

Joint Government of Ghana and
Development Partner

Decentralisation Policy Review

Final Report

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List of abbreviations

Art:	Article
AMA:	Accra Metropolitan Assembly
B:	Billion
BO	Budget officers
BoG:	Bank of Ghana
BPEMS:	Budget and Public Expenditure Management System
C:	Cedis
CAGD:	Controller and Accountant General's Department
CB	Capacity Building
CBG	Capacity Building Grant
CFAA:	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
DA	District Assembly
DACF:	District Assemblies Common Fund
DACF-A:	District Assemblies Common Fund Act 455, 1993
DANIDA	Danish International Development Assistance
DCD	District Coordinating Director
DCE	District chief Executives
DPRT:	Decentralisation Policy Review Team
GPRS-II	The Second Growth and Poverty Reduction Strategy 2006-09
FAA:	Financial Administration Act 654, 2003
FAR:	Financial Administration Regulations, LI 1802, 2004
FOAT:	Functional and Organisational Assessment Tool
FY:	Finance Year
GAIT	Government Accountability Improvement Trust
GES:	Ghana Education Service
GDP:	Gross Domestic Product
GIMPA	Ghana Institute for Management and Public Administration
GTZ	German Agency for Technical Cooperation
GUUS	Ghana Universal Salary Structure
HIPC:	Highly Indebted Poor Country
HRD	Human Resource Development
HRM	human Resource Management
IA:	Internal Audit
IAU:	Internal Audit Unit
ILGS	Institute for Local Government Studies
IGF:	Internally Generated Funds
IGFTS:	Intergovernmental Fiscal Transfer System
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
KNUST	Kwame Nkrumah University for Science and Technology
LG:	Local Government
LGA	Local Government Act
LGS	Local Government Service
LGSC	Local Government Service Council
M:	Million
MDA	Ministries, Departments and Agencies
MLGRDE	Ministry of Local Government Rural Development and Environment
MDPI	Management Development and Productivity Institute
MMDA	Metropolitan, Municipal and District Assemblies
MoF/MoFEP:	Ministry of Finance and Economic Planning
MP:	Member of Parliament

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MTEF: Medium Term Expenditure Framework
NALAG national Association of Local Government Authorities in Ghana
NCG: Nordic Consulting Group
NDAP: National Development Action Plan
NDPC: National Development and Planning Commission
NGO Non-Governmental Organisation
NP(S)A National Planning (System) Act 480, 1994
OAG: Office of the Auditor General
OHCS Office of the Head of the Civil Service
PEFA: Public Expenditure and Financial Accountability
PI: Performance Indicator
PFM: Public Financial Management
Po Planning Officers
PSC Public Service Commission
PUFMARP: Public Financial Management Reform Programme
RPCU Regional Planning Coordinating Units
SDS: Sub-District-Structure
SSNIT Social Security and National Insurance Trust
VIP Village Infrastructure Programme
WB World Bank

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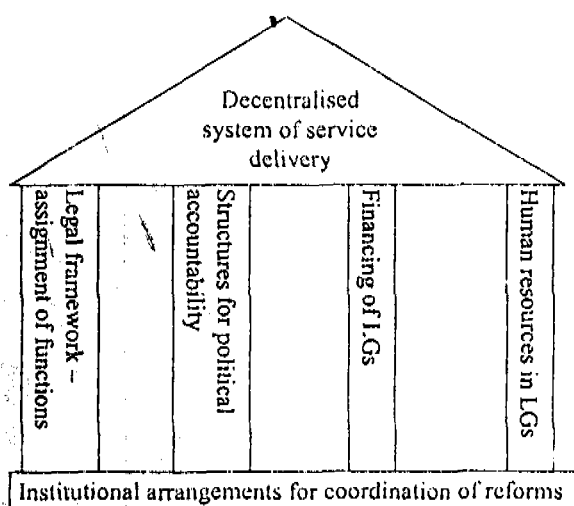
EXECUTIVE SUMMARY

1. Background and Introduction

The Government of Ghana has for several years pursued a decentralisation reform as part of wider efforts for enhancing good governance. The objectives of decentralisation reform are enshrined in the 1992 Constitution of Ghana which stipulates that "Parliament shall enact appropriate laws to ensure that functions, powers, responsibilities and resources are at all times transferred from central government to local government units in a coordinated manner". This constitutional requirement was further articulated in local government legislation. ✓

The Government has over the years implemented various activities and programmes in support of the decentralisation process. The latest and overall guiding programming document is the National Decentralisation Action Plan (NDAP). The NDAP has initiated a transition process towards the development of a comprehensive, well-sequenced and costed approach to decentralisation with initial emphasis on practical issues such as harmonisation of development funding and capacity building targeting the local governments (MMDAs). ✓

However, it is acknowledged that further real progress of the decentralisation reform will require a more coherent and coordinated approach which in turn will require policy clarification to guide implementation, particularly the linkages between the local government reform in a narrow sense and the overall decentralisation linkages with the sectors. Thus the Government and its development partners have agreed to include the "formulation of a comprehensive decentralisation policy" as trigger in the MDPS policy matrix 2006. In preparation of this policy and related strategy it was agreed as part of NDAP activities to undertake a "Decentralisation Policy Review". This review will deliver strategic input to Government's policy formulation process.



This Review analyses the opportunities and constraints within five key areas considered as requirements for effective decentralisation:

1. The basic legal and policy framework,
2. The political and administrative framework,
3. Local government financing,
4. Local government human resources and
5. The arrangements for reform coordination and support.

The Review Report presents the consultants' analysis of the five key areas with related recommendations for the future refined GoG Policy and Strategy for Decentralisation. This executive summary presents a brief overview of the core issues in each of the above five areas and the related core recommendations of a policy

nature that should be addressed in the Decentralisation Policy as well as a broad outline of the related issues for inclusion in the subsequent Decentralisation Implementation Strategy. The main report provides a detailed analysis of the existing situation as well as further elaboration of recommendations.

2 Legal and Policy Framework

2.1 Main Legal and Policy Issues

There is substantial divergence between Government intentions for decentralization – including the intentions as stated in the Constitution - and the actual practices in the country. This divergence is buttressed by the variety of laws, which give legitimacy to the divergent practices, especially in the choices made by sectors that tend to define decentralisation as “deconcentration”.

The divergence may in part be explained by lack of clarity of the LG Act itself. The Local Government Act does not adequately deal with a range of issues further debated in the report, including

- The assignment of functions to different levels of government, - which may be the single most important aspect to clarify in the ongoing review of the LG Act.
- The overall local government structures and their relationships. The Act pays very limited attention to sub-district levels just as there is substantial un-clarity regarding the extent to which the region level should be considered a fully fledged local government,

While planning laws confer a strong jurisdiction to MMDAs, budgeting arrangements, funding flows and functional assignments continue to limit the authority and autonomy of the MMDAs to enforce harmonization and prioritization in line with the local realities, capabilities and needs. Sector priorities, including sector programmes and projects are defined substantially by the MDAs, with implementation targets set by the MDA HQ and resources allocated to meet these targets by the HQ. A vertical reporting and accountability system for the attainment of results still persists; between the District MDA and the central level MDA. While reporting to the local government is taking place, then this reporting is less binding in terms of accountability than the relations within MDA.

Progress is recently been made by the Local Government Service Council (LGSC) regarding the creation of a Local Government Service and related effective establishment of decentralised departments, which in turn implicate the assignment of functions under MMDAs. However, this process risks being negated by adjustments within the key sectors, such as health and education, which still hold substantial mandates for providing “services” and have the financial means, through existing budget arrangements to do so.

2.2 Main Recommendations on Overall Policy & Legal Framework

It is recommended to prepare an overarching Decentralization Policy that clearly defines the overall Government Vision for decentralisation as one based on decentralisation by devolution: the transfer of powers, functions and resources to local governments (MMDAs) and the policy choices associated with Devolution of authority, for planning, budgeting and accountability for development results at the level of MMDAs. Such a policy will overcome the current situation in which every level of Government is claiming authority in various aspects of existing legislation.

A key element of the Policy will be statements regarding the precise functions to be assigned the local governments and consequently transferred from central government institutions. The

functional assignments as stated in the recent LGS Report on Integration of Decentralised Departments into MMDAs are considered as sound points of departure. The Policy should clarify that the continued process of decentralisation by devolution and related assignment of functions to be based on the principle of subsidiarity as elaborated in the main report.

Following the policy, a Decentralization Strategic Framework, elaborating specific priorities over a given time frame will need to be prepared. This would as a core element include a process of legal harmonisation of sector legislation to ensure alignment with the Policy. The main sectors with local service delivery responsibilities need to adjust and align their policy, strategic framework, legal framework, human resource, organisation, funding system and capacity building support within the new overall strategic decentralisation framework. A sector decentralisation policy and strategy aligned with the overall strategy and guidelines for each sector needs to be clearly defined.

3. Political and Administrative Framework

3.1 Main Issues and Challenges of the Political and Administrative Framework

Considerable progress has been made in the establishment of political and administrative institutions to implement decentralization. However, this review has revealed substantial key challenges with the framework of representation, the lines of accountability and the viability and long-term sustainability of the sub-district structures.

The mixed model of representation in MMDAs (70% election and 30% appointment of members) was originally introduced in order to enhance "technical skills" of the MMDAs. However, evidence abounds of the central government appointment of 30% may have compromised democratic representation in many instances.

Currently the lines of accountability are confused at MMDA level. The Presiding Member, the District Chief Executive and the Members of Assembly are all politically representatives and all draw authority, legitimacy and their constituency from different sources. The central appointment of the DCE who effectively guides the MMDAs – not as a civil servant, but as a political appointee ultimately establishes the local government as an arm of the central government rather than a semi-autonomous layer of local government.

The local government system is supposed to operate on a non-partisan basis within a multi-party democratic arrangement for Central Government. While this is feasible under certain circumstances and jurisdictions, in Ghana, the authority of Central Government is so overwhelming that, in the exercise of its appointing prerogatives for DCEs, 30% of members of the DAs and other sub-district institutions, such as Unit Committees, Town, Urban and Zonal Councils, partisanship considerations are becoming more paramount than the claim of stakeholder participation and gender balance.

All of the above significantly limit the degree of local accountability through MMDAs and also impact on the extent to which NALAG can be termed a true representative of local authorities. Its leadership is mainly upwards accountable to the same central government that it is supposed to challenge and negotiate with.

The sub district local government structures are not viable; there are too many, they are too small, they have too many members and they are not fully elected. The functions of sub-district structures are unclear and they have virtually no personnel or financial resources to perform.

Traditional authorities are widely recognised as playing a legitimate and useful role on management of local affairs. Yet there is at present no clear framework for their involvement in MMDAs or in the interlinkages between MMDAs and traditional authorities.

The regional level is in various legislation and policies indicated to be part of the local government system. However, it does not have an elected council and since its role foremost appear to be one of coordination, oversight and support to MMDAs on behalf of central government, it appears that it may be useful to clarify its role as one of a deconcentrated layers of central government rather than proper local government.

3.2 Main Recommendations for the Political and Administrative Framework

The Decentralisation Policy should:

- Promote increased democratization of MMDAs. In the short term this may include measures to streamline the system for appointing "technical" and "stakeholder" representatives in the MMDAs to ensure that this process does not compromise the democratic principle of local representation and ownership of local government decision-making. This can be done by codifying the modalities for appointing the 30% to include clear, unambiguous and transparent guidelines – such as the precise number of traditional authorities, women, persons with disabilities and persons with special skills. Such appointments should then be made before an election for MMDAs and not after the exercise of the peoples' franchise. In the long run, government appointments in the MMDAs should be abolished, and all members of the MMDAs and the DCE elected, in order to bring the principle of democratic representation in line with the Constitution. If "skills" and "stakeholder" representation are required, a separate mechanism should be developed to achieve this objective.
- Ensure that lines of accountability in MMDAs are clear: the primary lines of accountability should be downward to the local residents through their elected representatives.
- Reconsider the status of the regional administration – it may be proper to define it clearly as a deconcentrated central government office rather than a local government.
- Devise or recommend a process leading to a complete restructuring of the sub-district structures; their functions need to be defined, realistic systems for elections designed, their numbers reduced, the numbers of members in each level to be reduced and finally their financing need to be secured.

4. LG Finance

4.1 Main Issues and Challenges of LG Finance

It is obvious that some progress has been over the past 10 years in areas such as the overall legal framework for MMDA finance, particularly concerning: i) financial management (issuing of new financial management, procurement and internal audit acts and regulations), within the treasury systems (such as the ongoing realignment of the treasury system and the move towards direct flow of funds to the agencies/authorities); ii) the transfer systems (some improvements in the DACF and the ongoing design of the new District Development Fund (DDF) with the overall aim to improve and harmonise the existing transfers to MMDAs and focus on improving the MMDA performance incentives) and iii) various capacity building initiatives, such as initiative to strengthen the budgets towards the MTEF and preparations for composite budgeting. In addition, various studies of the transfer schemes, financial management performance and revenue mobilisation practices of the MMDAs have been completed, which will provide valuable input to the coming reforms.

The study has also identified a larger number of challenges and risks in the existing system of MMDA finance, which needs to be addressed and resolved in the coming overall Fiscal Decentralisation Framework as an integrated part of the Decentralisation Policy and in the strategic implementation arrangements.

First, there is a need for a fiscal decentralisation framework (concise policy, strategy with implementation plan) and a better institutional coordination of the various pieces of the fiscal decentralisation reform work – the grant system, improvements in the IGF, financial management reforms, monitoring systems, etc.

Second, the integration of the sector departments into the MMDAs and changes in the functional assignments will require changes in the overall funding system as well as in the sectors, but the preparations of this has not yet taken off in a coordinated manner.

Third, internally generated funds (MMDA own source revenues) have not improved along with the increase in the transfers. The MMDA revenue potential is not well known, but expected to be considerable. The MMDAs capacity and incentives in most IGF areas are weak and the support from the central government scattered and insufficient. The legal framework for MMDA revenue mobilisation is outdated and non-conducive, particularly in areas such as setting of rates and MMDA borrowing. There are initiatives under way under work on the draft Local Government Finance Bill, but there is need to continue the dialogue on how to improve this area to ensure a sustainable, efficient and accountable MMDA funding system. A thorough Review of the local Government Finance Bill is recommended.

Fourth, the existing intergovernmental fiscal transfer system is fragmented in many sources (DACF, HIPC, development partners' on and off-budget funding, sector funding, statutory funding systems, etc.), characterised by multiple planning, budgeting, accounting, reporting and auditing systems, delays in announcements and transfer of funds, and lack of transparency and sufficient accountability. The DACF system is generally conducive for fiscal decentralisation and could be a vehicle for future reforms, but needs improvements in certain areas, such as the allocation criteria, transparency, accountability and transfer flows. None of the existing grant systems provides incentives for the MMDAs to improve performance.

Fifth, the planning and budgeting procedures are not linked, budgets are not integrated and prioritized across the sectors. The plans and budgets are developed in parallel and timing is not well sequenced to ensure linkages between the recurrent and development budget components and the involvement of the assemblies in real decision-making on priorities vary greatly.

Sixth, the financial management systems, procedures and practices leaves room for improvements, particularly in areas such as streamlining of the charts of accounts, accounting and reporting practices, lack of accounting manuals and needs to strengthen the internal control and internal as well external audit.

Seventh, the central government monitoring and information, data processing and analytical capacity concerning the MMDA finance needs to be strengthened.

4.2 Recommendations on LG Finance

The Policy Review has defined a number of policy as well as technical recommendations for the way forward in order to address the identified challenges in a comprehensive and sequenced manner. The recommendations are based on core *guiding principles* as stipulated in the existing

legal framework, good practices and international experiences. It is recommended to outline these in Decentralisation Policy:

- Expenditure assignments should be in accordance with the principle of subsidiarity (see chapter 2) and well defined for each tier of governance to pursue efficiency and accountability;
- Revenue assignments should be clearly defined, stipulated in the legal framework, aligned with the MMDAs' functions and commensurate with these, allowing the MMDAs sufficient room to adjust the revenues to the local needs. Significant MMDA own source revenues (assignment of revenues) are important to ensure ownership, accountability and sustainability;
- The intergovernmental fiscal transfer system should be harmonised, simple, objective, fair, transparent, timely, poverty sensitive and with an element of performance based allocation to promote MMDA efficiency and good governance;
- Measures to improve MMDA financial management should be strong, comprehensive and well coordinated, and based on the notion that certain capacity can be build as a "learning-by-doing" approach, as long as strong incentives are put in place;
- Systems of MMDA finance should promote downwards accountability, transparency and participation in the core issues, particularly concerning planning, budgeting and budget execution;
- Various reform initiatives in the field of fiscal decentralisation, particularly in the areas of IGF, the transfer systems and budgeting and financial management reforms should be well coordinated. The fiscal decentralisation reform should be carried out in a balanced and sequenced manner and should pursue a proper balance between decentralisation of functions/responsibilities (expenditure assignments) and fiscal resources (revenue assignments) and balancing the aim of ensuring sufficient local autonomy/flexibility/efficiency in resource allocation with aim to ensure achievements of national targets and objectives.

At the implementation level, one of the core areas for focus should be, based on the clarification of the expenditure assignments, to start reviewing the cost implications of the transfer of functions from the central government to MMDAs and to ensure that the revenues assignments are commensurate with the expenditure assignments.

The IGF should be improved through a number of mutually strengthening initiatives, including revisions of the legal framework with clear definition of the MMDA autonomy to defined the tax base and rates, capacity building support and guidance and improved incentives (particularly in the transfer system) for the MMDA to mobilise revenues.

The transfer system needs to be streamlined and harmonised. The coming DDF, performance based transfer scheme, with annual assessment of the MMDA's performance, is a potential strong vehicle for this, if properly linked with the existing development transfer scheme, the DACF and can link the development funding and capacity building initiatives through a strong performance incentive system. The funding systems for the sector activities will need to be elaborated, ensuring a proper balance between non-sectoral and sectoral (earmarked) grants.

The PFM reforms, targeting the MMDA level, such as the treasury reforms, composite budgeting and planning, budgeting and accounting guidelines require strong political and technical support, particularly with the coming integration of the sectors and the MMDAs. The PFM reforms should integrate the MMDA reform work at an early stage.

The planning and budget approval processes should be improved. Amongst the measures proposed are: i) to advance the announcement of the DACF transfers through indicative planning figures prior to the start of the Finance Year, ii) to adjust away from micro-control and approval to general monitoring of budget guidelines, iii) to ensure that assemblies are involved in the final budget approval process, iv) strengthen the linkage between the plan and budget and the recurrent and development budget components, moving towards the integrated MTEF principles.

The coordination of the fiscal decentralisation reforms should be strengthened by establishment of one umbrella body, with representatives from all core stakeholders (MoFEP, MLGRDE, MPRS, LGSC, DACF, NALAG, representatives from sector ministries) to coordinate the initiatives within IGF, transfers, planning, budgeting and financial management reforms. MoFEP is in a good position to chair this cooperation.

5. LG Human Resources Management

5.1 Key LG HRM Issues

The Local Government Service (LGS) Council has initiated work to operationalise the new service and presented in November 2006 its report on Integration of Departments into MMDAs. The recommended immediate establishment of the decentralised departments and integration of line departments including education and health into MMDAs awaits approval of Implementation Memorandum by Cabinet. This may establish an integrated district structure where all heads of departments are answerable to the District Chief Executive (DCE) through the District Coordinating Director (DCD).

However, the LGS is yet to develop detailed guidelines for recruitment, training, promotion, remuneration and disciplinary procedures within the service; it is unclear to what extent MMDAs will be granted autonomy in HRM issues.

The current system significantly limits LG autonomy and control over staff:

1. Recruitment and appointment procedures are centralised except for most junior staff cadres; the current system leads to limited allegiance of staff to Assemblies and is also administratively very slow; several cases were reported on where positions have remained vacant for years in districts and delays in effectuation of appointments and registration on payroll.
2. The central ministries manage staff transfers with occasional consultations with Assemblies. Transfers have in several cases led to LG frustration since they may have invested in capacity building of staff just prior to transfers.
3. Attraction and retaining of staff is problematic in several districts considered "remote" or otherwise disadvantaged. A systematic assessment of the scope of this problem has not been undertaken to date but the problem appears significant – also for core administrative posts such as District Planners.
4. The staffing of MMDAs appears uncoordinated. Some MMDAs complain of long standing vacancies. This is in part explained by lack of coordination between OHCS, which approves recruitment requests, and MFEP, which gives financial clearance for MMDAs to engage staff.
5. A problem related to the above is the absence of national data on staffing patterns in MMDAs – the information is scattered across several central and local institutions. At central level there is no overview of how many staff are locally employed.
6. LGs have, except for staff paid from IGF, no control over the size and structure of their establishments. Structures are determined centrally and staff paid centrally – the bigger the

approved number of posts the more salaries will be paid by central government. In this manner LGs have for most staff categories no incentives for staff retrenchments nor the potential to tailor staff structures to local priorities.

7. Procedures for staff discipline are very weak. While district based heads of departments may report on staff performance they cannot dismiss but most often only recommend for transfers. Local autonomy for staff discipline e.g. for teachers appears ineffectual and cases of suspension rare even in extreme cases of staff performance.
8. Promotions are largely done automatically based on years in service rather than based on performance as assessed locally. Thus the system at present gives weak incentives to staff to enhance their performance in accordance to local needs.

Capacity Building in LGs is mainly interpreted as training and is currently provided in a fragmented, duplicative and uncoordinated manner. Donor funded projects is the major source of funding. Government funded support is often deducted the DACF and administered centrally. LGs have limited autonomy to plan and manage their own capacity building. However, a system is under development through the NDAP that seek to coordinate, rationalise and decentralise capacity building in MMDAs by

- Systematically to assess MMDAs capacities through an annual assessment exercise (FOAT) that also will determine key capacity building needs of individual LGs,
- Through the proposed DDF grant modality to provide incentives for MMDAs to address those identified gaps and
- Provision of the financial means to MMDAs that will enable them to plan and implement locally identified capacity building measures. This Capacity Building Grant is a window of the overall DDF. However, the CBG still needs substantive design work before it can be effectively implemented.

Institutional arrangements for central oversight and support to HRM in LGs has changed significantly over the last 4 years with the Institute of Local Government Studies and Local Government Service Council now being the lead institutions. However, this is yet to be operationalised as both institutions at present are substantially under funded compared to their substantive mandate.

5.2 Main Recommendations on LG HRM

- 1) The envisaged Decentralisation Policy should further clarify the vision for decentralised HRM. It is recommended that the following areas of HRM and corresponding autonomy of LGs be clarified in Policy:
 - a) The degree to which LGs are to hold staff accountable and the measures that will be put in place to ensure that. This may encompass decentralisation of powers to hire, fire and discipline. Other decentralised measures for performance management should also be clarified. The Policy may establish some of these measures as a long-term vision whereas others, such as decentralised measures for performance management, should be implemented immediately.
 - b) The degree to which LGs will be given staff budget and establishment control.
 - c) Measures to ensure that also "remote or disadvantaged" districts can attract and retain staff; this could include introduction of some "hardship allowances", other special benefits

or a policy regarding enhanced training and career development benefits for staff in such areas.

Issues of a more operational character that need to be addressed in a Decentralisation Implementation Strategy include:

- 1) Immediate support for the LGS Action Plan for establishment of the decentralised departments and integration of line departments including.
 - Education and sensitisation of stakeholders on the changes in the public administration system,
 - Implementation arrangements, including monitoring systems,
 - Development of scheme of service; prescribing terms and conditions of service and remuneration;
 - Passage of LI to effect the transfer of staff and functions to LGs,
 - Filling of MMDA staffing gaps through transfers and recruitments,
 - Improvements for faster and more effective payroll management.
 - Capacity building of staff and assembly members on the new roles and functions;
 - Arrangements of asset transfer,
 - Effecting implementation of integrated district budgets
- 2) Through LGS:
 - Development of performance standards for District Assemblies and Regional Coordinating Councils (possible as continuous updating of FOAT),
 - Monitor and evaluate performance standards
 - Develop and coordinate personnel plans and assess personnel needs of LGs,
 - Develop and coordinate training plans of LGs,
 - Develop professional standards and guidelines for the various categories of staff of the LG service,
- 3) Establishment of LG capacity building modalities, including financing modalities – building upon the proposed FOAT and capacity building grant within the DDF,
- 4) Implement studies, research and routine monitoring of HRM practices and issues within LGs.

