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A STUDY TOWARDS Deepening Fiscal DECENTRALIZATION FOR EFFECTIVE LOCAL SERVICE DELIVERY IN GHANA

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FINAL REPORT

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Final Research Report

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About Good Governance Africa

Founded in 2012, Good Governance Africa is a registered Not for Profit Organisation (NPO) with centres in Accra, Ghana covering Anglophone West Africa with the exception of Nigeria which has an independent centre in Lagos. For Southern Africa, GGA has centres in Johannesburg, South Africa and Harare, Zimbabwe. New centres have also been opened at Goree Institute in Dakar, Senegal to cover Francophone West Africa and Addis Ababa, Ethopia called the AU Centre.

Good Governance Africa aims to promote good governance in Africa through applied research and critical debate. Our publications include Africa in Fact, the African Survey and other projects. Research areas include local government, land and natural resources, early childhood education and national security. Good Governance Africa (the West Africa Centre in particular) is also concerned with the promotion of local economic development, urban governance, right to information, justice and accountability, innovation, environmental sustainability and leadership.

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EXECUTIVE SUMMARY

Evidence suggests that local governments are unable to provide high levels of public goods such as roads, electricity, sanitation, education, schools, health, and recreational facilities mainly due to their inability to mobilize adequate resources. There is however no consensus among policymakers, governments and scholars on how best to promote greater revenue mobilization by local governments and make adequate fiscal resources available to them to deliver services. In the case of Ghana, part of the explanation to this problem is our inadequate understanding of how Ghana's fiscal decentralization reforms work. Our inadequate understanding is also mainly explained by the processes and approaches used by many existing studies that do not give adequate room for the voices of the implementers of the policy. The need to deepen our understanding of Ghana's fiscal decentralization reforms through the lenses and voices of the implementers of the policy has become apparent. This is where Good Governance Africa seeks to contribute to this process by providing insights into how best to make Ghana's fiscal decentralization reforms work. The major objective is to increase revenues to Metropolitan, Municipal and District Assemblies (MMDAs) by addressing the key constraints in the fiscal decentralization process. Ultimately, the findings will help policymakers to design more effective policy tools to help MMDAs raise adequate revenues and increase productive public expenditures at local government level.

Methodology

This work employs qualitative in-depth interviews with the key actors in the reform process at both MMDA level and MDA level to study three MMDAs; the Accra Metropolitan Assembly, Ejisu Municipal Assembly and Upper Manya Krobo District Assembly. Focus Group Discussions were also held with residents, informal business operators and landlords in the selected districts. The study focused on the pillars of fiscal decentralization: expenditure assignment; revenue assignment, intergovernmental transfers, and formula for intergovernmental transfers.

Findings

The first finding of the study is that there is no country in sub-Saharan Africa that can be said to have a clean system of fiscal decentralisation for wholesale adoption. There are several different types of intergovernmental transfer systems in practice by different countries so it is not easy to settle on a best practice. Consequently, the objectives of the types of fiscal decentralisation should determine the kind of structure to design for the country context. Some aspects of best practices that need consideration include investments in staff recruitment, training and digitizing and updating databases; instituting internal revenue collection from inefficient and expensive private outsourcing; seeing the rate payers as a client who requires good services, and who is legitimate in demanding services in exchange for rate payment.

Second, the existing mechanisms of intergovernmental transfers are highly fragmented and not adequately understood by one of the major stakeholders in the fiscal decentralisation arrangements, the MMDAs. Ghana's 1992 Constitution specifies that 5% of national revenue is set aside as District Assembly Common Fund (DACF) for local development to be distributed to MMDAs using a formula approved by Parliament. However, currently deductions from DACF for various interventions are not allocated by any known formula but generally on an ad-hoc basis. This defeats the original intention of formula-based allocation to ensure predictability, transparency, and consistent flow of fiscal transfers to MMDAs. There is also poor stakeholder consultation around issues of intergovernmental transfers. For example, the determination of the formula for sharing the DACF now called DACF-RFG is the sole responsibility of the Administrator of the fund in accordance with Section 129 of Act 936. The implication of this provision is the exclusion of other stakeholders including the MoFEP, MLGRD and NDPC in the development of the formula.

Third, it was revealed that in theory, there appears to be a lot of financial resources available to be transferred to MMDAs to augment their IGF to implement their plans. In practice however, due to the extensive earmarking of DACF allocations, MMDAs are unable to receive and utilise their legally-mandated allocations within the framework of the District Medium Term Plan and Annual Action Plans (AAPs) prepared in tandem with the government's development agenda. This is because, the DACF Administrator has over the years been making direct deductions from the Fund for other beneficiaries and expenditures like NYEP, School Feeding Programme, Sanitation and Waste Management and other intervention activities.

Fourth, the timing of releases of funds to MMDAs has not been consistent, undermining the planning and budgeting efforts of MMDAs. The Composite Budget Reform seeks to make MMDAs plan and budget in a comprehensive manner, considering the full resource envelope for current and capital expenditures and making the necessary trade-offs and decisions based on the local and national priorities consistent with their approved MTDP and AAP. However, the timing for issuing the DACF formula and the release of funds is not in line with MMDA budget cycle. In addition, currently, the DACF formula is developed and applied as part of the budget execution process instead of the budget preparation process. In addition, the receipt of funds from central government transfers is highly unpredictable and inconsistent and not very frequent. This further undermines MMDAs' ability to do effective planning and budgeting.

Fifth, it was revealed that although it becomes very necessary and cost effective for bulk procurement on behalf of MMDAs, those goods/services to be procured are not determined at the MMDA level backed by resolution by the general Assembly. In most cases deductions are made but the goods are never procured for the MMDAs. In instances where the procurement is made albeit centrally, the goods and services do not address the priorities of MMDAs. Adding to this, Central Governments earmark funds and can partly determine the use of transfer grants to favour its centrally determined interests.

Sixth, apart from the AMA, the Ejisu Municipal and Upper Manya Krobo District Assemblies' application and use of software and electronic databases, revenue management for the purposes of revenue collection was found to be quite weak. Many new and high-value properties are not captured in the property rate database although they are eligible to make such payments. Property Valuation have not been consistently carried out over the years, hence any such databases that exist of properties and their owners are not updated and reliable Enforcement is constrained by lack of resources; political will and legal capacity.

Policy recommendations

The study recommends the need to review some of the laws governing intergovernmental transfers to ensure transparent, efficient, effective and accountable transfers. Sections 126, 127 and 129 of the Local Governance Act, 2016 (Act 936) and Stool Lands Act need a review to take into consideration either increasing the proportion of the funds available to the Assemblies or make it possible for Traditional Authorities to channel part of their share into development of their traditional areas. All stakeholders must be made aware of the total national revenue out of which the 5% is set aside as DACF and the quantum of the 5% must also be made known to all stakeholders particularly the MMDAs. Steps must be taken to synchronize DACF formula with budget preparation process of MMDAs. The DACF formula approval must be part of the budget preparation process, not part of the budget execution process. The formula each year should be submitted to Parliament during the first quarter of the fiscal year for approval. The budget ceilings can be issued by August and used by MMDAs to prepare their budgets for the following fiscal year and get them approved by November 30th as the law stipulates.

In terms of revenues from Stool Lands, it will be helpful to transfer such to MMDAs directly through the banking system so that the fund does not sit with the Administrator until MMDAs request for their share. In addition, all stakeholders and beneficiaries must be part of the decision-making process and agree on the timing for releases to be made to recipients. There is the need to streamline the disbursement process of stool lands to improve transparency, accountability and timeliness of the stool revenue disbursement to the beneficiaries. There is the need to resolve allocation of stool revenues between Assemblies when mineral royalties and timber fees are collected from properties that cut across district boundaries. Additionally, MMDAs must be given some ideas about expected revenues from Stool Lands to enable them carry out effective planning and budgeting.

Central government must avoid delays in the release of DACF funds to MMDAs by conducting all the necessary assessments early in the fiscal year. These must be done before the 3rd month in order to allow for results to be cleaned up in the 4th month where necessary. The results must be ready to be included in the budget guidelines/ceilings by August.

In line with the provisions in LI1961, there is the need to restructure some of the funding sources to increase the resource basket of MMDAs to function more effectively. For example, the Road Fund must be restructured to make it possible for the 65% to be made available to MMDAs to strengthen their fiscal capacity to implement urban roads and feeder roads maintenance projects as provided for by LI1961. There is the need to restructure the GETFund to release some portion of the fund to MMDAs. All MMDAs must be supported by the Valuation Board to provide current property valuations to capture all high-valued properties that are springing.. MMDAs must adopt revenue management software to improve billing and collection of revenues. A good incentive structure must be developed to motivate revenue collectors to collect more and account for all.

MMDAs must consider entering into partnerships with landowners so that MMDAs will provide facilities such as water, roads, and electricity prior to the sale of the land. This will contribute to increase the value of such lands so that both share the increment in the land value. This arrangement could bring a win-win situation as the landowners reap high values for the land and the Assembly is able to implement development control more effectively. Effective development control implies well developed neighbourhood with high property values leading to high property rates for the Assembly.

There is the need to install functional revenue system (technology) and improve upon the capacity of MMDAs to mobilize and manage fiscal resources. A well secure and easy to maintain revenue system must be in place for the collection and management of the district funds. Equally important, is to strengthen the capacity of the revenue departments by giving them additional training in revenue mobilization techniques. Some of the MMDAs will require that additional staff are employed for the revenue department. To help gain the trust of rate payers, revenue collectors will need to be appropriately tagged. The necessary supporting logistics such as raincoats, wellington boots, motorbikes and bicycles must be provided to them.

MMDAs must seek to be committed to the enforcement of their own bye-laws governing revenue mobilization. They must be fair in the prosecution of rate defaulters irrespective of which powers or ties are invoked by rate defaulters. Selective prosecution undermines the trust for MMDAs and can lead to further evasion of rate payment. MMDAs must seek to build trust among local people by utilising the available resources more effectively. Local rate payers must be able to point to development efforts by the Assembly to erase the impression that the Assemblies do not use resources prudently. Embezzlement or misapplication can waste public funds. MMDAs must see the rate payers as clients who require good services, and who are legitimate in demanding services in exchange for rate payment.

It also recommended that the Office of the Administrator of Stool Lands and the Office of the Administrator of the District Assemblies Common Fund publish reports on the disbursement of these funds regularly. They must also ensure that such reports are made available to all the stakeholders particularly the MMDAs.

Metropolitan, Municipal and District Assemblies must also intensify education on the rights and responsibilities of local people regarding rate compliance. They must also actively involve local people in the decision-making process for them to feel part of the process and accept decision outcomes.

The study concludes by noting that international best practice requires broad consultation on issues of intergovernmental transfers. There is therefore the need to pull tougher stakeholders from the central and local governments and civil society representatives to discuss and agree upon the allocation mechanisms. It is recognized that these allocations include a combination of political and technical considerations and thus requires a decision mechanism which can bring different perspectives together in a transparent and accountable manner. Allowing for broader stakeholder participation will require the amendment of the various pieces of legislations to make provision for the involvement of these other stakeholders. Although these steps can help improve the local government revenue system, the reality is that local authorities will for a long time continue to be heavily dependent on fiscal transfers from the central government. Transfers should therefore be considered an important component of the decentralization programme.

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Also, to all the local governance experts form the various institutions in the southern and northern belt of Ghana who were selected to review the draft report, GGA is very grateful for your support and scrutiny that has helped shaped the final output. It is the hope of the Centre that it can rely selfless dedications in future assignments.

FOREWORD

Fiscal decentralisation is a crucial aspect of Ghana's decentralisation reforms agenda. It holds the key to liberating the local authorities i.e. the MMDAs from the dependence on central government and donors' funding of critical district level developmental needs. Truly devolved and functioning local government administration is possible only when the local authorities can match their increasing expenditure with the revenue inflows available to them. The various streams of district assemblies' funding should therefore be made sustainable and must reach the MMDAs on time to ensure the mandates of the assemblies are discharged timeously.

MMDAs continue to experience shortfalls in their revenue streams for varied reasons. This situation creates gaps in the MMDAs ability to meet the expenditure items of the local administrations and in effect continue to impoverish the lives of the local people through the lack or inadequate provision of local level infrastructure and services. Though some of the shortfalls may be legitimate, a lot more could be done to ensure critical funding is available at the MMDAs to reduce these shortfalls. From the central government's side, a lot more work must be put in place to release MMDAs funding (DACF) on time with little or no source deductions. The MMDAs on their part must work to improve their revenue mobilization function, ensure transparency in the use and disbursement of their resources and must create enabling environment for the district economies to thrive.

GGA-WA strongly advocates for more self-reliant local administrations in all districts across Ghana to ensure timely response to the needs of the people especially poor and vulnerable groups. This study by the Centre therefore is a contribution to unearthern the teething fiscal challenges facing local authorities both big and small. The research particularly encouraged the telling of the story from the perspective of the technocrats and the impact of their operations and the Assemblies' inability to provide essential services on the people. This Report is a good read for policy makers and leadership of institutions including that of the MMDAs who are mandated to ensure the country has a functioning fiscal decentralisation system.

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LIST OF ACRONYMS

ADB	Asian Development Bank
AMA	Accra Metropolitan Assembly
CSO	Civil Society Organisation
DACF	District Assemblies Common Fund
DACF-RFG	District Assemblies Common Fund Responsive Factor Grant
DANIDA	Danish International Development Agency
Das	District Assemblies
DDF	District Development Facility
DFID	Department for International Development
DoRA	Division of Revenue Act
FGDs	Focus Groups Discussions
GGA	Good Governance Africa
IGF	Internally Generated Funds
ILGS	nstitute of Local Government Studies
LEAP	Livelihood Empowerment against Poverty
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MMAs	Metropolitan and Municipal Assemblies
MMDAs	Metropolitan, Municipal and District Assemblies
MTDPs	Medium Term Development Plans
MLGRD	Ministry of Local Government and Rural Development

NGO	Non-Governmental Organisation
NYEP	National Youth Empowerment Programme
OASL	Office of the Administrator of Stool Lands
OADACF	Office of the Administrator of District Assemblies Common Fund
OECD	Organisation for Economic Co-operation and Development
ToR	Terms of Reference
UDG	Urban Development Grant
USAID	United States Agency for International Development
UCLG	United Cities and Local Governments
VEO	Village Executive Officer
WEO	Ward Executive Officer
WRC	Ward Revenue Collector

CHAPTER ONE
BACKGROUND OF THE STUDY

1.1 Introduction

Evidence suggests that many local governments in sub-Saharan African countries are unable to provide high levels of public goods such as roads, sanitation facilities, education, schools, recreational and electricity mainly due to their inability to mobilise adequate resources (see Ame et. al., 2013). However, there is no consensus among policymakers, governments and scholars on how best to promote greater revenue mobilisation by local governments and make adequate fiscal resources available to them to deliver services (Republic of Ghana, 2014b). In the case of Ghana, part of the explanation to this problem is our inadequate understanding of how Ghana's fiscal decentralisation reforms work. The need to deepen our understanding of Ghana's fiscal decentralisation reforms has become apparent. This is where Good Governance Africa (GGA) seeks to contribute to this process. Findings from this study provide insights into how best to make Ghana's fiscal decentralisation reforms work. The major objective is to increase revenue mobilisation by Metropolitan, Municipal and District Assemblies (MMDAs) by addressing the key constraints in the fiscal decentralisation process. Ultimately, the findings will help policymakers to design more effective policy tools to help MMDAs raise adequate revenues and increase productive public expenditures at local government level.

Over the past four decades, many developing countries have adopted and implemented a decentralisation regime which is a departure from the earlier practice where national development was a sole responsibility of central governments. Proponents of this form of governance bemoaned the slow nature of development in the former practice and the excessive power of the central government. The failure of the centralised approach to deliver responsive and equitable development at the local level has called for grassroots participation in the development process (Olowu and Wunsch, 2004). It is now widely recognised that giving authority and resources to local people to champion their own development is the best way to ensure participation in governance and responsiveness in the delivery of public services. With the decentralised approach, local people are supported and empowered to mobilise local resources, define their needs whilst delivering development projects that address these needs (Jouen et al., 2010).

With the implementation of decentralisation reforms in Ghana, District Assemblies have the responsibility to spearhead local initiatives and mobilise local resources for development at the sub-national level (Republic of Ghana, 2016a; ILGS, 2010). As provided for in Section 12 (sub-sections 1 to 5) of Ghana's Local Governance Act 2016, Act 936, District Assemblies are expected to provide basic infrastructure and services in education, health, water etc. to improve the quality of life for people in their localities (Republic of Ghana, 2016a).

Many scholars and policy makers have argued that fiscal decentralisation holds the key to give full autonomy to the MMDAs as it will ensure that District Assemblies have the revenue required to implement their development plans. Effective fiscal decentralisation regime will ensure adequate mobilisation of resources and their equitable distribution within districts for development. There is however evidence that this initiative is being undermined by the over reliance of MMDAs on central government transfers for development since the inception of the decentralisation agenda. The District Assemblies Common Fund (DACF) now called District Assemblies Common Fund Responsive Factor Grant which is 5% of the nation's annual revenues, dedicated to MMDAs for development, continues to be a lifeline to many MMDAs in spite of the huge responsibilities on the MMDAs. The delays in the release of the funds,, the inadequacy of the fund to meet the budget needs of MMDAs and the many deductions at source are but a few of the issues that need to be addressed. This also point to the fact that MMDAs need to be supported to find more sustainable sources of funding for development.

Over the years, as part of efforts by proponents of the decentralisation reforms, Governments of Ghana together with development partners have implemented

[1] In this report, MMDAs are used interchangeably with District Assemblies or Assemblies as they mean the same thing

various initiatives to improve the fiscal decentralisation aspect of the decentralisation process. The World Bank, Danish International Development Agency (DANIDA), the KFW, etc are but a few of the development partners who have supported the fiscal decentralisation agenda. One of such initiatives is the establishment of the District Development Facility (DDF) which was a performance-based assessment grant for MMDAs. This facility aimed to compliment the DACF in resourcing MMDAs. As a performance-based facility, many of the non-performing District Assemblies would not qualify to access the funding in any given financial year. .

In spite of the enormous responsibilities of MMDAs, several challenges cripple their ability to deliver and effectively discharge their duties (Crawford, 2004; Ayee et al., 2000; Ahwoi, 2010). Key among these challenges is resource gaps resulting from delay in inter-governmental transfers which form their main source of funding and difficulty in mobilising Internally Generated Funds (IGF) to supplement central governmental transfers (Ayee, 1992; Ayee et al., 2000; Crawford, 2004; Ahwoi, 2010; UCLG, 2010). The weak financial base of local authorities has attracted a lot of interest as it could provide explanation for poor performance of local government authorities (Crawford 2010: 115; Crook 1994). For example, Chikulo's (2004) study of local governments in South Africa found that inadequate financial resources limited the ability of local authorities to provide basic services. UN-HABITAT argues that:

> There must be a link between local financial and fiscal authority to the service provision responsibilities and function of local governments, so that local politicians can deliver on their promises and bear the costs of their decisions (UN-HABITAT, 2002: 9).

For Ghana, what seems to have compounded the situation of weak revenue base of local governments is that many local authorities are weak in terms of mobilisation of revenue locally revenue**.** With so much financial burden on central government, less can be expected. But how is the fiscal decentralisation reform working in terms of the ***pillars*** that hold the entire fiscal decentralisation structure? Could our understanding of how the pillars work give us any clues to improve the implementation of the reforms? How can MMDAs increase fiscal resources? Current literature does not provide adequate understanding into these questions. Part of the problem of our inadequate understanding of how to address these issues can largely be explained by approaches adopted by many studies. There is therefore the need to adopt a more in-depth approach to look into the fiscal decentralisation regime of the country and explore more sustainable ways of resourcing the MMDAs to enable them deliver on their mandate towards total development and poverty reduction for all. It is in this context that GGA commissioned this research. The rationale is to employ highly qualitative in-depth methodology to revisit the key ***pillars*** of the fiscal decentralisation reforms to understand how they work and identify possible areas for effective fiscal interventions to further deepen Ghana's decentralisation agenda.

Many of the existing studies' contribution to increasing our understanding of fiscal decentralisation in sub-Saharan Africa have employed statistical and quantitative approaches. For example, to help address one of the major constraints in determining the best course of action to raise local government revenues in Ghana, which is the lack of comprehensive data on revenue collection practice, Dzansi et. al. (2018: 2) employ a quantitative approach to statistically analyse and provide database in identifying the key constraints on Ghana's local government rates collection capacity, to help policymakers to take the appropriate course of action to raise revenues and increase productive public expenditures.

In order to assess how Tanzania's implementation of the formula-based recurrent transfer system has fared and to know whether the central government indeed adhered to the formula-based approach in allocating resources to the local government level, Boex (2019) used quantitative approach by employing descriptive statistics, and a measure of divergence also known as the Index of Fit (IOF). This approach did not give the space for the voices and experiences of implementers of the reforms and treated them as outside of the reform process.

