context and history of Ghana's decentralization, and most of the laws pertaining to local government that are still in the system, have hindered the transfer of real power and resources to the local governments, thereby strengthening central government's position vis-à-vis the DAs.

### **Decentralization policies**

Awotwi (2011), citing Rondinelli, (1981) argues that, decentralization has been defined in many ways on the

basis of what the policy aims to achieve: transferring responsibility for planning, management, and resource-raising from the Central Government to field units of ministries or agencies, changing relationships of power and subordination between central and sub-national levels and redefining the functional roles of units at each of these levels (Elcock and Minogue, 2001: 101); and creating open, responsive and effective Local Government systems for decision-making (UNDP, 1998: 4).

### **Policy on Fiscal decentralization in Ghana**

The Constitution of Ghana prescribes a devolved form of decentralization where there is a transfer of authority for decision-making, finances and management from the central to the local governments. However, the central government still performs many functions that should be moved to the district level and controls the majority of regional and district financial resources.

The objective of the Decentralization Policy Framework issued by the Ministry of Local Government, Rural Development and Environment in 2008 is to

“...deepen political, administrative and fiscal decentralization in Ghana and to reaffirm the Government’s commitment to the policy of decentralization in conjunction with people’s participation.”

Awotwi (2011) citing Fjelstad, (2001) and Prud’Homme, (2003) has noted that, fiscal decentralization involves four policies to increase fiscal autonomy of Local Governments:

- expenditure assignment clearly delineating the CG’s and LGs’ responsibilities for providing and paying for specific services to citizens;
- revenue assignment demarcating taxable revenue sources as well as tax-raising powers between the CG and LGs and possibly creating a new sub-national tax to strengthen the fiscal base of LGs and give them authority to decide how to spend their revenue;
- inter-governmental policy enabling a CG to transfer financial resources in the form of grants to LGs; and
- regulatory policy to monitor and set limits on LG finances (Fjelstad, 2001; Prud’Homme, 2003).

Expenditure assignments to the local governments shall be in accordance with the principle of subsidiarity, where tasks are transferred to the lowest possible level closest to the people. The expenditure assignment shall be well defined for each tier of governance to pursue efficiency and accountability. Revenue assignment should be clearly defined and aligned with the DAs function and commensurate with these, allowing the DAs sufficient room to adjust revenues to local needs.

The legal framework for the expenditure and revenue assignment shall be clearly stipulated to avoid doubts and conflict. Fiscal transfer systems shall be harmonised, made simple, objective, fair transparent, timely, poverty sensitive and with an element of performance base allocation of funds to promote DA efficiency and good governance.

The main sources of funding for the district assemblies are internally generated funds, central government transfers, development partner support and access to borrowing. Internally generated funds (IGF) include rates, fees and levies, grants-in aid under Article 252 of the Constitution, and 55% of the Stool Land revenue. Central government transfers consist of the District Assembly Common Fund (DACF) under Act 455, Getfund (Act 581), and the support of the decentralized departments by MDAs in the form of direct salary payments or transfers for administrative, service and investment costs.

### **Benefits of Fiscal Decentralization**

The literature on fiscal decentralization suggests several benefits attributable to fiscal decentralization in spite of all the challenges outlined above. These include; improvements in the level and quality of local services; improvements in revenue sources; better matching of local services to the preferences of local constituencies; and greater accountability. Prud’homme (2003) identifies four major policy areas impacted by fiscal decentralization policies: economic efficiency, macro-economic stability, interregional or interpersonal equity and political efficiency.

The argument that fiscal decentralization increases economic efficiency according to Prud’homme is based on the fact that demand for public goods and services varies from place to place, that this demand cannot be known and therefore cannot be satisfied by the central government. This demand, however, is known by the various local governments and they will provide their constituents with what they want. With decentralization, different bundles of public services will be provided in each jurisdiction and they will better match the various tastes of each jurisdiction, and therefore increase allocative efficiency (Oates, 1972). Thus local governments are responsive to local demand providing such services as education, health and transportation.

Inter-personal disparities which relate to the distribution of income between individuals or households aims at improving the lot of the poorer, or ‘fighting poverty’. Taken from the viewpoint of decentralization, inter-regional disparities imply that, on average, people in local areas are poorer than people in urban areas. The

people from each jurisdiction, be it local or regional, often have a feeling of identification with their jurisdiction. Irrespective of their own income, are interested in the average income of their community. This generates a strong demand for more inter-regional equity and redistribution.

The political implications of decentralization facilitate and increases local participation in political decision-making which brings about social benefits. Here people are committed to make decisions they take themselves work than decisions that are imposed upon them. Decentralization ensures active local governments are a school of democracy, for both the electorate at large and for politicians. People become accustomed to discussing social issues and choices that relate to the locals. This makes them better-informed citizens in general. Local governments are also an effective training ground for politicians. Finally, stronger sub-national governments are a useful counter-power to the central government where they curb the temptation of authoritarian central governments.