6. Decentralisation Reform Coordination

6.1 Decentralisation Reform Coordination - Key Issues

In Ghana the Ministry responsible for Local Government has over the years been the lead actor for decentralisation reforms, but at the same time it has for long also been widely recognised that the Ministry on its own cannot progress decentralisation reforms when this is defined as wider decentralisation by devolution of central government functions to local governments including the transfer of significant functions, staff and resources from sector ministries to MMDAs.

Various institutional arrangements for coordination of decentralisation have therefore been put in place to ensure wider reform coordination for the implementation of the National Decentralisation Action Plans (NDAP) since 2003. However these have to date not been effective for cross-sectoral reform coordination. Recently the Government created a Ministry of Public Sector Reform, which has a broad mandate of reform coordination. However, the capacity of the MPSR is very limited and its coordination role is related to no less than 22 key reforms of which decentralisation is one.

The established decentralisation-working group under the MPSR is yet to be operational and the MPSR is in reality mainly concerned with core central government reform issues; in particular organisational restructuring of the civil service, pay and pension reforms as well as reforms of subvented agencies.

6.2 Decentralisation Reform Coordination – Recommendations

The form of decentralisation the team recommend for elaboration in the Decentralisation Policy is decentralisation by devolution. This will require a substantive reorganisation of the public sector: not only the effective creation of the decentralised departments at MMDAs but also a reorganisation of the central government ministries from where functions and corresponding financial and human resources are to be transferred to local governments. This crucial phase of the reforms will require strong policy direction and oversight.

While policy direction will be provided by the expected Decentralisation Policy, then it will also be necessary to establish clear institutional arrangements for monitoring and guiding the key ministries and central institutions efforts for implementation of the policy. The capacities and mandates of both the MPSR and MLGRDE are too limited for that purpose. It will instead require a form of higher-level political direction and "neutral brokerage" that only can be mobilised from the Presidents Office. This may possibly best take the form of a "Commission on Decentralisation by Devolution".

It is important that the Commission focuses on core legal and policy aspects and is not overburdened with a range of technical and lower level policy issues that can be dealt with in specialised institutions. Effective coordinating arrangements will therefore include both high level policy oversight as well as coordination of more technical aspects of reform in specialised institutions dealing with LG Finance and LG Human Resource Management respectively.

Finally it should be noted that several of the core ministries, in particular the ministries responsible for local government and finance are in need of having their capacities enhanced in order effectively be able to facilitate decentralisation reforms and manage the new types of CG-LG inter relationships. The future role and relevance of the existing Decentralisation Secretariat will have to be assessed as part of such overall capacity building arrangements.

7. Way Forward

It is recommended that the process for completing the decentralisation Policy include at least the following two steps (in addition to the technical work by Government staff in drafting the policy paper):

Step 1: Review and Endorsement by Inter-Ministerial Steering Committee for Decentralization Policy Review
The inter-Ministerial Steering Committee comprises the Ministers responsible for Local Government, Finance and Public Sector Reforms.
The Committee will need to endorse the recommendations presented by the Review process to guide further direction of work.

Step 2: Wider Stakeholder Dialogue on Decentralization Policy to Obtain National Buy-in
The process of completing a national Policy on Decentralisation should include a wide range of stakeholders from both Government as well as from political parties and civil society to ensure buy in and commitment to reforms. The Main report provides recommendations for the composition of the stakeholder forum.

1. INTRODUCTION

1.1 Background

The objectives of Ghana's decentralisation reform are enshrined in the 1992 Constitution of Ghana which stipulates that "Parliament shall enact appropriate laws to ensure that functions, powers, responsibilities and resources are at all times transferred from central government to local government units in a coordinated manner". This constitutional requirement was further articulated in local government legislation.

The Government of Ghana (GoG) has over the years implemented various activities and programmes in support of the decentralisation process. The latest and overall guiding programming document is the National Decentralisation Action Plan (NDAP), which has been endorsed by Cabinet (February 2004). The NDAP has initiated a transition process towards the development of a comprehensive, well-sequenced and costed approach to decentralisation. The NDAP is foremost an operational plan that seek to progress practical work on harmonisation of development funding and capacity building, but does in itself include specific new policy direction. This Joint GoG-DP Decentralisation Policy Review serves as a crucial preparatory step towards a sector-wide approach to decentralisation and will be implemented as part of the NDAP's Work Plan and Budget for 2006.

However, it is acknowledged that further real progress of the decentralisation reform will require a more coherent and coordinated approach, which in turn will require policy clarification to guide implementation. Thus the Government and its Development Partners have agreed to include the "Formulation of a Comprehensive Decentralisation Policy" as trigger in the MDBS policy matrix 2006. In preparation of this Policy and related Comprehensive decentralisation Strategy it was agreed as part of NDAP activities to undertake a Decentralisation Policy Review. The policy review will deliver strategic input to Government's policy formulation process and efforts to fulfil the MDBS trigger.

This review is therefore conducted with a view to providing recommendations that will serve as input to: 1) Government's formulation of a comprehensive decentralisation policy linking fiscal, political and administrative decentralisation and 2) the subsequent formulation of a coordinated, prioritised, sequenced and costed policy implementation strategy that can form the basis for a sector-wide support modality.

1.2 Concepts and definitions

"Decentralisation" can take on very different meanings. In this study we use the term to describe a broad range of public sector reorganisations in a similar way as the World Bank:

Decentralisation -- the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations -- is a complex multifaceted concept. Different types of decentralisation should be distinguished because they have different characteristics, policy implications, and conditions for success.

In the literature a distinction is normally made between the political, administrative and fiscal aspects of decentralisation. All three areas will be covered by the study.

Furthermore a distinction is normally made between three major forms of decentralisation -- deconcentration, delegation, and devolution where this study in particular will explore the status of devolution and its related key issues and challenges – see Box 1.1. As explored further in chapter 2, the intended decentralisation reform in Ghana is broadly stated a form of devolution.

Box 1: Common typology of “Decentralisation”¹

Deconcentration is often considered to be the weakest form of decentralisation and is used most frequently in unitary states. It redistributes decision making authority and financial and management responsibilities among different levels of the central government. It can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries.

Delegation is a more extensive form of decentralisation. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making. They may be exempt from constraints on regular civil service personnel and may be able to charge users directly for services.

Devolution a third type of decentralisation is devolution. When governments devolve functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions. In a devolved system local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions.

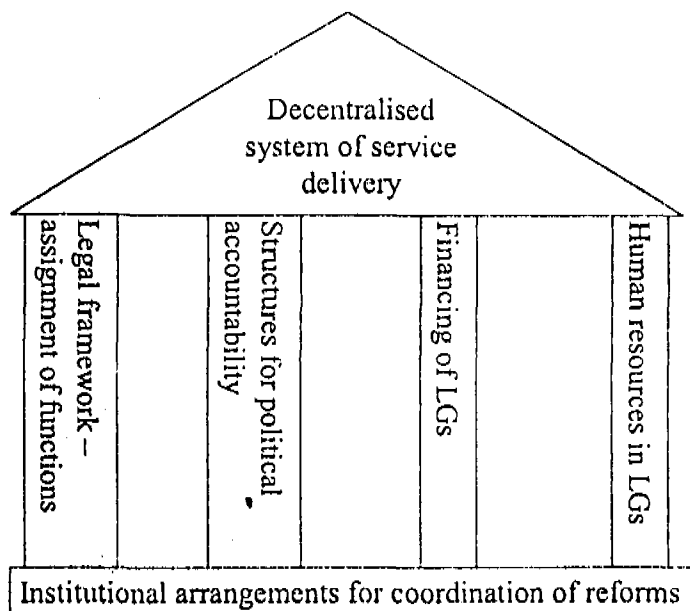
Whereas decentralisation, including devolution, can take many different forms and has to be adapted to specific local prevailing conditions, capacities, historical and political realities and in practice involves a mix of the three forms, then it still possible to identify some key requirements for decentralisation to be effective as means for enhanced service delivery and local democracy.

These preconditions can be summarised as five dimensions of decentralisation², which correspond to the five thematic areas to be analysed in this Decentralisation Policy review.

¹ World Bank: World Bank Decentralisation Briefing Notes (www.worldbank.org/html/tpd/urban/decen/decen.htm)

² Steffensen, Jesper and Tidemand, Per et al (2004): “ A Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda, August 2004 World Bank.

Figure 1: Five Dimensions for effective Decentralisation



1. A **policy and legal framework**, which clearly stipulates the division of roles and responsibilities between different layers of governments. Only if significant responsibilities are assigned to local governments can they play a role in poverty alleviation and address local needs. Assignments of responsibilities should be in accordance with local capacities.
2. **Financial resources** should be aligned with and commensurate with functions. Finances to be provided include a proper mix of own local revenue sources (taxes, fees, charges etc.), intergovernmental fiscal transfers and borrowing. A certain level of fiscal autonomy is required to ensure that potential benefits of decentralisation can materialise, although this autonomy has to be designed in manner, which does not compromise overall national targets.
3. **Human resources** (staff numbers, qualifications, motivation etc) adequate to undertake functions. Some degree of local control of staff is required to ensure local level autonomy and thus benefit from decentralisation.
4. **Effective mechanisms for local level accountability** – local election of local government councillors is the most basic precondition. Effective local accountability will also require citizens and politicians' access to information, institutional arrangements for politicians' oversight of planning, finances, staff; and be influenced by political structures, civil society organisations among others.
5. Finally all of the above needs to be supported by relevant central institutional arrangements; for instance a reform secretariat, a strong Ministry of Local Government, an Association of Local Authorities, a Local Government Finance Commission/Committee and similar institutions. Effective decentralisation of the public service will require significant coordination across sectors and a substantial overhaul of most line ministries and other central institutions.

1.3 Study Approach and Methodology

1.3.1 Study Objective

The objective of the Review is in the TOR stated as "to assess the current state of affairs in the decentralisation process. This assessment will take place against a range of legal and policy benchmarks, starting with the 1992 Constitution, but also including the subsidiary legal framework, Ghana's Poverty Reduction Strategy and the National Decentralisation Action Plan".

The TOR further states that the overall purpose of the Review "will be to support Government with the formulation of a comprehensive decentralisation policy and a prioritised sequenced and costed implementation strategy for decentralisation and local government reform".

As consultants on this assignment our responsibility is to ensure that the objective is achieved in a manner that will contribute to the overall purpose. However, the formulation of the comprehensive decentralisation policy and strategy, including a costed implementation strategy, is a separate assignment that will be undertaken subsequent to the decentralisation review.

1.3.2 Field Work, Data Collection and Limitations

The work was undertaken in the following stages:

1. Mobilisation and review of documentation; this included compilation and review of readily available material. The list of literature was subsequently updated continuously throughout the assignment and is included as bibliography by the end of the report. For the international consultants this was initially undertaken from home base by the start of the assignment 2nd November 2006.
2. Preparation of inception report: this included joint work by the entire team in Ghana 11th – 20th November 2006:
 - a. Continued collection of materials,
 - b. Selected interviews with key stakeholders in particular members of the Steering Committee (MLGRDE, MoFEP, CAG, the MPSR, the LGSC and MDAs of key strategic importance), NALAG, selected development partners,
 - c. Preparation of Inception report with detailed methodology and workplan, including preparation of a detailed questionnaire for the data collection and fieldwork.
 - d. Details on reporting format.
3. Presentation of Inception report to Joint Policy Review Group 20th November 2006.
4. 21st November – 9 December 2006: data collection by Ghana based consultants at national and local level, this included fieldwork in one rural (Northern) local government: Gushegu DA.
5. 10-20th December: return of international consultants for continued data collection and consultations. This included fieldwork in two local governments: Accra Metropolitan and Ajumako/Enyan/Esiam DA and continued meetings with institutions/stakeholders in Accra.
6. 21st – January 20th 2007 Preparation of draft report.
7. Submission of draft report Monday January 23rd 2007,

8. Presentation of key finding of draft report at a stakeholder workshop 30th January 2007 at Elmina with a view of validating key findings and generating consensus on key policy recommendations emerging from the work. The workshop was chaired by Nana Rex Owusu Ansah and attended by honourable Deputy Ministers of MLGRDE Kofi Adusei-Poku and Abraham Dwuma-Odoom. Honourable Minister MLGRDE Stephen Asamoah-Boateng provided the team guidance on broad policy issues and scope of report recommendations during the same evening.
9. Completion of final report based on received written comments and comments from the above stakeholders' workshop.

During the inception phase, it was agreed to pay attention to both the overall local government reforms as well as the links to the sector reforms, and the sector-specific decentralisation processes. Problems with decentralisation in many countries have been the partly due to the missing links between the overall decentralisation reform process, often coordinated by the ministry of local government, and the sector processes, run by sector/line ministries/agencies. Although, a detailed review of each of the sector reform processes in Ghana has been out of scope of this exercise, sector specific issues have been included where relevant for the overall reform process, particularly within the primary education and health sectors.

The data collection and consultations were constrained by lack of reliable data in key areas (in particular LG finance and LG HRM) as elaborated upon in respective chapters. The review benefited from a well-attended workshop arranged by the Local Government Service Council in November 2007 and their draft report.

1.3.3 Team

The assignment is jointly undertaken by Dege Consult (www.dege.biz) and Nordic Consulting Group Denmark (www.ncg.dk), with NCG as the lead consultancy company. The team is a mix of international and locally based consultants:

- Per Tidemand (Dege), Teamleader
- Jesper Steffensen (NCG), lead consultant on fiscal decentralisation work
- Sulley Gariba, lead consultant on policy and legal issues
- Michael Kofi Mensah, lead consultant LG HRM,
- Kwamina Amoasi Andoh sector legal issues and private sector issues
- Komla Deku, LG Finance issues

1.3.4 Acknowledgement

The study was initiated under the MLGRDE and its Decentralisation Secretariat with financial support from the development partners supporting decentralisation. Danida and KfW funded the study on behalf of the group.

Many people, too numerous to mention by name, helped considerably in data collection, analysis and other contributions to this synthesis report. The Team wishes to extend its thanks to all.

This report is based on information collected up to December 2006. It contains the views of the Team, which do not necessarily correspond to the views of the Government of Ghana or development partners funding the study. Points of view and errors can be attributed only to the authors.

2. THE LEGAL AND POLICY FRAMEWORK

2.1 Introduction

The formulation of a far-reaching process of decentralization in Ghana gained political prominence in the late 1980s, with the conclusion of studies combining local government reform efforts with political processes of mobilization and democratic representation. Crucial to this was the enactment of Local Government Law 207 in 1988, underpinned by a document labelled the "Blue Book", which was used as the basis of discussion with various sections of the population regarding the essential features of decentralization in Ghana.³ The overarching principles underlying the current architecture of decentralization can be said to take root from the 1988 provisions of the Local Government Law. Presently, there does not appear to be a single coherent policy document that defines the policy intentions of decentralization in Ghana, therefore, much of the analysis in this section focuses on:

The policy intentions of the fourth-Republican Constitution regarding decentralization;

- How these have been translated into local government legislation by Local Government Act 462 of 1993;
- The extent to which other legal provisions subsume and or contradict the overall Constitutional intents regarding decentralization; and,
- The implications of diverse legal trajectories on the current political and administrative structures of decentralization in Ghana.

2.2 Political and Constitutional Foundations of Decentralization

Ghana has had a rich diversity of local government reform measures, but the one with most profound impact on the fourth Republican Constitution was the series of measures that resulted in the first major local elections in 1987-88. In these elections, District Assemblies (initially 110 and later 138) were established as the pivot of political, administrative and developmental decision-making at the local level.

District Assembly as the "highest political authority" became a catch-phrase during the pre-constitutional rule of the PNDC. At the time of their introduction, the DAs, and the associated specifications for their constitution and operations were deemed to be sufficient in bringing about a blend of local representation and governmental efficiency in planning and delivering public and developmental services in a decentralized manner.

The architecture of decentralisation envisaged by the promoters of this initial effort informed the framing of the fourth Republican Constitution which, in its Chapter 20 stipulates that Ghana shall have "...a system of local government and administration which shall, as far as practicable, be decentralized," and in Article 35 (5d) requires the state "...to take appropriate measures to ensure decentralization in administrative and financial machinery of government and to give opportunities to people to participate in decision-making at every level in national life and government." These provisions and others have been given further impetus by the:

³ Perspectives on the evolution of recent policies on decentralization in Ghana reflected in "Decentralization Policies and Practices – Case Study Ghana, a Participants' Manual", World Bank, June 2003, p.1.

- Local Government Act, 1993, together with supporting enactments and subsidiary legislation such as the Local Government -- Urban, Zonal and Town and Unit Committees -- Establishment Instrument, the 138 Legislative Instruments establishing the 138 Metropolitan/Municipal/District Assemblies (MMDAs)⁴
- National Development Planning (System) Act 479 of 1994
- National Development Planning Commission Act 480 of 1994
- District Assemblies' Common Fund Act 455 of 1993
- Local Government (District Tender Boards) Establishment Regulations (which is now repealed)
- Local Government Service Act 656 of 2003, (and other legislation pertaining to administration of LG and CG personnel at local level discussed further in chapter 5)
- Institute of Local Government Studies Act 647 of 2003.
- A range of finance legislation and LG fiscal regulations discussed further in Chapter 4,

These enactments encapsulate the most important features of Ghana's decentralisation programme and yet, embody some of the inherent contradictions:

- A measure of Political Decentralisation, involving the devolution of Central Government political authority to the sub-national political structures, with a measure of electoral legitimacy and a distinct constituency of electorates. Embodied in this, however, is lingering central political authority in appointing 30% of the members of such sub-national political structures so constituted at the level of local government.
- Administrative Decentralisation, involving the transfer of identified functional areas of government and the accompanying competence to the sub-national structures. However, as elaborated below, this has not been clearly articulated in law: some legislation designate a function to the local government whereas other legislation maintain the same functions with central government. Similarly sector staff remains in law until the LGS Act is operationalised as integral parts of central government. As further discussed in sections below and chapter 5, the LGS Act itself may not necessary decentralise much of personnel management responsibilities unless guided by clear policy in this area.
- Decentralised Planning, involving a change from the top-down approach to planning to a bottom-up approach under which the jurisdiction of local development planning is assigned to the District Assemblies and requiring participatory approaches with the identification of the community's problems, forming the basis of prioritization of development efforts, collated by the district and regional level to the National Development Planning Commission (NDPC) and integrated into national planning efforts of Central Government. However, as elaborated below, the intended decentralisation of development planning has in practice been substantively constrained by central government sector programming, planning and budgeting.
- Fiscal Decentralisation, involving the transfer of means (initially the DACF) and eventually a composite budget system that gives District Assemblies control over their budgets and finances, but the process towards this has been slow and with major constraints (see chapter 4).

⁴ Each MMDA has a separate and distinct Legislative Instrument providing legal basis for its establishment. It is in this LI that relevant laws that define its legal existence can be found.

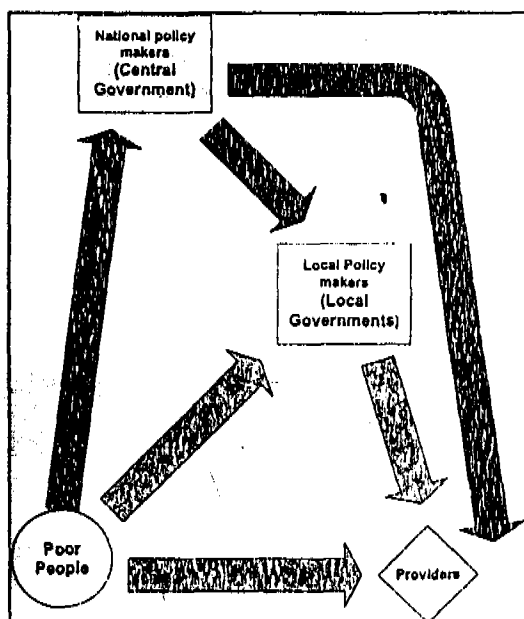
2.3 Conceptual Understanding of Decentralization

Two competing concepts of decentralization are operating in Ghana. The first is the devolution of major political and administrative responsibilities from central Government to District Assemblies, comprising the establishment of partially elected bodies with the mandate for local government and local, community development. The second, running parallel to devolution, is the process of administrative and technical de-concentration practiced by Ministries, Departments and Agencies (MDAs) that plan and deliver specific services to communities – Water and sanitation, Health, Education, Agriculture, Roads, Works, and allied municipal services.

Devolution has far-reaching implications for political, administrative and technical set-up, proposing to restructure institutions and mandates for service delivery. De-concentration, on the other hand, has involved the re-arrangement simply of the locations of key personnel and where their functions are delivered.

At the center of the debate about the type and approach of decentralization then is the issue of accountability: of both government and service providers to citizens, in particular the poor, for whom national development strategies are targeted under the GPRS.

Figure 2: Basic Accountability Relationships⁵



The red lines demonstrate the "long route of accountability" whereby citizens only very indirectly influence service providers through their elected national government and possible deconcentrated structures.

The blue lines demonstrate the relatively shorter route of accountability through a devolved system of local service provision. Essentially "Government" is brought closer to citizens in management of local services. Local governments are locally accountable to citizens.

The green line refers to more direct voice by citizens in service delivery planning and management, this may be achieved by empowerment of user groups (school committees, farmers groups etc) irrespective of whether the service is deconcentrated or devolved.

Decentralisation by devolution brings local policy makers closer to local residents; decisions regarding planning priorities and how to finance these can in developed system be brought closer to the people, likewise staff at the local level can be made locally accountable to local residents through elected representatives.

2.4 Government Policy Intentions in GPRS

In its most recent efforts towards elaborating a systematic national policy direction for development, the Government elaborated upon the overall framework and vision for decentralization in Ghana Poverty Reduction Strategy-1 (GPRS I). According to this,

⁵ This follows World Bank Development Report 2004.

decentralization was intricately linked with equity, and that the aim must be to decompose (and devolve) power to the District "...to the extent that Assemblies are in effective and total control of their departments and staff within the context of relevant legislation. Ultimately District departments must have the capacity to carry out all District level programmes and projects funded from their own resources and by central government." Furthermore, GPRS I stipulated, "decisions on resource utilization including priorities and intra-District allocation must lie with the local authority. Central government should progressively use District Assemblies as agents for the local provision of physical infrastructure and services wholly or part funded by the former".

However, the GPRS in some aspects also failed to make a distinction between local and central service delivery mandates since it argues, "The goal is to provide for a situation where national development plans are an aggregation of local development plans and the latter are a disaggregation of national plans". A later formulation makes more sense: "Dialogue between the national and local level must achieve a synthesis of mutually supportive measures, which bind together national policies and local aspirations."⁶

These explicit intentions by Government formed the basis of an elaborate National Decentralization Action Plan (NDAP) coordinated by the MLGRDE in 2003. Under this Plan, 4 Action Pillars were defined in line with broad reform intentions of GPRS namely:

1. Policy and Institutional Arrangements for Decentralisation Implementation (to streamline political, administrative and legal arrangements for decentralisation)
2. District Development Funding Facility (to harmonise different modalities for development funding among GoG and Development partners)
3. Capacity Building and Human Resources Development (to build a more coherent framework and harmonised approach for capacity building in local governments) and
4. Partnership and Participation for Accountable Local Governance. (To initiate a process for dialogue, consultations and partnerships between MMDAs, Civil Society and Traditional Authorities)

The NDAP foremost focuses on progressing selected practical aspects of the decentralisation reforms such as harmonisation of development funding and capacity. It aims to support a more coherent policy and implementation framework but makes no specific guidance in that respect.