[2] The pillars that are the focus of this research are: responsibility/function/expenditure assignment to MMDAs; revenue assignment; intergovernmental transfers; and formula for intergovernmental transfers.

One of the very highly quantitative works to understand intergovernmental transfers in Ghana is that of Fumey and Egwaikhide (2018). Their study examines the political economy dimension of fiscal transfers from the national government to District Assemblies (DAs) based on the formula distribution policy. In that study, they used a two-step system GMM for dynamic linear panel analysis to estimate from locational perspectives of rural and urban in relation to political swing and aligned districts. Similar to Boex (2019)'s approach, voices of the stakeholders of the process are not heard in Fumey and Egwaikhide (2018).

Another important work which also fails to create space for the voices of the implementers of the reform process is Shah (1994)'s work. What makes this work critical is that it reviews the principles and practices of fiscal federalism in developing and industrial economies and supported by the World Bank's Public Economics Division of the Policy Research Department. Shah (1994) argues for reform of intergovernmental fiscal arrangements but does not adequately show how the voices of implementers shape suggested policy directions.

Among the works that look specifically at fiscal decentralisation in Ghana is what has been done by Osei (2017) at the Institute of Fiscal Studies. This work looks at progress and challenges of implementing fiscal decentralisation reforms in Ghana. It provides an overview of fiscal decentralisation in Ghana and examines local government fiscal management. The study finds that Ghana's fiscal decentralisation reforms have been constrained by excessive control and interference by central government in local government matters; a lack of clarity in financial assignments of subnational governments; and limited capacity of local governments to raise adequate revenue. Works such as this helps to provide insight into Ghana's decentralisation reforms. To further deepen our understanding of the implementation of these reforms, it will require exploration into how issues, some of which have been mentioned by Osei (2017), play out from the perspectives of the implementers of the policy. In addition, the methods employed by Osei (2017) is mainly desk work so what are the key implementers saying about the pillars of fiscal decentralisation?

Although many such studies point to insights on how fiscal decentralisation works, the voice of some of the major actors in the fiscal decentralisation reform process, especially in the Ghanaian context, appear to be inadequately heard. In

Market in Agbogbloshie, a Suburb in Accra
Source: classicghana.com

addition, many of these studies have not given adequate attention to revisiting the major pillars that explain the strength of the fiscal decentralization reform *building.* Isolating these pillars and having in-depth and qualitative discussions with key actors has the potential to unraveling some of the complex issues and nuances that explain success or otherwise of the reforms which might be inadequately portrayed by statistical and quantitative approaches. The current study therefore employs this design to help capture and bring to the fore, the voice of actors at both central and local government ends of the equation.

1.2 Good Governance Africa's work in GHANA

GGA is an independent and non-partisan organisation that works to improve government performance on the African continent. Its quest is to champion robust governance environments in African countries, including Ghana; with the aim of strengthening institutions whilst building consensus through research, capacity building, sensitization and orientation programs.
To contribute to the strengthening of both the institution and processes of governance, GGA has commissioned this study to produce evidence on fiscal decentralisation reform process and how this when improved, can enable MMDAs deliver effective services. The rationale of this study is to explore possible areas for effective fiscal interventions from the perspectives of the key actors in the implementation of this policy to further deepen Ghana's decentralisation agenda. Achieving this will require that the pillars/elements/principles of fiscal decentralisation are revisited.

1.3 Objectives and scope of the current study

In line with the Terms of Reference (ToR), the objectives of the study and the specific questions to be used to achieve each of these objectives have been outlined here. These show the scope of the current study.

Objective 1: PILLAR 1 - To understand how the responsibility/ function/ expenditure assignment to MMDAs work

Questions that will lead to address objective 1 are the following:

1.1 To what extent do MMDA officials, MDA officials and other stakeholders agree that MMDAs have been assigned functions consistent with their capacity to perform them efficiently?

1.2 Do MMDAs have the power to decide which services to provide, the beneficiaries, and the quantity and quality of those services and how much they will spend on the services?

1.3 Do MMDA officials, MDA officials and other stakeholders agree that local rate taxpayers pay for the services provided by District Assemblies?

1.4 Will MMDA officials, MDA officials and other stakeholders support the view that MMDAs have particular services assigned to them but much of the relevant policy and regulatory framework, and much of the financing coming from central government?

1.5 Are there functions and responsibilities that might best be assigned to the local, regional and central tiers of government?

1.6 Are there areas of shared responsibilities between the MMDAs and central government and are the roles clarified to the Assemblies?

Objective 2: PILLAR – To investigate the nature of revenue assignment

Questions that drive the achievement of this objective are the following:

2.1 Do MMDAs need increased taxing powers in order to increase their revenue?

2.2 Will the local voting population buy into the idea that higher local government taxes will result in better services?

2.3 Will MMDA officials, MDA officials and other stakeholders support the view that the better-off have pretty good substitutes for many local government services (e.g. private schools, security, and refuse collection), so they might be hesitant to vote a tax increase MMDAs introduce?

2.4 Will MMDA officials, MDA officials and other stakeholders support the view that increasing the taxing powers of subnational government can reduce the future taxing space of the central government?

2.5 Will all the stakeholders support the view that MMDAs have the potential to reach the traditional income, consumption and wealth tax bases in ways that the central government cannot?

2.6 Will all the stakeholders agree that local governments in developing countries do not have full access to their own tax bases and therefore rely heavily on central government transfers which undermine their accountability to local people?

Objective 3: PILLAR 3 – To explore Intergovernmental Transfers

The questions for objectives are the following:

3.1 What are the reasons for the institution of intergovernmental transfers as part of the implementation of Ghana's fiscal decentralization programme?

3.2 Will all our interviewees agree that MMDAs have budgetary autonomy with the argument that giving local governments the autonomy to decide on how they will deliver services and to decide on how much they will spend on the services is sufficient condition for fiscal decentralisation to work?

Objective 4: PILLAR 4 – To understand how the Formula for Intergovernmental Transfers works

The questions to achieve objective 4 are the following:

4.1 Will MMDA officials, MDA officials and other stakeholders agree that MMDAs adequately understand the formula for intergovernmental transfers and that this is transparent to them?

4.2 What formula is used by the government for the transfer of funds to the Assemblies?

4.3 Are MMDAs able to predict the amount they receive?

4.4 Will MMDA officials, MDA officials and other stakeholders support the view that MMDAs are delivering the services local people want?

4.5 Will MMDA officials, MDA officials and other stakeholders agree that MMDAs have enough IGF to provide services?

4.6 Will MMDA officials, MDA officials and other stakeholders agree that MMDAs are fiscally autonomous?

Objective 5: Knowledge of Best Practices elsewhere

The questions for objective 5 are:

5.1 What are some of the best practices of fiscal decentralization Ghana c an learn from?

5.2 What are some of the best practices of intergovernmental transfer mechanisms elsewhere?

Objective 6: Policy Recommendations

The question for objective 6 is that what pragmatic policy reforms can be proposed to improve the process of the implementation of fiscal decentralization reforms Ghana?

1.4 Conclusion to Chapter One and organisation of the report

This chapter shows that fiscal decentralisation reforms in many parts of sub-Saharan Africa and Ghana in particular do not seem to work as envisaged by the proponents of this very important governance tool. Our understanding of how this works is not adequate mainly due to the approach adopted by many existing studies which do not give adequate space to the voice of the key actors in the reform process. The need to adopt in-depth approach by letting the implementers of the reforms speak is therefore the unique point of entry of this study.

The report is presented in six chapters. After the introduction and background to the study in Chapter 1, the theoretical underpinnings of the current study which is the literature on decentralisation and fiscal decentralisation is presented in Chapter 2. The research design and methodology adopted for the study are described in Chapter 3. Data from the field interviews and analysis of the data are presented in Chapter 4. Chapter 5 presents the summary of findings to the study and lessons learnt. In Chapter 6, we present practical and robust policy steps geared towards deepening fiscal decentralisation reforms in Ghana with some of these steps appearing useful to other countries in sub-Saharan Africa.

CHAPTER TWO
THEORETICAL UNDERPINNINGS OF THE CURRENT STUDY

2.1 Introduction

This chapter explores the literature on decentralisation and fiscal decentralisation focusing on how they help explain service delivery at local level. As the focus of the study, each of the pillars of fiscal decentralisation are discussed to provide the framework for data collection and analysis.

2.2 Situating Fiscal Decentralization in Decentralized governance reforms

Local governments are very important in providing public social services, such as water, health, education and road infrastructure to citizens (Benedicto and Chalam, 2016). Governments of many developing countries adopt decentralization to enable smooth provision of public services. There is consensus among scholars that decentralization is the transfer of authority and responsibility of public functions from the Central Government to intermediate and Local Governments (LGs) or quasi-independent government organizations. In addition to other strands of decentralization, there are at least three *main types* of decentralization: deconcentration; delegation; and devolution.

De-concentration is redistribution of decision-making authority, financial and management responsibilities among different levels of the central government. The common practice is that it transfers responsibilities from central government officials in the capital city to their counterparts in regions, provinces or districts. Because of its operationalization, many consider this to be the weakest form of decentralization as this kind of decentralization does not empower the local population to influence decisions to suit their local needs (Bahl, 2008).

Delegation is a more extensive form of decentralization. Through delegation central government transfers part of its responsibility for decision-making and administration of public functions to semi-autonomous organizations that are not entirely controlled by the central government, although they are accountable to it. The establishment of public enterprises or corporations, such as housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units are all forms of delegation of central government responsibilities. Key characteristics of delegation are that these public enterprises are given a good degree of discretion in decision-making and may be free from the challenges that confront regular civil service officials in the Ministries, Departments and Agencies. Some are able to recover cost of operation by charging for their services. It must be noted that although delegated units may be locally based they may not be accountable to the local people as they do not come to power by vote through competitive elections (Bahl, 2008).

Under devolution, governments devolve functions by transferring authority for decision-making, finance, and management to quasi-autonomous units of local governments with corporate status. In fully devolved systems of local governance, such responsibilities for services are transferred to municipalities/district councils that elect their own local councils and even mayors, raise their own revenues and have independent authority to make investment decisions. Devolved authorities have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions and deliver services (See Table 1.1 below).

The focus of this study is Ghana's DAs which are devolved authorities. The DAs are the highest political authorities at the local level charged with overall development of the districts. By the 1992 Constitution of Ghana, the Local Government Act 1993, Act 462 and Local Governance Act 2016, Act 936, they are created to bring power and responsive development to the doorsteps of local people.

2.3 Decentralisation and good governance

The principle of subsidiarity has been the main motivation for adopting decentralisation reforms by many developing countries so that public authority will be at the lowest level of political organization with the ability to employ it for effective service delivery. It also supports an action that ensures that there shall be adequate financial resources to march assigned expenditure responsibilities.

Table 1.1: Characteristics of the different forms of Administrative Decentralisation

Characteristics	De-concentration	Devolution	Delegation
Geographical	Operate from regions, provinces or districts	Operate legally from recognised geographical boundaries called districts	May operate from all levels of government i.e. national, regional, provincial or district
Decision Making	Redistributes decision making authority among different levels of the central government	Decision making is transferred to quasi-autonomous units of local governments with corporate status	Decision making functions and administration of public functions are transferred to semi-autonomous bodies e.g. public enterprises or corporations not wholly controlled by the central government
Resource Mobilisation	Funding comes from the central government i.e. from the Ministries, Departments & Agencies (MDAs) that they fall under	Receive funding from central government normally backed by the Constitution, raise own revenues and have independent authority to make investment decisions	May receive funding support from central government for strategic investment and are also able to charge users directly for using their services in funding their operations
Relation to Central Government	Takes instructions from and report directly to the central government i.e. Ministries, Departments & Agencies	Have independent authority from the central government	Are ultimately answerable/ accountable to central government but enjoys a lot of flexibility in decision making

Source: The World Bank Group (2001)

Decentralization is believed as having the potential to increase efficiency with regards to the use of public funds mainly through improved governance as a result of (i) increased ownership of the development process and outcomes by local people (ii) better fine-tuning to local circumstances, and (iii) increased and more direct mechanisms of accountability of public officials to local voting populations. Among the basis of this argument is that, decentralization is associated with increased efficiency, as lower levels of government are more likely to assess demand and to know peoples' priorities. Second, decentralization may lead to stronger democracy, as it makes local governments more accountable for their actions (World Bank 2003; Ahmad et al. 2005; Osei, 2017).

Consumer efficiency has been one of the supporting arguments for decentralization. It is assumed that consumers have different and unique preferences, resonating with the different f locations within the country, therefore providing uniform levels of services will not be efficient. Service delivery should therefore seek to respond to local needs. As subnational governments can employ local knowledge to implement decisions much faster, this can lead to reduced service delivery and transaction costs. . The proximity and familiarity of sub-national governments to their constituents implies that, they are better positioned with adequate information on local taxes; and will be able to effectively update tax databases hence widening the tax basket of individuals and organisations.

Another argument in support of decentralization is that it promotes democratization, as it brings government machinery to the doorstep of the people (Osei, 2017; Wittenberg 2003; Shah, 1994). It facilitates accountability, participation, checks and balances and widens people's choices.

Since the late 1980s, many developing countries initiated fiscal decentralization as one of the components of decentralization reforms that came with political and administrative structures (Benedicto and Chalam, 2016). Many agree that the objectives for fiscal decentralization include efficient allocation of resources through a responsive and accountable government, an equitable provision of services to citizens at the subnational levels, and the promotion of economic growth.

2.4 Fiscal Decentralization explained

The concept of fiscal decentralisation is claimed to be central to all forms of local government models. It has generally been referred to as the devolution of taxing and spending powers from the control of central government authorities to government authorities at sub-national levels. The concept relates to the transfer of functions or authority from central levels of government to local institutions regarding local decision-making on the allocation of financial resources and the powers to levy local taxes. Full fiscal decentralization requires political decentralization and, at least to some extent, administrative decentralization.

In a complete fiscal decentralized system, “local governments have considerable powers to mobilize resources, through taxing authorities accompanied by strong tax bases” (Boschmann, 2009: 6). According to Bahl, fiscal decentralization can be defined as the process of transferring budgetary authority from central government to elected subnational governments in order to grant the latter powers to make decisions regarding taxes and expenses (Bahl, 2008). has Another writer, Osei, defines fiscal decentralization as the devolution of revenue sources and expenditure responsibilities to lower level of governments. It thus means the granting of greater financial responsibilities to subnational governments (Osei, 2017). Generally, Bahl's explanation will sum what fiscal decentralization is all about, which is about the central government passing budgetary authority to elected subnational governments by empowering them to make essential decisions regarding taxing and spending at subnational level. In this study, we use Bahl's conceptualization of fiscal decentralization to mean passing fiscal power to any level of government below the centre such as states or provinces, cities or districts as in the case of Ghana (Bahl, 2008: 4).
Fiscal decentralisation is needed for the other components of decentralisation such as political and administrative decentralisation to work and for general decentralisation to thrive and lead to achieving the benefits which includes improved governance, accountability, democratization and citizen participation, and increased efficiency with regard to service delivery (Boschmann, 2009).

The literature has listed many development benefits of fiscal decentralization. The argument is that fiscal decentralization is being promoted by development partners hoping to bring services closer to the people and thus facilitate poverty reduction as well as public accountability and that it is a positive driver of subnational government growth and development (Boschmann, 2009).

On the basis of the benefits of fiscal decentralisation, it has been supported by leading international development organisations such as the World Bank, Asian Development Bank (ADB), the Organisation for Economic Co-operation and Development (OECD) and the United States Agency for International Development -USAID (Osei, 2017). When fiscal decentralization is successfully implemented, it will lead to economic development, mobilization of adequate local revenue, effective innovation in public service delivery, accountability of elected local officials to the people, development of capacity of local government officials and local participation in governance process (Bird and Bahl, 2008).

There are claims that failed fiscal autonomy/decentralisation derails any local government systems and entrenches the powers of the centre. There is therefore the need to have stronger structures and sustainable local revenue base for the success of local government systems.

It is a common problem that the financial resources and fiscal competencies assigned to local governments do not match their tasks and responsibilities and are inadequate to meet the rising demands in infrastructure and public service delivery (Boschmann, 2009: 26). Local governments often lack the necessary capacities to effectively make use of the available resources and competencies assigned. This refers to the capacities of effective revenue-collection as well as to financial management and accounting and the capacities to link budget with development planning and implementation in order to provide effective and efficient infrastructure and other public services at local level (Boschmann, 2009: 26). According to Boschmann, there is evidence to show that the percentage of local revenues collected compared to overall expenditures remains low in many developing countries (Boschmann, 2009). This situation could be explained by weak local revenue base; lack of tax authority and lack of administrative capacity; the concentration of locally generated revenue in the larger urban areas, poorly designed transfers and grants which lead to erosion of incentives to locally generate revenues all point to weaknesses in fiscal decentralization processes across sub-Saharan Africa.

2.5 Overview of intergovernmental fiscal transfers in selected countries in Africa

Among the countries that are mostly cited for good lessons in fiscal decentralisation reforms in sub-Saharan Africa are South Africa and Tanzania. A quick overview is presented on each of these countries.

(a) South Africa

Central government transfer of financial resources to sub-national governments (Provinces) in South Africa is of two kinds. The first type is the General Purpose or Unconditional Transfers provided for by the Intergovernmental Fiscal Relations Act, 97 of 1997 (Hendriks, 2016). The unconditional transfer grants have little or no conditionality attached to their use by the provinces. Consequently, they give more autonomy to sub-national governments; create horizontal equality between governments at the same level; and provide equity, efficiency, predictability, flexibility and accountability. According to Hendriks (2016), the General Purpose or Unconditional Transfers has been criticized on the grounds that it may be used by central government to make the Provinces as spending agencies if the Provinces themselves do not have significant tax powers to raise own revenue.

The second kind of transfer grant is the Conditional or Specific Purpose Transfers. These transfers are used by the central government to aid the implementation of specific national priorities and policies related to socio-economic services (Hendriks, 2016). Central government also uses these to provide incentives for sub-national governments to spend funds in specific ways or on specific projects that may not ordinarily attract sub-national government spending; address inter-jurisdictional spill-overs; and to meet national redistribution objectives.

The implementation of specific purpose grants has faced resistance by sub-national governments. Among the reasons are that sub-national governments have concerns with the burden associated with the administration and implementation of these grants. They do not also provide significant autonomy and flexibility to Provinces in designing grant framework and altering spending to suit local priorities. Sub-national governments also see this as undermining their ability to respond to provincial and local priorities.

At the municipal level, Section 229 of the 1996 Constitution of South Africa assigns Municipalities the responsibility to raise their own revenue by means of property rates and surcharges for services such as water, sanitation, waste removal and electricity and use of municipal facilities such as sports grounds. Other legal instruments that support the operations and funding for municipalities in South Africa include the Municipal Fiscal Powers and Functions Act of 2007 and the Division of Revenue Act (DoRA) which is passed annually by Parliament for the allocation of grants to provinces and municipalities (Ajam, 2001).

Poor rural municipalities in South Africa receive most of their revenue from grants through the annual DoRA. This is because they have significant lower tax bases than large cities; therefore central government allocates larger portions of the available equitable share through the DoRA to poor and rural municipalities. Urban municipalities on the other hand raise the major part of their revenue from their own sources (Hendriks, 2016; Ajam, 2001).

Grants for municipalities in South Africa are mainly in two forms as the case of the Provinces. They are the infrastructure conditional grants and unconditional grants. The objectives of these grants to the municipalities are to address financial shortcomings at municipalities, support the strategic priority of government to eradicate service delivery backlogs, and to contribute to local economic development in the country.

Generally, sub-national governments or provinces in South Africa like most local governments in the sub-region raise very little from their revenue sources. It is estimated that the provinces in South Africa raise only about 3.5% of their own annual revenue (Manuel, 2007). Therefore, transfer grants are the major revenue source for sub-national governments for them to meet their expenditure responsibilities and provide local services.

Municipalities in South Africa unlike the provinces raise a comparatively higher percentage of their annual revenue from their own sources. Urban municipalities however raise more in comparison with their rural/poor municipalities due the differences in their capacities to raise own revenues and as a result of their vibrant urban economies.

(b) Tanzania

In Tanzania, local governments rely heavily on central government transfers to implement local development programmes. Local governments' own revenues since 1996 constitute less than 6% of total national tax revenues and they use this to finance operational costs, mainly salaries for local government employees. Over 90% of share of the operational costs rely on central government transfers which funds up to 85% of the total operational costs in district councils, and 75% in urban councils. In terms of investments, it is about 90% funded by donors (Economic Research Bureau [ERB], 1997; Fjeldstad, 2010). The structure, performance and challenges of Tanzania's system of fiscal decentralisation are summed up by Fjeldstad (2010: 3-4).