### Challenges

District assemblies have not been able to operate at full capacity due to the fact that the IGF which is their main source of revenue is inadequate. This has resulted in most District assemblies depending solely on the DACF. The DACF is a statutory provision by the DACF Act, Act 455, which directs the government to allocate at least 5% (subsequently increased to 7.5%) of national revenues to local governments, which is to be shared by formula. The Formula, of DACF adopts the “Basic Needs” approach and considers the following as its indicators; Health Services, Education Services, Water Coverage, Tarred Road Coverage. Under this approach, those who have more facilities or services receive less to bridge the development gap (culled from DACF website).

*It is interesting to note that all funds generated by the district assemblies go into central government coffers, and then the central government will transfer to the assemblies funds in the form of DACF to the District assemblies to use for development as and when necessary based on the budgets presented.*

This accounts for reasons some projects that have been planned for the districts delay or are abandoned. The lack of funds or delay in receiving funds from central governments to work with renders the assembly unresponsive to the needs of their community.

The decisions about the use and management of the DACF have been usurped by the central government so that the DAs remain objects of ridicule which lack the necessary finances to implement their decisions. For instance, deductions are made at source without the knowledge of the DAs. Central government continued control over the DAs has reduced the potency of the DACF as an effective instrument of decentralization and democratization. The introduction of the DACF under Act 455 as an incentive to augment revenue base of District Assemblies appears to have made most of the Assemblies renege on their local base resource (internally generated funds) mobilization efforts (Asiamah 2014). The DACF also suffers irregularities in the disbursement of funds; there is a lack of transparency afforded to district authorities over the allocation of funds.

By way of illustration, it is a well-known fact that, although the Constitution stipulates that at least 5% of national revenue must be assigned to local governments, only 3–4% was transferred between 1994 and 2000 (Awortwi, 2003). In most cases, the DACF, which is the major source of revenues to local governments, get delayed for two to three quarters. For instance, the late and non-payment of the DACF and other non-statutory funds for the period 2012–2014 posed major challenges to the MMDAs in their attempt to carry out their functions bestowed by Article 245 and the Local Government Act (Act 462). Granted without admitting that the state does not have enough funds; is the moneys (5–7.5%) allotted to MMDAs that should be sacrificed, as sarcastically posed by Assiamah, (2014).

Fiscal decentralization has not been well promoted in Ghana due to the failure of the Ministry of Finance to effectively implement composite budgeting. In addition, centralized laws on fiscal policies of Ghana such as the Financial Administration Decree (FAD), 1979; and Financial Administration Regulation (FAR) Financial Memorandum of Local and Urban Councils, 1961, and even the Local Government Act do not promote a segregation of the DA budget from that of the central government. Because these appear to favour the central government, they still exist in the legal framework underpinning decentralization in Ghana (Assiamah 2014)

Prud’homme (1995) also finds some shortfalls of the fiscal decentralization model. He suggests that fiscal decentralization be adopted in countries where there are roughly even regional capacities. However, this situation is not common in many countries especially in developing countries. Moreover, the redistribution of national income should be by the central government and not the sub national government. This is as a result of the fact that, it can lead to the poor in developed and higher income regions to be better off than their counterparts in the less developed and low income areas. Also in regions where the policy is to impose higher taxes on the rich and redistribute to the poor, the rich might migrate to areas where the tax policy favors them making the poor in such areas to be poor for good making the model “self defeating”. In addition, it may lead to a “destructive competition” among regions to attract investors by way of “lowering their taxes and improving

subsidy”. Prud’homme further argues that the motive behind decentralization of revenues is not the same as expenditure; and “in many cases the problem is not so much in whether a certain service should be provided by a central, regional, or local government, but rather how to organize the joint production of the services by the various levels”

Another challenge is that, until fiscal decentralization was introduced in 1994, there was no basis for calculating grants to Local Governments and only small amounts were given at the discretion of the Local Government ministry. Normally, the Central Government would wait until November/December to transfer its unspent money to Local Governments. In 1990, the Central Government allowed DAs to collect some taxes which were then collected by the Internal Revenue Service. This revenue was shared by all the local councils according to a formula determined only by the Local Government ministry. In 1994 the ceded revenue was replaced by a constitutional provision mandating the Central Government to transfer 5% of the national revenue to Local Governments. An independent common fund administrator was appointed to develop a formula for sharing out the fund. Even though the constitution mandated 5%, only 3–4% of national revenue was actually transferred to Local Governments from 1994 to 2000 (Awortwi, 2003).

### Conclusions

Decentralization which is a form of local participation in the developed and developing countries will yield positive results if governments have the strong will to develop policies and structures for its implementation. The challenges of decentralization, identified as central government’s inability to devolve the necessary powers to the districts to fully operate and inadequate funds and lack of political will in the implementation of the policies does not allow the country to realize the full benefits of the programme. That notwithstanding, there are several benefits associated with the implementation of decentralization such as bringing governance to the door steps if the local people makes it worth pursuing. The case of Ghana is an example of the good intentions that decentralization has on paper, yet be it political or administrative or fiscal decentralization, there remains much to be learned from all the challenges that the local government system poses. Central government must of necessity be willing to devolve authority to the local governments to work at full capacity to ensure the achievement of decentralization policies in the 21<sup>st</sup> century.

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