2.5 Reality of Decentralization Practices

While Decentralization is underpinned by the 1992 Constitution Article 35 (60 (d) of the Constitution which provides for making "democracy a reality by decentralizing the administrative and financial machinery of government to the regions and district..."; and pivotal in GPRS, the reality has been one of mixed results. There has been considerable progress in institutional development of Districts and sub-district structures, but at the same time, a growing concentration of power and resources in key sector Ministries, Departments and Agencies (MDAs) that plan, implement, monitor and evaluate essential services to communities.

The thrust of Ghana's decentralization policy as defined by Act 462 is **devolution** (and not de-concentration or delegation). Devolution relates to constitutionally or legislatively assigned roles, responsibilities and accountabilities to all levels of government. Yet, the reality of Ghana's processes of decentralization gives a different picture. The matrix below summarizes the conception of decentralization as designed in the policy and the corresponding empirical reality:

⁶ Quoted from Ghana Poverty Reduction Strategy, 2003-2005: An Agenda for Growth and Poverty Reduction, page 41-42.

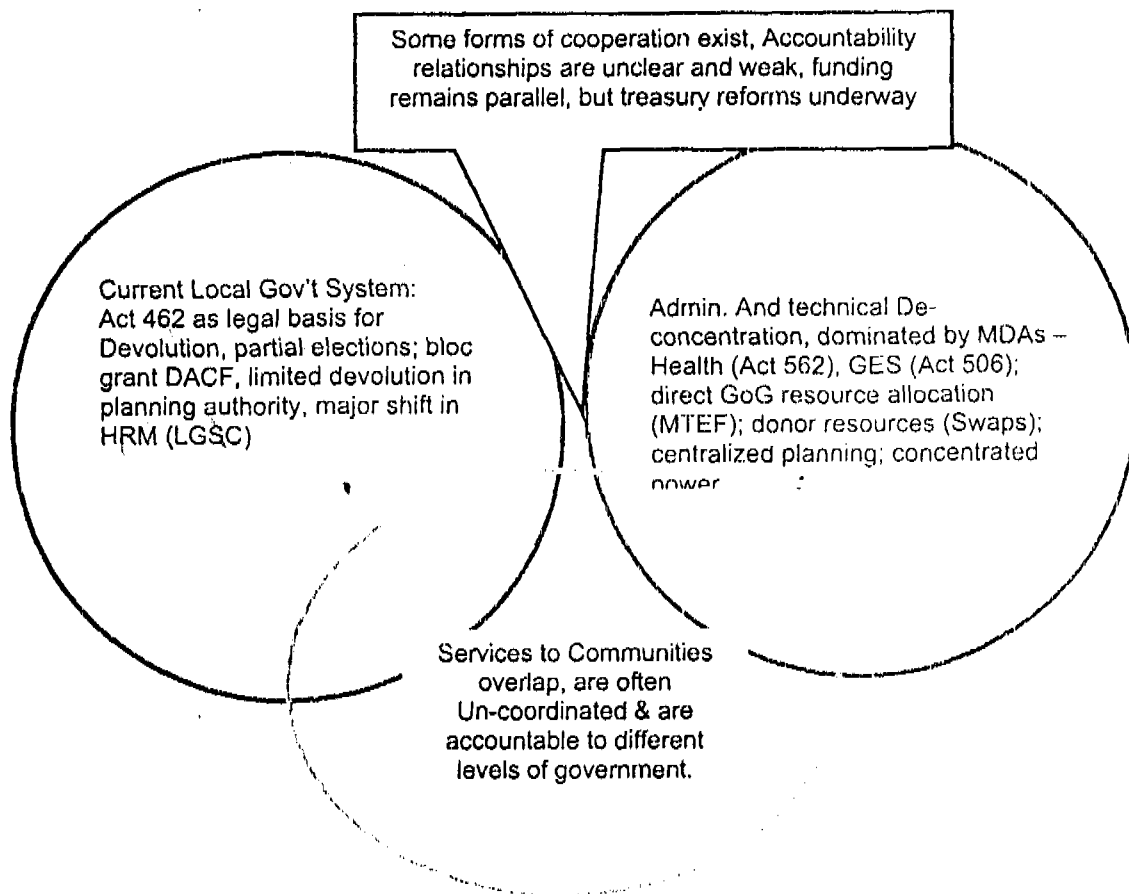
Table 1: Policies and Realities – Select Aspects of Ghana Decentralisation

Policy Design Considerations	Reality
<p>Political Decentralization, represented by: Partial election of District Assemblies in 138 Local Government jurisdictions Devolution of central administrative authority to the District Assembly level Establishment of sub-district structures and the accompanying elections around these structures</p>	<p>Political decentralization has been the most thorough since 1988 when District Assemblies were first established. The pattern of constituting District Assemblies (in which 70% are elected and 30% appointed) that pre-dated the 1992 Constitution continued in 1994; 1998; 2002; and 2006. Constituting the sub-district structures, which involves a more onerous combination of election cum appointment of members into 16,000 Unit Committees as the basis for establishing Area, Town, Urban and Zonal Councils, has been difficult and still incomplete and some say un-attainable due to large numbers and lack of public interest. Challenges to the completion of the political process of decentralization identified by government and others include (a) Election of District Chief Executive, and eventually of all Assembly members to make the system both representative and democratic (b) the non-partisan nature of the District Assembly elections, in an environment where a partisan super-structure has been constructed at the national level. Only partial devolution of administrative authority to District level.</p>
<p>Fusion of governmental agencies in any given region, district, and locality into one administrative unit</p>	<p>Governmental agencies (Ministries, Departments & Agencies – MDAs) continue to retain their "hierarchy" from national, to region to district offices; while institutions generally considered to be decentralized are those in the "District Assembly Secretariat". With the passage of the Local Government Service Act 656 of 2003, efforts are beginning to undertake an integration of all staff at the District level to the new Local Government Services, and eventually to integrate these into the District Assemblies. Real fusion, which will involve the complete separation of budgeting, funding and accountability of district-level staff from their "parent" MDAs and transfer of these to the District Assembly jurisdiction will take longer.</p>
<p>Divestiture from the center of implementation responsibilities and the transfer of those responsibilities in 22 functional areas of Central Government to the District Assemblies.</p>	<p>Some divestiture of implementation authority for programs and projects is occurring to the district level, especially in the case of Water and Sanitation management. However, these are still occurring vertically, from national to regional and district offices of the same departments. The policy intent to shrink the 22 departments into 11 (for Districts), 14 (for Municipal) and 17 for Metropolitan Assemblies is only now being discussed by the LGSC and the OHCS, but these discussions are currently restricted to assignment of personnel rather than functions.</p>
<p>Assignment of functions and responsibilities to the various levels of government as follows: (a) Central Governments Ministries/Departments to undertake policy planning, monitoring and evaluation of the implementation of sectoral development policies and programmes as well as the development of standards and implementation indicators.</p>	<p>This has remained a traditional role of the MDAs, but it is not the only function they are performing. They have as well assumed the functions of directing planning, leading the budgeting process and representing the sector at all levels in their dealings with the Ministry of Finance & Economic Planning to acquire and disburse budgets, including all funds for services and investments at the lowest levels. This is especially the case with the three service-oriented MDAs – Ghana Health Service, Ghana Education Service and the Ministry of Food & Agriculture, which have strong, vertically-integrated departments and planning systems that are closely integrated with implementation functions.</p>
<p>(b) Regions through the Regional Coordinating Councils, (RCCs), Regional Coordinating Directors (RCDs) and Regional Planning Coordinating Units (RPCUs), formulate regional development</p>	<p>The process of aligning RCCs, RCDs and the RPCUs into the decentralization process has been slow and confusing. This is due in part to the contradictory nature of the laws, and also due to lack of capacity for these institutions to occupy the space provided under the law.</p>

Policy Design Considerations	Reality
<p>policy, co-ordinate and harmonize district level development interventions, monitor implementation activities of the District Assemblies; develop implementation monitoring indicators, and reporting to the center.</p>	<p>Moreover, many of the functions to be delegated to them are still being performed by Regional offices of MDAs. The latter continue to obtain the needed funding from central government, through the MTEF budget arrangement to perpetuate their role as regional policy makers and coordinators (but on sectoral levels). Some progress has been made over the last 18 months since the Decentralization Secretariat has been providing needed skills and capacity for RPCUs in much of the southern regions, with CIDA supporting RPCUs in the three Northern Regions.</p>
<p>c) District Assemblies are to be primarily responsible for the development of local level policy based on/and informed by national policies/programmes and local circumstances; preparation of district development plans based on/informed by national and regional development policies; and, the implementation of such development plans and programmes coordinated by the NDPC.</p>	<p>Substantial progress has been made in this direction, aided by the availability of the DACF to support District development policy, planning and program implementation. This is however occurring in tandem with equally strong "district-level" policy, planning and program implementation by competing MDAs (health, education, agriculture) who continue to receive funding and priority-setting directives from their national and regional offices, functioning in de-concentrated forms, yet implementing programs and projects directly planned through their head-offices.</p>

Two main figures depict (a) where decentralization presently stands with regards to structural relationships of governance and accountability; and (b) where a Decentralization Policy Reform might be directed.

Figure 3: Current Situation



Under the current situation the two approaches of decentralization and de-concentration are running parallel, with Sectors/MDAs planning and executing their programs down to District and community levels with little reference and coordination through the elected body representing Local Government, the District Assembly. At the national level, the MLGRD, being the central management agency that coordinates decentralization policy attempts to coordinate and seek compliance with the policy among sector ministries, but this effort is further frustrated by some legislative backing for the

"Services" (Health and Education notably) and enormous resource endowments they command through more persuasive and consistent planning and program development by those agencies.

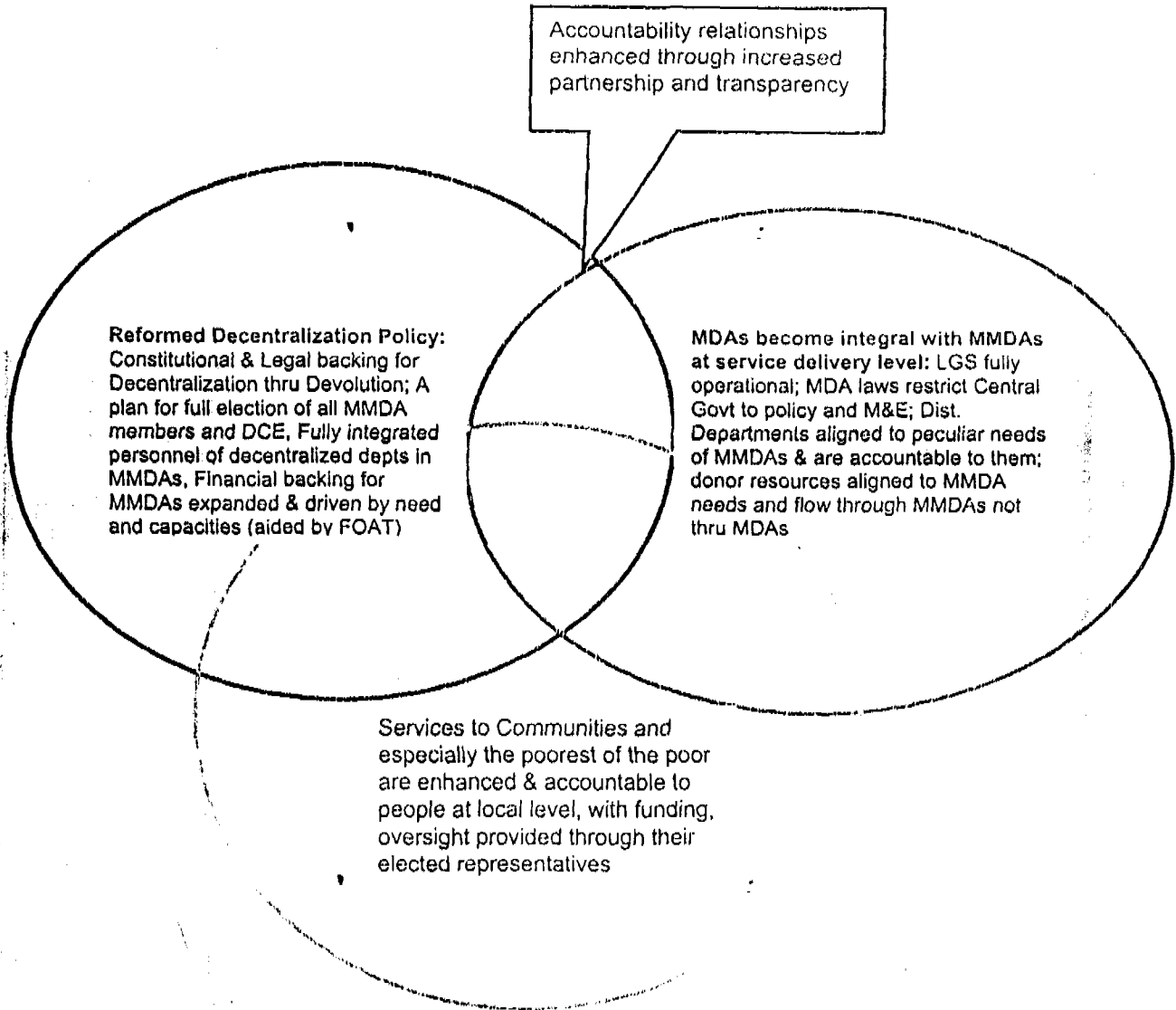
As this "competition" deepens, the space for responsive and accountable service delivery, by both the sectors and local government bodies is narrower. Projects and programs that provide services to communities are poorly coordinated; both the Districts (using DACF and HIPC funds) and the "Services" using central government budgets, pooled donor funds and their own separate HIPC fund allocations invest in similar services at varying locations, some of them over-lapping.

Co-existence & Cooperation, Not Integration

In Gushegu District of the Northern Region, sector departments "co-exist" with the District Assembly. They share information about planning, but priorities for sector plans are still defined by sector MDAs. At the level of the District Assembly, sector departments "bring" their plans, and these are aggregated into the MTDP, but the budgeting and eventually financing of these are contingent on resource allocation from the "mother Department" in Accra. The DA helps, but only as a "last resort when our funds are delayed or

response to community needs, not necessarily as part of a District Education Plan, which is still very much the prerogative of the District Education Service under GES.

Figure 4: Vision for Decentralization Reform



The above figure represents the projected transition towards a decentralization reform. Under this approach, the policies of decentralization will ensure more collaborative relationships with sector agencies. More resource allocation that is driven by need (poverty status) and performance (accountability to communities and effective service orientation) would be used to increase the pressure for responsive local governance. As has been depicted in the overlapping spaces, **increased ownership** (of service sectors by the Local Government – District Assemblies; and **increased Accountability** (between communities, service providers and local government bodies) are expected outcomes of a decentralization policy reform process.

2.6 Clarity, Coherence, Comprehensiveness of the Legal Framework

The mixed results of decentralization implementation are associated with the overlapping tendencies that the principal laws underpinning decentralization have fostered. This section analyzes the principal law associated with decentralization, the Local Government Act 462, as it coheres with Constitutional provisions for decentralization.

2.6.1 The Local Government Act 462

Besides the Constitution, the principal legislation that gives meaning and defines the scope of decentralization and its companion local government reform is Act 462 of 1993. The objective of this Act was to set out the overall framework for decentralization; the District Assemblies' Common Fund Act 455 also of 1993; and the Local Government Service Act 656 of 2003. This section focuses on the analysis of the adequacy of the overarching framework, the elaboration of the means and the prospects of reform in the status quo.

The most significant shift in local government introduced by Act 462 was to confer legality on the pre-established District Assemblies carried forward from the earlier PNDC Law 207; and to elaborate in greater detail, the parameters, authority and functions of District Assemblies. As a legislation establishing new entities and conferring onto them powers that already exist in local government, Act 462 was easy to implement. Over the period of 13 years since the Act was passed, all District Assemblies are established and functioning, and elections for their renewal have occurred, in 2002; and again in 2006; as have the mandated government appointments of 30% of their members. However, key gaps loom in both the adequacy of provisions for local government reform and the implementation of key aspects of the Act.

Firstly, Act 462 deals enormously with the political and administrative arrangements associated with the notion of "District Assemblies" (more broadly referred to as MMDAs), and less so of the functionality of the full functionality of the Local Government system. In the former, there is throughout the Act rich references to the body politic, boundaries, new institutional forms and functions as well as jurisdictions of the entities under the District Assembly.⁷ When it comes to the substantive issues of functions and their relative assignment between levels of Government, Act 462 is conspicuously silent. The Constitution, in Article 245 states that "Parliament shall, by law, prescribe the functions of District Assemblies which shall include (a) the formulation and execution of plans, programmes and strategies for the effective mobilization of the resources for the overall development of the district; (b) the levying and collection of taxes, rates, duties and fees." While other more precise functions are defined in Act 462, including many that imply provision of certain basic services, there have not been any explicit laws that remove these functions from those that Central Government is to provide.

This silence is accountable for the lingering confusion in the determination of the roles and responsibilities between central government provision of services through de-concentrated departments and the claim of "decentralized departments" often cited in the LG Act 462 and other decentralization laws, including Local Government Service Act. In Article 254, the Constitution is clear in suggesting that explicit laws shall be issued to take steps "necessary for further decentralization of administrative functions and projects of central government but shall not

⁷ This tendency reflects the wholesome transfer of the decentralization ethos of the earlier PNDC era into Constitutional rule. This era and its associated legal basis were associated more with political decentralization than the administrative and local government reform.

exercise any control over the District Assemblies that is incompatible with their decentralized status..." A fundamental step, which has so far been omitted, is to explicitly define which functions are devolved to local government and which ones are still the preserve of central government. Instead, there have been various references to the creation/re-alignment of various "decentralized departments" of MMDAs. As Ferrazzi noted in the case of Ghana, the "de-concentrated offices can only be folded into the DA as physical assets, funding, and human resources – but functions do not reside there," suggesting further that "a separate mechanism is required to formally transfer functions from the central government to the local government, as these functions do not inhere in the dispersed central government organizational structure that had been set up to assist in their implementation."⁸

2.6.2 The Assignment of Functions to MMDAs in LG Legislation

The LG Act itself is relatively silent on the specific functions assigned to MMDAs, which in part explains the confusion regarding division of responsibilities between different levels of government; in particular between the central governments (the sectors/MDAs) and the local government (MMDAs). In different legislation MMDAs are given functions yet in other pieces of legislation the same functions are assigned to central government institutions such as the Ghana Education Service or Health Service.

Beyond Act 462, every MMDA has a Legislative Instrument (LI) defining its jurisdiction and specifying the functions required to be played by it. An analysis of these LIs vis-à-vis the enabling Acts for various MDAs reveal gross overlaps in the assignment functions between MMDAs and MDAs. It also embodies the confusion associated with the notions of devolution versus deconcentration.

Under each enabling LI for the establishment of MMDAs, 88 functions are listed as constituting these functions. In the LI establishing the Accra Metropolitan Assembly, L.I. 1615 of 1995, number 1 on the list is:

"To promote and safeguard public health and for this purpose the Ministry of Health shall assign Medical Officers of Health, health inspectors and other staff as appropriate...to the Metropolitan Assembly for the proper discharge of this duty;" in function #22: to establish and operate clinics and dressing stations in consultation with the Ministry of Health."

Yet in elaborating the functions under the Ghana Health Service and Teaching Hospitals Act 525 of 1996, the GHS is charged to "...ensure access to health services at the community, sub-district, district and regional levels by providing health services and contracting out service provision to other recognized health care providers." It is also charged to "...plan, organize and administer comprehensive health services with special emphasis on primary health care." In both of these functions, a vertical hierarchy of service arrangement, from community to region is implied; and so is a distinct management arrangement for health services, without any provisions made to refer to or respect jurisdictions and previously assigned functions in the same domains to MMDAs under their enabling LIs.

In education, the MMDAs are required to "build, equip, and maintain all primary, middle and special schools as are in the opinion of the Minister for Education, after consultations with the Minister responsible for Local Government; to advise the Minister for Education on all matters relating to

⁸ For a detailed discussion of the boundaries of central and local government and the assignment of functions thereof, see Gabriele Ferrazzi, "A comprehensive analysis in the context of the Review of the Local Government Act," October 2006, pp. 18-19.

primary and middle schools and such other matters as may be referred to it by the Minister for Education. Specifically, under #43, the MMDA is charged with the responsibility for:

- Postings and transfers within its area of authority of teachers including pupil teachers;
- Keeping records of teachers;
- Discipline of teachers in accordance with the disciplinary code laid down by the Ghana Education Service;

It also provides for the approval and opening of private primary and middle schools; Payment of teachers' salaries and sundry. Yet, the GES Act 506, 1995 stipulates that the Education Service is:

- To provide and oversee basic education, senior secondary education, technical education and special education;
- To register, supervise and inspect private pre-tertiary educational institutions;
- To register teachers and keep an up-to-date register of all teachers in the public system; yet MMDAs have been assigned the function of "postings and transfers of teachers, recommending of teachers for study leave.

These are clear overlaps of many functional areas, which are exacerbating the jurisdictional confusion in the process of decentralization. Decentralization policy must seek to address this confusion, clearly delineating the functions to be performed by MMDAs and set them off against the functions to be performed by MDAs. Any overlaps intended for the purpose of coordination must be defined and recognized in law.

2.6.3 The Local Government Service – Progress and Challenges

The introduction of the LGS Act 656 of 2003 brought mixed blessings in the legal landscape of decentralization. On the one hand, it introduced, for the first time, a separation between the Civil Service (designated to represent personnel of central planning agencies) and the Local Government Service (designated to represent personnel rendering services at the level of decentralized institutions). In its maiden propositions, the LGS promises, by January 1, 2007, to initiate the process of separating the two services and realigning the departments designated to be "decentralized" under the jurisdiction of MMDAs. This process seems to be one, which will be triggered by an "administrative memorandum" advising Chief Directors to initiate actions towards this separation. To the extent that the separation of Local Government Service from Civil Service is seen as a simple re-arrangement of the institutional location of personnel, the LGS represents only a nominal change. Optimists see this change as a necessary first step towards more profound shifts, in terms of (a) location; (b) functions (c) funding and (d) accountability.

Yet, by its very nature, the LGSC itself could re-introduce potential centralizing tendencies, providing rather limited margins of autonomy and decentralized actions by MMDAs in the following specific areas:

- Funding
- Hiring and Firing
- Silence on the substantive issue of the legal basis for assigning functions

In terms of funding, MMDAs Expenditures on Personnel are assigned as a Charge on the Consolidated Fund -- Section 28 of the LGS Act charges all expenses of the LGS, including

administrative expenses, salaries, operational expenses and retirement benefits of employees on the Consolidated Fund.

It is recognised that payment of staff salaries has been a contentious issue in the history of local government in Ghana. In the mid-1980s a system was introduced that required MMDAs to pay 50% of the remuneration of their locally recruited staff with the ultimate objective of transferring full responsibility for the pay of this group of non-Civil service staff of the MMDAs to the MMDAs. In the haste to implement this directive, not enough consideration had been established regarding the areas of revenue for the Districts, and very poor Districts were simply unable to comply. Further administrative bottlenecks, and political pressure during the transition to constitutional rule in 1992 not only obliterated the objective, but reverted the situation to the status quo ante where Central Government re-assumed responsibility for the full pay of all staff of the MMDAs.

The present section 28 of Act 656 confirms that status quo and proposes no options that would enable MMDAs to eventually pay their own salaries for staff they employ, and as discussed in Chapter 5, the LGS Act is very vague as regards the type of personnel management responsibilities that are envisaged to be devolved to MMDAs.

2.7 Sector Policies, Legislation and Decentralisation Reforms

As discussed above, sector policies, practices and associated laws have given legitimacy to decentralisation by deconcentration as an interpretation of the Government decentralisation policies. However, sectors have also each in their own ways tried to deepen decentralisation in frustration over the problems with highly centralised management systems. Two sectors – Health and Education, epitomize this, as they have undergone and continue to undergo reforms aimed at deepening their own decentralization, but without adequate overall guidance as to how this should be operationalised in terms of decentralisation of personnel or finance.

In the cases of the Health and Education sectors, a wide variety of laws, including provision for a Health Service in the Constitution, specifically assign the functions of health and education provision to the Ghana Health Service and the Ghana Education respectively.