> Local government tax collection is the responsibility of the council staff, and is completely separated from the central government. In District Councils (DCs) it is organised around three levels, namely the Council Headquarters, the Wards and the Village Levels. At the Council Headquarters, the responsibility for tax collection rests with the council treasury, headed by the District Treasurer (DT). At the Ward Levels, the responsibility rests with the office of the Ward Executive Officer (WEO). The WEO also handles developmental issues and law-and-order functions at that level. For this purpose the local militia is at their disposal. In Wards with greater revenue potential there will also be a Ward Revenue Collector (WRC) to support the WEO. At the Village Level, the responsibility rests with the office of the Village Executive Officer (VEO). The VEO is also responsible for village developmental issues. These officers are nominated to their position by the village governments, but appointed and employed by the Council. The system of nomination ensures that the VEOs come from the villages of their domicile. At the sub-village level the politically appointed *kitongoji* leader is expected to assist in mobilising taxpayers. In practice, organisation of tax collection may vary between councils. For instance, in Kilosa DC the village level has been excluded from collection, which has been taken over by the ward level due to incentive problems connected with tax collection at the village level. There is a problem because of the

> presence of two principals for the VEOs, i.e., the village government as the nominating authority and the Council as the appointing and employing authority, leading to divided loyalty. Another problem arises from VEOs operating within their areas of domicile. Thus, personal relationships between collectors and taxpayers are expected to play an important role in village revenue collection. Lack of arm's- length relationship between tax collectors and taxpayers introduces economics of affection into village tax collection. In many villages the sub-village (*kitongoji*) leaders also resist mobilising people to pay taxes due to the unpopularity of taxation. Roadblocks are frequently used to control taxpayers. For instance, manned barriers are used to control buyers of certain crops like cashew nuts in the Coastal Region. The buyer has to produce receipts before they are allowed to transport the purchase outside the district. Similar checkpoints are used to control people for 'development levy' and bicycle tax. Roadblocks are sometimes also used to collect market fees, implying that the fees have to be paid before the goods enter the market place. One consequence of the local revenue system is the high costs of administration. In Kilosa DC, for instance, the wage bill represented about 80% of total own revenues reported in 1995. The corresponding figure for 1996 was about 64%. However, when disaggregated by Wards, large variations are observed. In some Wards in Kilosa DC, the administrative costs are higher than the revenues remitted to the council. For instance, in Lumbiji Ward the wage bill was 2.75 times higher than the revenues reported in 1996. The corresponding figures for Mwatani and Ulaya Wards were 1.92 and 1.44, respectively. These administrative costs are largely unrecognised by local authorities. There is little appreciation of the opportunity costs of the staff already employed by the council. One might even argue that for certain small taxes and charges the collection costs are the reason for the levy. In other words, the purpose is to create employment or at least an income-earning opportunity for someone who might otherwise be unemployed.

In spite of the many mention of Tanzania's case in the literature, Fjeldstad has shown that there are huge gaps between reported and projected revenues and one major administrative problem for many councils is their inability to realise fully the revenue due to them. Factors that explain this situation include poor administrative capacity to enforce the taxes; explicit and intentional tax evasion and resistance from taxpayers; corruption, including embezzlement of revenues; and political pressure on the local tax administration to relax on revenue collection (Fjeldstad, 2010: 6).

Notwithstanding the challenges, some LGs such as the Kampala Capital City Authority (KCCA) are claimed to be making a difference as it recorded a growth of more than 100% in its IGF from SHS41 billion to SHS85 billion between 2011/2012 and the 2013/2014 fiscal year (Manwaring, 2017). Factors that explain this are the KCCA's investments in staff recruitment, training and digitizing and updating databases; re-instituting internal revenue collection from inefficient and expensive private outsourcing; seeing the taxpayer as a client who requires good services, and who is legitimate in demanding these in exchange for tax payment.

Tanzania's case can be described as incomplete or piecemeal decentralization reforms. There are many examples of problems associated with piecemeal reform in other countries in Africa and outside of Africa from which we can draw useful lessons. South Africa has assigned significant non-property taxing powers to subnational governments, including a payroll and turnover tax, and has granted local governments some borrowing powers (Bahl, 2008: 7-8). However, the government still has not put in place a hard budget constraint for local governments to force efficient use of these instruments.

2.6 Addressing the weaknesses of fiscal decentralisation in Africa

Generally, among the administrative and technical weaknesses in fiscal decentralization common to many countries in Africa and even some more advanced countries are that, tax bases of local governments are static, mechanisms for collecting internal revenues are ineffective and appropriate sanctions or punishment for tax defaulters are absent. Most residents, especially traders, do not feel obliged to pay taxes. The co-operation and exchange of data between the LGs and other public institutions and state agencies seems not to function very well. Transparency in fiscal and financial affairs remains limited and/or financial information does not reach or is not understood by the general public (Boschmann, 2009:8).

There is evidence across many countries in Africa for unexploited local revenue potentials with regard to real property tax, and market fees and taxes (Boschmann, 2009). National governments that want to increase local revenues in a sustainable and efficient way, must first establish a clear policy framework. If this is given, LGs are to focus on those sources of revenue, which provide a significant potential and a reasonable cost-benefit ratio. There is consensus to focus on (i) real property tax, (ii) licences and fees that can be levied and collected by local administrations, in particular market fees and taxes and (iii) other fees for services (water and sanitation, electricity) (Boschmann, 2009).

In the views of Bahl (2008), one of the key elements that contribute to achieving an effective decentralized fiscal framework that responds more efficiently to the demands of its constituencies is accountability to local voters. If this is done the implementation of fiscal decentralisation will be locally directed so that services may not be delivered to suit the centre as fiscal decentralization is about changing the direction of accountability from between subnational governments and central governments to between subnational governments and local people. Bahl supportes this by noting that "accountability to local voters is perhaps the most crucial element of a decentralized system of governance (Bahl, 2008: 6). Councils must be locally elected, preferably by popular vote of the local population. If the local leadership is appointed by higher levels of government, their accountability will be upwards and not down to the local population".

For downwards accountability to work, Bahl suggests that first, subnational governments should, whenever possible, charge for the services they provide. Second, the budget process should be transparent and reported to citizens using the press, town hall meetings, or in government reports. Elected officials should be tied visibly to the fiscal decisions that they support. Third, the subnational government must report its spending and subject its books to audit by the higher-level body (Bahl, 2008: 17).

2.7 Conditions necessary for fiscal decentralization to work

According to the literature on fiscal decentralization, the conditions necessary for successful fiscal decentralization or what some refer to as the principles or elements (Osei, 2017) or pillars (Bahl, 2008) include expenditure responsibility/function assignment; revenue assignment, and intergovernmental transfers. In reality, almost all countries have these fiscal pillars but no two countries are alike because there are very different visions for expenditure assignment, revenue assignment, and intergovernmental transfers (Bahl, 2008: 49). For the purposes of this study, these pillars are explored.

2.7.1 Pillar 1: Expenditure/Responsibility/Function Assignment

According to Pillar 1, there must be a significant set of expenditure responsibilities or vertical fiscal balance. Vertical fiscal balance exists when intergovernmental fiscal system makes the resources necessary available to finance a minimum level of the services assigned to subnational governments. As with many countries, the pool of subnational government resources would include both intergovernmental transfers and local taxes and charges. Vertical fiscal balance is important because if subnational governments are "over assigned" expenditure responsibilities as compared to their resources, they may not be in a position to deliver some services as expected. Those that will be delivered will suffer quality considerations. This is common in many developing countries where subnational governments are assigned more responsibilities than they can deliver with resources available to them. The reason there is no vertical fiscal balance in most developing countries is that central governments have not given them enough taxing powers and they are reluctant in do so (Bahl, 2008; Bird and Bahl, 2008).

For Pillar 1, the critical condition for implementing successful fiscal decentralization is that subnational governments should have some autonomy in determining **revenue** and **expenditure levels** and that they should balance their budgets (Bahl, 2008; Shah, 1994). If they have expenditure discretion without the authority to raise the level of spending by raising revenues, they may not balance their budgets. In short, subnational governments need discretion to adjust levels on both the expenditure and revenue sides of the budget.

According to the theory of expenditure assignment in fiscal decentralization, thus the theory about which level of government should deliver which types of service "the basic rule of efficient expenditure assignment is to assign each function to the lowest level of government consistent with its efficient performance" (Bahl, 2008: 10). This is what is commonly known as the principle of “subsidiarity” Decision-makers at subnational levels should have the power to decide what services to be provided, the beneficiaries, and the quantity and quality of those services so that local taxpayers should pay for the services provided.

The assignment of an acceptable expenditure responsibility to the subnational government level is a necessary condition for fiscal decentralization to work (Bahl, 2008; Shah, 1994). But it is when central government gives subnational government the autonomy to decide on how it seeks to deliver the service, how much it will spend on the service that we can say that we have sufficient condition for fiscal decentralization to work. There is however evidence that central governments often assign responsibilities to local governments but takes steps to limit the autonomy by either assuming direct responsibility to perform some or full of that function (Bahl, 2008).

As noted by Bahl (2008), central government may place restrictions on the composition of the local government budget, to check local governments, implying that central governments know what is best for local governments and not the local governments themselves. This may also have some political explanations that some central ministries want to protect their programs and have some political control.

2.7.2 Pillar 2: Revenue Assignment

Pillar 2 refers to the division of taxing powers among central government and local governments. When revenue assignment is effectively structured, all the levels of government will be clear in terms of which level of government has the authority to levy and collect which taxes including clarifying discretion that each level will have in levying and administering the taxes (Bahl, 2008).

Locally imposed taxes will make local government officials (especially the elected ones) to be more accountable to their voters by delivering appropriate or better public services (Bird and Bahl, 2008; Shah, 1994). Though local governments have the potential to reach the traditional income, consumption and wealth tax bases in ways that the central government cannot (those who are hard to tax under central government regimes may be less hard to tax by provincial and local governments), the question remains whether the local voting population will buy into the idea that higher local government taxes will result in better services. In addition, the better-off may have good substitutes for many local government services (e.g., private schools, security, and refuse collection), so they might be hesitant to vote a tax increase local government introduce. There is also the claim that sharing the tax base (increasing the taxing powers of subnational government) may reduce the future taxing space of the central government and might explain why central government is hesitant to increase taxing powers of local governments (Bahl, 2008).

Among the revenue mobilization constraints at subnational level is that the local population has little capacity to pay and there is also the problem of limited capacity or local skill in administering taxes such as property tax, especially with respect to valuation. In spite of these problems, local governments have some comparative advantages that can help, these are that because the community is small, mapping of all parcels might be accurately and easily done; assessment might be done on a basis of physical area, rather than value, so as to minimize skill requirements in the valuation process; and small communities might be able to use peer pressure along with penalties to enforce collections (Bahl, 2008: 30; see also Osei, 2017).

2.7.3 Pillar 3: Intergovernmental Transfers

In the view of Bahl "revenue mobilization by small local governments is a special challenge. Their potential tax base is narrow and mostly in the informal sector, and their experience with tax administration is very limited. Things are made even more complicated by the absence of a culture of paying taxes, and by the fact that these governments may provide little public service benefits in return for tax payment. Inevitably, most of their expenditure budget will be financed by intergovernmental transfers" (Bahl, 2008: 29).

As noted by the UN (1996) cited in Ankamah (2012: 33), for a clear commitment in support of a decentralization reforms, the basic pillars of a system for decentralized financial management important for intergovernmental transfers should include: (a) transparency of allocation, (b) predictability of the amounts available to local institutions and (c) local autonomy of decision making on resource utilization. According to Bahl (2008), because of the limited taxing powers of local governments in development countries, the nature of the design of intergovernmental transfer structure is very important. It is noted that there are several different types of intergovernmental transfer systems in practice by different countries so it is not easy to settle on a best practice. Consequently, the objectives of the transfer should determine the kind of structure to design for the country context. The objectives may include vertical balance, equalization, externalities, administrative justification, and political justifications. Each of these concepts is explained next.

Vertical Balance: The rationale for intergovernmental transfers, especially in developing countries, is to redress the imbalance existing between the expenditure responsibilities of local governments and their local revenue raising powers. Urbanization has placed a lot of expenditure demands on local governments to deliver social services such as education, health, water supply and sanitation. However, this has not led to increasing taxing powers of local governments to mobilize adequate revenue and this is why central governments support subnational governments with central transfers.

Equalization: This is the step taken by central government by using a formula to equalize inter-regional disparities in terms of economic development and fiscal advantages across local governments. Developing countries are characterised by wide disparities in terms of economic development across their regions. Given this situation, if subnational governments are given more taxing powers, it will worsen the situation as those more urbanized local government areas have more tax raising avenues and with relatively high capacity to mobilize revenue.

Externalities: Intergovernmental transfers are an instrument that central governments can use as an incentive to encourage subnational governments to increase their spending on functions with external benefits. These are services that can benefit non-local residents.

Administrative Justification: The argument for administrative justification is that it is the cheapest way to finance government. The explanation is that central government is in a better position to assess and collect taxes cheaper than local governments. In addition, local governments are comparatively more corrupt than central governments so the tendency to waste resources is higher at that level. On the basis of these the central government will collect the taxes and transfer to the local governments. Although it is not entirely true that taxes are collected more efficiently at central government level and it is only a way of limiting tax powers of local governments, it is very common in many developing countries. There is also the argument that corruption may be deeper with central government officers than subnational government officials.

Political Justification: According to Bahl (2008), politicians in developing countries will support or discourage intergovernmental transfers partly because subnational government budgetary autonomy and absolute power to make decisions about service delivery could weaken the power of central governments. Consequently, many implement adhoc grants mainly driven by political considerations (Ankamah, 2012). As an escape route, and to be seen as supporting decentralization initiative, central governments give support to local governments through intergovernmental transfers with stringent conditions for the use of those resources. In addition, intergovernmental transfers may be instituted to enforce uniformity in the delivery of public services. As these transfers come with directives for use, they limit local discretion and lead to the provision of services that would not have been provided if local governments are left on their own.

2.7.4 Pillar 4: Formula for Intergovernmental Transfers

Many countries have used formulas for implementing intergovernmental transfers to achieve equalization as the objective of the intergovernmental transfer policy. The most common reason why governments have used formulae-based transfers is to gain transparency and certainty in the distribution of grants. This creates a sense of fairness in that all know the exact criteria by which distributions are made, and there is flexibility in that distributions may change as the needs for public expenditures change (Bahl, 2000). In general, a formula might reflect four objectives. The first is to allocate grant funds so as to reflect regional differences in expenditure needs. Countries have used many different indicators of expenditure needs, including the following: population (a straight per capita distribution). Indicators of physical factors that may lead to greater costs of service provision (such as land area, population density, and urbanization) are also used. Measures to reflect the concentration of high cost population in the local government areas, for example, the percent of families living below the poverty line, the percent of people on pensions, the percent of school aged children, etc. Indicators of infrastructure needs, such as miles of paved highways, percent of households with access to adequate water supply, infrastructure needs to support economic development among others (Bahl, 2000).

For example as noted by UNICEF (2016), South Africa's equalization system is based on seven components: education (41 per cent); health (19 per cent); welfare (18 per cent); a population component (7 per cent); an economic activity component (7 per cent); an institutional component (5 per cent) and; a backlog component (3 per cent). The needs requirements of each province for each component are calculated and summed to arrive at the provincial share of the grant. The provinces are then free to allocate their revenues, including these transfers, as they choose. Generally, elements or variables of the formulas will include needs, including population size or the number of service users, geography, levels of deprivation or poverty, and the strength and opportunities available for local governments to mobilize internally generated funds.

Because of the many different characteristics of local governments such as deprivation and or poverty levels and opportunities to mobilise local revenues, it may be challenging if not impossible to develop and design a formula that can equalize effectively. Although many scholars and governments have supported the formula-based approach as the best practice, formulas have been poorly designed (UNICEF, 2016). It is however important that steps are taken to design more inclusive formulas to guide in the transfer of national grants to local governments.

2.8 Conclusion

This chapter shows that governments have good intensions for adopting and implementing fiscal decentralisation reforms as part of the big agenda to deepen decentralisation and local governance. The implementation of fiscal decentralisation has however faced many practical challenges even in countries such as South Africa and Tanzania that are often cited to have made advances in this course. To increase our understanding of how the process works in Ghana and to produce evidence to contribute to deepen the reform process, this chapter points to the need to revisit the pillars of fiscal decentralisation using a more in-depth approach. The adopted design and methodology are the subjects of the next chapter.

CHAPTER THREE
STUDY DESIGN AND METHODOLOGY

3.1 Introduction and study design

This chapter presents the design and methodology employed for the conduct of the study. The study employs mainly qualitative design with some elements of quantitative data. Unearthing the issues and increasing our understanding of how fiscal decentralization works can be achieved more effectively by using qualitative design. This will allow in-depth interviews to dig deep into the issues (Cresswell, 1994) in order to capture the stories around the implementation of fiscal decentralization reforms.

3.2 Study Methodology

Our study does not focus on analysing revenue collection performance in terms of looking at the various sources of Internally Generated Funds (IGFs) such as Fees & Fines, Rates, Licenses, Land and Royalties, Rent and Investment income as presented by LI1961 and Act 936. The focus is on analysing the pillars of fiscal decentralization.

3.2.1 Literature review

The study began by doing extensive review of the literature covering Government of Ghana policy documents on decentralization, fiscal decentralization and intergovernmental transfers and local governance. This was to ensure that we capture as much data before designing our field instruments to target them more effectively. Some of the key documents that this study draws on heavily are Intergovernmental Fiscal Transfer Review (Final Report) published by the Ministry of Finance and the Ministry of Local Government and Rural Development, Ghana government's strategy document titled “Internally Generated Revenue Strategy and Guidelines: Maximising Internally Generated Revenue Potentials for Improved Local Level Service Delivery” prepared by the Ministry of Finance and the Ministry of Local Government and Rural Development (see Republic of Ghana, 2014a).

3.2.2 Selection of cases

The simple lottery method was used to do random selection of one case each from the hierarchy or clusters of Ghana's decentralization system. The merit of this approach is that each member has equal chance of being selected (see Crossman, 2019; Alvi, 2016; Anol, 2012). At the time of the study prior to the creation of the 6 new regions, the first level in the hierarchy constitutes the 6 Metropolitan Assemblies followed by the 55 Municipal Assemblies in the second level and the third level constitutes the 151 ordinary District Assemblies. For each of these clusters, all the cases were listed and placed in a box. After the box has been well shaken and all cases well mixed up for about 5 minutes, three research colleagues who are not members of the research team were blind folded and made to pick one case each from the three clusters. In the end, the Accra Metropolitan Assembly, Ejisu Municipal Assembly and Upper Manya Krobo District Assembly were respectively selected for the Metropolis, Municipalities and Districts.

3.2.3 Reconnaissance visits and preliminary discussions with interviewees

The team undertook reconnaissance visits to the stakeholders to be interviewed in the study. These visits were used to introduce the study and identify the main respondents. We also used these visits employing the snowball techniques (Atkinson and Flint, 2001), to identify key informants who were to provide us with critical insights into the issues and persons to interview. The field instruments were discussed with the informants which enabled the Research Team, fine-tune the instruments to make them more focused and well-targeted. Some amount of data was also collected during the reconnaissance visits. Following the initial meetings with our interviewees, the field instruments were updated and revised accordingly. The review was useful as it took into consideration the existing data we had obtained from the literature and the field.

3.2.4 Key informant interviews

The data collection started with key informant interviews. These key informants include high profile public officials in the MDAs, the Regional Coordinating Councils (RCCs) and MMDAs, traditional leaders, leaders of market associations, Assembly members and Unit Committee Members. These interviews provided useful insights into how to go about the interviews with all the other categories of interviewees and to effectively target the questions. Some of the very critical data was obtained from the key informants given their positions in the design and implementation of the fiscal decentralisation reforms.

3.2.5 Institutional interviews

The Research Team had institutional interviews at two levels. At the first level, there were in-depth interviews with the use of specific interview guides for MMDAs as the Units of Analysis who are in the centre of local revenue mobilization and at the receiving end of the intergovernmental transfer equation on central government-local government relations. High profile officers of the District Assemblies who constitute the top hierarchy of management were interviewed. They are the Metropolitan/Municipal/District Chief Executives (MMDCEs), the Metropolitan/Municipal/District Coordinating Directors (MMDCDs), the Metropolitan/Municipal/District Planning Officers (MMDPOs) and the Metropolitan/Municipal/District Budget Officers (MMDBOs). The rest include Heads of Revenue Department, Commission Revenue Collectors and Permanent Revenue Collectors (see Plates 1 to 6).

The discussions on revenue collection focused on the pillars of fiscal decentralisation and also captured issues such as revenue collection and management, enforcement, cost of collection, and residents' knowledge of local government revenue collections and expenditures (see Dzansi et. al., 2018).

At the second level, interviews were held with Key Informants in central government Ministries, Departments and Agencies (MDAs). The respondents were interviewed as the sources of policies and regulations governing intergovernmental transfers using custom-made interview guides. These include the Office of Administrator of District Assemblies Common Fund and the Inter-Ministerial Coordinating Committee (IMCC), the Fiscal Decentralisation Units of the Ministry of Finance and the Ministry of Local Government and Rural Development.