While some argue that this assignment is merely administrative, a complex set of institutions are in place, and these are vertically integrated from central to District and even local levels, to plan, guide, manage, fund, regulate and monitor the delivery of these services. This situation has led an internal assessment by the Ministry of Education to conclude that "MMDAs have limited autonomy on most expenditure items, particularly within the areas of teacher management, remuneration (salaries and allowances), investment budget (classroom, school buildings, teachers' houses and related

Current Education Sector Arrangements have triggered "decentralization within the sector" relating to DA but accountable vertically to GES HQ through the Region

The discourses associated with education reform have enabled the sector to define decentralization in terms of granting greater autonomy to institutions of education delivery at subsidiary levels. Having established the Ghana Education Service (GES) at National, Regional, District and Circuit levels, a first line of decentralization was the delegation of the functions of "providing" education services from the Ministry of Education the GES. Subsequently, the GES has established various institutions, from the community-level up (School Management Committees; Parent-Teacher Associations; District Oversight Committees for Education) all coordinated by the District Directorate of Education under the GES.

infrastructure) and textbook provisions," all key areas which define the extent to which functions, responsibilities and accountabilities are assigned and managed between the centre and local government levels in education.

A similar tendency exists in the assignment and management of health service functions. Here, issues of jurisdiction in the professionalization of health service delivery have led to a complex set of laws defining institutional arrangements, standards and means of attaining these, as depicted by box 2.

Box 2: Consolidating Legislations, Deepening Centralization of Health

As the health sector systematically consolidates and refines the myriad of legislations governing the delivery of health services in the country, so does its reach and requirements define a more centralized and highly regulated regime which could limit the relative autonomy of Districts in decentralizing health services. Below is a sample of the wide variety of legislative underpinnings for the health service delivery.

- Health Service Delivery Bill
- Health Service Council
- Teaching Hospital Authority
- Ambulance Service Council
- Health Professions Regulatory Bodies Bill
- Allied Health Council (Pharmacy Council)
- Nursing and Midwives Council
- Medical and Dental Council
- Traditional and Alternative Medicine Bill
- Traditional Medicine Council
- Alternative Practice Medicine Council
- Medical Training and Research Bill, addressing:
 - Centre for Research into Plant Medicine
 - Ghana College of Physicians and Surgeons
- Health Institutions and Facilities Bill, dealing with:
 - Council for Mortuaries and Funeral Facilities
 - National Ambulance Services Agency
 - Health Facility and Regulatory Agency
 - Mental Health Service Bill
- Public Health Bill, encompassing:
 - Food and Drugs Board
 - Tobacco Control
 - Mosquito Control Ordinance
 - Quarantine Ordinance
 - Vaccination Ordinance
 - International Health Regulation
 - HIV/AIDS
 - Public Nuisance
 - Mining Health Areas
 - Patient's Charter

Given the density and variety of these laws governing health service delivery, there are calls within Government for a thorough review of the Health Sector laws, both to bring them in line with the decentralization tendencies in Ghana, and to reduce conflicts about jurisdiction and mandate already inherent in the relations between the GHS and the MoH. A similar tendency is emerging in Education Sector, which has already completed a review of the Ghana Education Service Act and has proposed drastic changes for Parliamentary consideration. MOES is working on a new Education Service Bill and a strategic framework on decentralisation of their sector, see below:

⁹ "Education Management and Decentralization in Ghana", Internal MoE assessment, not dated., p. 9.

One of the good examples of Sectoral laws that clearly delineated central government functions from local government ones is the Community Water and Sanitation Agency (CWSA) Act 564 of 1998. In establishing the CWSA, a national headquarters and regional offices were mandated to undertake strategic planning, setting standards, monitoring and evaluation of improved water supply and sanitation for rural and small town facilities, while promoting community management of same, under the jurisdiction of District Assemblies. The Act was equally explicit in assigning the functions of providing water to communities and small towns to District Assemblies, and reinforced their mandate to create, own and manage institutions for discharging this function at the District level. The recent experience in the implementation of this Act reveals that much of the funding for providing water supply and sanitation reside with CWSA, which delegates functions of procurement of goods and services, coordination and supervision to the relatively weak, under-funded District Water & Sanitation Teams of the DAs.

Box 3: The National Health Insurance Scheme

- Designed to be Decentralized but becoming re-centralized

The National Health Insurance Scheme is an example of a decentralised policy being implemented by Government; but centralizing tendencies are creeping in due to the ambiguity of powers, including those for allocating resources accruing from the NHIS levy on central agencies created by the same law.

The scheme is governed by the National Health Insurance Act 650 promulgated in 2003, to secure the provision of basic healthcare services to persons resident in the country through mutual and Private Health Insurance Schemes;

To put in place a body to register, license, and regulate health insurance schemes and to accredit and monitor healthcare providers operating under the health insurance schemes;

To establish a National Health Insurance Fund that will provide subsidy to licensed district mutual health insurance schemes; and to collect the health insurance levy enacted by Parliament, and to provide on purposes connected with these.

Implementation

Currently, all the one hundred and thirty-eight (138) Districts have established their own district mutual health insurance schemes with their own Boards. Again, there is already emerging jurisdictional challenges and questions: Are the District Boards autonomous or are they de-concentrated entities answerable and accountable to the NHIC, which, in this case could be said to be the HQ (central level)? What are the functions of the District Boards vis a vis the NHIC?

The National Health Insurance Council and its secretariat appear already to be centralizing operational activities of the district schemes in Accra instead of concentrating on its mandated registration, regulatory and licensing functions. Some of these centralizing functions include procurement of bulk items for distribution to the Districts, training, information management, etc. This centralizing tendency is due in part to the emerging concentration of the centrally-managed funds derived from the NHIS Levy and centrally-deducted contributions from the SSNIT.

Box 4: Recent Promising Reform linkages: the Education Sector and Decentralisation

There is a mutual relationship between the core local government decentralisation reform process and the sector decentralisation reform agenda.

The case of Education is particularly interesting due to the large size of the education sector, Education consumes a large part of the total public expenditure, the importance of the sector for achieving the Ghanaian Poverty Reduction Strategy objectives and targets and the "localised mode of service delivery", with potential gains of decentralisation.

According to a recent report¹⁰, MOES has prepared short, medium and long term plans to transform the sector and the decentralisation of service delivery responsibilities, decision-making and funding to MMDAs are core elements in this process.

A new draft Education Service Bill is pending and a draft Cabinet Memo on decentralisation of the sector is under elaboration. Reforms in the sector of Education are relevant and urgently required. E.g. the entire system for funding of Basic Education is complex and fragmented with multiple modalities for fiscal transfer flows, allocation criteria and patterns, planning, budgeting, accounting, auditing, reporting and monitoring. This system is likely to lead to a number of inefficiencies and to create planning, budgeting and budget execution problems and bottlenecks at the regional and local levels. It creates delays, non-transparency, high levels of fiduciary risks and lack of possibilities to track outputs and outcomes against inputs, and provides a number of disincentives for the MMDA institutions and human resources to perform efficiently - problems which are also observed in other sectors.¹¹

The MOES is working on a comprehensive transformation strategy, encompassing organisational restructuring of the core ministerial institutions, strengthening of the capacity building support, considering the possibilities for re-organisation at the MMDA level with integration of the DEO with the MMDA administration, transformation of the funding system, particularly addressing the problems with the fragmented system of transfer flows. These initiatives and plans are highly relevant for the decentralisation policy review as they will impact on the overall potential of the MMDAs to delivery basic services increase the importance of political and managerial reforms at the local levels, including the need for further strengthening of the capacity building efforts. The transformation in Education also have legal implications in terms of the links between the New Education Service Bill and the Constitution, the LG Act (1993), the Local Government Service Act (2003) and financial management guidelines and regulations which warrant further reviews as well as the ongoing reforms of the funding flows to the local levels, spearheaded by CAGD.

MOES has completed a number of reviews within vertical and horizontal division of tasks and responsibilities, and capacity building needs of various institutions, transfer flow reviews etc., but there is a need to base these findings on the overall decisions to transfer the core departments from the sectors into the DAs, the recent LGSP plans on local services, and the overall decentralisation policy. E.g. the capacity building support in the sector will depend on the exact division of tasks and responsibilities. MOES will need to:

- Develop a clear strategy within decentralisation of basic education, including clear definition of the roles and responsibilities of each tier of governance (vertical and horizontal division of functions),
- Development systems and procedures to support this, e.g. rules for procurement based on the MMDA systems and the new legal framework on procurement (see Chapter 4),
- Review the personnel issues in relationship with the new policy on integration of departments,
- Development a new system of funding of core functions, including sector grant systems for the MMDAs (See Chapter 4),
- Review and adjust all the sector laws and regulations to be aligned with the new policy,
- Development a system for capacity building which address and is aligned with the reforms, e.g. not only piloting support to a few units

¹⁰ Steffensen Jesper: Study on Improving Basic Education through a More Transparent, Equitable and Better Financial and Performance Management, Final Report, June 2006.

¹¹ Findings from the study above.

2.8 Local Planning Arrangements

The various planning laws assign different responsibilities for different layers of government. A defining characteristic of local autonomy in Ghana's decentralization effort has been the assignment of planning authority to local institutions, notably the MMDAs, which stipulated by the *National Planning (System) Act, 1994 (Act 480)*. This Act provides the framework for decentralised development planning of MMDAs and the oversight and capacity building functions of the Regional Coordinating Councils (RCCs) related to this task. The antecedent Local Government Act 462 already established the pre-eminence of the MMDAs as statutory planning authorities.

As elaborated in chapter 4 on fiscal management and decentralization, there is considerable ambiguity in the laws and regulations regarding planning and budgeting, the result being considerable empowerment of MMDAs to preside over planning functions without the corresponding authority to plan and allocate resources to planned priorities. Consequently, the legal and regulatory regime seems to encourage "bottom-up", participatory planning which catalogues a wide range of community-driven expectations, without the over-arching financial mechanism to allocate resources to satisfy these needs.

In defining a District planning framework, guidelines issued by NDPC follow the trajectory of medium-term planning requirements. In the last two mid-term periods, these have coincided with the preparation of GPRS I and II (so guidelines were issued in 2002 for the GPRS I; and in 2006 to coincide with GPRS II. In response, the District Assemblies through their DPCUs prepare the Medium Term Development Plan and the Annual Action Plans and costing.¹² The planning guideline from the NDPC outlines the processes and outputs, which tend to include a fairly elaborate requirement for bottom-up planning and citizen engagement.

Bottom-up Planning Encouraged, but no institutionalized mechanism for allocating commensurate resources

In many Districts, including Gushegu where we visited, support for bottom-up planning generates considerable inputs from communities and leads to the preparation of Community Action Plans (CAPs), which are integrated into the Annual Action Plans and subsequently form an integral part of the Medium-Term Development Plans. However, the fulfilment of such community expectations has been very limited because DA budgets are not necessarily allocated to these community-driven priorities, except in instances where donor-supported initiatives (Unicef, CIDA, EU, Danida) specifically allocate resources via the instrument of Community Action Plans

2.9 Summary of Key issues and Recommendations

2.9.1 Key Issues

There is a substantial divergence between the Constitutional and Government intentions for decentralization and the actual practices in the country. This divergence is buttressed by the variety of laws, which give legitimacy to the divergent practices, especially in the choices made by sectors.

There is yet neither an explicit policy nor strategy to tackle the fundamental issues – political, legal and financial, associated with the assignment of functions between the central government and local government. Some progress is being made by the impetus given to the Local Government

¹² The guidelines issued from NDPC focus more on costing than budgeting. This is because the substantive budget emanating from these plans are submitted to, and approved by the Assembly and on-ward to the Ministry of Finance and Economic Planning through the RCC. NDPC's primary interest is the quality of the planning process and the extent to which the participatory requirements have been satisfied, as well as the consistency of the medium-term plan with the overarching nation strategy of GPRS.

Service Council regarding the creation of a Local Government Service, but this process risks being negated by reviews and adjustments within the key sectors, such as health and education, which still hold substantial mandates for providing "services" and have the financial means, through existing budget arrangements to do so.

✓ The single most important issue to clarify is the assignment of functions across different levels of government: between central government and local governments. This task has never been effectively completed in Ghana. There continues to be un-clarity and discussion of whether MMDAs or central government organisations are responsible for various functions – this is reflected in unclarity or outright contradictions in law as well as a discrepancy between which level of government is given the "planning authority" and budget control.

In Annex 2.2 we outline some international recognised principles for assignment of functions and summarise this in box 5.

The work of the LGSC for establishment of departments of District Assemblies included in its annex B an outline of the district level functions of the envisaged decentralised departments¹³. The annex is reproduced as annex 2.1 to our report. It is the view of the team that the functions as described in that report to a very large extent are appropriate in view of the current situation in Ghana and that if this was adhered to would constitute an immense improvement in clarification of the responsibilities and enhance local level integrated planning. However, it is also our opinion that these functions need to be clearly codified as functions and responsibilities assigned to assemblies (not merely specific departments) and thus transferred from central government institutions that currently according to laws and regulations hold or share many of functions described. Furthermore it will be required to:

1. Further clarify many of the details as outlined in the box,
2. Clarify similar functions for the urban local governments (the report only dealt with functions of the departments of district assemblies and urban local governments differ substantively in needs and capacities),

Box 5: Expenditure Assignments to MMDAs

A clarification of expenditure assignments may seem to be a simple task, but it requires in fact a thorough, and often demanding, review of the following issues:

- The responsibilities for organisation (provision) of the services - who is in overall charge of the particular service?
- The administrative and planning responsibilities, e.g. who is in charge of planning, budgeting and accounting?
- The responsibilities for the actual production of services; (e.g. private sector, NGOs, public production, etc.)
- The responsibilities for the monitoring and supervision of the service provision;
- Consideration and clarification of the responsibilities for capital and recurrent expenditure assignments as well as salary and non-salary components and the inter-linkages between these components;
- The extent to which the MMDAs have autonomy in the priority setting -- concerning the determination of the quantity and quality of the services – how to pursue an appropriate balance between adherence to national service delivery targets, e.g. pupil/teacher ratios in the field of education, and local autonomy to adjust the services to local preferences?
- Standard setting and policy making versus – service provision (in terms of the responsibilities for the services and organisation of the tasks);
- Financing of the services – who is responsible and for which components?

In the discussions of the division of tasks and responsibilities across tiers of governance it is generally accepted that the assignment should be based on the principle of **subsidiarity**, i.e. the tasks should be transferred to the lowest possible level, closest to the people, consistent with allocative efficiency, and provided that this level has the sufficient capacity to perform the task in a professional manner.

¹³ Local Government Service: The Establishment of Departments of District Assemblies (Including the Integration of Decentralised Departments) November 17, 2006.

3. Ensure that laws and regulations are revised in line with the agreed assignment of functions. This should in our view include a clear outline of the functions assigned to local governments in the local Government Act itself rather than in individual L.I.'s as is the current practice.
4. Based on the assignment of functions, then the expenditure assignments would require costings as further elaborated in chapter 4.

Due to this lack of authoritative assignment of functions and related expenditure assignments there is a significant discrepancy between planning and budgeting practices. Thus while planning laws confer a strong jurisdiction to MMDAs, budgeting arrangements, funding flows and functional assignments continue to limit the authority and autonomy of the MMDAs to enforce harmonization and prioritization in line with the local realities, capabilities and needs. Sector priorities, including sector programmes and projects are defined substantially by the MDAs, with implementation targets set by the MDA HQ and resources allocated to meet these targets by the HQ. A vertical reporting and accountability system for the attainment of results still persist; between the District MDA and the central level MDA. While reporting to the MMDAs is happening, these are less binding in terms of accountability than the relations within MDA: "he who pays the piper calls the tune".

Recommendations on Overall Policy & Legal Framework

It is recommended to:

1. Define Policy Direction for Decentralization; prepare an overarching Decentralization Policy that defines more succinctly, the policy choices associated with Devolution of authority, for planning, budgeting and accountability for development results at the level of MMDAs. Such a policy (drawing on relevant legislations already in place), will overcome the current situation in which every level of Government is claiming authority in various aspects of existing legislation. Thus the core of such a policy should be a clear statement of the functions that are assigned to the local governments (MMDAs) which subsequently need to be effectively transferred from central government institutions to local governments. Any contradictions in legislation for these arrangements need to be removed. Chapters 3-6 will elaborate on specific issues pertaining to local administrative structures, LG finance, LG Human Resources and reform coordination that should be reflected in such a Decentralisation Policy.
2. Following the policy, a Decentralization Strategic Framework, elaborating specific priorities over a given time frame will need to be prepared. This may well be based on an up-date and refinement of the NDAP to align it closer to the GPRS II, making the strategic framework an instrument for overall national strategy and programmes towards accelerated growth and poverty reduction. In this context, a more systematic dialogue between the various strategic planning institutions – NDPC, Ministry of Finance & Economic Planning and the MLGRDE, the Local Government Service Council, the Ministry of Public Sector Reform – is needed in order to streamline the strategic focus for decentralization with the operational guidelines issued and implemented by these institutions.
3. The on-going process of legal reform within MDAs should be supported and aligned with a new Decentralization Policy focused on Devolution. This will imply a refinement of the Local Government Act itself as well as all laws, which reinforce central management functions over

those strategically, allocated to MMDAs under Act. 462 will have to be revised to reflect the overarching policy on decentralization.¹⁴

4. The core sectors, like MOES, MoH, etc. should elaborate decentralisation strategic policy papers aligned with the overall policy, incorporating the ministries' response to the overall objectives, functional assignments (following vertical and horizontal review and reform of the existing division of tasks and responsibilities), funding regimes, etc. and adjust their ministries and institutions to these reforms.

¹⁴ Many of these laws are being identified under a separate process of Legal Review commissioned by the MLGRDE. Clear policy guidance under a Decentralization Policy Review is awaited to give focus to this effort. Moreover, Government has initiated various forms of review to bring some sectors in line with effective devolution, especially the review of the Education Sector.

3. THE POLITICAL AND ADMINISTRATIVE FRAMEWORK

3.1 Introduction

At the start of Ghana's modern day decentralization in 1987 – 88, the central feature of the policy was a strong, partially representative peoples' assembly that would encompass the collective¹⁵ aspiration of ordinary citizens, acting in the interests of the community. In this construction of decentralization, a hierarchy of citizen needs would be mobilized from the community level up to the District, through the instrument of Unit Committee leaders at the community level, collated by elected District Assembly members, and further refined by local government staff and appointed District Assembly members who would possess the right technical skills to make local government relevant to the needs of the local residents.

This chapter will analyse:

- The political and administrative local government structures underpinning decentralisation; the evolution of this structure will be discussed as this relates to the changing political and democratic character of Ghana over last 2 decades.
- Secondly, the means of elections and appointments of representatives responsible for policy guidance in assemblies will be examined, as they have been manifested since they were first established nearly 18 years ago.
- Third, the ambiguity of oversight for the work of District Assemblies will be discussed in reference to the Ministry of Local Government, Rural Development and Environment, the Regional Coordinating Councils (RCCs).
- Fourth, the subsidiary institutions below the layer of the District Assembly will also be examined as a defining characteristic of the current stalemate and apparent crises in further devolution of functions below the District jurisdiction.
- Fifth, the growing number of civil society organizations, both local and national, is having enormous impact on the status, political arrangements and functions of the District Assemblies.

3.2 Political Structures

The most far-reaching reforms in Ghana's decentralization have been at the level of political decentralization, blended with a strong participatory ethos.¹⁶ Pre-dating the return to constitutional rule and multi-party elections, the first District Assemblies were inspired by a revolutionary era¹⁷,

¹⁵ Collective as opposed to Partisan tendencies were encouraged; participatory rather than competitive processes were defined as the main approach to decision-making.

¹⁶ When the first District Assembly elections were convened in 1987-88, the primary objective was to make these the highest elected political structures in the country, and to confer a measure of legitimacy on them as representatives of the people, to the very last unit.

¹⁷ The PNDC assumed political office in December 1981, professing a "radical revolution", and ruled by decrees till the promulgation of the 1992 4th Republican Constitution.

during which a system of 'democratic centralism'¹⁸ was promoted. Over the years since the return to Constitutional rule, the foundations of decentralization established during the PNDC era have evolved into a hybrid of political and administrative arrangements with the following characteristics:

- **Non-partisanship** -- individuals offer themselves for elections without being sponsored or supported by a political party.
- **Peoples representation blended with technical capacity** – 70% of the members of the District Assemblies are elected on the basis of universal adult suffrage; and 30% appointed by the Executive (the President) after consulting with key interest groups and ensuring gender balance.
- **Relative autonomy for local development with Central Government participation (and control)** – in which the President proposes nominees for the position of the District Chief Executive and the Assemblies have to vote to ratify the President's nominee by no less than 2/3 of the members of the Assembly (including those appointed to be in the Assembly by the President).
- **Intermediate Coordinating Role for the Regions** – Regional Coordinating Councils, initially marginalized in the first wave of decentralization, are designated as coordinating entities between the Districts and Central Government, and among the districts themselves.
- **Ministerial and Functional Oversight** – the Ministry of Local Government, Rural Development and the Environment acts as the overarching Ministry for local government reform; other institutions, such as the Administrator of District Assembly Common Fund; the National Development Planning Commission; and the recently established Local Government Service Council all provide mandated roles in the political and administrative architecture of decentralization and local governance.
- **National Association of Local Authorities in Ghana (NALAG) and host of local and national NGOs** – providing a growing influence as part of organized civil society interfaces to promote responsive and accountable local governance.

3.3 District Assembly – A political and Administrative Fusion

The 1992 Constitution confers enormous powers on the DAs, designating them as the "highest political authority in the district [with] deliberative, legislative and executive powers."¹⁹ Within the District Assemblies themselves, the combination of (a) deliberative, (b) legislative, (c) allocative, (d) executive; and (e) some adjudicative functions, in one body, has necessitated a complex layer of political structures, mirroring Parliament, the Executive and the Judiciary rolled into one entity, but with different designations according to size. In terms of their composition and categories, Metropolitan Assemblies (MA's) are larger and host bigger populations (more than 250,000) than the DAs (population 75 000 and over). The Municipal Assemblies fall in the middle, with a population less than those of the MAs, but more than those of the DAs. Of the 138 MMDAs, there are four MAs, ten Municipal Assemblies and 124 DAs. The internal political structures of all three are similar, although the diversity and strength of administrative issues for the delivery of services vary by size.

¹⁸ By this, decisions were made in a consensual manner by caucuses of representatives (elected and appointed), from unit (village or cluster of villages) to zones, towns, Districts and Regions. At the time, a Ministry responsible for Committees in Defense of the Revolution (CDRs) was established to coordinate the various instruments of 'revolutionary mobilization' which underpinned the ideology and practice of 'democratic centralism'.

¹⁹ See Article 241 section 3 of the 1992 Constitution of the Republic of Ghana.

3.3.1 Political Leadership

Political leadership within the District Assembly is shared by 2 offices: the Presiding Member (acting as a "speaker" of the MMDA) presides over the deliberative functions, is elected for a renewable term of 2 years (and can only be removed) by two-thirds of the members of the DA. The Chief Executive (MCE or DCE) leads the administrative as well as the executive functions, is appointed by the President with prior approval by two-thirds of the members of the DA. While the PM derives authority from the DA, the DCE has a hybrid source of authority – one arm from the President (central government) as the appointing authority; and the other from the DA as the approval authority. A third, apparent political leadership within the district is represented by the Member(s) of Parliament with constituencies in the jurisdiction of the district. In many cases, constituencies for the central Parliament may be co-terminus with district boundaries, in many others, there are more than 1 constituency in a district (but these are all contained in DA jurisdiction and boundary). While MPs are members of the DA without voting rights, recent developments have seen their powers of influence increase, with a share of the District Assemblies Common Fund being allocated through MPs as constituency development funds.

Much like the Parliament of Ghana, the District Assembly has various sub-committees, including the principal ones – the Executive Committee and the Committee on Finance and Administration, which deliberate on, and approve major decisions and allocate budgets as well as approve expenditures respectively.

In guiding its executive functions, other sub-committees reflecting various programmatic areas have been established – social services (under which health, education, social welfare are lumped), works, environment, women and children, security. Ideally, these Committees and sub-committees have been designed to give strategic and political direction, as well as have oversight on the functions of technical, sectoral departments in the district. However, lack of skills on the part of the committees has rendered many, especially in rural less endowed districts, to rely heavily on the departments with far less oversight than was originally anticipated.

3.3.2 Sub-District Political Arrangements

One of the most far-reaching political cum administrative construction in Ghana's decentralization process is the establishment of the third tier representing sub-district institutions and political structures.

In order to aid administrative efficiency, the 4 Metropolitan Assemblies are divided into sub-metropolitan areas as geographically dispersed entities serving as branches of the MA.

Across MMDAs, there are 1,300 designated Urban, Zonal and Town/Area Councils, whose designation depends on their size and nature of settlement.²⁰ These are *not* elective bodies. Rather, they are composed of representatives drawn from the MMDAs, from subsidiary institutions below (unit committees), as well as central government appointees selected by the District Chief Executive on behalf of the President.

²⁰ Urban Councils represent urban settlements of over 15,000 people, while Zonal and Town Councils represent more rural settlements with populations of between 5000 and 15000.

At the lowest, community levels, there are 16,000 Unit Committees (UCs) whose designation is associated with demarcated electoral areas throughout Ghana. Each unit committee electoral area covers settlements of between 500-1000 people in the rural areas and approximately 1500 in the urban areas. Unit committee constitution reflects the hybrid nature of MMDAs themselves, as partially elected bodies, with membership consisting of ten elected members and five government appointees, again selected by the DCE, with the same claims to "local and notional consultation" in their selection.

3.3.3 Elections and Appointments in Balancing Representation

Elections to District Assemblies and corresponding sub-district institutions are organized by the Electoral Commission, on the basis of a non-partisan ballot. This mode of elections, although practiced in other jurisdictions where due processes and legal prohibitions prevent un-due influence by partisan political arrangements at central and federal levels, in Ghana, the process has been undermined by open, undisguised promotion of candidates by various political parties, notably, governing parties. This anomaly has been made more feasible by the hybrid nature of representation in the DA, requiring appointment of DCE and 30% of the members of the DA by the President. Recent evidence suggests that this mode of appointment encourages strong partisanship in appointments of subsequent participants in other layers of the DA, including appointments into the Unit Committees, Urban, Town and Area Councils.

Moreover, in terms of sheer numbers, from MMDA to sub-metro to town, urban, area and zonal councils and unit committees, hundreds of thousands of people are to be elected, and several thousands yet appointed by central government, through a myriad of central government agents at the local level. For Unit Committees alone, 160,000 people have to be elected, and another 80,000 appointed by central government. Thirty percent of the members of all 1,300 Urban, Zonal and Town/Area Councils are appointed while the 70% of their members are constituted through a complex rotational selection from among the elected members of the MMDAs and Unit Committees. So far, the elections held to constitute this complex set have been disappointing in terms of their outcomes. For the elections held in October 2002 ballots could not be cast in nearly 10,000 units due to insufficient candidates. A similar trend occurred in the recently conducted election in 2006, raising a major dilemma for the suitability and sustainability of this political model, since the intermediate Urban, Zonal and Town/Area Councils that are crucial for planning and delivery of services at the lowest levels are constituted from Unit Committees. The consequence has been a strong diminution of the middle of the DA hierarchy, because this middle can only be constituted if the base (unit committees) are constituted; in this case, more than 50% of the UCs in the country are not constituted.

Over the last three District elections conducted, the voter turn-out has been decreasing progressively, and voter apathy is

Table 2: Elected Women in 1998 & 2002 District Elections

Region	Elected Women	
	1998	2002
	(Percentage of Total Members)	
Western	4%	6%
Central	5%	8%
Greater Accra	5%	11%
Volta	3%	9%
Eastern	5%	8%
Ashanti	4%	8%
Brong Ahafo	6%	6%
Northern	2%	1%
Upper East	3%	6%
Upper West	2%	8%
National Aggregate	4%	8%

said to be on the increase as voters increasingly become despondent over issues of transparency in appointing government nominees; some persons who stood for and lost elections at various levels actually wind-up being appointed as government nominees into the Assembly.

In terms of gender balance, women have been generally under-represented in the DA s. While an analysis of the election outcomes for 1998 and 2002 showed a doubling of the percentage of women (in the overall number of elected DA members) who won seats, the fact that 92% of elected DA membership is male, conveys a strong message about the need for affirmative action to ensure gender balance and equity. *gender*

The appointment of government nominees is designed to balance representation, especially among women; persons representing traditional authorities, and people with unique technical skills who may otherwise not be interested in contesting elections. As the law is rather vague and open to discretion of government, the reality has been somewhat different in many cases, with known political party activists having been appointed in many instances.

There has not been any systematic study of the impact of this apparent partisanship in appointments of DCE and members of the DA and its subsidiary institutions. However, the growing perception among the population is one of a patently partisan DA political structure, which is increasingly becoming the venue of intra-party rivalries as well, in so far as the prerogative to suggest government appointees is spread over a wide range of people, including the DCE, the party executives, party activities, MPs (if they belong to the ruling party), the Regional Minister and Deputy Regional Minister, right up to sector Ministers, some of them cabinet Ministers of central government.²¹

3.3.4 Traditional Authorities and Local Governments

Traditional authorities play a significant role in local administrative matters in many parts of Ghana, but there are significant variances across the country, as some areas have chief systems with clearly hierarchies and other not. The role of chiefs and traditional authorities in decentralised administration is broadly recognised²² and referred to in key documents such as:

- The National Decentralisation Action Plan,
- The 2000 Manifesto of the New Patriotic Party
- The 1978 Constitutional Commission,

Traditional authorities are frequently consulted with in District Assembly affairs, but their participation is also often considered ineffective for the following reasons:

- There is a lack of consistent policy on representation of chiefs in local government units,
- Poorly defined relationships between chiefs and local governments; including lack of specificity of the consultation process with chiefs,
- Non existence of structured and formalised arrangements to foster partnerships between traditional councils and the local governments,

²¹ This high interest and contestation over appointments into DA and related structures is a result of the fact that DA membership is a crucial starting point for political recruitment and mobilization of voters to build the base for national elections.

²² The section below follows Professor JRA Ayee "Lecture on Participation of Chiefs in Modern Decentralisation in Ghana", Konrad Adenauer Foundation 2006; Workshop on decentralisation and Traditional Authorities in Ghana, held at Volta Hotel, Akosombo August 2006.

- Resistance from some District Assembly members that seek to monopolise decisions on resources such as DACF,
- Chieftaincy disputes,

chiefs
X

In deliberations on the topic with representatives of the traditional authorities, it has been proposed to institutionalise the representation of chiefs by e.g. having 50% of the 30% Government appointees selected among chiefs²³.

3.4 Oversight Functions, Institutions and Nature of Accountability

Ghana's decentralization process brings up complexities in the definition of roles and functions for oversight and accountability. Decentralization has always been analogous with devolution of powers and functions to the local level yet, in the peculiar circumstances of Ghana's transition from a centralized unitary state to a decentralized one, the middle has either been missing or messy. The pre-existing centralized institutions have not been dissolved (their functions have simply been re-defined); yet most of the new institutions have been established and most are fully functional. This dilemma is typified by the role of the Regional Coordinating Councils (RCCs), the Regional Coordinating Directors (RCDs) and the Regional Planning & Coordinating Units (RPCUs). Recent legislations amplify this confusion:

3.4.1 Regions: RCC, RCD and the RPCU - A Growing Anomaly

The nomenclature of "Regions" in Ghana's Constitutional arrangement has traditionally been a de-concentrated location where central functions of state have been delegated. To that extent, "Regional Offices" have traditionally been the administrative centres of the Office of the President (as represented by the Regional Minister), or the regional offices of MDAs. However, the Regions have also often been referred to as part of the local government structures.

Each of the ten regions has a Regional Co-ordinating Council (RCC), chaired by a Regional Minister, appointed by the President. The RCC is composed of

- The Regional Minister and his/her Deputy,
- The Presiding Member and DCE from each district,
- Two chiefs from the Regional House of Chiefs.
- Additionally the Regional Heads of decentralised ministries in the Region sit as non-voting members.

The RCC's main function is to co-ordinate and regulate the DAs in their respective regions, though the interpretation and implementation of this task remains vague. Furthermore, the political and administrative authority of the Regional Minister in the position of the President's representative in the region appears to over-shadow the convening, coordinating and regulatory powers conferred on the RCC. Anecdotal evidence during the field visits suggested that the RCCs rarely convene and make decisions with the authority conferred on them, although the administrative and development functions are duly exercised by the Regional Minister, the Regional Coordinating Director (RCD) and the Regional Planning and Coordinating Unit (RPCUs).

²³ See Konrad Adenauer Foundation 2006: Workshop on decentralisation and Traditional Authorities in Ghana, held at Volta Hotel, Akosombo August 2006. The workshop was organised by the National House of Chiefs.

Prior to the enactment of the Local Government Service Act in 2003, the status quo of a regional administrative presence, serving a dual role of downward coordination and up-ward reporting to central government had been well established. Under the LGS however, crucial changes are being proposed. Under section 16 referring to the RCC for instance, the ultimate power of appointment of the senior-most administrative officer of the RCC, the Regional Coordinating Director (RCD) is vested in the President; the processing and recommendation for his appointment is done by the OHCS; and he/she is currently responsible to the Head of the Civil Service. Section 16(2) makes the RCD the head of the RCC and makes him responsible to the Regional Minister. Yet under section 16(3), the conditions of service for this position are determined by the LGS Council, and under section 16(5), he is an officer of the RCC. Under section 2(a) of the Act, as a person holding a "non-elected office" in the RCC, he is a member of the LGS.

A similar range of questions pertains to the departments of the RCC. Presently, there is a nominal reference to Regional Offices of key MDAs as belonging to the RCC, in so far as these are all de-concentrated offices, belonging to the civil service, but accountable to their "parent" MDAs, and only serving in advisory capacity within the RCC. The LGS, under section 17 of Act 656 makes more explicit the status of these as follows:

- Government departments in any region of the Civil Service shall be known as Departments of the RCC.
- The heads of departments of a RCC are answerable in the performance of their duties to the RCC.

The planned re-alignment exercise currently being undertaken by the LGSC underscores these legal provisions in Act 656 and is proceeding according to these legal dictates. Yet no subsequent law has categorically re-aligned their functions of regional coordination, budgeting, supervision, oversight for districts and, in some cases, direct provision of services, associated with central government MDAs.

3.4.2 Oversight and Support from MLGRDE and Sector Ministries

Currently sector ministries essentially maintain deconcentrated structures at district and MDAA levels and not providing any significant support to the assemblies.

The MLGRDE is supposedly spearheading decentralisation reforms and support to MMDAs, but undertakes a range of its supportive functions in a very centralised manner and for instance centrally manage parts of the DACF that is supposedly meant for MMDA capacity building, centrally manage various programmes such as sanitation programmes etc.

Limited emphasis has to date been made on the regulatory, supervisory and MMDA supportive functions. The team found for instance no substantive aggregated reports on MMDA financial performance although the Inspectorate supposedly was to undertake such. The team also found that the ministry to a very limited degree collated basic data on MMDA operations and performance. For instance very limited or no overview is kept on basic HRM and fiscal MMDA operations (see respective chapters on LG finance and HRM).

3.5 LG Associations and the Role of Civil Society

Civil society, including various NGOs and the association of local authorities play in other countries significant roles in local policy formulation, planning, capacity building and subsequently as watchdogs in implementation.

✓ 3.5.1 NALAG

NALAG is currently the only legitimate political representative of all MMDAs. The mandate of the organization is to represent the interests of the 138 MMDAs through representation, research and advocacy²⁴. The organisation has operated with some successes (particular in relation to selective capacity building of MMDAs and dissemination of news and issues pertaining to MMDAs) but constrained by several fundamental issues:

- The political leadership of the organisation is dominated by the central government appointed MMDA members and District Chief Executives, thus the organisation is in this manner not fully downward accountable to the individual democratically elected local authorities, but largely upwards accountable to the same central government that it is supposed to challenge and negotiate with,
- The organisation participates in a number of meetings and workshops etc where decentralisation reform issues are discussed; however it is not yet institutionally represented in a range of key decisions. Particular for LG finance there is scope for formalising the involvement of NALAG as institution (see chapter 4). At present NALAG is simply invited by central government and donors but have rarely a mandatory seat.
- The finance and capacity of the organisation is limited. The organisation requires more capacity building and better fiscal basis to guarantee services to its members.

3.5.2 Developmental NGOs

NGOs undertaking community-based projects have long had a pivotal role in development and the delivery of basic services throughout Ghana. These NGOs vary in size and complexity, as well as in membership and reach. They can be categorized into these main types:

1. NGOs involved in service delivery with a sector focus – in health, environment, water supply and sanitation, education and other related public services.
2. Faith-based NGOs, providing similar services to those outlined above, but linked to parent religious bodies, which provide their main sources of funding and associated governance. These may be local, national and international.
3. International NGOs – which tend to be national in character, some funding and others implementing projects often involving the strengthening of District Assemblies themselves. Many of the international NGOs have formal contracts with District Assemblies, and through these contracts they register their influence and support to decentralization.²⁵
4. National Civil Society Organizations involved in research, advocacy, public policy and governance-oriented engagements with the area of decentralization.²⁶

Traditionally, NGOs and civil society organizations remained primarily in service delivery, relating to, rather than collaborating in a direct way with District Assemblies. With the coming into force of the Constitution and increasing prominence of the exercise of District Assemblies' planning

²⁴ For a basic overview of the organisation, its history, mandate and organisation see the website www.nalag.org

²⁵ Typical examples of these are the Danish NGO Ibis, which supports education and public participation in local governance; Action aid, which has partnerships with several districts oriented towards strengthening governance; Oxfam-UK; CARE International, Plan International, etc.

²⁶ These include such organizations as the Institute for Democratic Governance (IDEG), Center for Democracy and Development Ghana (CDD); research and civil s

functions, NGOs small and large have increased their compliance and cooperation with Districts. As local government elections gained credence as a means of renewing leadership and membership of local government, so did CSOs dedicated to programming for decentralization and local government capacity building and advocacy.

More recently, over a dozen international, national and community-based civil society organizations have established the Local Government Network (LOGNET), a coalition aimed at sharing knowledge, expertise and information related to decentralization and local government reform. LOGNET has stimulated collaboration in rights-based work and promoted issues of gender equity during succeeding local government elections. Representatives of LOGNET are also represented in the reference group on legal reforms established by the MLGRDE and through this mechanism, provide inputs into policy dialogues associated with decentralization in Ghana.

However, to date the NGOs are still limited in their interactions at local level to service delivery, with limited or no active watchdog role vis a vis MMDAs.

3.6 Summary of key issues and Recommendations

3.6.1 Key Issues and Challenges

Some of the challenges associated with the political construction of the DAs include:

- Currently the lines of accountability are confused at MMDA level. The Presiding Member, the District Chief Executive and the Members of Parliament are all politically representatives and all draw authority, legitimacy and their constituency from different sources. Whether MPs and DCEs belong to the same political parties or not, competition for resources and claims to representation have resulted in many instances in conflicts, some of them political, others personality; nearly all associated with the allocation, management and control of resources ceded to, and managed by the MMDA.
- The democratic representation is challenged by a mixed model of representation at the District-level, initially justified by the need for technical skills to guide the work of the DAs. The appointment of 30% of members of the Assemblies by central government often recommended by central government agents at the local and regional level has compromised democratic representation in many instances.
- The central appointment of the DCE who effectively guides the MMDAs -- not as a civil servant, but as a political appointee ultimately establishes the local government as an arm of the central government rather than a semi-autonomous layer of local government within an unitary state.
- The sub district local government structures are not viable; there are too many, they are too small, they have too many members and they are not fully elected. The functions of sub-district structures are unclear and they have virtually no personnel or financial resources to perform.
- At the time the first District Assemblies were constituted, Ghana was under virtual military, non-constitutional rule, dominated by the PNDC, and political parties were prohibited, hence elections to DAs were contested, on an individual, non-partisan basis. Barely 3 years after this, a new Constitution was introduced, in 1992, which permitted the formation of political parties and contesting of national elections on the basis of parties. Thus

currently the local governments are operating on a non-partisan basis within a multi-party democratic arrangement for Central Government. While this is feasible under certain circumstances and jurisdictions, in Ghana, the authority of Central Government is so overwhelming that, in the exercise of its appointing prerogatives for DCEs, 30% of members of the DAs and other sub-district institutions, such as Unit Committees, Town, Urban and Zonal Councils, partisanship considerations are becoming more paramount than the claim of stakeholder participation and gender balance.

- Traditional authorities are widely recognised as playing a legitimate and useful role on management of local affairs. Yet there is at present no clear framework for the involvement in MMDAs or in the interlinkages between MMDAs and traditional authorities.
- Regions are in various legislation and policies indicated to be part of the local government system. However, it does not have an elected council and since its role foremost appear to be one of coordination, oversight and support to MMDAs on behalf of central government, it appears that it may be useful to clarify its role as one of a deconcentrated layers of central government rather than proper local government.
- Central government oversight and support to local governments is currently weak. There are no regular performance assessments or inspection of local governments and very limited facilitation. Central government institutions, including the MLGRDE instead mainly implement directly at local level
- NALAG is currently the only legitimate political representative of all MMDAs but is constrained by several fundamental issues:
 - The political leadership of the organisation is dominated by the central government appointed representatives, thus the organisation is in this manner not fully downward accountable to the individual democratically elected local authorities, but largely upwards accountable to the same central government that it is supposed to challenge and negotiate with,
 - The organisation participates in a number of meetings and workshops etc where decentralisation reform issues are discussed; however it is not yet institutionally represented in a range of key decisions. Particular for LG finance there is scope for formalising the involvement of NALAG as institution.
 - The finance and capacity of the organisation is limited. The organisation requires more skilled staff and better fiscal basis to guarantee services to its members.
- At local level NGOs and CSOs mainly work as local service delivery organisations with limited role in oversight of MMDAs that otherwise would have enhanced effective local accountability.

✓
3.6.2 Main Recommendations

A Decentralisation Policy should

1. Ensure that lines of accountability in MMDAs are clear: the primary lines of accountability should be downward to the local residents through their elected representatives.
2. Clarify or abolish the current practice of central appointment of 30% members of the MMDAs. Either the appointment should be on purely technical grounds and e.g. include representation of traditional authorities or outright abolished.
3. Reconsider the central appointment of the DCE as a political leader. Central Government may have a role in some aspects of HRM, including the appointment of professional staff, but the political leadership should be locally elected.
4. Reconsider non-partisan political elections at least at district level.
5. Institutionalise the participation of traditional leaders in MMDAs – if the system of certain "reserved seats" are maintained then it may include setting aside a ratio of seats for chiefs,
6. Reconsider the status of the regional administration – it may be proper to define it clearly as a deconcentrated central government office rather than a local government.
7. Devise or recommend a process leading to a complete restructuring of the sub-district structures; their functions need to be defined, realistic systems for elections designed, their numbers reduced, the numbers of members in each level to be reduced and finally their financing need to be secured;

A decentralisation Implementation Strategy should:

- Support the implementation of above policy recommendations, including the capacities for the mentioned institutions,
- Support the capacity building of NALAG and CSOs to play their appropriate roles.

4. LOCAL GOVERNMENT FINANCE

4.1 Fiscal Decentralisation Policies and Principles

Although fiscal decentralisation strategies, implementation arrangements and practices vary greatly across countries, there are some core general principles, which are agreed amongst governments in most countries and specialists. Most of these principles have been endorsed in various Joint African Declarations such as Victoria Falls Declaration of 1999, and reaffirmed in the Kigali Declaration of 2005²⁷. Both declarations have been signed by the Minister and the Deputy Minister of Local Government and Regional Development in Ghana, respectively. Some of these core principles are summarized below: *Renal*

- □ *Functional* (expenditure) assignments should be clear and in accordance with the principles of subsidiarity, i.e. decentralised to the extent possible to the lowest level of government, which has sufficient capacity to perform;
- □ *Revenue* assignments should be clear, and the composition of revenues shall depend on the type and composition of expenditure assignments at each tier of government;
- *Revenue* assignments should be commensurate with the expenditure needs of the local governments (LGs)²⁸;
- □ The funding system will typically combine *LG own source revenues* (in Ghana named internal generated funds (IGFs)) with transfers from the central government. It is important that the IGFs are significant, buoyant and reliable, providing ownership, sustainability and installing proper links between costs and benefits of service provision. LGs should have a certain level of autonomy on the LG own source revenues to be able to adjust the level of services to local needs and to provide downwards accountability;
- *Tax assignments* should be clearly allocated to each level and type of government/ administrative unit to avoid ambiguities and overlaps;
- *Taxes* and other revenues should be *regulated by law* and legal regulations, not by unauthorised (and informal) practises;
- *Taxes* should be assessed, collected and utilised in a fair, transparent and accountable manner;
- □ Transfers of new functions from one level of government to another should be *compensated* with commensurate resources and/or revenue assignments;
- □ *Intergovernmental fiscal transfers* should be based on transparent, objective and fair allocation formulas reflecting the needs and functions of the various units;
- □ The system of fiscal decentralisation should be based on principles of fairness and avoid great regional/local *inequities*. This principle will especially guide the selection of feasible tax and the intergovernmental fiscal transfer systems;
- The *intergovernmental fiscal system* and procedures shall be flexible and allow for current adjustments and improvements, based on elaborated monitoring systems with appropriate performance indicators. Transition schemes may be included in order to avoid great changes in the financial conditions for various stakeholders;

²⁷ These issues are documented e.g. in the "Victoria Falls Declaration", 1999. Ministers Conference on Challenges Facing Local Government in AMCA in the 21st Century", September 20-24, 1999 Victoria Falls, Zimbabwe; the Kigali Declaration on Leadership Capacity Building for Decentralised Governance and Poverty Reduction in Sub-Saharan Africa, 8th June 2005 and the more detailed Council of Europe Declaration: "European Charter of Local Self-Government", October 1985. Only some of the core principles are outlined in this section, but the following sections will also review some of the other issues, such as borrowing, procurement, etc.

²⁸ As mentioned in Chapter 1, in Ghana these are defined as the MMDAs.

- *Bottom-up and participatory planning* and budgeting procedures should be pursued in a resource constrained manner, i.e. not by use of unrealistic wish-list approaches but by realistic indicative planning figures and timely announcements of planning and budgeting figures from the central government;
- Reform of *financial management systems and procedures* is key to improved efficiency in service delivery and transparency. The objective is to strengthen the entire process from planning, budgeting, procurement, budget execution, monitoring, control internal audit, to external audit and follow-up (sanctions and incentives) to ensure better financial management performance and strong downward, upward and horizontal accountability;
- The system shall recognize the *various types of governments* and consider their capacity and strengths. This means that all units cannot be treated in the same manner (e.g. the urban and rural authorities, and the larger and the smaller units), and that more responsibilities and autonomy can be transferred over the time to the more capable and well performing authorities. Hence, increased responsibilities and autonomy should go hand in hand with improvements in financial management capacity and performance, recognising the concept that significant capacity can be developed as a "learning-by-doing process". Lack of capacity should not be used as an excuse for lack of reforms;
- Every funding system should consider and be developed with the aim to promote good LG *incentives* for improved LG finance, financial management and accountability;
- Strong system(s) for intergovernmental *coordination* and collaboration on LG finance issues should be put in place, e.g. to coordinate guidelines and procedures for budgeting and planning, and agree on criteria for allocation, information on transfers, discussions on compensation for transfer of new functions, etc.

The **Constitution** in Ghana reflects some of these core principles, particularly focusing on the adequacy and reliability of the LG financial resources. Art. 240 (2), c. states that: "*There shall be established for each local government unit a sound financial base with adequate and reliable revenue*" and Section 252 (1) defines the District Assemblies Common Fund, the basis and operations of this. The Constitution also states that: "*Parliament shall annually make provision for the allocation of not less than five percent of the total revenues to the District Assemblies for Development*" (Art. 2). This is followed up by the Local Government Act 462 (1993), which includes a number of important clauses on the LG finance, particularly on the (10) categories of internally generated funds (IGFs), the borrowing framework, the financial management system and the DACF.