All interviewees at the two levels of institutional interviews are public officers in high positions. They range from persons holding high political offices, government bureaucrats and administrators and technical persons. Political offices include Ministers, Metropolitan, Municipal and District Chief Executives of the Assemblies. The bureaucrats are top management officials including the Metropolitan, Municipal and District Coordinating Directors (MMDCDs). The technical or professional group are Finance Officers and the Budget Officers/analysts and Planning Officers. In line with ethics of research, all these respondents will be referred to as high profile officers or interviewees or respondents in this study.

Plate 1: Interview with Officials at EJMA

Plate 2: Interview with AMA Officials

Plate 3: Interview with MLGRD Officials

Plate 4: Interview with Revenue Staff, EJMA

Plate 5: Interview with FDU of MoF

Plate 6: Interview with officials at UMKDA

Source: Fieldwork, June – September 2019

3.2.6 Telephone interviews

Telephone interview was one of the tools also used to collect primary data. At the time of the interview, some of our respondents were either out of their offices in the field, had travelled out of their duty stations or for some other reasons could not be reached in their offices. Their telephone contacts were obtained, interview guide was sent to them ahead of the interview date and an agreed date and time were scheduled for the interviews.

3.2.7 Interviews by correspondence and telephone

For some of the respondents, for the same reasons as those who were interviewed via telephone, the interview guide was sent for them to complete and return to us through the email system. The Team obtained 100% response from all such respondents. In areas where the team needed additional clarifications, the telephone was used to obtain those clarifications.

3.2.8 Revenue payment side – Focus Groups Discussions

For revenue payment side, the Research Team had Focused Group Discussions with landed property owners, business operators and ordinary residents. For each of these categories there were between 15 and 20 participants. Participants were simply asked about their response to tax payment in terms of why they pay or evade taxes (tax compliance). They were also asked about their assessment of the performance of the Assemblies in terms of service delivery obligations to them. This was not any detailed assessment as the respondents were only asked to say whether or not the Assemblies were doing well and the reasons behind their views.

In all the interviews, questions were put to the respondents and for each question, they were asked to indicate whether they (a) ***very much agree*** (b) ***agree*** (c) ***disagree*** or (d) ***very much disagree***. They were asked to explain the reasons behind the choices made. The explanations were used as the main entry points to go in-depth and discuss the issues. This is when the high-quality views are captured as quotes and texts used in the analysis.

3.2.9 The data and method of analysis

As indicated in the research design the data is mainly qualitative. This is in the form of text composed from narratives and stories obtained from all the respondents. These are all presented in quotes with minor grammatical edits. The content analysis is used to make scientific inferences out of the narratives regarding the experiences focusing on the pillars of fiscal decentralisation. The units of analysis are the actors in the implementation of the fiscal decentralisation reform programme at the MMDAs and MDAs.

3.2.10 Ethical Consideration and Issues

In order to ensure the credibility of the research, the need for ethical consideration is paramount. This is critical in studies involving human beings (see National Health and Medical Research, 2007). Most importantly, respecting and protecting human dignity is one of the cherished values of Good Governance Africa in all its efforts at contributing to improving governance reforms in Africa. Consequently, during the reconnaissance visits and the main fieldwork, our interviewees were assured of their anonymity in the reporting of the data. Their consent was however sought to capture the interviews in photos and publish some but their individual titles, positions and names will not be published. Words such as high-profile officer, senior official, respondent, and key informant have been used in place of names and positions in this report.

3.2.11 Validation of the findings in Kumasi

Following the production of the first draft of this report, a validation workshop was held in Kumasi on the 10th of October 2019. Participants were from the Oforikrom Municipal Assembly, Suame Municipal Assembly, Ejisu Municipal Assembly, Asokwa Municipal Assembly and Kwadaso Municipal Assembly. They include Municipal Chief Executives, Municipal Finance Officers, Municipal Planning Officers, Municipal Budget Officers, Revenue Collection Officers and Representatives of Market Associations (see Plate 7).

Plate 7: Participants at the Validation Workshop, Golden Bean Hotel, Kumasi

Following the presentation of the report, participants were put into four groups for each group to critically review each of the pillars of fiscal decentralisation the study focused on (see Plates 8, 9, 10 and 11). In the plenary session, each group presented their reports for discussion.

All the groups supported the findings of the study. In their view, the approach adopted allowed for the views of the implementers in the reform process have been captured adequately. All the comments have been factored into the final report.

Plate 8: Group One in session at Kumasi

Plate 9: Group Two in session at Kumasi

Plate 10: Group Three in session at Kumasi

Plate 11: Group Four in session at Kumasi

3.2.12 Validation of the findings in Accra

Following the validation workshop in Kumasi, a second validation workshop was held in Accra on the 12th of October 2019 (see Plate 12).

Plate 12: Participants at the Validation Workshop at Holiday Inn Hotel, Accra

To ensure consistency, the same approach as used in Kumasi was adopted. The participants were put into four groups for each group to critically review each of the pillars of fiscal decentralisation after the presentation of the report (see Plates 13, 14, 15 and 16). In the plenary session, each group presented their reports for discussion.

The various groups validated the data and supported the findings of the study. They made useful comments which have been used to improve the quality of this final report.

Plate 13: Group 1 in session, Accra

Plate 14: Group 2 in session, Accra

Plate 15: Group 3 in session, Accra

Plate 16: Group 4 in session, Accra

3.3 Conclusion

The research design, data collection techniques and methodologies and processes of analysis described in this chapter provide all the tools needed to address the research questions. The next chapter will present the findings that emerged from the study and discussions of their policy implications.

CHAPTER FOUR
FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings from the study. They are organised along the objectives of the study under the various pillars of fiscal decentralisation that were the focus of the study.

4.2 Pillar 1: Responsibility/Function/Expenditure Assignment

As discussed earlier in this report, according to pillar 1, there must be a significant set of expenditure responsibilities or vertical fiscal balance to make fiscal decentralisation work (Bahl, 2008). The research findings show that it cannot be concluded that there is complete vertical fiscal balance as existing intergovernmental fiscal system does not make adequate resources available to finance all the services assigned to subnational governments. The data shows that MMDAs do not have full discretion to adjust levels on both the expenditure and revenue sides of their budgets. The central government assigns responsibilities to MMDAs but some of the directives and controls substantially limit the autonomy of MMDAs to fully perform .

4.2.1 Assigned functions of MMDAs and capacity to perform

The respondents were asked to indicate the extent to which they agree that MMDAs have been assigned functions consistent with their capacity to efficiently perform them. e. As indicated in the methodology, the options given to were (a) ***very much agree*** (b) ***agree*** (c) ***disagree*** and (d) ***very much disagree***.

Of all the respondents interviewed at the MMDAs, 85% of them ***agree*** that they have been assigned functions that are just right at their level. Those who ***very much agree*** constituted 10% and 5% ***disagree***. None of them ***very much disagree*** to the question. The explanations given by those who ***agree*** but would ***not very much agree*** are that although the functions are just right, they do not have the fiscal and logistic capacity to respond adequately. Others also explained that they do not have the full complement of human capacity to perform. Some of the views given are as follows:

I agree. All the local government councils are performing the functions well. The problem however with the AMA is that up to 3 million people come into the central business district of Accra daily to transact business and we are supposed to provide services such as sanitation for them. It brings huge expenditure on us but the resources are not enough to meet all their demands (Interviewee, AMA, June 2019).

As stated in the various laws establishing the local governance system, I will say that the functions assigned to us at our level are those functions that need to be performed at the Municipal level. The problem however is the capacity to perform these functions more efficiently. We have insufficient capacity in terms of finances and adequately qualified personnel. For example, in spite of the fact that internally generated revenue is one of the major inputs to what we do, the Head of Revenue Department is a Middle School leaver, a semi-literate. She doesn't have the confidence to approach big businesses such as the hotels to collect the taxes because they will speak the English language. She is not able to design effective strategies for revenue collection. The revenue department is also made up of old personnel who are nearing retirement (High Profile Officer, EJMA, June 2019).

As you are aware, Act 936 envisages the implementation of the composite budget system under which we integrate the budgets of all the Departments of the District Assembly into the budget of the District Assembly. The former Local Government Act 1993, (Act 462) also provided that each District Assembly shall be responsible for the preparation, administration and control of the budgetary allocations of the Departments specified in the First Schedule to this Act. You will find the same thing in the recent Act 936. What this implies is that we have been assigned increased expenditure assignment yet we don't have the resources to perform them (Official, EJMA, June 2019; see also Republic of Ghana, 2009a).

For those who ***very much agree***, they explained that the functions are consistent with their capacity to perform. A couple of the views given are:

> *I very much agree because the functions specified in the laws are just right because they are functions that directly affect the citizens* (Official, EJMA, June 2019).

> *I very much agree. Our functions are that we are responsible for delivering basic services to the people. For example education, health, sanitation, water, and human settlement planning and management. All these are functions that we can perform under the decentralization programme* (Interviewee, UMKDA, September, 2019).

> *I very much agree. The Assembly is to initiate programmes for the development of basic infrastructure and provide municipal works and services in the district. We are to be responsible for the development, improvement and management of human settlements and the environment in the district. We are also in charge of security by working with the appropriate national and local security agencies for the maintenance of security and public safety in the district* (UMKDA, September, 2019).

Reasons given by the few respondents who indicated that they ***disagree*** are just like the reasons given by those who ***agree*** as it is all about fiscal and other capacity issues. One of them explained it as that:

> *In line with LI1961 urban roads and feeder roads are now our responsibility so we expect that central government will transfer portions of revenue accrued to the Road Fund to us. This must not just be allocated to us without our involvement in the decision making process to determine and agree on workable formula. If this is not done we cannot deliver to meet our obligations in LI1961* (Key Informant, AMA, July 2019).

According to the Final Report on Intergovernmental Fiscal Transfer Review by the Ministry of Finance and Ministry of Local Government and Rural Development "an estimate based on Road Fund allocations for road maintenance suggests that about 65% of the Road Fund constitute allocations to urban and feeder roads for road maintenance" (Republic of Ghana, 2014a: 74). What this implies is that part of this fund needs to be transferred to MMDAs for the purposes of road maintenance works.

At the MDA level, the results are not different from the MMDA level. Up to 90% of the respondents ***very much agree*** that the functions assigned to MMDAs under the law are just right except that many MMDAs do not have the requisite fiscal and human capacities to deliver. Some of the views are explained as follows:

> *I very much agree and my reason is that before those functions were transferred to the MMDAs some analyses were made that is why we transferred Schedule 1 functions to them. These are Agriculture, Community Development, Social Welfare, Public Works, Feeder Roads, Urban Roads, and Central Administration. These were decentralized departments but are now Departments. The problem however is that some of them may raise the issue that they don't have the logistics to perform* (Official, MoF, FDU, June 2019).
>
> *I very much agree. From the training given them and the assessment we have done across the country and looking at the revenue that some of the Assemblies generate, it can be concluded that most of the Assemblies have the capacity to deliver* (Official, MLGRD, June 2019).
>
> *I very much agree. According to Section 12 (1) of the Local Governance Act, 2016 Act 936, MMDAs are supposed to exercise political and administrative authority in the district; promote local economic development; and provide guidance, give direction to and supervise other administrative authorities in the district as may be prescribed by law. MMDAs are also supposed to exercise deliberative, legislative and executive functions and be responsible for the overall development of the district. They are to formulate and execute plans, programmes and strategies for the effective mobilisation of the resources necessary for the overall development of the district among others* (Key Informant, MLGRD, July 2019).

This finding is supported by all the participants at the Validation Workshops held in Kumasi and Accra. They emphasised that to a large extent, the human capacity of MMDAs is adequate. The problem however is the fiscal resource limitations of MMDAs.

Some faecal matter at portions of the 37 lorry station.
Source: Graphic.com.gh   Picture: Lydia Essel-Mensah

From the responses and the explanations given by the interviewees at both MMDA and MDA levels, and the results from the discussions in the two Validation Workshops, it can be concluded that the functions assigned to MMDAs under the law specified in the current Local Governance Act, 2016, Act 936 is just right. They give meaning to the spirit and purpose of the decentralisation programme as envisaged by the framers of the Fourth Republican Constitution of Ghana (see Republic of Ghana, 1992). Effective performance of these functions will mean that development is brought to the door-steps of Ghanaians as they influence and shape their own agenda and future.

The problem however is the question of capacity to perform as all the respondents have indicated. The capacity ranges from financial resources, human resources and logistics. Addressing capacity issues should be a policy concern.

4.2.2 Power to decide services, beneficiaries and cost of provision

When the respondents were asked to indicate whether MMDAs have the power to decide which services to provide, the beneficiaries, and the quantity and quality of those services and how much they will spend on the services, 90% of the respondents at the MMDA level ***very much agree*** that **in theory** as specified in the laws, they have the power to do so. The remaining 10% ***agree***. None of them ***disagree*** or ***very much disagree***. Those who ***very much agree*** and ***agree*** all referred to the mandate of the District Assembly as provided in the various pieces of laws including the 1992 Constitution of the Republic of Ghana; the Local Governance Act 2016 (Act 936); and Legislative Instrument (LI) 1961. They indicated that in **practice** however, MMDAs do not have that much of power to decide on services in spite of the devolution aspect of the decentralization reforms. They note that it is even worse when it comes to deconcentrated functions of the Assembly. In their opinion, MMDAs do not have that power to decide on service provision. Their explanations reveal that a number of factors limit the powers of MMDAs in many ways.

> *I very much agree that in theory we have the power to decide because our functions are all listed in the Constitution, Act 462, Act 936 and LI1961. It is a different thing altogether when it comes to the practice. For that I can't say we have the power to provide all services*

that we want to provide because central government directives regarding the use of the DACF-RFG, and IPEP funds limit us (Official, EJMA, June 2019).

I agree. Act 936 empowers the Assemblies to do all these. For the AMA although central government provides the policy guide, we pass our resolution and deliver the functions. For example, the Metropolitan Chief Executive's scholarship is the Assembly's own initiative (Interviewee, AMA, June 2019).

I very much agree that our functions are based on our mandate as listed clearly in the Act 936 and LI1961. There is a tall list of what the laws allow us to do towards efforts at bringing development to the people at the grassroots to give meaning to the decentralisation and governance reforms we started since 1992. The implementation is however not clean as you find them listed in the laws. The reality is that we don't have powers at all. Issues such as central government re-centralisation directives, political interferences, our exclusion in deciding on important issues and limited fiscal resources make it difficult for us to deliver (Key Informant, AMA, Accra, July 2019).

I will say I very much agree on the basis of the provisions in the laws. I will disagree in terms of the practice. It is like central government gives us the power using the right hand and uses the left hand to take the same power away from us. How can you interfere with what we do and say we have power? (Key Informant, UMKDA, September, 2019).

At central government level, all the officers interviewed ***very much agree*** that MMDAs have the legal backing to do their work. More than 80% also supported the claims by MMDAs that they are limited in many ways. For 15% of them, they ***disagree*** that MMDAs are limited in the performance of their functions. Among the views are the following:

I very much agree. Act 936 and National Development Planning Systems Act, 1994, Act 480 provides the legal backing to what the

Assemblies do in terms of service provision. All residents in the districts are beneficiaries so they cannot exclude anybody or a group of people from benefiting from what they provide. They can also decide on the quantity and quality and their budget allows them to determine how much they want to spend. Perhaps the only limitation to their powers is central government directives that come with the utilization of funds such as the DACF-RFG, and IPEP. These directives help to ensure that they utilise the resources well. Another limitation to their powers will be inadequate resources to implement their plans (Official, FDU of MoF, June 2019).

I very much agree, Section 40 of the Local Governance Act 936 gives them all the powers they need to function. They can take legal action against any interference if they have the evidence (Official, MLGRD, June 2019).

Participants at the Kumasi and Accra Validation Workshops have the view that MMDAs have all the powers to decide on which services to provide and the beneficiaries of those services. In terms of the implementation of their plans however, the financial resource gaps undermine their ability to deliver the quantities. The implications of fiscal resource gaps are explained in one of the group's report as follows:

We will say that MMDAs have the power to decide which services to be provided and the beneficiaries. However, we do not have the financial capacity or resources to provide these services. In terms of quality of the services, that can be assured due to the project monitoring mechanisms in place. For the quantity that cannot be assured (Group 1, Validation Workshop, Kumasi, 10th October 2019).

The literature shows that there is a wide legal framework that backs the work of District Assemblies in Ghana. These include the 1992 Constitution, National Development Planning Systems Act 1994, Act 480, Local Governance Act 936 (2016), and LI1961. Although some of these many laws are conflicting and others being ambiguous such as the Local Government Act, 1993 (Act 462) now the Local Governance Act 2016, Act 936 and the Ghana Health Service and Teaching

Hospitals Act, 525, they provide a good mandate for the Assemblies. The implementation of many of these laws or some of aspects of these laws has been a challenge to MMDAs.

4.2.3 Payment for service delivery by MMDAs

In response to the question of whether local rate payers pay for the services provided by District Assemblies, 95% of the respondents in the Assemblies ***very much disagree***. Only 5% ***agree***. Some of the explanations of those who ***very much disagree*** are as follows:

> *I very much disagree because many of the residents use informal ties and other networks to refuse paying for many of the services we provide. For example, the Assembly has put up stores that have been rented out but we are not able to collect the rents from the occupants as they use chiefs and politicians to avoid payment. Some even say because they are natives here they will not pay for the use of the stores although they are using these for their private businesses* (Official, EJMA, June 2019).
>
> *I very much disagree because the evasion of various licences, fees and other charges is high as I told you. Although we cannot say that the Assembly is performing excellently well in terms of service delivery, residents are unwilling to pay for these services fully and the Assembly spends more to provide these services than it receives in taxes or user charges* (Key Informant, EJMA, June 2019).
>
> *I very much disagree. The AMA spends about GHC60,000 weekly for waste collection in the central business district yet we are only able to collect GHC20,000 from market tolls. We wish we could increase this but there are political constraints on us. For example, we wanted to increase rent from between GHC200 to GHC500. We were invited by the Office of the President to explain. In the end we revised it to between GHC80 and GHC150* (Key Informant, AMA, June 2019).

Findings from our interviews at national level supported the findings from the interviews with MMDA officials. All of them noted that local people do not pay the market value or economic value of the services delivered by the Assemblies. In all the FGDs with informal sector business operators, it was found that the Assemblies collect between GHC50p and GHC5 for market tolls which is considered very low yet many refuse to pay or evade. Some of the explanations are these:

I very much disagree. Greater proportion of funding for Assembly services come from central government so it is what local people pay that is used to support what comes from central government transfers to provide these services (Official, FDU of MoF, June 2019).

> *I very much disagree because the rates they pay are low and not yielding enough for the Assemblies to use for service delivery. Many rate payers also evade the payment worsening the plight of the Assemblies. They have a lot of difficulty in property rate collection. Valuation is expensive so many of them have not undertaken valuation of properties. Many rate payers are therefore paying far less than what they are supposed to pay* (Official, MLGRD, June 2019).

In the FDGs with rate payers, it was revealed that many of them fail to comply with their rate obligations for various reasons. For some of them, the Assemblies do not use the taxes efficiently. They claimed that the Assemblies spend on things that are not priorities of local people. Others claimed that Assembly officials misappropriate or embezzle public funds while others held the views that they do not see their rates coming back to them in the form of services delivered by the Assemblies. Some of the views are as follows:

> *We have been paying all the taxes for many years but look at how we have been swallowed up by waste. Sanitation is so poor that it affects our health as mosquitos breed from the uncollected waste* (Member, FGD, UMKDA, September, 2019).

[3] See Adamtey (2012). Devolution and Deconcentration in Action: A Comparative Study of Five Municipal Assemblies in Ghana. Verlag, Lambert Academic Publishing

> *The Assembly officials spend the revenues on themselves. We see how they use the taxes we pay. They are not interested in fixing the problems we have in our communities so why must we continue to pay those taxes* (Member, FGD, EJMA, June 2019).

> *Look the market, the whole plays is either muddy in the rainy season or dusty during the dry season. What does the District Assembly use the market tolls for?* (Member, FGD, EJMA, June 2019).

Findings from our visits to the Assessewa market and Ejisu market show that the markets are not paved. As shown in Plates 17 and 18, during the interview at Assessewa market it rained heavily leaving the entire market with thick mud. Many traders and their goods got drenched and many of the goods were swept away by the winds because the market sheds were not in good shape.