Furthermore, the National Decentralisation Action Plan (NDAP), 2003-05, outlines a number of critical activities to promote fiscal decentralisation, but does not provide a detailed overview of the fiscal decentralisation objectives and principles (it is merely mentioned in the headlines focusing on the actions), and was not supposed to do this. The NDAP was rather developed as a management action tool. However, there are few exemptions, as it contains some specific objectives and targets, particularly on the development of a new District Development Fund (DDF).

However, as a recent review has mentioned²⁹, the LG Act does not provide a balanced LG finance framework in terms of outlining the basic principles and objectives to be pursued. Hence, there is a lack of an overall coherent fiscal decentralisation policy and strategic framework in Ghana.

Despite the lack of a written policy and strategy, it is clear from the review, meetings at the central and local government levels and meetings with other stakeholders, that there is a considerable support to fiscal decentralisation amongst most stakeholders in Ghana, ranging from the MLGRDE, CAGD, Auditor General, representatives met in MOFEP, some of the sector representatives as

²⁹ Gabriele Farazzi: "Ghana Local Government Act 1993, A comparative Analysis in the Context of the Review of the Act", for LGPRSP and GTZ, October 2006.

well as the MMDA representatives and development partners. However there is not a full clarity and agreement on what it means in practical terms. The support to fiscal decentralisation is also reflected in the GPRS-II and in the MDBS 2006 Policy Matrix, which states that:

- i) An Intergovernmental Fiscal Framework should be elaborated latest in 2007 (No 49),
- ii) A District Development Fund (DDF) should be operationalised by 2008, including a performance assessment system for MMDAs,
- iii) All districts should have ex-ante composite budgeting in MTEF format for fiscal year 2008; and
- iv) In the recent plans from the CAGD on Treasury Reforms, which explicitly states that one of the objectives is to: "*streamline the current disbursement process in order to facilitate fiscal decentralisation*".

The endorsement of the NDAP by the Cabinet and the creation of a Decentralisation Secretariat in the MLGRDE to promote and spearhead the process of decentralisation have promoted initiatives within fiscal decentralisation. A central element in this process has been the (ongoing) design of a new intergovernmental fiscal funding modality (DDF), with the aim to mobilise additional resources for MMDA investments, streamline and harmonise the various funding flows and provide better incentives for the MMDAs to improve performance in beforehand identified areas through a performance based grant allocation system (the use of the FOAT assessment tool³⁰, see Section 4.9).

Other ongoing specific reform initiatives are: i) the gradual introduction of composite budgeting (consolidating the budget figures from all sectors at the district level in the district budget)³¹, ii) the treasury reform with more direct funding flows (see later), iii) the various pilot initiatives on transfers of funds to districts combined with capacity building support, iv) support to the operationalisation of the planning coordination units at the regional and district levels and v) support to improve the capacity of the MMDAs in revenue mobilisation and initiatives aiming to strengthen the system of local government borrowing within the new *Draft Local Government Finance Bill*³² (including the wish to establish a new Municipal Finance Authority, see Section 4.5). Finally, there are serious plans in some of the sectors to move ahead with decentralisation of functions and related fiscal framework.³³

The sections below review the progress made in the area of fiscal decentralisation, as well as the challenges and the future need for reforms and policy development.

The review focused on all key components of a system of local government (MMDA) finance, see the conceptual framework below:

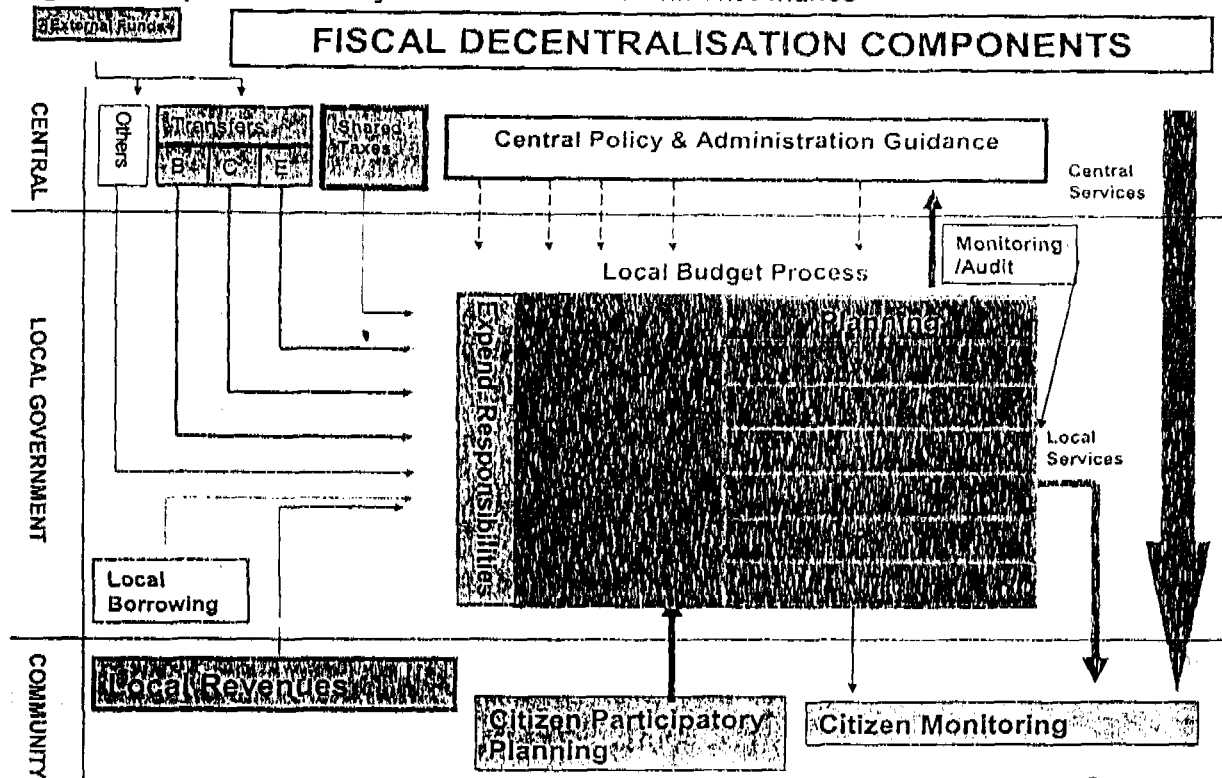
³⁰ See the FOAT Assessment Tool (under fine-tuning): MLGRD: "Functional and Organisational Assessment Tool for Local Government in Ghana" 2006 (draft), prepared by Maple Consult and LGDK, 2006.

³¹ This was first presented as an objective in 1996, but has now been piloted in 25 MMDAs, see Appiah, Wiredu, and Steffensen et al, March 2000: "Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Ghana", Main Report, March 2000.

³² Draft Local Government Finance Bill (January 2007 version).

³³ See e.g. Steffensen, Jesper: (2006) "Study on Improving Basic Education through a more Transparent, Equitable and Better Financial and Performance Management -- "Review of the Funding Flows in Basic Education, World Bank", Final Report, June 2006.

Figure: Components in a System of Local Government Finance



Source: Adjusted slightly from Roy Kelly: Regional Workshop on Fiscal Policy and Poverty Alleviation: Practice of Intergovernmental Transfers, Entebbe, 2004. In addition to these components, the team reviewed the fiscal decentralisation coordination issues.

4.2 Legal Framework on LG Finance

The legal framework on MMDA finance has been further elaborated during the past 5-7 years. Some of the major legal instruments and guidelines, which are supposed to provide a conducive environment for transparency and accountability, are listed and introduced below. The legal instruments are further discussed under the various sub-sections of this Chapter.

- Local Government Act, 1993 (Act 462)
- The District Assemblies' Common Fund Act, 1993 (Act 455) with up-dated guidelines,
- National Development Planning System Act, 1994 (Act 480)
- Ghana Audit Service Act, 2000, (Act 584)
- Local Government Service Act, 2003 (Act 656)
- Public Procurement Act, 2003 (Act 663)
- Internal Audit Agency Act, 2003 (Act 658)
- Financial Administration Act, 2003 (Act 654)
- Financial Administration Regulations, 2004 (L.I. 1802)
- Financial Memoranda for Metropolitan, Municipal, and District Assemblies of 1961, revised in June 2004,
- Internal Revenue Act 684, 2005 (Registration of Business)
- Composite Budget Guidelines (under elaboration by MLGRDE)

- Guidelines for preparation of budgets;
- Guidelines for the Preparation of District Medium Term Development Plan, January 2006.

The Local Government Act, 1993 (Act 462) and the *National Planning (System) Act, 1994 (Act 480)*: Act 462 establishes the MMDAs and outlines the framework for them to exercise their executive, deliberative and legislative functions by specifying the operations of the general assembly, planning functions, financial matters, rating responsibilities and auditing requirements among others.

The LG Act sets rather detailed rules on MMDA revenue mobilisation and refers to further possibilities for the Minister in charge of MMDAs to set guidelines on levying of rates (Art. 100). However, the guidelines for fees, rates licences, permits, rents etc. have not been updated since 1991³⁴. To ensure affordability and ability to collect the districts have been classified into 4 categories and upper limits beyond which rates fixed should not exceed determined. A work is ongoing in MLGRDE to up-date and revise the guidelines, see Section 4.5.

District Assemblies Common Fund Act, 1993 (Act 455): The District Assemblies Common Fund Act, 1993 (Act 455) was enacted in line with the constitutional provision [Article 252 (2)] that Parliament shall annually allocate not less than five percent of total revenues of Ghana to the District Assemblies for development. The DACF transfers are allocated to each MMDA annually based on a formula approved by Parliament. The Fund is to be disbursed to MMDAs on a quarterly basis. Utilisation is in accordance with guidelines submitted by MLGRDE in consultation with the MOFEP and approved yearly by Parliament. The allocation is transferred against the submission of annual action plans and budgets to the Office of the Common Fund Administrator. Accounting for the utilisation of the fund is done by means of monthly financial returns submitted to the Office of the Common Fund Administrator.

The planning functions of the MMDAs are further defined by the *National Planning (System) Act, 1994 (Act 480)*, which provides the framework for decentralised development planning of MMDAs and the planning functions of the Regional Coordinating Councils (RCCs) and Ministries, Departments and Agencies (MDAs). To support the local planning and the implementation of the GPRS-II, the NDPC has recently issued new guidelines for the preparation of the District Medium-Term Development Plan in February 2006 and for the Sector Medium-Term Development Plan in November 2006.

The *Ghana Audit Service Act (No. 584, 2000)* defines the roles of the GAS and the links to the audit of the MMDAs. By Article 187(5) of the 1992 Constitution and Section 23 (1) of the Act 584 the Auditor-General (AG) is charged with the responsibility of auditing the Public Accounts of Ghana. The AG is to establish whether the accounts have been well kept, rules and procedures followed, whether funds have been appropriately expended, records maintained, assets protected and financial operations conducted with due regard to efficiency, effectiveness and with due regard to economy. The Auditor-General is in charge of the audit of the MMDAs as well.

Local Government Service Act, 2003 (Act 656): The Local Government Service Act establishes the Local Government Service and provides for the objects, functions, administration of the Service and related concerns. The Service Council is to provide technical assistance to the DAs and RCCs to enable them to effectively perform their functions and discharge their duties; conduct organisational and job analysis; design and coordinate management systems and processes. Others include the execution of management audits of RCCs and the MMDAs to improve overall

³⁴ Local Government Information Digest Vol. 4, No. 4, 1991: *Guidelines for Charging of Fees for the Provision of Services and Facilities and Granting of Licences and Permits*. It should be noted that only half of the pages of the guideline was available in the Inspection Section of MLGRDE.

performance of the Service and assist the RCCs and MMDAs to perform their statutory as well as related responsibilities. Please refer to the Chapter on Human Resources.

Public Procurement Act, 2003 (Act 663): The Act outlines the structure, methods and tendering procedures of procurements and the threshold for review/approval authorities, modalities for disposal of plant/equipment, and other miscellaneous provisions. Acts 654 (see below) and 663 provide the framework to MMDAs to contract services to implement their Annual Action Plans. It is expected to guide the institution of transparency and accountability of funds. MMDAs through the District Tender Review Board can award contracts to the value of 2.0 billion Cedis for Works and 1 billion for Goods and Services (about 110,000 USD) without reference to Central Government and up to 500 million Cedis for consultancy.

Internal Audit Agency Act, 2003 (Act 658): The Internal Audit Agency Act establishes a body to coordinate, facilitate and provide quality assurance for internal audit activities within the MDAs and MMDAs. Section 3 (1) enjoins the agency to set standards and procedures for the conduct of internal audit activities. Section 3 (4) enjoins the Agency to monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs.

The Financial Administration Act 2003 (Act 654) and Financial Administration Regulations, 2004 (LI 1802) provide the framework for the financial accountability system for the MDAs and MMDAs, which are covered by this new legal framework. Act 654 provides direction and control for overall financial administration in Ghana. It makes the Ministry of Finance and Economic Planning (MoFEP) the authority for the preparation of the fiscal policy of government for presentation to Parliament (Act 654 Section 2a). The Controller and Accountant General's Department (CAGD) by the Law is the primary disbursement agency of government. The Act and its regulations, generally spell out modalities for preparation of MDA and MMDA budgets, ensuring accountability for financial commitments and maintaining appropriate records in line with professionally accepted accounting standards and norms. According to FAR Art. 186 of LI 1802, Accrual Accounting standards should be applied. The CAGD through various national, regional and district offices provides the necessary support for managing disbursements, payments, receipts and record keeping as tools for the submission of financial statements to government within agreed timelines. The new FAA 654 makes financial management the responsibility of the management of each MDA/MMDA and state that this must be integrated into its mainstream activities.

Act 654 also seeks to: i) Regulate the financial management of MDAs and Public Institutions; ii) prescribe the responsibilities of persons entrusted with public financial management and iii) ensure the effective and efficient management of state revenue, expenditure, assets, liabilities, resources of the government, the Consolidated Fund and other Public Funds. The Act instructs the manner in which accounts and financial statements are to be prepared and the information required in the financial statements.

To prepare accounts and financial statements on accrual basis for full disclosure and accountability purposes, steps have been taken to harmonise all financial activities of MDAs/MMDAs. The Budget and Public Expenditure Management System (BPEMS) roll-out is being phased and is planned to reach the MMDAs in the medium. The Public Financial Management Reform Programme (PUFMARP) has identified the Medium Term Expenditure Framework (MTEF) and Fiscal Decentralization as key components of the public sector reforms. MTEF is a multi-year system that links the spending plans of MDAs to the policy objectives of the MDAs. The implementation of both MTEF and the fiscal decentralisation at the MMDA level will lead to the need to prepare composite budget for the MMDAs. The main aim of MTEF and fiscal decentralization generally is to improve on financial/resources allocation and revenue and expenditure management systems in the public institutions, including the MMDAs.

A number of initiatives to follow up on the legal framework have been taken. The Decentralisation Secretariat has awarded a contract for construction of Fixed Assets Register for some districts in order to prepare for the commencement of the accrual basis of accounting. Initiatives have also been taken to start preparations of an Accounting Manual for the MMDAs. As mentioned under sections 4.5 and 4.8 there are also various initiatives to improve the transfer flows and the treasury operations.

Roles and responsibilities of Heads of MDAs and MMDAs are clarified with the *FAR 2004, Art. 2* of the FAR 2004 prescribes the financial duties of a Head of Departments as follows: Manage and operate the MDAs accounting systems, so as to ensure the accountability of all officers transacting such business and facilitate the efficient discharge of such business; ensure that the department's accounting system has been approved by the CAGD in consultation with the Auditor-General and that Bank Reconciliation and Reports are conducted. The Heads of MDAs and MMDAs shall:

- i) Manage and reconcile the bank accounts authorised for the Departments by CAG;
- ii) Prepare monthly departmental accounts in a form prescribed by the CAG and submit these to the Minister, the Auditor-General and the CAGD;
- iii) Prepare, sign and submit within three months after the end of the year, to the Minister, the Auditor General and the CAGD annual departmental accounts in the form prescribed by the CAG;
- iv) Answer queries raised by the Auditor General in respect of the financial transactions and accounts of the department and
- v) Appear before the Public Accounts Committee to give any explanations required by the Committee in respect of the annual departmental accounts.

Furthermore, the Act has addressed the issue of conflict of interest whereby the CAG previously fielded both the positions of the District Finance officer and the Internal Auditor. It seeks to provide the needed environment for transparency and accountability.

The *Financial Memoranda (2004)* for MMDAs defines and complements both the Financial Administration Regulation L.I 1802 and the Local Government Act 642 and defines control system with respect to revenue and expenditure. It provides recording and financial reporting formats for financial transactions. It also provides procedures for initiating budgeting or preparing estimates. In the absence of a full accounting manual the Financial Memoranda spells out the accounting books such as Fund Ledger, the Cash Book, Expenditure Ledger, other revenue books to keep in addition to those listed by the FAR 1802. Other statutory issues discussed in the memoranda include contract documents, capital expenditure and fixed assets register to keep and procurement of store supplies. Currently it forms the basic legislative document for the MMDAs against which compliance with regulations are monitored by the Ghana Audit Service. It recognises the control positions of key administrators in the district administration such as the DCE, DCD, the DPO, the DBO and the DFO. The Memoranda also entail the MTEF accounts classification, but these are often not applied by many of the MMDAs in practise. However, the Memorandum does not cover the need to specific how the accounting should be done in details, typically defined in an comprehensive and use-friendly Accounting Manual.

Act 684, 2005 Internal Revenue (Registration of Business), repealed a number of the most important ceded MMDA revenues, previously defined in the Sixth Schedule of the LG Act, Art. 2, 4, 5 and 9. These have been revenues collected by the Central Government and were supposed to be shared with the MMDAs.

Composite budgeting is being piloted in a number of MMDAs, but *composite budget guidelines* for MMDAs are still under development by MLGRDE, see Section 4.8. Furthermore, the Ministry of

Finance & Economic Planning issues general budget guidelines every year for preparation of the MTEF, which are also dealing with the MMDA issues.³⁵

NDPC has elaborated new *guidelines for the preparation of District Medium Term Development Plan under the Growth and Poverty Reduction Strategy, 2006 – 2009 (January 2006)*, which outlines the planning process, activities, formats and the cooperation with the sector departments.

Finally, a new Draft Local Government Finance Bill has recently been proposed for discussion, see below³⁶.

Proposed Draft Local Government Finance Bill.

The new proposed Draft Local Government Finance Bill attempts to bring some of the various issues on MMDA finance under one common legal framework, covering issues such as the composition of the MMDAs' revenues, internal generated funds, grants, MMDA borrowing, establishment of a so-called Municipal Finance Authority, - the latter with the aim to promote MMDAs' access to funding for investments in local service delivery, with a Finance Authority with central and local government representatives as well as representatives from Finance Institutions and public utilities. Although the proposed Bill encompasses attempts to address some of the remedies with the existing funding system (such more flexibility in the valuation of properties, access to borrowing etc.), it is the general impression that the present Bill requires a detailed overhaul and revisions, e.g. within areas such as:

- Review of the appropriate specific MMDA revenue assignments, to streamline and improve IGFs (such a review was also suggested during the validation workshop of the Policy Review on Decentralisation, January 30, 2007). Art 39 says that districts may earn revenues from "all other sources"..., but these should be more clearly defined.
- On one hand the Bill describes the MMDA autonomy on revenue base and rates in rather wide terms, leading to an impression of a high level of autonomy, whereas Art. 12 says that the Minister can define the base. Second, in Art. 59, it is stated that the Minister should agree with the district on the guidelines for rates and fee charges. The latter allows detailed micro-management of individual MMDAs, whereas general rules and regulations, with ceilings for all MMDAs would have been the preferred and most transparent model, leading to better accountability and clarity on the level of autonomy.
- The role of the rate assessment committees versus the rating authority and the valuation could be further clarified.
- The description of the rates - general versus specific rates - is unclear and confusing, particularly Art. 7 (4), which says that: "A specific rate may be a basic amount payable by all persons of or above the age of eighteen who reside within the area or on owners of movable or immovable property in the area". This article seems to mix the general and the specific rates and is too general and contradictory. Furthermore, the draft Bill provides no ceilings on the rates, and this fact combined with the general requirements, mentioned above, provides room for random interventions from the central government's side in rating and fee charging policy of each MMDA.
- The new system of MMDA borrowing may lead to some unclear cases, where the extent to which central government or the Finance Authority bail out defaulting MMDAs may lead to a problematic "soft budget constraint" and disincentives to improve on performance. When central government, as proposed, is strongly represented in the Authority, and has approved the MMDA loans, it may be hard to avoid central bail out in cases where MMDAs fail to pay. Second, the draft Bill needs to clarify the approval procedures, as it contains articles on requirements for approval by the Minister for Finance for long term borrowing as well as approval by the new Finance Authority (Art 44 versus 77). It can be questioned whether it is necessary for the Minister of Finance to approve loans, if proper ceilings and limits for borrowing are established.
- The ceiling for the long term borrowing is not clear - max. 20 % of the IGF or of the anticipated DACF. Why "or" and why "anticipated" and how should this be defined?

³⁵ The most recent ones are: Guidelines for the Preparation of the 2007-2008 Budget, 19th May 2006.

³⁶ The Policy Review Team only received the draft of this Bill during the final presentation and validation workshop, hence a comprehensive review of the proposed Bill has not been possible. However, the box outlines a few issues for further considerations.

- The section on short term borrowing may need a second review to avoid MMDA arrears and informal debt.

A framework with general autonomy within transparent broad ceilings would have been preferred, instead of the district based approach with numerous "agreements" between each district and the central authorities.

Draft: Local Government Finance Bill - Version presented at the Workshop on January 26, 2007.

Although the legal framework has improved in the recent years and is rather comprehensive particularly in the field of financial management, the Review Team identified an urgent need to develop an Accounting Manual for MMDAs (see Section 4.8), a need to align and provided better linkage between the planning and budgeting guidelines, see Section 4.8, and to up-date the legal framework on MMDA revenue mobilisation and borrowing, see Section 4.5.

4.3 Overview of Public Finance and LG Finance Share

From the 2007 Budget Statement and Economic Policy of Ghana the nominal size of the GDP has grown from ₵65,339.60 billion Cedis (₵) in 2003 to ₵97,201.81 billion in 2005, and the public expenditure has increased even faster, see Table below. Please refer to [Annex 4.1](#) for further information on the figures.

Table 3: Public Expenditure and Revenue Trends

	2003	2004	2005
GDP(Nominal Size)(₵billion)	65,340	79,886	97,202
Population (Million)	21.4	21.7	22.1
Per Capita	₵3,053,253	₵3,681,391	₵4,398,272
Tax Revenue % of GDP	20.2%	21.7%	22.1%
Total Public Expenditure * (billion)	₵15,639	₵21,956	₵25,159
Total Public Revenue * (billion)	₵15,607	₵23,774	₵30,326
Annual Average Inflation	26.7%	12.6%	14.4%

Source: *From the 2004 and 2005 Audited Public Accounts of Ghana and 2007 Budget Statement and Economic Policy of Ghana, MoF.

The MMDA expenditures and revenues account for a small part of the total public expenditures, see the table below, and the share has been rather stable over the past 10 years, whereas the MMDAs' share of the GDP has declined significantly from 2.6 % in 1996 to 1.6 % in 2005.

Table 4: MMDA Share of Total Public Expenditures

Expenditure	1996	2004	2005
Total Public Expenditure (billion)	₵2,716	21,956	₵25,159
Total MMDA Expenditure (billion)	₵112	1,429	₵1,562
MMDA Exp. of Total Public Exp.	4.1%	6.5%	6.2%
MMDA Exp. of GDP	2.6 %	1.8.%	1.6%

Source: From the 2004 and 2005 Audited Public Accounts of Ghana.

1996: Data: Appiah, Baah-Wiredu, Steffensen et al: Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Ghana, 2000, Final Report, Annexes.