Plate 17: Unpaved Assessewa Market

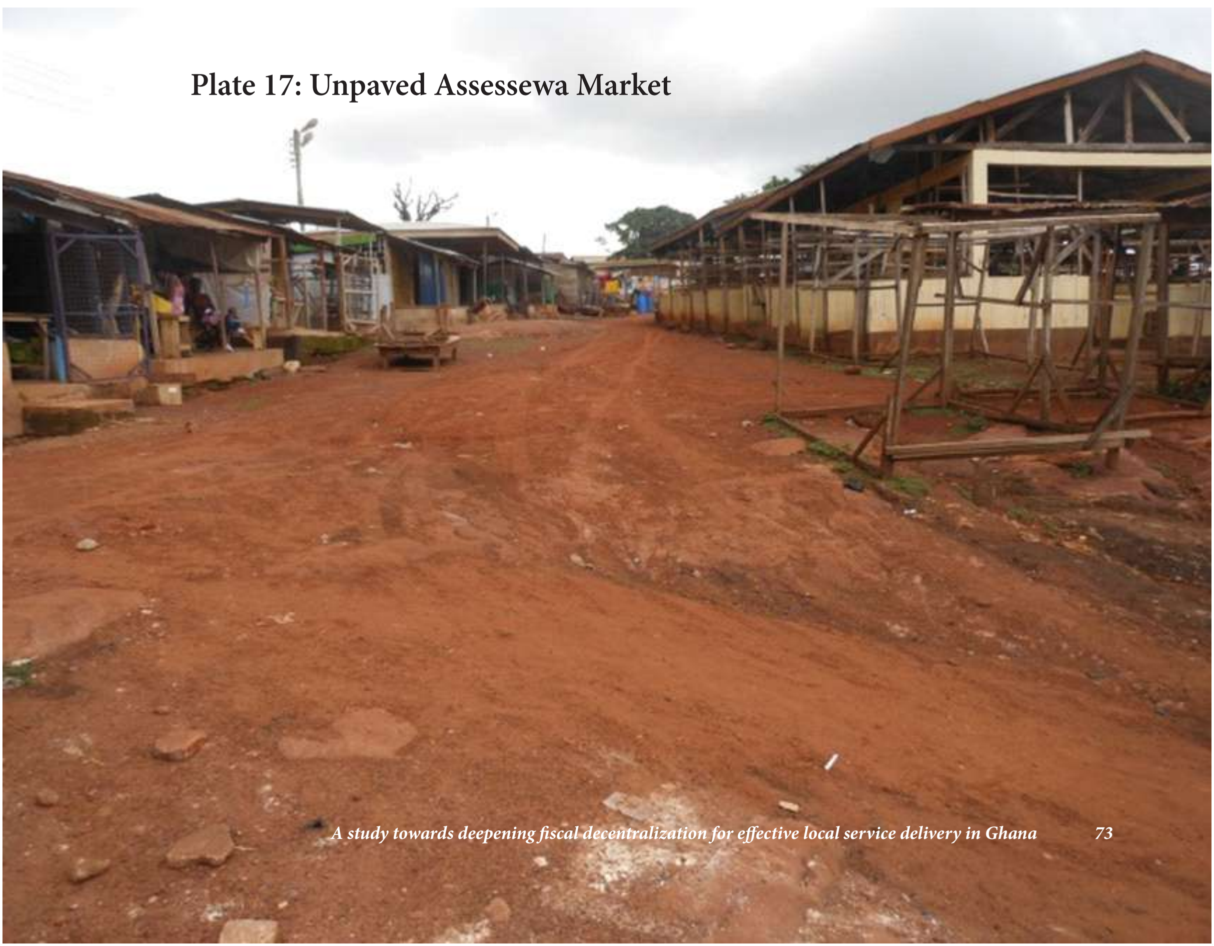

Plate 18: Muddy floor at Assessewa Market

Source: Field work, September 2019

The unpaved market floor and non-completion of the market stores were used by operators in the market as some of the key indicators to conclude that the Assemblies were not performing well.

But as noted by MMDA officials and supported by all the participants at the Validation Workshops that local people do not pay for services, this may partly explain the Assemblies' inability to deliver. The claim that local people do not pay for services delivered by MMDAs means that MMDAs are unable to closely link benefits to costs which might undermine accountability of MMDAs to local people (Shah, 1994).

4.2.4 Service assignment, policy and regulatory framework

At MMDA level, they were asked to indicate whether they will support the view that MMDAs have some services assigned to them but much of the relevant policy and regulatory framework, and the financing come from central government. It was revealed that 95% of them ***very much agree*** to this question. Some of the views were as follows:

> *Yes, I very much agree. Projects under GET Fund, One-District-One-Factory policy, Free Seedlings to Farmers, Infrastructure for Poverty Reduction and One-Constituency-One-Million Dollar etc are all implemented by us. They all come with funding from central government mainly driven by central government policy and regulations* (Official, EJMA, June 2019).

> *A major problem we have is that we have services assigned to us but much of the relevant policy, regulatory framework and financing come from central government. Our problem is that projects are awarded in Accra without our involvement. What you only find is contractors coming on site without informing the Assembly. Because of this contractors end up doing shoddy work and we are blamed by the local residents. This is very disempowering to a large extent* (Official, EJMA, June 2019).

> *I very much agree. Programmes such as School Feeding, LEAP, Disability, Millennium Schools and GAMA project are implemented by us but the funding comes from central government* (Official, AMA, June 2019).

All the officials at central government level supported the views held by MMDA officials. In their response, some noted that:

> *I very much agree. Transfers such as the DACF-RFG and UDG all come from central Government with policy and regulatory issues. The policy and guidelines or regulations help the Assemblies to allocate resources to the provision of certain services. If this is not done, there is the temptation that they will add to the 100% IGF*

> *already at their disposal and may not deliver those services* (Official, FDU of MoF, June 2019).
>
> *Yes, I very agree, the Assemblies implement central government projects not with their own resources but with central government transfers that come with regulations and directives. These directives are in line with Public Sector Financial Management which is meant to help the Assemblies to use public funds more effectively. Similarly, the Procurement Act helps and guides them on how to enter into public-private-partnership. Internal Audit Act shows them how to use public funds* (Official, MLGRD, June 2019).

Findings from the Validation Workshops support these findings that MMDAs are excluded in many of the discussions that affect them. Based on the views from the Validation Workshops and findings from the views of MMDA officials and our key informants, it can be said that MMDAs have concerns about how their involvement in central government project implementation, as the major actors at the implementation level, excludes them from the decision-making process. It can also be said that their concerns have some basis given the implementation of the DACF-RFG, UDG and LEAP are heavily driven by central government rather than MMDAs.

In spite of the concerns by MMDA officials, the literature suggests that there seems to be some consensus about functions and responsibilities that might best be assigned to the local, regional and central tiers of government. We therefore explored whether our respondents will agree with the literature. It was revealed that all of them ***very much agree***. Examples of their views are

:

> *Yes, I very much agree. Central government has more powers to collect some of the taxes than we have as an Assembly. For example, Ghana Revenue Authority has the powers to lock up businesses that fail to pay tax and prosecute them. We at the Assembly cannot do this therefore such functions must be performed by the central government* (Key Informant, EJMA, June 2019).

I very much agree. Development is spatial and the Assemblies can do it better at that level. The central government's job is to develop policies, the Regional Coordinating Councils monitor and evaluate the implementation of the policies and the Assemblies implement the policies (Official, FDU of MoF, June 2019).

I much agree. Looking at it in terms of procurement, roads for instance must be done by Urban Roads and School Feeding must be done by central government (Official, AMA, June 2019).

Given what MMDA officials expect and what the Government's Public Financial Management seeks to achieve (Republic of Ghana, 2016b), we find that in the spirit of Public Financial Administration and to effectively direct resources to areas that might easily escape MMDAs in their planning and budget driven by their priorities, central government directives and some amount of regulations might help. To make this work will require two things; first is that roles are clearly defined between central government and MMDAs in the assignment of functions. The second is that MMDAs must be part of the decision making process. This can help align such central government projects more closely with local needs.

4.2.5 Clarity in role definition between central government and MMDAs

According to the decentralization and local governance literature, local governments must deliver local public services to ensure accountability and responsiveness, however in areas where there are shared responsibilities between central government and local governments, the role of each must be made clear (Shah, 1994). We therefore asked all the respondents whether in the areas of shared responsibilities between the MMDAs and central government the roles are clarified to the Assemblies. The findings show that 85% of our respondents at the MMDAs ***very much agree*** that the roles appear to be clearly defined in the laws as seen from their explanations as summed up by the following views:

Yes I very much agree to some extent. In theory the roles appear to be clear from the various laws such as the Local Governance Act 936. In practice however, there are some areas that the roles do not appear

> *to be clearly defined. For example, in the past central government brought funding for us to implement physical projects under DDF and Common Fund. For the past three years central government does not bring physical projects to us, they only bring us programmes with recurrent expenditure* (Official, EJMA, June 2019).

> *I very much agree that the roles are specified in the laws but not when it comes to the implementation of these roles* (Key Informant, UMKDA, July 2019).

Over 90% of central government officials interviewed supported the views at MMDA level. Some examples given include the fact that there are deconcentrated departments of the Assemblies that are strongly aligned to their parent ministries in Accra. They report to them directly and implement projects and activities outside the control of the Assembly. A Key Informant explained that:

> *I will agree and not very much agree because the roles are not clearly defined. There are instances where they are unclear especially when contractors come into a district to execute projects when the Assemblies are not aware of. We are now working on the local content in the new Decentralization Policy to replace the old one which is ending this year* (Official, FDU of MoF, June 2019).

Our respondents gave many examples of unclear roles in existing laws especially Act 936. Some examples are presented here. The first issue is about provisions in Section 12(1) (c) which provides that MMDAs must provide guidance, give direction to and supervise other administrative authorities in the district as may be prescribed by law. In their view, this is not clear and they wonder whether this does mean that these administrative authorities are obliged to work with the Assemblies' guidance or they still work with the guidance of their parent ministries? One of them asked “what about if our guidance based on local conditions conflict with their parent ministries' guidance?” The second is on Section 12(3) (a), this states that MMDAs must be responsible for the overall development of the district; and (b) formulate and execute plans, programmes and strategies for the effective mobilisation of the resources necessary for the overall development of the district. All our respondents asked that if this is so what is the role of Traditional Authorities here if they are given up to 50% of Stool Lands Royalties? Their argument is that if 50% of royalties from Stool Lands is transferred to Chiefs without clear provision to make them use some of these for development of their localities, it takes huge resources away from the MMDAs who are claimed to be in charge of overall development. Third concern is about Section 12(3) (h). It states that MMDAs must "ensure ready access to courts in the district for the promotion of justice." The question remains that MMDAs do not have the power to hire and fire court staff including judges so if they find anything wrong in law adjudication there is nothing they can do.

Fourth is on Section 12(8) which provides that "in the event of a conflict between a District Assembly and an agency of the central Government, public corporation, statutory body, non-governmental organisation or an individual over the application of subsection (5), (6) or (7), the matter shall be referred by either or both parties to the Regional Co-ordinating Council for resolution" According to the respondents, they expect that such matters be referred to the Law Courts directly rather than the RCC for arbitration and resolution given the fact that the issue of conflict may be of interest to the Regional Minister and the MMDCE who are both appointees of the President.

4.3 Pillar 2: Revenue Assignment

According to the findings of this study, in terms of the division of revenue mobilisation powers among central government and MMDAs, it does not appear that revenue assignment is effectively structured such that MMDAs are clear in terms of which level of government has the authority to levy and collect which taxes including clarifying discretion that each level will have in levying and administering the taxes as argued by (Bahl, 2008). In the view of MMDA officials interviewed, they must collect court fines, Stool Lands Revenue and TV license. They must also retain court fines.

4.3.1 Taxation and revenue collection powers of MMDAs

From our initial discussions with MMDAs during the project preparation process, it appeared to us that MMDAs revenue collection powers needed to be expanded in order for them to increase their revenue. Consequently, we sought to investigate if this would be necessary.

We found that 95% of the respondents at the MMDAs ***very much disagree*** that MMDAs needed any further revenue collection powers such as new laws or legislative instruments. In the opinion of these officials, MMDAs have enough legal backing to mobilize internally generated revenues. They however listed a number of issues that explain why MMDAs are unable to mobilise adequate IGF. The most common explanations are the following:

> *I very much disagree. The problem is enforcement of existing revenue collection bye-laws. We have laws and bye-laws such as the law stating that business operators come to the AMA for the relevant permits. They do not come and the AMA does not go after them* (Official, AMA, June 2019).

> *One of the major issues we face is that we spend too much to mobilize too little. For those who are regular employees for revenue collection, they can't even collect up to 40% of their monthly salaries. In terms of the commission collectors we pay them up to 35% commission so it is like we give them everything they bring to us given the fact that what they collect is already peanuts. If we are able to address these problems we don't need any additional laws to collect more* (Official, EJMA, July 2019).

Similarly, about 90% of the officials at the MDAs we interviewed would not support the view that MMDAs needed additional revenue or tax collection laws judging from their views:

> *I very much disagree. They have fee-fixing guidelines to be used to generate and determine how much they can collect. They can mobilize enough IGF if the fee-fixing resolution is gazetted. However they are collecting less than 40% of what they should be collecting. Some don't even have adequate data to collect revenue. The revenue collection capacity is an issue but not the laws, for the laws they have enough* (Official, FDU of MoF, June 2019).

> *I very much disagree. What they need is rather increased capacity to collect more revenue. They must also invest in revenue collection,*

> *develop new strategies to collect and increase their nets. The problem is that many of them have limited scope and cover the same rate payers leaving out many* (Official, FDU of MoF, June 2019).

In the Validation Workshops, participants agreed that MMDAs do not need any additional revenue collection laws. They rather need to identify and block the many leakages in the revenues, identify additional revenue sources and work as a team with all stakeholders.

For the remaining 5% of officials at the MMDAs who supported that MMDAs needed additional laws, they want existing laws to be amended to eliminate what they claim to be interferences from central government officials. One of our key informants explained that:

> *Yes I much agree. We need powers to prosecute tax defaulters and there should not be any interference in this process. Court fines that are sent to central government must be retained by the Assembly. We also must be given the power to outsource some of our revenue sources to NGOs who have the resources and the means to access the communities better than us* (High Profile Officer, EJMA, June 2019).

As those respondents who would not support the views that MMDAs need additional taxing powers have noted, the existing laws appear to be adequate for MMDAs. For example, according to the Local Governance Act 2016, Act 936 MMDAs have the power to enforce payment of taxes at the district level. In the event that there is evasion and non-payment, MMDAs can take the necessary legal steps to reclaim any rates payable. Although the laws make provision for rate defaulters to be prosecuted, we found that MMDAs are unable to take rate defaulters to court due to the cost of doing so, political sensitivity and the non-gazetting of fee fixing resolution weakens the legal basis for taking ratepayers to court. This finding is also supported by Dzansi, et. al. (2018).

One of the high profile officers at the MMDA level pointed out that some aspects of existing laws might need amendment to make them more functional and help MMDAs raise more revenue. The views are that:

> *According to Act 936, a District Assembly in the discharge of its duties shall be subject to the general guidance and direction of the President on matters of national policy. This provision gives wide powers to the President to be abused by the MMDCEs. Another example is the Section 13(1) which states that District Assembly shall be the authority to carry out and execute within its district the provisions of the Auction Sales Act, 1989 (P.N.D.C.L. 230). The practice is that central government auctioneers come from Accra and work without our influence at all. If this law is amended and MMDAs influence the auction process, it could help us raise some revenues. Section 13(2) also provides that a District Assembly shall be the authority to carry out and execute the following provisions of the Criminal Offences Act, 1960 (Act 29) within its district: (a) section 296 in respect of throwing rubbish in the street; and (b) section 300 in respect of stray cattle. Court fines from here are all transferred to central government. The law needs amendment for us to retain court fines* (Key Informant, AMA, July 2019).

The claims call for a review of aspects of some of the decentralisation laws which were supported by participants at the Validation Workshops. A process that involves a wide range of actors particularly the MMDAs as the implementers of the laws has the promise to produce more effective laws.

4.3.2 Local people's support for higher local government rates

To explore available space for local rate increases by MMDAs as part of efforts to raise additional IGF, we sought to find out whether local voting population will buy into the idea that higher local government rates will result in better services and whether they will accept increases in local rates by MMDAs. At the MMDA level, many of the respondents (95%) ***very much disagree*** that local people will support any rate increases by the Assemblies. Examples of their explanations are given below:

> *At the moment I will very much disagree because it is very common to hear local people say that the Assembly is not able to deliver services they need so they will kick against such a policy. It is true to a large extent that we are not able to deliver excellently due to many*

challenges mainly financial. In the future however if we are able to deliver what they need and explain to them the need to increase taxes they will agree to pay more (Official, EJMA, June 2019).

I very much disagree because it is common to find people complaining that they don't see what we use the taxes we collect to do. They complain that we have been collecting the revenue all this while yet they have not seen any development to show that we use the taxes effectively (Key Informant, AMA, Revenue Office, EJMA, June 2019).

We have not been able to adequately educate and inform our people about local government revenue collection and expenditures. Many have the impression that we only collect the revenue and waste it. Some do not even know that it is their responsibility under the law for them to pay taxes (Official, UMKDA, September 2019).

Not many will support any tax increases in any form. As at now many residents here don't trust what the Assembly uses the taxes for, in fact the revenue staff don't also trust what the Assembly uses the taxes for. These views have some basis because we have not been able to deliver basic services such as sanitation, water, education etc (Official, AMA, June 2019).

Findings from the interviews with central government officials support what MMDA officials claimed. Examples of their views are the following:

I very much disagree, there is the notion that the Assemblies collect the money and use it on themselves. The truth is that Assemblies are also not performing that well. It is also true that what they are collecting now is not even enough for them to provide the services. The Assemblies find themselves in a complex situation. They are not able to deliver services more effectively because they are not collecting enough revenues. They cannot therefore convince the people to accept to pay more and it brings them back to the cycle of non-performance. The starting point will be good education and

> *involvement of the people in the decision-making process. The next thing will be for them to effectively utilise the little they are able to collect so that when their people begin to see small positive changes, they will easily support future increases in taxes (Official, FDU of MoF, June 2019).*
>
> *Many MMDAs are not effectively using the little they collect now so I very much disagree that people will support any increases in the rates they pay currently. Most importantly, because of how local politicians approach issues, many people have the perception that it is central government that is doing all the things rather than the Assembly so what is the basis for the Assembly increasing rates? (Official, MLGRD, June 2019).*

Participants at the Validation Workshops indicated that to some extent, they support the finding that citizens will refuse to accept any increment in rates. What was said can be summed up by how one of them put it that:

> *To some extent we agree to the submission that the citizens will refuse increment because most of the provisions are intangibles. For example, support to security agencies, sanitation, chieftaincy, etc. What has compounded this problem is that the communication gap between unit committees, zonal councils, etc. is wide. Thus, information does not reach citizenry and feedback from citizenry doesn't reach the assemblies causing a demotivation to pay levies and rates. There is also conflict with Ghana Revenue Authority levies, as citizenry do not recognize the differences in the levies and complain of double payments (Participant at Accra Validation Workshop, November 2019).*

To overcome this will mean that MMDAs will use their revenues well. All the participants at the Validation Workshops supported the views that MMDAs must effectively utilize the meagre revenues at their disposal as noted by one of the groups that:

> *District Assemblies must ensure the judicious use of resources at their disposal that will benefit their communities. At least each community should have one project. This will help build trust for the District Assembly as an institution and officials who work there (Group Two, Validation Workshop, Kumasi, 10th October 2019).*

Based on the responses from MMDA and MDA officials, the views shared at the Validation Workshops and further evidence from our key informants, it can be concluded that currently, the option of increasing existing rates may not be available to MMDAs. According to our key informants and as some of the MDA officials have noted, other factors that may explain why the local voting population might not support any rate increases are non-involvement of local people in decisions around revenue mobilization and use, and the fact that the better-off have substitutes for many of the local services delivered by the Assemblies.

This issue of none or limited involvement of citizens in the development process is very common with decentralization reforms in many countries across Africa. For example, in Tanzania the involvement of citizens in the planning process from village (street) level, ward level and at the district level has been a major challenge (see Massoi and Norman, 2009). Many have argued that if MMDAs involve local people in tax decisions, it could lead to the acceptance and compliance to their rate obligations.

Involving the citizens in the decision-making processes or processes involving the determination of rates, fees, licences and other charges was stressed by participants at the Validation Workshops.

The second factor is the claim that the better-off citizens may have pretty good substitutes for many local government services such as private schools, security, and refuse collection so they might be hesitant to vote increases in local rates that MMDAs introduce. All our interviewees at the MMDAs supported this to a large extent as can be seen from these views:

> *I will say I agree and also disagree to some extent. I will agree because some of the better-off people already have their own*

> *arrangements that provide them with security and refuse collection services at high cost so they will not be ready to vote any tax increase by the Assemblies to deliver these services. In fact, many of them believe in the private sector delivering these services better than the Assemblies. I will also disagree because some of them will accept to pay but the problem we have here is many of our revenue staff are not very much educated so they do not have the confidence to go to the tax payers, they are also not able to adequately explain to the very educated tax payers the need for the tax (Official, EJMA, June 2019).*
>
> *Many better-off people do not trust the Assemblies so they will prefer to pay higher taxes to private companies to provide some of the services (Official, FDU of MoF, June 2019).*

What all these views point to is that there is the need for increased education of rate payers by MMDAs. This must be supported by transparency and openness to make local rate payers build trust for the Assembly as the highest political authority responsible for the overall development at the district level, and they need rate payers to comply with rate obligations to enable the Assemblies deliver on their mandates.

4.3.3 Revenue collection powers of MMDAs and taxing space of central government

The claim in the literature on fiscal decentralisation is that increasing the revenue collection powers of subnational government can reduce the future taxing space of the central government so we asked our respondents the extent to which this can help us explain intergovernmental relations in Ghana. This question is also important given the claims that MMDAs have the potential to reach the traditional income, consumption and wealth tax bases in ways that the central government cannot. What this implies is that those who are hard to tax under central government regimes may be less hard to tax by provincial and local governments and therefore the need to increase the taxing powers of local governments.

Views on this question were close to equally divided. Whilst about 60% of the respondents at the Assemblies very much agree that this is possible, the remaining 40% very much disagree that this is possible.
Some of the views of those who very much agree are that:

> *Yes I very much agree. The reason is that if taxes such as court fines and stool lands royalties are collected and retained by the Assembly the future taxing space for central government will be reduced (Key Informant, EJMA, June 2019).*

> *Yes I very much agree. For example, if Assemblies are made to collect tax stamps it will reduce the tax space for central government. But if we want them to be independent, we should be looking into this option in the future (Official, FDU of MoF, June 2019).*

In the view of those who very much disagree, the MMDAs do not have the capacity to collect many of the current local taxes such TV licenses, Stool Land Royalties and Stamp Tax that central government collects. Leaving these to MMDAs implies that there will be substantial leakages. Many of the participants at the Validation Workshops supported this group of respondents. They also added that what central government collects is different from what local governments collect under the law.

In terms of the ability to reach the rate payers, 80% of the respondents in the Assemblies very much agree that MMDAs are able to do so better than central government. They explained this as follows:

> *Yes, I very much agree. For example, the payment of TV licence that the central government is struggling to collect can be collected easily by District Assemblies. We are closer to the local people and comparatively they feel more comfortable with our officers coming to them than central government's revenue authority (Official, EJMA, June 2019).*

> *I very much agree. We are with the local people and somehow many see central government as remote and far away from them. We know*

> *where all the new developments are and who is engaged in which activity. We can easily access these tax payers better than central government officials but our major problems are logistics, personal protective equipment and low motivation for revenue collectors (Key Informant, EJMA, June 2019).*
>
> *Yes I very much agree. If we are able to strengthen the sub-structures they can do it better than central government as they know where every business is located (Official, FDU of MoF, June 2019).*
>
> *I disagree because what the Assemblies collect is not taxes and different from what central government collects (Official, MLGRD, June 2019).*

Increasing the taxing space of MMDAs by allowing them to collect taxes such as TV licenses, Stamp Tax and Stool Lands Royalties will reduce taxing options available to central government. This will weaken central government controls over financial resources of the Assemblies but has the potential to increase revenues of the Assemblies. The question however is whether MMDAs will be able to collect these effectively. Given the findings that MMDAs are currently struggling to mobilise revenue from existing sources, it can be concluded that increasing their taxing space without addressing the capacity problems will only lead to more problems.

4.3.4 Reliance on central government transfers and local accountability of MMDAs

According to the literature, local governments in developing countries do not have full access to their own tax bases and they are not able to mobilise enough locally therefore rely heavily on central government transfers which undermine their accountability to local people (Shah, 1994). We sought the views of our respondents on this claim. Our findings support this claim as over 90% of MMDA officials very much agree to the claim. The common views expressed as summed up are that:

> *Yes I very much agree. We don't have full access to own tax bases. Many factors explain this situation. Political interference undermines*

> *our ability to prosecute tax defaulters and court fines and royalties go to central government. Because of this we rely heavily on central government transfers and many of the local people say that it is central government that brings us money for development which undermine our accountability to local people (Official, EJMA, June 2019).*

> *To a large extent I will say that the challenges that face us as revenue collectors make it difficult to mobilise adequate revenue for the Assembly therefore, we don't have full access to our tax base. For example, we don't have raincoats, wellington boots and identification tags. Some revenue payers question our status and mandate because we don't have name tags. We are unable to collect revenue during the rainy season also. Some revenue payers even claim they are royals and they own the land so they won't pay revenues. Others also claim that they are connected to high political figures so they will not pay (Official, Revenue Office, EJMA, June 2019).*

> *If you look at our revenue trends you will find that we are very low during election periods especially the months ahead of elections. We are told not to disturb people by asking them to pay the various taxes. From experience, the MCEs will not support enforcement of revenue bye-laws for fear of losing elections (Key Informant, UMKDA, September 2019).*

All our respondents at the MDAs and participants at the Validation Workshops supported the claims in the literature and noted that it is common knowledge that local governments in Ghana heavily rely on central transfers to function. Their reasons are not different from what MMDA officials have said. One of them noted that:

> *I very much agree because many of the Assemblies are not able to collect their own revenues effectively. Many also do not even know the potentials in the revenue area yet they give it on contract and in the end the contractor just pays them peanuts. All these contribute to*

low revenue mobilisation leaving the MMDAs no choice than to rely on central government (Key Informant, MLGRD, June 2019).

The issue of political interference keeps recurring as very important factor in the fiscal decentralization process. At the Validation Workshops, this factor was acknowledged as one of the critical issues that affect revenue mobilization efforts by MMDAs. Our key informants in all the districts listed this. The fear of losing votes was claimed to make MMDCEs not to push for revenue and tax defaulters to be prosecuted or even taxes collected from them especially during election periods. The study also found that revenue collectors were not adequately equipped and supported by the Assemblies in the performance of their jobs. For example, during our visits to the markets on all the market days in the study districts, we found that revenue collectors did not have identification tags showing that they were working for the Assemblies. They were not in any identifiable clothing such as a uniform for the purposes of their job. Our quick interactions with revenue payers at the markets revealed that many toll payer's refusal to pay could largely be explained by the fact that there was nothing identifying the revenue collectors. Their legitimacy and authority was questioned by many.

4.4 Pillar 3: Intergovernmental Transfers

The general findings from the discussions on Intergovernmental Transfers support the view of Bahl (2008) that local governments have huge challenge in revenue mobilization. The major source of their revenue is mostly in the informal sector, and their experience with tax administration is very limited. They are further challenged by the absence of a culture of paying taxes, and are unable to tax adequately to provide the needed public services. These further explain why they depend heavily on intergovernmental transfers. Their dependence on central governments is further made worse by limited transparency in allocation processes and predictability of the amounts available to them (see Ankamah, 2012). This section explores intergovernmental transfers to understand how they help explain fiscal resource availability to MMDAs.

4.4.1 Knowledge of reasons for the institution of intergovernmental transfers

Successful implementation of fiscal decentralization reforms will require a good understanding of the motive and policy logic behind the institution of intergovernmental transfers. Some have argued that inadequate understanding of this partly explains overreliance and heavy dependence of MMDAs on central government transfers. The study therefore explored the understanding of MMDA officials of the institution of intergovernmental transfers as part of the implementation of Ghana's fiscal decentralization programme. What all the respondents said was mainly focused on the DACF-RFG and Stool Lands revenues. What all of them said can be summed up in what these two respondents said that:

> *The reason for instituting the DACF which is now DACF-RFG is that some of the District Assemblies are more endowed than others so taxes such as royalties are collected into one basket and shared to all Assemblies. In addition, 5% of national revenues are shared to all Assemblies in the form of DACF. Another major reason is that the central government has the machinery to collect revenue better than us so intergovernmental transfers were instituted as part of the implementation of Ghana's fiscal decentralization programme to make financial resources available to support the Assemblies to deliver services* (Official, UMKDA, September 2019).

> *For the purposes of development to support the Assemblies to provide adequate services and to fill the resource gaps* (Official, FDU of MoF, June 2019).

Similar to what was said about the DACF-RGF, all the respondents at the MMDAs and MDAs showed a good understanding of the rational for the institution of the former District Development Facility (DDF) which is now mainstreamed into the DACF as DACF-RFG. They generally understand it as presented by the Republic of Ghana (2014a) that it was introduced to partly respond to the weaknesses in existing intergovernmental fiscal transfers to DAs by providing additional financial resources to augment the funding gaps between expenditure needs of DAs and their revenue assignments. Although they could not specifically list the objectives in the interviews, their responses fall in line with the objectives as listed by Republic of Ghana (2014a: 37) to include the mobilisation of additional financial resources for MMDAs; provision of incentives for performance for complying with Government of Ghana legal and regulatory framework; establishing a link between performance assessment and capacity building support; and ensuring harmonised system for investment funding and capacity building support to MMDAs.

All the respondents at the MMDAs also showed a good understanding of the reasons for the institution of the Urban Development Grant (UDG). They explained that the UDG seeks to provide additional financial resources to Metropolitan and Municipal Assemblies (MMA) to improve the management and local service delivery capabilities. They mentioned that the performance of MMAs in Financial Management is the focus of assessment using budgeting, accounting/auditing, revenue management, asset management and social accountability as the essential indicators.

They also mentioned Stool Lands Revenue as one of the central government transfers to MMDAs to provide general-purpose funding for development with no directives and conditions governing their use by MMDAs. The participants at the Validation Workshops however intimated that Stool Lands revenues are only shared to Assemblies that have such natural resources. What this means is that not all MMDAs benefit from Stool Lands.

Among the three main intergovernmental transfers, the DACF, now DACF-RFG, was the most popular that all the interviewees appeared to show deep understanding in terms of rationale, purpose and implementation issues. They however raised concerns about the implementation of the DACF-RFG. Many of the issues they raised are captured by the Republic of Ghana (2014a).

> *"The DACF-RFG has drifted from its original intent to serve as a formula-based transfer for District Assemblies….it has slowly evolved to include a mixture of special, earmarked transfers for special priority projects among others, and away from being general purpose formula-based transfer for MMDAs. This has led to the emergence of a dual-structure formula-based system, with the*

> *amount dedicated as a direct transfer to MMDAs being the only transparent formula-based component in the DACF-RFG. In 2012, this portion accounted for only 25% of the total DACF-RFG allocation, with the remaining 75% being allocated based on other criteria not specified in the DACF formula submitted and approved by Parliament (Republic of Ghana, 2014a: 33).*

Given the nature of issues that face the implementation of the DACF-RFG, it can be said that in the long term, a review of the formula for sharing might be helpful. Another issue for long term discussion will be earmarked deductions at source. As the literature has shown, earmarked at-source deductions without the approval of MMDAs can lead to expenditures not closely matched with local needs and consequently might not lead to more efficient provision of local public services (see Shah, 1994). In the short term, the issue for policy debate must be the delays in the releases as discussed in the next sub-section of this report as one of the major weaknesses in existing intergovernmental transfer arrangements in Ghana. The argument here is that whatever amount that needs to be released to the Assemblies, with the current formula, must be transferred to them in good time to help them do effective planning and budgeting. This recommendation received strong support by the participants at the Validation Workshops.

4.4.2 Weaknesses in existing intergovernmental transfer system in Ghana

Given the importance of immediate releases of transfers by central government to the planning and budgeting by the Assemblies, the research explored the weaknesses in existing intergovernmental arrangements to inform policy debate. All our respondents at MMDA and MDA levels ***very much agree*** that there are many weaknesses in existing intergovernmental transfers that need urgent attention. All the participants at the Validation Workshops supported this finding. Among the major weaknesses is that MMDAs claimed that they do not have any ideas about how much revenue has been mobilised by central government out of which the 5% is shared to them as the DACF-RFG. Others also indicated that they are not given any information about what the 5% constitutes. Some of the views are presented below:

> *Yes I very much agree. We don't know how much is in the basket from which our respective proportions or shares are transferred to us. We need to be told of how much has been collected by central government. There are also delays in the releases to us which heavily undermines our planning and budgeting efforts* (Official, EJMA, June 2019).

> *I very much agree. There are delays in the releases of the DACF-RFG to the Assemblies. There are erratic flows; one quarter is always in arrears. The formula does not get approval early enough. Three quarters are to be released in a year but this has not been possible* (Official, FDU of MoF, June 2019).

We found that their claims are supported by many such as the Republic of Ghana (2014a). For example, in the review of intergovernmental fiscal transfers in Ghana by the MoF and MLGRD it is noted that:

> *The predictability and timeliness of the release of DACF to the MMDAs have been a challenge since the introduction in the system of 1994. Given the reality of the generally precarious financial position of government at the end of the fiscal year, and the fact that DACF disbursement formula is approved sometime during the end of the first quarter of the ensuing year, the annual releases to the MMDAs have generally been one quarter in arrears. Thus despite the fact that MMDAs should receive all the four quarterly payments for each year as stipulated in the law, MMDAs, in most cases receive three quarters during the year with the 4th quarter being released in the first quarter of the ensuing year (Republic of Ghana, 2014a: 29).*

Apart from the DACF-RFG, one of the key informants noted that even with other intergovernmental transfers such as the UDG, “we are not informed ahead of time during our planning and budgeting process about how much we should expect and it makes it difficult for us to plan and budget effectively” (Key Informant, AMA July 2019).

Another concern with the weaknesses has to do with the formula for sharing the Stool Lands Royalties. In the view of one of the Key Informants, the formula for sharing the Stool Lands Revenue is weak and needs a revision. She noted that *"The 10% given to the Office of the Administrator of Stool Lands is on the high side since administrative expenses are not development oriented to benefit local people directly. In addition, the Traditional Authority shares the remaining 90% equally with the Assembly and this is also not good enough. We don't find the 50% that goes to the Traditional Authority as benefiting the people directly. The Assembly delivers services that affect the people directly yet we don't get enough from the Stool Lands"* (Key Informant, EJMA, July 2019).

All the respondents raised concerns about the Stool Lands revenue disbursement process. One of them noted that "*We are not told about the total amount that accrues from which our share is given to us so we can't tell whether what we receive is the true amount*". Another claimed that:

> *The Stool Lands revenue is one of the central government transfers that lacks transparency and non-involvement of beneficiaries in the disbursement decision making process. Don't forget that many of the natural resources from which stool revenues are collected cut across many Districts and therefore many District Assembly physical boundaries so it will require that all affected District Assemblies and other stakeholders are involved in the consultation process for us to ensure that revenues are allocated fairly and in a transparent manner* (Key Informant, AMA, July 2019).

Another high profile respondent claimed that "*releases do not follow any pattern or timing and they are not released to us directly. We even have to write to the Administrator of Stool Lands before it is released to us"*.

These and similar concerns are supported by the Republic of Ghana (2014a: 51-52) that:

[4] Concerns around the formulas are further discussed extensively under Section 4.5

> The revenue disbursement process [to MMDAs] is implemented without sufficient reporting and transparency making it difficult for the District Assemblies, Traditional Authorities and Stools to ascertain or verify the accuracy of the transfers. The Offices of the Administrator of Stool Lands do not provide the OASL Head Office with any feedback on the amounts and timing of the transfers to the Assemblies. The Regional Offices also do provide adequate information to the District Assemblies, Traditional Authorities and the Stools.

In spite of the many concerns MMDA officials raised about Stool Lands revenue, this study shows that Stool Lands revenue appears to be reliable source of money that can be explored further to increase local government revenue basket. According to Darin-Drabkin (1977) cited in Asiamah (2006: 102-103), land has some unique characteristics, which distinguish it from other goods in the economy and makes it a good resource for revenue generation by local authorities. These can be summarised as:

> a) Land is physically undepreciable and is not influenced by time: one may argue that where land has been developed, the development may depreciate over time while the bare land itself is indepreciable. In some cases the depreciation in the structure may occasion an increase in the value of land, by creating a residual value in the land, because of the expectation of a change in use when a new and modern structure commanding a higher price may be erected. b) Land is fixed in location: this makes land a permanent local asset. Thus, while the use of land can be altered to meet the demands of the day, the land itself cannot be transported outside the locality. c) Land is limited in supply: its supply cannot be physically increased (except in reclamation programmes). Thus, as the demand for land increases, its price generally increases. d) Land is a store of value and a basis for savings. Land values tend to increase ahead of the rate of inflation making land attractive as an investment and spawning land speculation. e) Land is a means of production and, thus, a store of wealth. It can be used to create wealth when it plays a part in production. These characteristics make land a unique

resource for local authorities. The benefits of land holding are often locally based and, thus, accessible to the local authorities, not only for taxation purposes but also for enhancing the living conditions of the local people through spatial and economic planning.

If land is adequately discussed among all stakeholders, it could help MMDAs increase their revenues. Such a discussion must create the space for the views of all MMDAs to inform the process. The total Stool Land revenues must be made known and the formula for disbursement must also be adequately explained to all.

4.4.3 Fiscal autonomy, service efficiency and responsiveness

While some have argued that increased fiscal autonomy will improve efficiency and responsiveness in providing public social services (Shah, 1994), others have argued that this expectation must be taken with caution because of weak capacity for financial management at local government levels (Fjeldstad and Semboja, 2000). In spite of this, many support increased fiscal autonomy as important feature of fiscal decentralisation that can enable local government authorities to minimise vertical fiscal gaps with central government. We asked MDAs and MMDAs whether MMDAs have budgetary autonomy to decide on how they will deliver services and to decide on how much to spend on the service and whether this is a sufficient condition for them to perform better.
In the interviews with MMDAs, it was revealed that 95% of them would not support the argument and they ***very much disagree*** that MMDAs have adequate budget autonomy. They claimed that, at least, in theory, one might conclude that MMDAs have budget autonomy but not in practice. This view was supported at the Validation Workshop in Kumasi. Some of the responses common to many of the interviewees are the following:

> *I very much disagree. We only have the autonomy to prepare the budgets but we don't have the autonomy to spend. Many of our major expenditure items are directed or dictated by central government. Part of our money is spent on our behalf by central government even when the spending does not address our priorities. For example, deductions are made at source from our share of the DACF to pay Zoomlion Company Limited for fumigation*

> *exercises when that was not our key development issue at the time* (Official, EJMA, June 2019).
> *I very much disagree that we have budget autonomy. Our autonomy only ends at budgeting. We don't have true autonomy as central government directives for the utilisation of grants and other transfers limit us a lot* (Key Informant, AMA, June 2019).

For the respondents at MDAs, 60% ***very much agree*** that MMDAs have budget autonomy from budgeting to spending. One of them explained that:

> *I very much agree. They have indicative ceiling which is given to them. They start with fee fixing. They are not able to generate so they depend heavily on central government. Since the transfers come with directives they will claim that the directives do not give them autonomy to spend* (Official, FDU of MoF, June 2019).

All those who held this view supported their position on autonomy for budgeting with Section 123(1) and Section 123(2) of Act 936. Section 123(1) provides that "each District Assembly is responsible for the preparation, administration and control of the budgetary allocation of the Office of the District Assembly and the Departments of the District Assembly". Section 123(2) states that "each District Assembly shall before the end of each financial year, submit to the Regional Co-ordinating Councils, the detailed budget ... that states the estimated revenue and expenditure of the District Assembly for the ensuing year". One officer added that "On the basis of the law, MMDAs have full budgeting autonomy".

In terms of spending, the respondents at MDAs explained that the directives from central government do not seek to limit the autonomy of MMDAs but rather it is in line with the Object of Public Financial Management Act, 2016. The ultimate objective is to ensure effective use of public funds. According to the Republic of Ghana (2016b), the Object of Public Financial Management Act, 2016 is to regulate the financial management of the public sector within a macroeconomic and fiscal framework.

The other 40% who ***very much disagree*** that MMDAs have budget autonomy listed many factors to make their case. The first was based on the earmarked funds and the many deductions at source from the DACF by central government. They explained that these deductions reduce the spending powers of MMDAs substantially as central government spends on their behalf. Earmarked funds also limit the available budgets that MMDAs can spend in line with their priorities. The second issue they raised is political interference in the spending powers of MMDAs. According to our Key Informants, MMDAs spend outside the budget when they host high profile government officers from Accra such as the President or Ministers of State.

On the basis of the views by both MMDA and MDA officers, our Key Informants and participants at the Validation Workshops, it can be concluded that District Assemblies have some autonomy for budgeting and for spending. In terms of a balance sheet however, it appears that the autonomy for budgeting is higher than that for spending. Issues such as deductions at source by central government, directives for expenditures, earmarked funds and spending outside the budget due to political influences are realities that limit spending space for MMDAs in line with their priorities.

4.5 Pillar 4: Formula for Intergovernmental transfers

As mentioned earlier in this report, findings from the study suggest that many officials at MMDAs do have concerns about existing formula for intergovernmental transfers. Generally over 90% of all our interviewees in the MMDAs and MDAs claimed that the formulas lack transparency. As the discussions in the following sections will show, for the DACF, they expect to know about the quantum of national resources that central government is able to mobilise in a fiscal year and what constitutes the 5% that is shared to them. Similarly the formula for sharing Stool Lands Revenues, DACF-RFG and UDG were all heavily criticised by MMDA officials.