One of the reasons for the decline in MMDA expenditures from 2004 to 2005 were the transfers of arrears to MMDAs from previous years of the DACF in 2004.

The local government share of total public expenditure and of GDP is naturally much smaller than other developing countries with a higher level of decentralisation. A recent study of 10 developing countries/countries in transition showed that the local government share of the consolidated total public expenditure and of the GDP was in average 23.0% and 5.7% respectively. Similar figures from an OECD average (sample) were 28.0% and 12.8 %, see the table and figure below: ³⁷

Table 5: LG share of public expenditures – international comparisons

Size of the Local Government	Ghana (2005)	Uganda (2004/05)	Average of 10 developing countries **	Average of OECD countries ***
Local Government share of Total Public expenditure	6.2%	25.5%	23.0 %	28.0%
Local Government Share of GDP	1.6%	6.2%	5.7%	12.8%

*Uganda figures: Tidemand, Steffensen, Ssewankambo (2007 forthcoming).

Source for ** and ***: Anwar Shah: "Local Governance in Developing Countries", 2006.

**The 10 countries were: Uganda, South Africa, Brazil, Argentina, Chile, India, Indonesia, China, Kazakstan and Poland defined as developing countries/countries in transition.

*** Sample of the OECD countries.

The table below shows the MMDA shares of the total public revenues in Ghana.

Table 6: MMDA share of Total Public Revenues (Ghana)

Revenue	1996	2004	2005
Total Public Revenue (billion)	¢2,097	¢23,774	¢30,326
Total MMDA Revenue (billion)	¢110	¢1,425	¢1,598
MMDA Rev. of Total Public Rev.	5.3%	6.0%	5.3%
MMDA Rev. of GDP	2.5%	1.8%	1.6%

Source: From the 2004 and 2005 Audited Public Accounts of Ghana and Data from MLGRDE.

1996: Data: Appiah, Baah-Wiredu, Steffensen et al (2000): "Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Ghana", March 2000, Final Report Annexes.

As documented in a fiscal decentralisation study in 2000³⁸, the MMDAs in Ghana account for a smaller part of the total public expenditures and revenues than in many other African countries, due to the fact that relative few functions are decentralised to the MMDAs. According to the Constitution, the transfers from the DACF, which is by far the most significant MMDA revenue source, should be at least 5 % of the total public revenues, but there has been no calculations or estimates of the reasonable share and no review of the total MMDA revenue potential against the expenditure assignments (and needs) of the MMDAs. Furthermore, the system has not been adjusted for transfer of new functions to the MMDAs, changes in salary levels etc., and there are no procedures to ensure a balanced MMDA finance system (see Section 4.1).

³⁷ Shah, Anwar (editor): "Local Governance in the Developing Countries", Public Sector Governance and Accountability Series, 2006, The World Bank

³⁸ Appiah, Wiredu, Steffensen et al (2000), op. cit. p. 37-38.

4.4 MMDA Finance – Expenditures and Expenditure Autonomy

4.4.1 MMDA Functional assignments and expenditures

Even though Act 462 assigns a wide range of responsibilities to the MMDAs such as health, agriculture, education, water supply, fire service, etc. it is not always clear whether these are mandatory or voluntary³⁹ and there is a lack of definition of which parts of the services, the MMDAs are responsible for vis-a-vis other authorities.

MMDAs perform functions as:

1. Agents of the principal/national sector without additional funding, e.g. concerning the maintenance of all public buildings;
2. Participate in the provision of some services, which are normally a preserve of the central government. Examples of these are: public health services, water supply, larger constructions, equipping and maintenance of primary, JSS and special schools, agricultural extension services, tourism promotion, prevention and control of fire outbreak etc., funded typically from the DACF and/or various donor projects;
3. The so-called devolved services such as district planning; mobilisation and management of revenue; construction and maintenance of feeder roads, streets, parks and other public utilities; control of spatial development in the district; disaster management; acquisition of land for reallocation for development purposes.

However, in practice MMDAs do not play a major role in the provision of water, sewerage, electricity, health, education, and roads. These major services are provided by parastatals and deconcentrated services established by Central Government.

As the IGFs are poorly developed in the MMDAs, and as the grants only allow for certain minor development investments, the funding available, in practice, sets a strict limit on the extent to which the MMDAs are involved in the service provision. A detailed review of the MMDA expenditures is constrained by the lack of a proper, unified MMDA chart of accounts, which can provide a good picture of the sector expenditures and various expenditure items. MDAs and MMDAs are using different accounting systems, and the manner in which MMDAs account for expenditure varies across the MMDAs. Second, data is not readily available in a consolidated and finalised format in the Inspectorate Division of the MLGRDE. Finally, reforms like MTEF and accrual accounting system have not yet taken root at the MMDA level.

4.4.2 Composition of MMDA Expenditure

It appears from the table below, that capital expenditure account for by far the major share of the total MMDA expenditures. The capital expenditures are not broken down in sector areas or types of expenditures in the consolidated data-base sheets at the central level. Please also refer to Annexes 4.1, 4.2 and 4.3. Annex 4.1 shows the findings from the sample MMDAs.

³⁹ See Ferazzi (2006) for a detailed review of these problems, op. cit. p. 18.

Table 7: Overview of the MMDA Expenditures

Type of expenditure	1996*	1996 (%) share of total	2004	2004 (%) share of total	2005	2005 (%) share of total
Recurrent Exp.						
Personnel Related Cost*			163,482,842,915	11.4%	215,863,908,527	13.8%
Traveling & Transport			47,265,683,645	3.3%	58,378,869,610	3.7%
General Expenses			34,363,781,363	2.4%	40,361,933,532	2.6%
Maintenance /Renewals			7,869,410,856	0.6%	17,235,926,955	1.1%
Miscellaneous			59,912,976,077	4.2%	126,566,857,096	8.1%
Total Recur. Exp.				21.9%		
	34,580,000,000	30.8%	312,894,694,856		458,407,495,720	29.34%
Capital Exp.**	77,860,000,000	69.2 %	1,115,708,323,560	78.1%	1,103,831,432,146	70.66%
Total Exp.	112,400,000,000	100%	1,428,603,018,416	100.00%	1,562,238,927,866	100%

* Expenses for Gov. paid staff, casual workers, sitting allowances for political bodies, payment for overtime work etc.

** These financed largely from Central Govt Transfers such as DACF, HIPC, and donor supports e.g. DWAP, DANIDA, GTZ, EU, UNICEF. In 2004, some DACF funds from previous years were disbursed to the MMDAs.

Source: Actual Expenditures from the Inspectorate of MLGRDE – Data-Bank.

1996: Rounded figures: Source: Appiah, Baah-Wiredu, Steffensen et al (2000): "Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Ghana", 2000, Final Report, Annexes.

The trend observed from 1994-2000 where decentralisation of the capital expenditure budget moved faster than the recurrent budget has continued since then (although the costs to salaries have increased)⁴⁰, and is going to be further deepened when the DDF is launched. However, it should be noted that some of the sectors at the district level have a small recurrent budget for recurrent and maintenance costs to support some of the capital investments from the MMDAs.⁴¹ Decentralisation of the recurrent budget is important in the light of the plans to bring the sectors under the MMDA assemblies to ensure strong capacity in terms of planning, budgeting, operational and maintenance to handle the increasing funds for investments. It should also be noted that only 11.4 % and 13.8% of the MMDAs budgets is spent on personnel related costs in 2004 and 2005 respectively (much less than in most other countries), due to the fact that most sector department staff are funded by the central government through the sector departments' budgets.

4.4.3 MMDA Expenditure Autonomy

Art. 11 of the Local Government Act of 1993, Act 462 makes the District Assembly the authority for the preparation and approval of its annual budget. The Financial Memoranda for MMDAs (2004) stipulates in Section 39 that for the purposes of preparing detailed budget, the District Chief Executive on receipt of the planning guidelines from NDPC will issue a Budget Estimate Memo, with the NDPC planning guidelines attached, to all heads of decentralised departments and sub-districts. The memo sets out the priorities to be followed and the schedule for the preparation and submission of the estimates. The budget Committee or in its absence, the Budget Officer prepares the draft estimates based on inputs received from the decentralised departments, and the sub-districts submit a budget proposal for the consideration of the Executive Committee of the Assembly. The final approval authority is the General Assembly of the District. Despite this, Art 11, Art. 10 (3) stipulates that the development plans of the districts should be submitted to the NDPC for approval (through the Regional Co-ordinating Council, and stipulates that the budget of the district related to the approved plans should be submitted to the Minister for Finance for approval.

⁴⁰ Appiah, Wiredu, Steffensen et al (2000), op cit. However, it should be noted that a part of the DACF is used for non-capital investments, such as capacity building.

⁴¹ In the CIDA support DWAP investments, it is ensured that the sectors agree to cover the recurrent and maintenance cost implications of investments in areas where this is required, prior to the final MMDA decisions. But this arrangement is not common for all sources.

Planning and budgeting guidelines are issued by the NDPC and the DACF Administrator. The guidelines must be complied with prior to acceptance of the budget for funding. For development projects the planning guidelines are sent to the MMDAs from NDPC with the approval of MOFEP and MLGRDE. The DACF Administrator also issues budgeting guideline for the preparation of the budget ("Supplementary Budget), which limits the ability of the MMDAs to vary any spending. The guideline from the DACF contains rules on percentages of the funds to be used on each sector area and specific activities.

The MMDAs met did not see these approval procedures as a major problem in terms of interventions/interference by the central government. However there are major problems in the budgeting process. The various guidelines on planning and budgeting such as the DACF guidelines and the NDPC guidelines on the Medium Term Development Plan are not fully linked and synchronized. First, there is a two step budgeting process with a submission of the recurrent budget in September/October prior to the Finance Year and prior to submission of the development plans to the NDPC (the deadline for this in 2006 is December 22, 2006), and a subsequent submission of the so-called supplementary budget in the middle of the FY, around April/May, when the announcement of the grant allocations from the DACF have been made. This leads to a fragmentation (and doubling) of the budgeting processes, and de-link of the recurrent and development expenditures. Furthermore, the submitted recurrent budget is based on preliminary figures, and requires an up-date of figures and re-approval, but the involvement of the district assemblies in this process varies greatly across the MMDAs. For the main GOG budget, the Budget Development Committee of MOFEP reviews the entire budget in November and after that, the Parliament approves and the Appropriation Bill is passed by the middle of December. This authorizes disbursements of funds to the MDAs and the MMDAs. The figure below shows the problems in a nutshell.

Figure: The MMDA Planning and Budgeting Process

Plan and Budget	Who are involved	Timing (final)	Issue
Plan	MMDAs NDPC	Submission December	The link to sectors and budget is weak
Recurrent budget/ IGF (some MMDAs include preliminary capital budget as well)	MMDAs MoFEP	September- October	Not linked to capital and the recurrent budget does not incorporate the cost implications of the investments.
Capital budget (so-called supplementary budget)	MMDAs DACF	April-May	Involvement of councils varies. Some councils are not involved in this final, and important, part of the budgeting process. The MMDAs do not receive any indicative planning figures prior to the budgeting process, and can only base the preliminary estimates on the previous years' allocations.

For the Internally Generated Fund (IGF) the District Assemblies have almost unlimited discretion in the utilisation of the fund. The only control of spending is the approved budget, but if the MMDAs comply with the general guidelines, the interventions from the central government is not seen as a constraint by the MMDAs. However, the Inspectorate Division of the MLGRDE may seek clarification for the level of excess over and above the approved budget.

In the case of Central Government transfers of funds, these are not released according to the approved budget but rather when the government is able to raise the funds at a given point of time.

The amounts actually released must be spent on the approved budget lines, e.g. within the guidelines for the DACF, see below.

For recurrent expenses the MMDAs can undertake virements within the major classified cost group such as Item II – Administration without reference to Central Government. But inter item virement must be approved by Central Government, e.g. transfer of funds meant for Item IV - Investment to Item III - Service Delivery component.

Where the revenue budget involves fee fixing the MMDAs depend on upper limits set by the MLGRDE. For fee fixing purposes the MMDAs are classified into 4 zones: (a) Metropolitans; (b) Municipals; (c) Urban DAs and (d) Rural DAs – each zone with varying upper limits. The last time the MLGRDE issued a comprehensive taxation guideline was in 1991 and it is considered as greatly outdated and not actually complied with by many MMDAs.

Various initiatives compromise the autonomy of the MMDAs to make local priorities. Sometimes part of the DACF is spent by the Central Government on behalf of the MMDAs. An example was the procurement of Cesspit tanker for Nadowli District – a rural district where the communities do not face any problem of liquid waste discharge. It has to be converted into water tanker service. Other examples are the central purchasing of televisions for long distance learning, purchases of vehicles to the chief executives, and specific roads in the MMDAs⁴² funded by the DACF. These interventions also blur the accountability surrounding the entire DACF, see Section 4.5.

Act 462 Sections 91, 93 and 120 provide budgetary controls on the spending of the MMDAs. In Section 91 the MLGRDE has power to give financial instructions to District Assemblies and in Section 93 the Ministry has the authority to cause the inspection of the books of accounts of the District Assembly. Section 120 of the same Act talks about Internal and External Audits. The objectives are: (a) to control spending; (b) to ensure uniformity in comparable districts with a view to achieving development goals.

To summarise, some of the challenges observed are:

- Lack of linkage between MMDA plans and budgets both in terms of the guidance developed and the practical implementation at the MMDA level,
- Fragmented approval processes with involvement of various agencies (Regional Councils, MLGRD, NDPC, MoFEP, DACF etc.), not sufficiently synchronised and coordinated,
- Delays in information from the central government to the MMDAs concerning the actual amounts of funds available for planning and budgeting purposes and discretionary interventions from central government in the DACF allocation ceilings.

4.5 MMDA Revenues and Revenue Autonomy

4.5.1 Types of MMDA Revenues

Various Types of MMDA Revenues

Local Government finance provisions are defined in Article 245 and 252 of the 1992 Constitution and Section 34, Part VII and Part VIII of Act 462. The MMDAs in Ghana are financed from three main sources: (i) Internally Generated Fund (IGF); (ii) transfers from Central Government; and (iii) donor Support. There has been a significant increase in resource available for the MMDAs over the past 5-10 years, however mostly in form of increases in the funds from the DACF.

⁴² Based on interviews with top-level officials in MLGRDE and sample MMDAs.

Ceded Revenues

Ceded revenues, which were supposed to be revenue collected by the Internal Revenue Service on behalf of the MMDA and then subsequently shared with the MMDAs have not been transferred in the most recent years and have always been irregular revenue sources for the MMDAs. According to Act No. 684, 2005, Internal Revenue Act, all the significant ceded revenues have been abolished from January 1, 2005. According to CG informants most of these ceded revenues were supposed to be substituted with the introduction and later expected increases in the DACF allocations⁴³. However, as the DACF has not been increased in terms of the allocated percentage of the revenues (it is still 5 % of the collected revenues), this is disputed by the MMDAs and NALAG.

The ceded revenues were made up of entertainment, casino, betting, gambling, business/profession/trade registration, transport and advert taxes, collected by the IRS and was transferred to the MLGRDE for sharing to all District Assemblies according to a formula approved by the cabinet (the sharing of the cede revenue has with few exemptions in practice ceased⁴⁴ with the inception of the DACF in 1994) and formally with the Act. No. 684.

Internally Generated Funds (IGF)

The traditional sources of MMDA revenue items as listed under the Sixth Schedule of Section 86 of the LG Act 462 of 1993 are: Basic Rates, Special Rates, Property Rates; Fees; Licenses; Trading Services; Royalties; Mineral Development Fund and Investment Income and other sources. There is a multiplicity of minor revenue sources such as dog licenses, fees on dressing stations, etc.

Presently, the IGFs cannot cover the recurrent costs of the assembly. The table below shows the total IGFs and the main sources of revenues for 2004 and 2005⁴⁵.

⁴³ The expected increase from 5 % to 7.5% of the public revenues has still not taken place.

⁴⁴ See Ghana Fiscal Decentralisation Project – Design Report, CIDA project # 400/1878, September 2002, p. 37, for an overview of the outstanding balance at this point of time.

⁴⁵ As mentioned in Section 4.2, there are initiatives under way to change the MMDA revenue assignments.

Table 8: Composition of Internal Generated Funds (IGF)

Total revenue	2004		Ratio Of IGF	2005		Ratio of IGF
	2004 Revenue	% of Total Revenue		2005 Revenue	% of total Revenue	
	¢	%		¢	%	%
Total IGF	229,773,936,386	16%	100%	293,082,200,333	18%	100%
<i>Of this:</i>						
Rates	54,419,916,195	4%	24%	67,616,480,516	4%	23%
Lands (e.g. from loyalties)	33,961,887,955	2%	15%	27,573,088,380	2%	9%
Fees & Fines	67,998,840,790	5%	30%	100,647,592,153	6%	34%
Licenses	31,786,641,244	2%	14%	54,504,489,028	3%	19%
Rent	11,332,603,019	1%	5%	15,366,550,135	1%	5%
Investment Income	7,397,767,815	1%	3%	10,810,740,628	1%	4%
Miscellaneous	22,876,279,368	2%	10%	16,563,259,493	1%	6%
Total Transfers plus Donor Support	1,195,062,867,710	84%	100%	1,304,523,892,542	82%	100%
<i>Of this:</i>						
Salaries	115,467,486,725	8%	10%			
DACF	619,098,572,786	43%	52%	585,675,324,116	37%	45%
HIPC	321,837,394,407	23%	27%		0%	0%
Salaries/Others for 2005		0%	0%	718,848,568,426	45%	55%
Total Transfers	1,056,403,453,918	74%	88%	1,304,523,892,542	82%	100%
Borrowing	0	0%	0%		0%	0%
Donor Support	138,659,413,792	10%	12%		0%	0%
Grand Total	1,424,836,804,096	100%		1,597,606,092,874	100%	

Computed from MMDAs Trial Balances submitted to the MLGRDE (Inspectorate Division), i.e. actual revenues and expenditures. 1996 Data: A break down of aggregate figures is not possible and the figures are rounded.

* Figure restricted to amount meant for the District Assemblies and MPs' common fund.

+ One District in Greater Accra Region submitted Trial Balances up to November 2005. Its December 2005 data are assumed to be equal to that of November 2005. MMDAs do not break down the transfers in various sub-components in 2005. ** Figures on transfers are not broken down in 2005 Trial Balances.

✓

It appears from the table that in 2004, the IGFs constituted about 16% of the total local government revenue and increased slightly to 18 % in 2005, resulting in a high MMDAs dependency on Central Government transfers of 82% in 2005. The MMDA reported DACF funds nearly eight doubled from about 80 Billion in 1996 to more than 600 billion in 2004, whereas the IGF have increased much less (2-3 times).

Responses from MLGRDE staff confirmed by the field trips⁴⁶ and interviews with key stakeholders, including NALAG, show that although there has been a slight improvement in IGF in the most recent years, the MMDAs have not fully utilised the potential of their revenue base. One of the challenges is the lack of MMDAs' capacity to improve on the collection of property rates especially in the Metropolitan, Municipal and the Urban District Assemblies. Funds will be required to undertake revaluation of all land and taxable properties and establishment of good data bases. The revaluation will need to be preceded by house and street numbering. In 2004 and 2005 Rates constituted 24% and 23% respectively of the IGF and 4% of total MMDA Revenue, but it is an area with a great un-tapped potential. Revenue from property rate is woefully untapped in the districts.

By law the institution charged with the responsibility to undertake valuation or revaluation of property, the Land Valuation Board, is not under the control of the District Assemblies. Section 96 (8) reserves the power to commence the process of revaluation of property to Central Government. There is a need for an improved collaboration between the Land Valuation Board and the MMDAs on the valuation, or to transfer the responsibility for valuation to the MMDAs in areas, where they have the capacity and/or possibilities to contract out. A visit to Accra Metropolitan Assembly revealed that the Land Valuation Board lacks the necessary capacity and had to sub-contract out the property valuation assignment, A.M.A had requested, to private valuation companies at a whopping charge of about 13 billion Cedis. However, to speed up the process and ensure more efficiency, it should be considered to allow MMDAs the power to procure the services of a qualified valuer from the private market.

Although the DACF formulae contains a small incentive to improve on IGF (very small criteria weight for the so-called "responsiveness" factor), this is not perceived sufficient to promote improvements in the MMDA revenue mobilisation. As indicated in a report from 2000⁴⁷, the incentives to collect revenues may be impacted negatively by the increase in grants. Further studies of this and of the real MMDA revenue potential within the existing legal framework is urgently required. The best-practice study, completed recently, does not review these issues, but have identified a number of problems with the existing administration of the IGF.⁴⁸

User fees and charges

As most of the services are provided by the sector departments, MMDA have rarely any systems in place for collection user fees and charges, which provide significant revenues. Most MMDA investments are smaller investment where it is pursued to have communities organised to cater for operational and maintenance costs, instead of more formal collection systems.

The new draft Local Government Finance Bill, encompasses changes, which will improve the possibilities for MMDA property valuation, but requires further considerations on the delineation of the MMDA revenue assignments and level of autonomy on the MMDA tax base and rates.⁴⁹

⁴⁶ Field trips were conducted to Gushiegu, Ajumako/Esiam/Anyan Districts and the Accra Metropolitan Assemblies

⁴⁷ Appiah, Wiredu, Steffensen et al, 2000, op.cit.

⁴⁸ Pentax Management Consultants: Draft Manual on Best Practices for Revenue Mobilization for Metropolitan, Municipal and District Assemblies, (December 2006).

⁴⁹ See Section 4.2.

The challenges with IGF identified during the Decentralisation Policy Review can be summarized as follows:

- There is a great non-utilised potential for increased IGF,
- The legal framework is generally outdated, particularly regarding the size of the basic rates, the guidelines on property rates etc. There is a strong need to up-date these procedures;
- Lack of capacity to utilise the taxes, due to lack of e.g. valuation, data bases, tax collectors, skills and knowledge, lack of organisational strengths,
- Lack of tax payer awareness and understanding from citizens and business sector about the importance of tax payment based on lack of sufficient interactions between the MMDAs and the citizens,
- Lack of linkage between the tax payment and the services provided, as MMDAs have few expenditure assignments and lack interactions with the citizens/private sector,
- Lack of MMDA incentives within the existing transfer system,
- Lack of sufficient CB support from the central government to improve revenue collection systems and practices;
- Lack of options to improve valuation within the area of property tax,
- Lack of control and supervision systems and procedures to avoid leakages and fraud.⁵⁰
- Need for a review of the appropriate MMDA revenue assignments⁵¹.

Despite these challenges, the best practices study shows that some MMDAs are able consistently to improve on the IGF - another sign that the potential is available within the legal framework⁵². The recent Draft Manual on best practices on revenue mobilisation, although it provide good examples of ways and means to improve IGF, fall short of providing relevant examples from specific revenue mobilisation initiatives from various MMDAs and does not contain a review of the potential IGF, something, which is urgently required.

The newly developed FOAT Manual contains some indicators (see section 4.9), which are supposed to promote IGF, but this area is not a significant part of the overall scoring system.

4.5.2 MMDAs' Autonomy on Internally Generated Funds

The possibilities for the MMDA to adjust the IGF against local needs and priorities is a fundamental principle behind fiscal decentralisation, see Section 4.1. The table below provides indicators for some of the main IGF sources.

⁵⁰ Please see the Pentax Report (2006), which has a detailed overview of the problems, which were confirmed by the field trip of the DPRT.

⁵¹ This was one of the core recommendations from the working group on MMDA finance during the validation workshop on January 30, 2007.

⁵² Pentax (2006), op. cit. p. 12.