4.5.1 Understanding of the various formulas for intergovernmental transfer

One of the key issues that emerged during our initial discussions with Key Informants in the MMDAs and MDAs is the various formulas for intergovernmental transfers. According to our Key Informants, the formula is not transparent to many officials at the receiving end. We therefore asked our respondents at the MMDAs and MDAs whether they will agree that officials at

Reconstruction of collapsed shed at 31st December Makola market in Accra source: ama.gov.gh

the MMDAs adequately understand the formula for intergovernmental transfer and whether they will accept that this is transparent to them.

All the officers at the MMDAs ***very much disagree*** that they adequately understand the formula and that it is transparent. All the participants at the Validation Workshops also supported this claim. The major criticism of the formulas is that they are not part of the decision making to determine them and that it is only the Administrator of the DACF who determines them. Some of the views are the following:

> *I very much disagree because some of the conditions are hidden from us. We also do not know how much has been collected by the central government from which our portions are allocated to us* (Official, EJMA, June 2019).

> *I don't have good ideas about how the formulas work, what I know is that they give a lot to poor District Assemblies* (Official, UMKDA, September 2019).
> *I know that central government transfers funds to the Assembly but I don't know about the formula. I can't explain it to you.* (Staff, EJMA, Revenue Office, June 2019).

Findings from our interviews with officers at national level show that over 90% of them also support the claims made by MMDA officials. Some of what many of them said are the following:

> *I very much disagree that they understand the formula because they complain when releases are made. Some say they got less than others. The whole thing is not transparent to them* (Official, FDU of MoF, June 2019).

> *They have the guidelines which they can refer to but it doesn't look like they understand it* (Official, MLGRD, June 2019).

> *The formula for the distribution of the funds depends on what government is able to mobilize and what government priorities are so these keep changing* (Official, FDU of MoF, June 2019).

These findings were supported by all the participants at the Validation Workshop in Kumasi as captured from the reports of one of the groups as follows:

> *Nobody understands how the money comes or how the funds are shared. There is the need the DACF Administrator to consult with all the stakeholders especially the MMDAs in order to develop a transparent formula for sharing the DACF* (Group 4, Validation Workshop, Kumasi, 10th October 2019).

All these views point to the fact that the various formulas are not transparent and clear enough to MMDA officials. Their concern that they did not adequately understand the formulas for intergovernmental transfers was found to be supported to a large extent by the Report on Intergovernmental Fiscal Transfer by the Ministry of Finance and Ministry of Local Government and Rural Development that "section 7(a) of the District Assemblies Common Fund Act, 1993 (Act 455) mandates the Administrator of the DACF to propose and submit a formula for the distribution of the common fund for Parliamentary approval. The design of the DACF formula is the responsibility of the DACF Administrator alone. In practice, the proposed formula, prior to being submitted to Parliament for approval, is forwarded to the Minister for Local Government and Rural Development for submission to Cabinet to ensure that the suggested distribution is in alignment with the Government's development programmes" (Republic of Ghana, 2014a; Republic of Ghana, 2016b: 66).

Although the law provides that the proposed formula, prior to being submitted to Parliament for approval, must be forwarded to the Minister for Local Government and Rural Development for submission to Cabinet to ensure that the suggested distribution is in alignment with the Government's development programmes, many of them raised further concerns with this. They explained that these provisions in the law rather creates the room for the government to align it to suit its political agenda rather than making it work for poor and deprived districts especially when the President has majority of his party members in Parliament.

Another concern raised with the DACF is that of the quantum of money in the basket out of which the 5% is taken and shared to the MMDAs. All the interviewees at the MMDA level claimed that they are not told of what constitutes the 5% which is shared to them. Many of them also claimed that though Section 129(c) of Act 936 provides that the Administrator of the DACF is expected to report in writing to Parliament on how allocations made from the Common Fund to the District Assemblies have been utilised by the District Assemblies, they have not seen any of such reports for many years.

The formula for sharing the DACF-RFG was also criticized by MMDA respondents. They all claimed that the equity and fairness component only favours DAs with higher population densities. What many of them said agree with the following view of one of the respondents that:

> *The land size and the size of population used in the DDF formula are not fair. The reason is that there are districts in some parts of the country that cover very large geographic areas but with very thin population. The opposite is also true that some districts cover very small areas but with heavy population concentration. The population densities in these two scenarios will be different yet the district with large geographic area will be given more than the other with small area. I will suggest that the formula looks at population densities* (Key informant, AMA, July 2019).

These claims appear legitimate given further evidence from a work to examine the influence of political considerations on intergovernmental fiscal transfers in Ghana estimating transfers and elections data for 167 districts from 1994 to 2014 by Fumey (2018). The study finds that each district received on average GhȻ6.28 million *per year* and the amount generally increased by 8.4% in election years. The increase favoured the swing districts over the non-swing ones, as the former received 5.2% more than the latter. Aligned districts in the new democracy received 2.0% more while it was 5.0% more for swing districts in the mature democracy. The study concludes that the allocation formula was politically influenced.

For Stool Lands revenue, 85% of the respondents at MMDA level indicated their knowledge of the formula for disbursement referring to the Stool Lands Act 1994 (Act 481). Their responses agree with the Republic of Ghana statistics which indicate that 10% of the revenue accruing from stool lands will be paid to the Office of the Administrator of Stool Lands to cover administrative expenses. What is left will be disbursed by the Administrator in the following proportions: 25% to the Stool through the traditional authority for the maintenance of the stool in keeping with its status; 25% to the traditional authority; and 50% to the District Assembly within the area of authority in which the stool lands are situated (Republic of Ghana, 2014a: 49).

In spite of the indication of their knowledge of the formula, they made similar claims against the sharing of stool lands revenue. Two of the respondents intimated that:

> *We know the formula which is that 10% goes to the Office of the Administrator of Stool Lands and the remaining share is shared to the Assemblies (50%) and Traditional Authorities (50%). No one tells us about the size of the basket or the total amount so we can tell if what we receive is what is due us* (Respondent, Upper Manya, August 2019).

> *If you look at the sharing of the stool lands revenue you find that up to 50% goes to the Traditional Authority and only 50% comes to the Assembly. This 50% that goes to the Traditional Authority is not used for developmental activities and all the responsibilities fall on the Assembly to do with its meagre share* (Respondent, AMA, August 2019).

The provision that 25% of the remaining portion of the Stool Lands revenues goes to the Stool through the traditional authority for the maintenance of the stool "in keeping with its status" is not clear with all MMDA officials. Their concern is how to ensure the Traditional Authorities channel part of their share to the development of the districts.

From the foregoing discussions, it can be concluded that there are many concerns about the formulas for intergovernmental transfers that cannot be overlooked. Addressing these will require a good discussion of the formula by all for what works to benefit the local people to be reached.

4.5.2 Predictability of intergovernmental transfers

In order for MMDAs to be able to plan and budget more effectively, predictability of fiscal resource flow is very important. In line with this, Section 7(b) of Act 455 mandates the Administrator of the DACF "to administer and distribute monies paid into the Common Fund among the District Assemblies in accordance with the formula approved by Parliament" " (Republic of Ghana, 2014a: 24), and according to the Internally Generated Revenue Strategy and Guidelines of Ghana, this provision demonstrates the original intention of government to isolate and transfer consistent and predictable flow of funds to the MMDAs for development (Republic of Ghana, 2014b).

When we asked our interviewees about the predictability of central government transfers, all of them at both MMDA and MDA levels indicated that they ***very much disagree*** that it is predicable. They claimed that they cannot predict the amount MMDAs will receive and they cannot also predict when MMDAs will receive their transfers. Among the views are the following:

> *I very much disagree. My reason is that we only guess that since last year we got this, it is likely that we will get this amount this year and our guesses have never worked. In most cases too we are given a ceiling to work with. We don't even get up to 90% of our guess or our ceiling* (Key Informant, EJMA, June 2019).
>
> *I very much disagree because both the amount and the flow are not predicable* (Official, FDU of MoF, June 2019).
>
> *I very much disagree. A good example is the Stool Lands revenues that are released to us, there is no timing attached to the release making it difficult for us to plan and budget* (Official, EJMA, June 2019)
>
> *The only thing I will say we can predict is that some funds will be transferred to us by central government such as DACF and UDG. We*

> *cannot predict the amount and timing of the releases. For example in terms of the DACF, as I speak to you now we have just received the release for the 3rd Quarter of 2018 and we are in the 2nd Quarter of 2019. The last Quarter for 2018 and 1st and 2nd Quarters of 2019 are all outstanding. These delays really affect our ability to plan and budget* (Key informant, AMA, July 2019).

Findings from the analysis of available data show that these claims made by all our respondents have a basis. First is that all the participants at the Validation Workshop in Kumasi supported this finding. Second is that according to releases made from 2007 to 2011, there are huge gaps between projected releases and actual releases. Apart from 2007 where actual release was about 22% more, this dropped to about 92% in 2008; 55% in 2009; and 78% in 2010 (see Table 1).

Table 1.2: DACF Actual releases (Ghana Cedis)

Year	Projected Tax Revenue	Actual Releases	Differences	% of Releases
	(5%-7.5%) (A)	(B)	(B-A)	(B/A)
2007	122,002,500	149,287,390	27,284,890	122.36
2008	236,197,500	217,008,095	(19,189,405)	91.88
2009	345,687,483	188,565,425	(157,122,058)	54.55
2010	434,484,802	340,402,619	(94,082,183)	78.35
2011	530,738,000	487,895,081	(42,842,919)	91.93

Source: Republic of Ghana (2014a: 30)

In addition to the unpredictability of the releases, MMDA officials also claimed that there are many deductions made by central government at source that further reduce the amount of transfers available to them to implement development activities. The claims made by MMDA officials were supported by all our interviewees at the MDAs. What many of them said can be summed up in what one of our key informant in AMA said that:

> *Central government deducts some of the DACF at source for sanitation equipment, mosquito spraying and all sorts of things. For many of the deductions they are not the priorities of the Assemblies and they are not consulted before the deductions are made* (Key informant, AMA, July 2019).

These claims are acknowledged by the Republic of Ghana (2014a: 24) by noting that "….the government has introduced indirect transfers for funding specific interventions and introduced reserved funds which together has dramatically reduced the resources available for direct formula-based transfers to the MMDAs as envisaged by the Constitution.."

Evidence from documented sources further show that for 2012, interventions to be funded from the Common Fund include National Youth Employment Programme (Sanitation Module), School Feeding Programme, Sanitation/Waste Management, MPs Common Fund, Seed Capital for new Constituencies, and Disability funds, among others. Direct transfers to MMDAs for development as per the 2012 allocation formula was about 25%, while the remaining 75% was allocated as government interventions and reserve fund rather than direct DACF transfers to MMDAs. Thus, as part of the 2012 Allocation Formula, the intention of transferring a specific amount of national resources for local development was not achieved as only about 1.9% (25% of 7.5%) of national revenue went directly to MMDAs through transparent formula-based transfers (see Republic of Ghana, 2014a: 24-25).

These central procurements that are sometimes authorized by MLGRD on behalf of MMDAs and such expenditures are offset against their disbursements can be described as *re-centralization of decentralization*. Such practices diminish the degree of transparency in the allocation of resources as well as dilute discretionary powers granted to the MMDAs under the DACF Law (see Republic of Ghana, 2014a: 30). As noted by the Republic of Ghana (2014a: 28), MMDAs have discretion over only 59.8% of the DACF in 2007, 53.7% in 2008, 61.5% in 2009, 45.3% in 2010 and 60.3% in 2011 representing an average of 56.12% over the five (5) year period. These support earlier conclusion in this report that MMDAs do not have adequate autonomy on spending and expenditures from their budgets.

4.5.3 Service delivery performance of MMDAs

According to the literature, success with fiscal decentralization can be measured in terms of the extent to which people get the services they want (Bahl, 2008). Our interviewees were asked whether they will support the view that MMDAs are delivering the services local people want.

Our results from MMDA interviews show that 95% of the respondents ***very much disagree*** that MMDAs are delivering the services that local people want. Some of the views are as follows:

> *I very much disagree because we have deficit in all essential infrastructures as we are unable to deliver mainly due to resource constraints. We are unable to mobilise enough IGF and central government transfers to us also don't come as expected in quantity and timing. I will not be surprised if the residents in this Municipality tell you that we have not performed as expected* (Official, EJMA, June 2019).

> *I very much disagree because when we go on tax collection rounds what many of the residents say is that we don't have electricity, our roads are not good, we don't have potable water so we will not pay. What this suggests to me is that the Assembly is not delivering as expected by the citizens* (Key Informant, UMKDA, September 2019).

> *I very much disagree because the Assembly has not paved the market so when it rains traders find it difficult to work especially for many who display their goods on the ground in the open. The whole*

> *place is muddy and some parts get flooded for many hours. The Assembly has also not provided toilet and sanitary facilities so it is difficult to get them to agree and pay the market tolls. In fact we don't even have the moral courage to ask them to pay the market tolls* (Officer, Revenue Office, UMKDA, September 2019).
>
> *I very much disagree, they are not able to mobilize enough to provide the services that is why they are not able to provide those services* (Official, FDU of MoF, June 2019).

As presented earlier in this report, during the interview at Assessewa market it rained and the market was left with thick mud. When the issue was mentioned to UMKDA Key Informants and other officials, they indicated that the Assembly had taken steps to address the issues. Similarly, discussions with market associations and traders at the Ejisu market raised concerns that all efforts to get the Ejisu Municipal Assembly to relocate the market from the current location has not worked. Officials from both UMKDA and the Ejisu Municipal Assembly confirmed the concerns raised but note that their major problem was inadequate financial resources.

About 5% of MMDA officials however ***agree*** that MMDAs are delivering services that local people want. Some of their views are the following:

> *In terms of what local people want I will say I agree because we are able to prioritise better and get it right. The problem is we are unable to deliver these services in the quantity and quality they want due to resource constraints mainly* (Budget Officer, EJMA, June 2019).
>
> *Before we prepare the MTDP, all the Assembly members are made to meet with their electoral areas to discuss their problems and ways to address them by providing the services they need. When all these needs are brought up for compilation and analysis, we do follow-ups to the communities to confirm them. We then prepare the plans to respond to their needs* (Official, EJMA, June 2019).

Findings from the FGDs support other findings that the Assemblies are unable to deliver public services as expected. Landlords, informal business owners and ordinary residents in their focus groups raised concerns about the performance of the Assemblies. Their views can be presented in what some of the individuals said that all of them supported as follows:

> *In order to fix our roads, we mobilised to rent a grader and bought fuel to create these roads in our neighbourhood. We organise for waste collection at huge cost. We have our own water system by sinking boreholes and we purchased our own electric poles and arranged for us to be connected to the grid. In all these the Assembly has no hand at all so I cannot say they are doing well. I will rather say the Assembly has performed poorly over the years* (Member, Landlords Focus Group, EJMA, June 2019).

> *As you can see we display our goods on the bare ground even when it rains. The Assembly has refused to pave the market in spite of the many appeals we have made to them. The market space is so small that we spill onto the road on market days endangering our lives. We expect the Assembly to relocate the market to a bigger site but they do not seem to be interested. What they only know is come in to collect market tolls* (Member, Informal business Focus Group, EJMA, September 2019).

> *We live in the filth because it takes the AMA many days to come and empty the waste containers here. We do not have toilet facility here and the nearest facility is about 600 meters away* (Member, Ordinary residents Focus Group, Accra, September 2019).

Analysis of these views reveals that we can conclude that MMDAs have service delivery gaps. If they gather data on the needs of local people and factor these into the plans, then it is when they are able to fully implement the plan that we can conclude that they deliver to meet the expectations of people. Since they are unable to do this as a result of resource constraints then the argument holds that their performance cannot be said to be as expected.

The lack of fiscal resources to implement MMDA plans was further explored with the background that for rates and levies at local government levels to be good, they must first provide enough revenue for local governments that can be described as rich and make them fiscally autonomous to a large extent (Bird and Bahl, 2008). MMDAs were asked whether they will agree that they have enough IGF to provide services.

All the respondents ***very much disagree***. Some of them explained their views this way:

> *I very much disagree. We are not able to generate enough IGF due to many factors. Our revenue mobilization strategies are weak and we are not adequately engaging our communities and tax payers so our tax net is very small* (Official, EJMA, June 2019).
> *I very much disagree. Many of our people evade taxes. For example the market women always say they have just come into the market and that we should give them some time since they have not yet made sales. We will agree and leave them but we don't find them when we come back* (Official, UMKDA, June 2019).

Their inability to generate enough IGF makes MMDAs to be highly dependent on central government transfers. This further weakens their autonomy. This conclusion is supported by officials and Key Informants from MMDAs and MDAs interviewed. To support her position, one official noted that:

> *I very much disagree. If we have fiscal autonomy then we should be free to take tax defaulters to court and the court fine paid to the Assembly but this is not so. We are told that our fee fixing has not been gazetted so we cannot take tax defaulters to court. In addition, people invoke all kinds of ties to evade tax payments and court fines are paid to central government* (High Profile Officer, Revenue Office, UMKDA, June 2019).

The inability of MMDA to deliver effective public services shows that the discourse around implementation of fiscal decentralisation reforms needs to be intensified. Effective service delivery by MMDAs cannot be achieved with incomplete fiscal decentralisation programme.

4.6 Knowledge of best practices of fiscal decentralisation elsewhere

In order for lessons to be learnt and shared, the respondents were asked whether they have knowledge of best practices of fiscal decentralisation elsewhere and what lessons can be learnt from these. The three cases mentioned by 95% of all the respondents are Tanzania, Kenya and South Africa.

Although many mentioned Tanzania, others have cautioned this. For example, in a work to explore the extent to which increased fiscal autonomy will improve the efficiency and responsiveness of the public sector in Tanzania, Fjeldstad (2010: 1) answered questions around the linkages between taxation and accountability in local authorities in Tanzania, whether local officials through sheer proximity are more accountable for their performance, and the scope available for improving local revenue collection in Tanzania. The study concludes that it is unrealistic to expect that the present administration in many local authorities in Tanzania has adequate capacity and the required integrity to manage increased fiscal autonomy and that there is a real danger that, in the absence of substantial restructuring of the current tax system combined with capacity building and improved integrity, increased autonomy will increase mismanagement and corruption.

4.7 Conclusion

This chapter has unearthed many of the nuances in the implementation of Ghana's fiscal decentralisation programme that have escaped designers and implementers of the policy for many years. All the *pillars of the fiscal decentralisation building* are weak and highly fragile. The *fiscal decentralisation building* cannot be said to be in good shape. The pillars need reinforcement for the reforms to work as the summary of findings and lessons learnt show in the next chapter.

CHAPTER FIVE
SUMMARY OF FINDINGS AND LESSONS LEARNT

5.1 Introduction

This chapter presents the summary of findings from the study and the lessons that can help improve policy reforms. These findings were all supported by participants at the Validation Workshop in both Kumasi and Accra. Rather than organising along the pillars of fiscal decentralisation as pursued in the analysis, they capture the cross-cutting issues in the various pillars. This way, they give direct pointers to policy. In addition to our findings pointing to many unconventional issues, some support many of similar studies particularly issues raised by the Republic of Ghana (2014a) and Dzansi et. al. (2018).

5.2 No country with clean fiscal decentralisation system for wholesale adoption

It appears from the study, essentially desk review, that there is no country in sub-Saharan Africa that can be said to have a clean system of fiscal decentralisation. As Bahl (2008) has noted, there are several different types of intergovernmental transfer systems in practice by different countries so it is not easy to settle on a best practice. Consequently, the objectives of the types of fiscal decentralisation should determine the kind of structure to design for the country context.

There are, however, aspects of the various systems that show useful lessons to inform the processes in Ghana. For example, South Africa has assigned significant non-property taxing powers to subnational governments, including a payroll and turnover tax, and has granted local governments some borrowing powers. However, the government still has not put in place a hard budget constraint for local governments to force efficient use of these instruments.

As described earlier in this report, Tanzania is one of the countries with very extensive decentralised system of local revenue collection that looks quite attractive to be adopted. Local government tax collection in DC is done by the Council Headquarters, the Wards and the Village Levels. At the Council

Headquarters, the responsibility for tax collection rests with the council treasury, headed by the District Treasurer (DT). At the Ward Levels, the responsibility rests with the office of the Ward Executive Officer (WEO). In Wards with greater revenue potential there will also be a Ward Revenue Collector (WRC) to support the WEO. At the Village Level, the responsibility rests with the office of the Village Executive Officer (VEO). Roadblocks are used to control taxpayers. This arrangement comes with high costs of administration. There is also a problem because of the presence of two principals for the VEOs, i.e., the village government as the nominating authority and the Council as the appointing and employing authority, leading to divided loyalty. Another problem arises from VEOs operating within their areas of domicile and how personal ties can undermine tax collection. The literature also shows that there are huge gaps between reported and projected revenues. Local governments have poor administrative capacity to enforce the taxes; explicit and intentional tax evasion and resistance from taxpayers; corruption, including embezzlement of revenues; and political pressure on the local tax administration to relax on revenue collection.

For Uganda, in spite of the challenges, evidence shows that some LGs such as the Kampala Capital City Authority recorded a growth of more than 100% in its IGF from SHS41 billion to SHS85 billion between 2011/2012 and the 2013/2014 fiscal year. The KCCA is able to achieve this because of its investments in staff recruitment, training and digitizing and updating databases; re-instituting internal revenue collection from inefficient and expensive private outsourcing; seeing the taxpayer as a client who requires good services, and who is legitimate in demanding these in exchange for tax payment. This is very useful lesson that MMDAs in Ghana might consider adopting.

5.3 Allocation mechanisms of intergovernmental transfer is highly fragmented and less understood

The study found that existing mechanisms of intergovernmental transfers are highly fragmented and not adequately understood by one of the major stakeholders, the MMDAs. What is important about our findings and the claims by our interviewees is that their claims are supported by findings from high profile stakeholders and studies. As noted by the Republic of Ghana (2014a: 25), the whole allocation mechanism of DACF is currently fragmented. The constitution specifies 5% of national revenue as the pool of funds for local development with its distribution to MMDAs to be by a formula approved by Parliament. However, currently deductions from DACF for various interventions (e.g. NYEP, School Feeding Programme etc.) are not allocated by any known formula but generally on an ad-hoc basis, thus defeating the original intention of formula based allocation to ensure predictability, transparency, and consistent flow of fiscal transfers to MMDAs". Additionally, the Republic of Ghana (2014a: 28) notes that "…MoFEP has been unable to transfer the exact amount of 5% as stipulated in the Constitution. Reasons why MoFEP has not released the legally mandated amounts are not clear. In 2007, MoFEP release was far more than the projected allocation representing 122.4% but this dropped to 54.5% in 2009 and increased to 91.9% in 2011 rendering releases from MoFEP inconsistent and unpredictable. The inconsistency and unpredictability of transfers get worse when transfer releases from DACF to the MMDAs for development vary from year to year.

5.4 Limited stakeholder consultation in intergovernmental transfer decision making

Our findings show that there is poor stakeholder consultation around issues of intergovernmental transfers. For example, the determination of the formula for sharing the DACF is the sole responsibility of the Administrator of the fund. As presented and discussed earlier, section 129 of Act 936, relating to the development and approval of the formula, entrusts that responsibility solely with the Administrator for the development of the formula and distribution of the monies accruing to the fund. Parliament is empowered under the Act to approve the formula proposed by the Administrator. The implication of this provision is the exclusion of other stakeholders including the MoFEP, MLGRD and NDPC in the development of the formula (Republic of Ghana, 2014a: 35).

Similarly, the beneficiaries of Stool Lands revenue are not involved in the disbursement decision making process and they are not given detailed information on the amounts collected so beneficiaries are unable to assess the correctness of amounts received.

5.5 Reduced transfers of DACF to MMDAs

The Research Team found that in theory, there appears to be a lot of financial resources available to be transferred to MMDAs to implement their plans. In practice however, what they receive falls short of what they expect. As noted in a study by the Republic of Ghana, "due to the extensive earmarking of DACF allocations, MMDAs have not been able to receive and utilise their legally-mandated allocations within the framework of the District Medium Term Plan and Annual Action Plans (AAPs) prepared in tandem with the government's development agenda. This is because, the DACF Administrator has over the years been making direct deductions from the Fund for other beneficiaries and expenditures like NYEP, School Feeding Programme, Sanitation and Waste Management and other intervention activities" (Republic of Ghana, 2014a: 26).

5.6 Timing of releases of funds undermines MMDA planning and budgeting

The timing for the releasing of funds to MMDAs has not been consistent hence undermining the planning and budgeting efforts of MMDAs. Although the Composite Budget Reform seeks to make MMDAs plan and budget in a comprehensive manner, , the timing for issuing the DACF formula and the release of funds is not in line with MMDA budget cycle. Currently, the DACF formula is being developed and applied as part of the budget execution process instead of the budget preparation process (see Republic of Ghana, 2014a: 31). In addition, the receipt of funds from central government transfers is highly unpredictable and inconsistent and not very frequent. This further undermines MMDAs's ability to do effective planning and budgeting largely explaining the problems of poor performance in service delivery.

5.7 MMDAs not involved in decisions in centrally determined procurement

It was revealed that although it becomes very necessary and cost effective for bulk procurement on behalf of MMDAs by central government, those goods/services to be procured are not determined at the MMDA level backed by resolution by the general Assembly (see also Republic of Ghana, 2014a). Many of the respondents claimed that in most cases deductions are made but the goods are never procured for them. In instances when the procurement is made, the goods and services are not the priorities that address their needs. Examples from countries such as Tanzania suggests that earmarking funds by central government with the argument of providing public services in a pro-poor fashion with an emphasis on development in both urban as well as rural areas has many weaknesses. Boex in his publication indicatesthat:

> Prior to the introduction of a formula-based grant system in 2004-05, Tanzania relied on a discretionary system of local government allocations in which local government allocations were determined in an earmarked and ad hoc manner by central government officials. This system was generally perceived to be inefficient, inequitable and non-transparent, and provided little or no fiscal autonomy to the local government level. Indeed, analysis of the transfer system's incidence confirmed that urban local governments and local governments in wealthier regions tended to receive greater financial allocations from the central government budget. This finding stood in stark contrast to the government's stated policy goals of providing public services in a pro-poor fashion with an emphasis on development in both urban as well as rural areas (Boex, 2019: 182).

Earmarking of funds and central government determination of use of part of transfer grants can be used to favour central government. This claim has support from the findings of the work by Fumey and Egwaikhide) whose work on political economy of intergovernmental fiscal transfers revealed that rural aligned voting districts are favoured with Gh 0.25 per capita more transfers reflecting a 3.5% increase relative to rural unaligned districts, and the amount further increased to 5% during election years. As regards urban districts, transfers to the swing districts increased by 7% more compared to urban non-swing districts, and it increases further to 10 per cent in election years (Fumey and Egwaikhide, 2018: 42). This implies a tactical targeting of votes in the urban districts, while rural districts experience loyalty patronage by politicians suggesting a dominance of alignment effect in rural jurisdictions and swing effects in urban districts.

5.8 MMADs have weak capacity to mobilize adequate IGF

Apart from the AMA, the Ejisu Municipal and Upper Manya Krobo District Assemblies' application and use of software and electronic databases revenue management for the purposes of revenue collection was found to be quite weak. Many new and high-value properties are not captured in the property rate net although they are eligible to pay property rates. A quick conversation with some of these property owners revealed that the Assemblies never sent them any bills. For the MMDA officials their property valuation list is not updated and they have not done any valuation for many years. They also do not have reliable electronic databases of property owners. Enforcement is constrained by lack of resources; political will and legal capacity (see also Dzansi, et. al., 2018).

5.9 Conclusion

The findings from this study show that the cross-cutting issues identified can lend themselves to treatment and that reinforcement of the pillars of fiscal decentralisation is doable. The final chapter addresses this.

CHAPTER SIX
POLICY RECOMMENDATIONS

6.1 Introduction

Based on the findings from the study, Chapter six presents the policy recommendations in line with the findings and lessons from the study. These recommendations were supported by the participants at the Validation Workshops in Kumasi and Accra.

6.2 Need to review some of the laws governing Intergovernmental Transfers

To ensure transparent, efficient, effective and accountable transfers, Sections 125, 126 and 129 of the Local Governance Act 2016, Act 936 needs a review. Stool Lands Act also needs a review. The review must take into consideration either increasing the proportion of the funds available to the Assemblies to implement their plans or make it possible for Traditional Authorities to channel part of their share into development of their traditional areas. The adopted laws must provide for central government to increase transparency by making all stakeholders aware of the total national review out of which the 7.5% is set aside as DACF. The quantum of the 7.5% must also be made known to all stakeholders particularly the MMDAs.

6.3 Need to review aspects of some of the formula for intergovernmental transfers

In order to ensure equity and fairness, population density must be incorporated into the formula for sharing the DACF-RFG. This will ensure that districts with small geographic areas but with high population concentration will have enough to provide essential services. All these will require a good discussion of the existing formula by all stakeholders towards a review of the various formulas to be backed by legislation.

6.4 Synchronize DACF formula cycle with budget preparation process of MMDAs

There is the need to synchronize the DACF formula cycle with the MMDA budget preparation cycle. It will be helpful to shift the focus of the DACF formula approval to being part of the budget preparation process, not part of the budget execution process. The formula each year should be submitted to Parliament during the first quarter of the fiscal year for approval. That formula will be the formula to be used to allocate the funds in the coming fiscal year. This will need to be approved by Parliament and used to determine the budget ceiling by July each year for the coming fiscal year. The budget ceilings can then be issued by August and used by MMDAs to prepare their budgets for the following fiscal year. In this way those budgets can be approved by the District Assemblies by November 30th as the law stipulates, ready for execution in January at the beginning of the following fiscal year (see also Republic of Ghana, 2014a: 32).

In terms of revenues from Stool Lands, it will be helpful to transfer such to MMDAs directly through the banking system so that the fund does not sit with the Administrator until MMDAs request for their share. In addition, all stakeholders and beneficiaries must be part of the decision making process and agree on the timing for releases to be made to recipients. As suggested by the Republic of Ghana (2014a), releases can be done on quarterly basis or in the middle of every fiscal year for planning and budgeting purposes in the next fiscal year.

Additionally, MMDAs must be given some ideas about expected revenues from Stool Lands to enable them do effective planning and budgeting. For example, using data on past amounts mobilized and the proportions shared to beneficiaries, the OASL must be able to estimate amounts to be released to MMDAs. As the Republic of Ghana (2014a) has noted, this can be done by reviewing the annual Stool Land Fund report from the previous year; determining the percentage allocation by MMDA for that previous year; obtaining estimate of the expected Stool Funds for the ensuing year; and applying the allocation formula for the coming fiscal year.

6.5 Avoid delays in the releases of funds to MMDAS

To be able to release funds such DACF to MMDAs early enough, it will require that all the necessary assessments are conducted very early in the fiscal year. The Republic of Ghana (2014a) has recommended that these must be done during the first 4 months of the fiscal year. From the discussions with MMDAs, these must be done within the 2nd and 3rd months so that the 4th month will be used to clean up the results. The idea is that the results must be ready to be included in the budget guidelines/ceilings by August. With a good idea of those funds coming in MMDAs can plan and get their budgets approved latest November for implementation in January of the subsequent financial year.

6.6 Increase the fiscal resource basket of MMDAs

In line with the provisions in LI1961, there is the need to restructure some of the funding sources to increase the resource basket of MMDAs to function more effectively. For example, the Road Fund must be restructured to make it possible for the 65% to be made available to MMDAs to strengthen their fiscal capacity to implement urban roads and feeder roads maintenance projects as provided for by LI1961. Similarly, since Schedule 2 of LI1961 has shifted primary and secondary education to MMDAs, there is the need to restructure the GETFund to release some portion of the fund to MMDAs. Although funds such as GETFund, NHIS and Road Fund do not fall in the category of intergovernmental transfers currently, however, in line with Schedule 2 of LI1961, these funds will need restructuring in order to target the release of funds to MMDAs in line with sectoral functions shifted to them.

All MMDAs must be supported by the Valuation Board to provide current property valuations to capture all high-valued properties that are springing up in all corners. Following on this, MMDAs must adopt revenue management software to improve billing and collection of revenues. A good incentive structure must be built to motivate revenue collectors to collect more and account for all. This can be done by revenue collector compensation based on a fixed salary. MMDAs have to increase the engagement of local residents about fee-fixing resolution, and about the use of revenues collected in local development projects.

Another important avenue to increase the revenue basket of MMDAs is royalties from stool lands. This will mean that the suggestions made by the Republic of Ghana (2014a: 61) are given serious consideration by all stakeholders. There is the need to streamline the disbursement process of stool lands to improve transparency, accountability and timeliness of the stool revenue disbursement to the beneficiaries. There is the need to resolve allocation of stool revenues between Assemblies when mineral royalties and timber fees are collected from properties that cut across district boundaries. There is also the need to estimate the annual stool funds to be received by each District Assembly to be included in the annual budget guidelines and ceilings.

Going beyond royalties from Stool Lands, MMDAs can consider given existing opportunities for MMDAs to create land-based wealth. First is that MMDAs enter into partnerships with landowners. Since landowners do not have the capacity to provide infrastructure such as roads, electricity and water on their lands before alienating such properties, MMDAs might consider entering into partnership agreement with traditional landowners so that MMDAs will provide such facilities prior to the sale of the land. This will contribute to increase the value of such lands so that both share the increment in the land value. This arrangement could bring a win-win situation as the landowner reaps high values for the land and the Assembly is able to implement development control more effectively. Effective development control implies well developed neighbourhood with high property values leading to high property rates for the Assembly. Second is that, MMDAs can take advantage of the provision of in Sections 208 and 209 under *Acquisition of Immovable Property* in Act 936. For example, according to Section 209 of the Local Governance Act, 2016 (Act 936), MMDAs have the legal backing to acquire a parcel of land, service it by providing essential infrastructure such as roads, electricity, water, and telephone for allocation to either public or private developers and impose reasonable development charge on a prospective developer. This can be a good and reliable avenue for MMDAs to raise additional revenues locally.

6.7 Deploy appropriate revenue management software and improve capacity of MMDAs to mobilize and manage fiscal resources

MMDAs should be supported to mount full proof revenue management software that is easy to operate and maintained. Steps being taken at the national level to help harmonise existing software must be encouraged and such efforts should ensure the user friendliness of such a system. Maintaining such a system must also be at a minimal cost and should allow for future upgrades to avoid total replacement. This measure will tackle the high incidence of software replacements that has characterised the changes in political administrations. This recommendation was supported by participants at the Accra Validation Workshop for this Report. Human resource should be trained to use new software and steps be taken to minimise situations when software are changed with every new administration. In their view, this causes over saturation of software in the assemblies that are not used to full capacity before being abandoned for new ones.

There is also, the need to improve upon the capacity of MMDAs to mobilize and manage fiscal resources. First will be to strengthen the capacity of the revenue departments by giving them additional training in revenue mobilization techniques. Some of the MMDAs will require that additional staff are employed for the revenue department...

To help gain the trust of revenue payers, revenue collectors will need to be appropriately tagged. The necessary supporting logistics such as raincoats, wellington boots, motorbikes and bicycles must be provided to them. As noted by Fjeldstad, it is unrealistic to expect that the present staff in many councils have adequate capacity and the required integrity to manage increased fiscal autonomy (Fjeldstad, 2010: 12). In fact, without capacity building and improved integrity, there will be greater mismanagement and corruption in local authorities.

6.8 MMDAs must enforce existing revenue bye-laws

MMDAs must seek to be committed to the enforcement of their own bye-laws governing revenue mobilisation. Local Authorities must be fair in the prosecution of rate defaulters without fear or favour irrespective of which powers or ties are invoked by tax defaulters. Selective prosecution must be avoided as it could undermine the trust for MMDAs and can lead to further rate evasion. This further will strengthen point 6.9 below.

6.9 MMDAs must seek to build trust among local people

MMDAs must utilise what they claim to be the meagre resources at their disposal more effectively. Local rate payers must be able to point to development efforts by the Assembly to erase the impression that the Assemblies do not use resources prudently. The Local Authorities thus, should engage their constituents on the use of funds collected from the different sources to boost confidence in the operations of the District Assemblies. Public notices at town halls displaying summary figures on funds collected and pictures of projects implemented respectively are some of the examples to promote transparency and ensure trust. Embezzlement or misapplication can waste public funds. As was done by the KCCA, MMDAs must see the rate payer as a client who requires good services, and who is legitimate in demanding these in exchange for tax payment. There should be improved communication between citizens and MMDA officials.

6.10 Regular reporting on intergovernmental transfers to all stakeholders

The OASL and the OADACF must report regularly on intergovernmental transfers to all stakeholders. Such reports must cover total revenues accrued to government out of which a portion is shared to MMDAs. The share that is distributed to MMDAs must also be made known. The reports must be made available to MMDAs and to the general public online. This will help build trust and promote accountability in public institutions.

6.11 MMDAs must be supported to collect Basic Rates

MMDAs must find cheaper forms of collection of particular streams of revenue as current observations show that cost of collection may even be more that what is realised. A clear example is the collection of Basic Rate which may be as low as GHC 1. Zonal, Town and Area Councils under the MMDAs could be encouraged to collect these fees in their localities and incentivised by being allowed to retain a portion of funds realised for their administration. Alternatively, Parliament could pass a law to incorporate Basic Rate of GHC1 into already existing national utility collection systems such as electricity or water bills for all to pay in the country on behalf of District Assemblies. This can help to ensure compliance and reduce the cost of collection. The latter option if adopted must come with measures to ensure timely transfers back to the

MMDAs for example quarterly to support their operations of the local authorities and should not suffer the same fate as other central transfers which are characterised by long delays.

6.12 General Conclusion

International best practice requires broad consultation on issues of intergovernmental transfers, including the determination of the grant pool and the allocation formula of those funds. Examples include the Local Government Financial Commission in South Africa and Commission on Revenue Allocation in Kenya. These countries pull tougher stakeholders from the central and local governments and often civil society representatives to discuss and agree upon the allocation mechanisms. It is recognized that these allocations include a combination of political and technical considerations and thus requires a decision mechanism which can bring these various perspectives together in a transparent and accountable manner. Ghana might consider restructuring the decision-making system to allow for broader stakeholder participation, providing opportunities for the MoFEP, MLGRD, NDPC, NALAG, MMDAs and CSOs. This will require the amendment of Section 129 of Act 936 to make provision for the involvement of these other institutions.

This study makes a huge contribution to policy and academic debate around how to get fiscal decentralisation to work in Ghana. The findings show that given the current circumstances, the reality is that MMDAs will continue to be heavily dependent on fiscal transfers from the central government for quite some time. Transfers should therefore be considered an important component of the decentralisation programme. It will require that all stakeholders must be committed to playing appropriate roles expected in the reinforcement of the pillars of fiscal decentralisation to save the bigger structure of decentralisation from crumbling.

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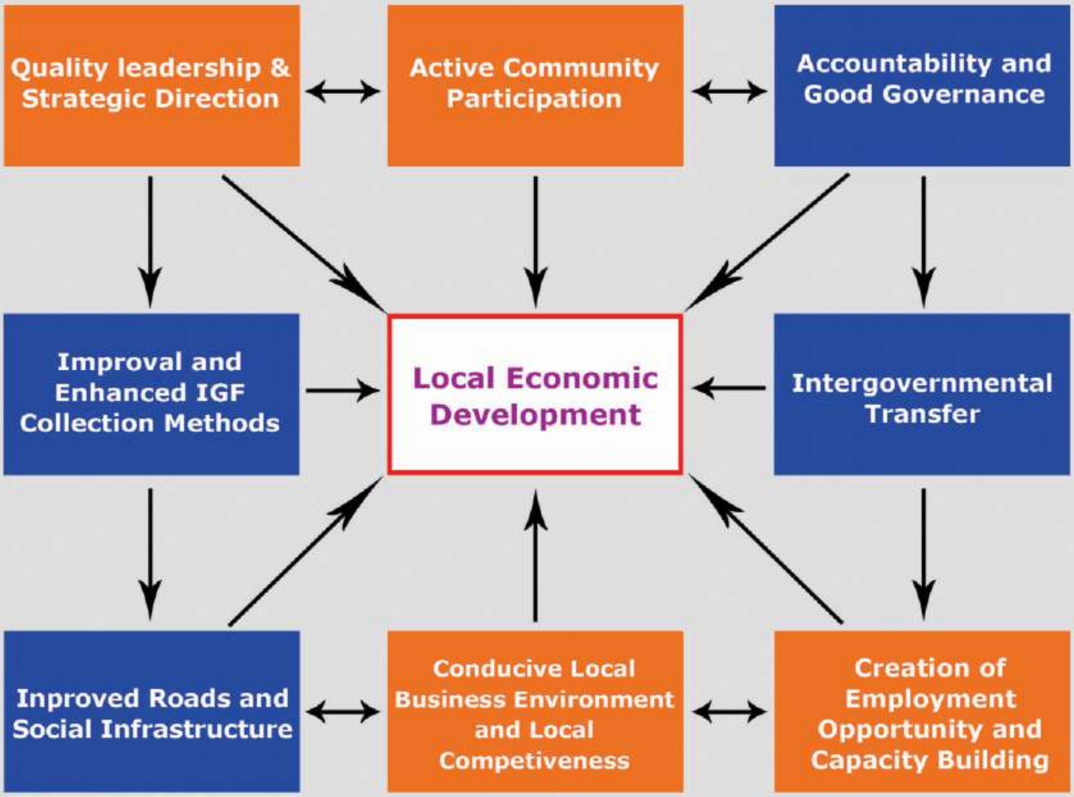
CONCEPTUAL FRAMEWORK: IMPACT OF FISCAL DECENTRALISATION



Source: Zumegah (2015)

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