Table 9: Tax Autonomy

Tax	Who set the rate/ceilings?	Who sets the tax base?	Who collects the taxes?	Comments
Rates	MMDA with CG ceilings	MMDA, but there are general rules in the LG Act, and MMDAs rely on central valuers.	MMDA	Need for up-date of the 1991 guidelines. The draft guidelines should introduce some degree of flexibility so that MMDAs will be allowed to exceed a rate but within limits, and more flexibility should be provided within valuation of property.
Lands	CG	MMDA	MMDA	Permits for use of Land: Guideline on principles to be applied for ceilings, leaves certain flexibility. It should be considered to allow MMDA to be involved in the setting of ceilings.
Fees & Fines	MMDA sets the rate and CG sets ceilings	MMDA	MMDA	It should be considered to allow MMDAs to use the services of the Internal Revenue Service for collection.
Licenses	MMDA sets the rate and CG sets ceilings	MMDA	MMDA	It should be considered to allow MMDAs to use the services of the Internal Revenue Service for collection.
Rent	MMDA sets the rate and CG sets ceilings	MMDA	MMDA	MMDAs lack collection capacity.

The ceilings on ratings are set within upper limits by Central Government (MLGRDE). Sections 34, and 100 of Act 462 empower the Minister of Local Government to make and issue guidelines for levying of rates.

The staff of the Inspectorate Division of MLGRDE indicated that the last time such a comprehensive guideline was issued was in 1991 and that the follow-up on the MMDAs' adherence to this is not strictly ensured (supported by findings in the field). An example of this was in Ajumako District, which has taken steps to collect a development levy (2,000) on top of the basic rate on 1,000 cedis. The fee fixing resolutions when passed by the Assembly become binding and hence enforceable. Formally, the ceilings of these taxes should not exceed the upper limit set by MLGRDE, but is the impression that this may happen on the ground, as the guidelines are greatly outdated and not easily available. There is a great need to up-date the ceilings, e.g. on the basic rate, which is only 1,000 cedis per adult between 18-70 years, of which most is eaten up by collection costs, particularly in the rural areas, and make them more flexible and conducive for revenue mobilisation. Furthermore, some of the taxes are merely nuisances, such as dog licenses, and there is a need to rationalise.

Although the MMDAs understand and act upon the sources allocated to them, they often lack the capacity effectively to tap such sources. The potentials are not being realised due to lack of logistics, training and other capacity building support and guidance. The MMDAs experience leakages in all phases of their revenue collection processes.

It is generally recognized by the central and local governments that IGFs should be strengthened. A number of measures have been taken to ensure MMDA – central government tax coordination, but is it the impression from the field that more could be done? Concern of the private sector about the proliferation of taxes was brought to the attention of MLGRDE and this led to the preparation of the comprehensive guidelines in 1991. This encouraged Internal Revenue Service and MMDA collaboration in tax administration. However, as mentioned, the guidelines have not been up-dated since then. The Review Team was informed that MLGRDE has now initiated a revision.

Various recent initiatives have been launched to put more focus on IGF. Examples are training organised for the MMDAs on revenue management with the MLGRDE as facilitators, and a recent elaborated Manual on Revenue Mobilisation for MMDAs (contracted out by MLGRDE), but there is a great need for expansion of this capacity building. Finally, the new draft Local Government Finance Bill is supposed to strengthen the MMDA IGFs. However, as mentioned, this Bill needs clarification of the level of MMDA autonomy on the setting of revenue bases and rates.

4.5.3 Intergovernmental Transfers to MMDAs

General issues

Transfer of grants from Central Government to the MMDAs currently consists of: i) Transfers for salaries; ii) District Assemblies Common Fund (DACF) transfers, iii) transfers from the Highly Indebted Poor Countries (HIPC) debt relief and iv) various donor funds. The sector departments outside of the MMDAs, e.g. Education, at the district level and the core areas of services delivery are funded by a complex system of GOG, statutory funds, donor funding and other funding sources.⁵³

The financing of MMDAs in Ghana is defined in Section 240 (2) c. of the 1992 Constitution, which states that: *“there shall be established for each local government unit a sound financial base with adequate and reliable sources of revenue.”* Section 252 (1) proceeds to provide for the creation of a District Assemblies Common Fund (DACF) into which *“not less than five percent of total revenues of Ghana”* will be lodged for the development of District Assemblies.

A recent review of the intergovernmental fiscal transfer system in Ghana⁵⁴, rated Ghana as an aggregate score “C” on the scale from D – A (where “A” is the best score), with an “A” for the sub-indicator: transparent allocations from DACF to MMDAs based on clear and objective criteria and the HIPC funds. However, the system was only scored “D”, on the indicators for timeliness and reliable information to the MMDAs on their allocation and “D” for the extent of consolidation of fiscal data for general government. The Review Team finds that this evaluation is generally valid, although there are some issues concerning the transparency, which needs to be addressed. A score “A” is probably at the high end for this sub-indicator, see below.

Size of the grants

There has been no overall review of the adequacy of funds against the MMDAs’ service responsibilities (the cost of service delivery against the existing MMDA revenue potential). The 5 % DACF share was set arbitrary without links to the actual services to be provided (and the costs of these) and has not been adjusted since 1994.

Data on grants to MMDAs varies across the sources (MLGRDE, DACF, NDPC etc.), and data should be treated with due caution. The table below shows data from the MMDAs’ accounts

⁵³ See e.g. Steffensen (2006), op.cit.

⁵⁴ *“Public Financial Management Report and Performance Indicators – 2006 External Review of Public Financial Management- Volume II”*, June 2006, The World Bank.

submitted to the MLGRDE, i.e. utilised funds from the actual transfers. Please refer to annexes 4.2 and 4.3 for further information.

Table 10: Grants and Donor Support to MMDAs (billion Cedis)

Source	2004	2004 (share in %)
DACF	619.1	51.8%
HIPC	321.8	26.9%
Donor support (1)	138.7	11.6%
Salaries	115.5	9.7%
Total	1,195.1	100.0%

Source: Data from the MLGRDE. (1) An example of this is the DWAP funds supported by CIDA.

DACF

As mentioned above, DCAF is the largest funding source for the MMDAs and constitutes more than 50 % of the total transfers to MMDAs. Between 1994 and 2006 the DCAF has disbursed a total of $\text{GHS}4,355.226$ billions.⁵⁵ Table 11, below, shows the disbursements of the DCAF to the MMDAs. The MMDAs receive about 85-90% of the total amount for the DCAF. Other beneficiaries are the MPs and the 10¹RCCs, the Reserve Fund, the DCAF office and funding to the National Sanitation Programme. In the most recent years, arrears from previous years have been paid in instalments in addition to the annual basic allocations.

Differences between DCAF Administrator's releases and transfers received by the MMDAs sometimes do occur due to the following reasons: The MLGRDE sometimes decides to procure items on behalf of districts. Items such as tractors, television sets for distance learning, projectors, vehicles for the Chief Executives, cesspit tankers, roads, etc. have been procured in the past⁵⁶. Funds for such items are withheld at the centre and not transferred to the MMDAs. Such funds are often not reflected in the books of the MMDAs and the MMDAs do not feel that they get sufficient information about these activities. Districts also fail to capture other DCAF capacity building grants transferred to them, and there are multiple examples of bookkeeping problems. There is generally no uniformity in the treatment of the DCAF at the District level. The Common Fund Administrator instructs that districts should capture the gross amount as releases received and immediately charge against the gross amount as outgoings spending made in Accra by the Ministry on their behalf. Contrary to this, the auditors instruct that only the net amount received should be recorded, hence some MMDAs record the gross amount and others record the net amount. Reconciliation with the books of the DCAF Administrator becomes a major issue to address. This should be thoroughly investigated and a uniform system of recording and reporting needs to be put in place. Furthermore, a good accounting manual will address this major problem and reduce the fiduciary risks.

⁵⁵ Information from the DCAF.

⁵⁶ Confirmed by field interviews and interviews with officials from MLGRDE.

Table 11: Overview of the DACF Releases to MMDAs

Year	Total DACF Fund Released*	Released to MMDAs Only**	Difference	Comments
	₹	₹	₹	
1994	38,490,000,000			First year of DACF
2004	857,172,000,000	755,459,359,770	101,712,640,230	Part of this was arrears from previous years
2005	701,917,000,000	550,855,442,163	151,061,557,837	The figures varies greatly from source to source. From the financial statements submitted to the MLGRDE it appears that the MMDAs have received ₵619,098.572,786 in 2005. From the annual report of DACF to Parliament, the figure for MMDA spending is 684 Billion. Other beneficiaries are the MPs and the 10 RCCs, the Reserve Fund, the DACF office and funding to the National Sanitation Programme

*Source: Nicol, Joshua, the DACF Administrator: "Paper presented on Preparation of the Annual Supplementary Budget".

and the DACF home-page: www.commonfund.com.gh/index.

** Obtained from Annual Financial Reports of DACF for 2004 and 2005.

The DACF (currently 5% of total tax revenue) is shared according to a transparent formula approved by parliament every year and should be spent according to guidelines prepared and submitted by MLGRDE in consultation with the MOFEP. The DACF is not performance-based and hence does not encourage efficiency in governance and/or output delivery. It considers factors such as: Needs, Equality (only defined as equal shares per MMDA), Responsiveness (based on the MMDAs' tax effort) and Service Pressure with varying degrees of statistical assignment weights.

The DACF has a clear MMDA investment menu for utilisation and a clear set of guidelines for planning, budgeting, utilisation and reporting. The funds are transferred in quarterly instalments and although the funds are delayed, they have become increasingly predictable according the DACF administrator.

However, the DACF system has a number of challenges, which should be considered in the coming strategy and action plan.

First, the present allocation criteria do not properly reflect the international best practices for grant allocation:

- i) *The Equity Share:* 50 % of the funds are allocated using the so-called equality factor, which does not take the specific needs and/or revenue potential of the MMDAs into consideration. It is just an equal sum per MMDA without consideration of the number of people being served in this area, or the various needs of these people;

- ii) *Gap filling indicators:* The indicators for needs (40 % weight) can introduce perverse incentives in future, as MMDAs, which improve the service coverage will receive less funds in the following year. Proxies for service needs, applied in many other countries, such as poverty level, Human Development Index, illiteracy rates, health standards, etc., should be considered instead of the actual availability of service facilities. Second, the present criteria need a lot of data feeding and up-dating to make them relevant and targeted.
- iii) *Responsiveness* factor: This factor is supposed to promote MMDA revenue mobilisation, but the weight is so low (5%) that it has no impact in reality.
- iv) *Service Pressure:* The present system uses population density in a manner, which rewards the high-density areas with a higher per capita allocation. Many other countries do the opposite, as costs may tend to be higher per capita in remote areas, or to support the poorly developed larger districts with less density. The point is that there have been no calculations of the actual MMDA expenditure needs, estimates of these and /or common sense considerations of the link between population density and expenditure needs.

Second, the planning and budgeting cycle of the DACF is not synchronized with that of the core GOG budget. The MMDAs have to separate their recurrent and development planning and budgeting cycles, with an early budgeting (prior to the Finance Year) of the recurrent and a subsequent budgeting of the development budget to be approved by the DACF administrator in the middle of the FY, typically April – June. This hampers integrated budgeting of the recurrent and development budgeting process and confuses the entire planning and budgeting process.

Third, there are still delays in the transfers of funds from DACF, which are not fully predictable and communicated in due time to the MMDAs for proper planning and budgeting purposes. According to the field visits, this creates severe problems for the planning and budgeting of the funds and inefficiency in resource utilisation.

Fourth, the restrictions on the use of funds and division of a major share of the funds in various smaller earmarked boxes (2 % for HR capacity building deducted from source, 15 % for productivity and employment generation funds, 10 % for self-help projects, 2 % for district education fund, up to five % for strengthening of the sub-district structures, up to 1 % for district response initiatives, 1 % for malaria prevention, and up to 5 % for physically challenged, leaves only 59 % for a broad menu of discretionary funding (services, economic ventures, administration, environment etc.). However, it is the impression, that the funds still leaves great flexibility for the MMDAs within the larger share of the funds, but restrictions should be balanced against the need to ensure sufficient local flexibility and autonomy in the local resource allocation.

Fifth, the random interventions from the central government in the use of the funds at the local level and/or advanced central government (MLGRDE) deductions prior to submission of funds to the MMDAs for funding of specific activities, such as televisions for long distance training, vehicles, specific roads, etc. is damaging for local planning and budgeting initiatives and for incentives to use the funds efficiently at the local level. Furthermore, it creates problems in the review of procedures in financial management/accountability areas, distorts analysis of distribution of funds, and contradicts the aim, spirit and regulations under the DACF framework.

Sixth, according to most stakeholders met, there is an impression that the reporting and follow-up on the reporting from the MMDAs on the use of the DACF, data bases etc. should be strengthened. As a constitutional fund, the DACF provides fund to MMDAs parallel to the consolidated GoG system. This means that the actual spending from the fund is not part of the

standard process of capturing expenditure in the CAGD system and coherent accounting and evaluation becomes a great challenge, also worsened by the interventions mentioned above.

Finally, the arrangements for coordination and information sharing should be revised and strengthened, if the DACF should become the major vehicle for transfers of funds to the MMDA. Presently, the DACF lacks a forum for intra- and intergovernmental coordination, a forum where the allocation criteria can be discussed amongst the major stakeholders from central and local government level prior to submission to the Parliament, where there is an ongoing dialogue and collaboration on the way and means for transfers of funds, monitoring, publication of budget figures, follow-up etc.

The reforms of the intergovernmental fiscal transfer system should consider these challenges. The situation within the DACF arrangements is also important for the ongoing initiative to establish a common District Development Fund (DDF), see below.

The District Development Fund (DDF)

The NDAP includes a proposal for a new DDF modality to address some of the challenges in the existing transfer systems. According to the TOR of the DDF, the new DDF should particularly address the problems with the fragmentation of funds, multiplicity of planning, budgeting, reporting and auditing systems and lack of MMDA incentives in core areas of performance such as local governance and financial management. The DDF objectives are prudent, and the prospects for a rationalisation and streamlining of the existing systems will depend on the specific design and support from the core GOG stakeholders and development partners.

The Decentralisation Secretariat has elaborated a draft design (November 2006), which is being discussed internally and between the GOG and the development partners. The design deals with components such as a new funding system for development grants, funds for capacity building and an annual performance assessment system linked to the grant allocation system to promote good MMDA performance. The intension to link development grant funding, capacity building and incentives is encouraging and the international experiences within this area are generally positive. It is envisaged that the anticipated increase in the DACF of about 2.5% will be performance related and that the DDF over time will influence the entire DACF arrangement.

Without going into the specific design issues of the coming DDF arrangements, the team finds it important that the following principles and issues are considered in the way forward:

- The background for the development of the DDF was to reduce the number of funding flows and to rationalise and improve on the entire funding system. To pump more funds into the MMDAs is not in itself an objective without addressing the overall remedies of the existing grant system and the incentives to improve performance. Hence the design and implementation should focus on these core issues using, to the extent possible, the existing framework;
- The system of performance assessments, Minimum conditions (MCs established to ensure basic safeguards and protect proper use of funds) and Performance Measures (PMs) to promote good MMDA performance; should be strictly applied and the assessment should be carried out in a neutral, highly professional and independent manner. Compromises in the quality of the assessment will defeat the entire purpose of a performance based grant system.⁵⁷

⁵⁷ See Larsen, Henrik and Steffensen, Jesper: "Conceptual Basis for Performance Based Grant Systems and Selected International Experiences", 2005 for an overview of the issues on design of performance based systems. This is also the intention in the present DDF draft design document.

- Reforms in other areas, such as functional assignments and organisational structures of the MMDAs may also lead to a need to up-date/revise the FOAT manual and assessment system;
- The validation workshop on the preliminary findings of the Policy Review on Decentralisation with representatives from MoFPEP, MLGRDE, NALAG, MoPS, DPs and others recommended that the system should be institutionally located in the DACF administration (with additional secretarial support) and closely linked to the existing capital grant system.
- The steering and monitoring of the system should be seen in relationship with other intergovernmental fiscal transfer reforms, e.g. the establishing of sector grants when functions are decentralised, and the set-up of the overall steering should therefore ensure sufficient representation of core stakeholders from the central and local levels (MOFEP, MLGRDE; DACF; NDPC, core sector ministries, NALAG, other representatives from private and educational institutions), see the section on the institutional arrangements for fiscal decentralisation. The committee should coordinate all fiscal decentralisation issues and the linkages to the financial management reforms. As the MoFEP is legally in charge of the coordination of the intergovernmental fiscal transfer systems, it would be in a good position to chair the coordination.

The legal and regulatory environment to enable that these inter-governmental transfers are utilised in an accountable manner has improved as indicated in Section 4.2, but there is still a way to go, see below in Section 4.8. The establishment of the DDF is a pertinent component in the future reform process.

HIPC

The HIPC funds to MMDAs were introduced from 2002 as a parallel funding mechanism to earmark funds for specific projects and to show specific impact of the debt relief. However, the transfers of funds to MMDAs have been less than expected,⁵⁸ and from a MMDA perspective rather unpredictable and non-transparent. Information and figures on annual utilisation of funds, impact, etc. leave a great room for improvement. According to data reported from the MMDAs, the HIPC related expenditures in 2004 was 321,837,394,407 Cedis, see Annex 4.3, but the data on HIPC in the MLGRDE for 2003, 2004 and 2005 are not adequately broken down into years, sectors and projects/programmes/activities.

The HIPC also uses different allocation criteria, planning and budgeting guidelines and reporting systems than the DACF and adds to the complexity of the entire grant system. There is a good case to consider a merging of the DACF and the HIPC funds to ensure streamlined, harmonised and consolidated planning, budgeting, accounting and auditing systems. As mentioned in the sector section below, HIPC funds are also transferred through the sector ministries for local service delivery, e.g. the education sector, for some of the similar investments as funds routed through the MLGRDE.

Donor Funding

Donor support is transferred on-budget (as the Cida supported DWAP) or off-budget (many other donor supported programmes and projects). The total amount of donor funds is significant. The on-budget part alone constituted 11 % of the total transfers to MMDAs in 2004, but the funds vary greatly across the MMDAs and there is no common system to ensure a proper country-wide and equal distribution. Most development partners use project specific planning, budgeting, accounting,

⁵⁸ See NDPC: *Annual Progress Report*, 2005, March 2006, op cit p. 25.

reporting and auditing systems not aligned to the GOG systems. This adds to the complexity of the entire IGFTS, and drains the limited financial management resources of the MMDA offices. The DDF will hopefully lead to a consolidation of these flows into one coherent efficient transfer system for development grants with common and aligned modalities.

MMDA borrowing

Section 88 of the LG (Act 462), 1993 states that District Assemblies can obtain loans or overdrafts within Ghana with the approval of the Minister of Local Government and Rural Development, in consultation with the Minister of Finance. However no approval is required for a loan up to the limit of 20,000,000 Cedis. This ceiling has not been up-dated since 1993 and is very small compared to usual MMDA investment needs.

Staffs of the Inspectorate Division of the MLGRDE agree, (confirmed by field findings) that MMDAs take overdraft against anticipated receipt of the DACF. However a review of MMDA financial returns does not disclose the evidence possibly due the modified cash basis of accounting being operated and/or lack of proper accounting practices.

It is obvious that this section of the LG Act needs to be reviewed regarding the limit of 20,000,000 Cedis and be adjusted upwards. E.g. the A.M.A. did not obtain any loans due to these cumbersome procedures. However, there is also a need for a major discussion and framework for how to manage formal term loans and to tackle the ordinary overdraft facilities and various informal practices. The reform also needs to consider the kind of collateral required for the MMDAs to secure the needed loan.

According to the 2007 budget statement, the MLGRDE and MoFEP have developed a Municipal Finance and Management Initiative (MFMI) within the framework of a comprehensive Urban Development Programme. This should be an instrument for revenue mobilization for the MMDAs and linked to improved opportunities for MMDA borrowing. The GoG wishes to build an intermediary MMDA Credit Market to assist District Assemblies to access long-term credits. In this regard a Local Government Finance Act bill will be tabled before the Cabinet for consideration. When passed into an Act a Local Government Financing Authority will be established to assist Local Governments to access credit markets for infrastructural investments. Please refer to Section 4.2 for a discussion of the draft Bill and suggestions for clarifications and adjustments.

4.6 Fiscal Capacity

To the knowledge of the Review Team there have been no recent studies of the fiscal capacity of the MMDAs including review of revenue potential, financial management capacity etc. but it is obvious from the field work that the capacity of the MMDAs varies greatly, see [Annex 4.1, Sheet No. 3](#), with an overview of the most recent expenditure and revenue data from the field MMDAs. The rural MMDAs are nearly fully dependent on the central government transfers, whereas the urban authorities have a rather high degree of own source funding and a much higher per capita expenditure and revenue level. The urban MMDAs also generally have a stronger capacity within financial management and organisation of functional assignments, e.g. within planning, budgeting, internal audit functions and greater possibilities to hire and attract own supplementary staff. However, the present reform agenda has very much focused on the MMDA as one common group without distinction or phasing in of reforms, based on the capacity of the MMDAs.

4.7 Sector Fiscal Decentralisation Issues

As mentioned in Section 4.1, it is pertinent that funding follows functions. The planned reforms to transfer the district sector departments from the central government to MMDAs, see Chapter 2, will have significant impact on the future funding arrangements for MMDAs and the sector departments in Ghana.

Planning and budgeting issues

Various initiatives have been taken to improve the linkage between MMDA planning and budgeting and the sector planning and budgeting process with clear description of the division of tasks and responsibilities in planning between the various stakeholders, coordination arrangements and reporting systems.⁵⁹ However, as described in Section 4.8, the composite planning is still not implemented in practice, plans and budgets are not sufficiently linked⁶⁰, and the sector plans are still elaborated rather independently from the overall MMDA medium term development plans. Planning guidelines have been issued by the NDPC⁶¹ for the MMDAs and another set for the sectors, but the linkage between these is not sufficiently elaborated and the planning in the sample districts visited was not integrated.

The same is the case for the budgeting, although some of the MMDAs have started the composite budgeting process. But as mentioned in Section 4.8, this is more an aggregation of figures than a genuine cross-sectoral dialogue and priority process.

Decentralisation will require a fundamental change in these processes towards a coherent, cross-sectoral and comprehensive planning and budgeting process, with a clear link between the sector and cross-sectoral priorities as well as between the plans and the budgets. As identified in the DDF Review (2005) there is also a lack of local appreciation and application of the planning and budgeting guidelines issued from the central level, due to lack of sufficient mentoring, support and follow-up⁶². Similarly the reporting on the planning, budgeting and budget execution is still vertically from the sectors through the regional level to the sector ministries rather than through the consolidated plans, budgets and accounts.

Funding flows and transfers

Reforms of the structures and functions of the MMDAs will impact on the future funding system and flow of funds.

A recent Study on "Improving Basic Education through a more Transparent, Equitable and Better Financial and Performance Management"⁶³, made a detailed review of the various funding flows within Basic Education, and outlined options and recommendations for the future fiscal transfer system. As this report will be of general relevance for other sectors as well, some of the main findings are summarized below. The findings and recommendations were generally confirmed by the field visits and meetings conducted by the Review Team.

⁵⁹ See: National Development Planning Commission and Ministry of Local Government and Rural Development: "Guidelines for Operationalisation of the District and Regional Planning Coordinating Units", 2004

⁶⁰ Based on field findings.

⁶¹ National Development Planning Commission: *Guidelines for the Preparation of the Sector Medium Term Development Plan under the Growth and Poverty Reduction Strategy, 2006-09*, November 2006 and NDPC: *Guidelines for the Preparation of the District Medium Term Development Plan*, January 2006.

⁶² See the Ministry of Local Government and Rural Development- NDAP, Programme Area 2: District Development Fund – Phase 1 Review of Local Government Investment Funding Practices, 1999-2003, Final Report, August 2005, which stated that only 54 % of the MMDAs used the NDPC guidelines (p. 16). Although a quantitative assessment was out of scope of the Policy Review, the field findings confirmed that the internalization amongst the MMDAs is weak.

⁶³ Steffensen, Jesper, (2006) Op. Cit. This section has benefited from this report and includes selected sections of this for reference. Please refer to this Report for more information on the funding flows, allocation criteria etc.

The funding flow analysis of basic education shows a very complex picture of funding flow from various sources to Basic Education at the local level. There are multiple streams of funds of which the major flows are:

- (i) From the GOG's core budget for salaries, administration, services and investments (71.4 %);
- (ii) The statutory funds such as:
 - a. GET-Funds (7.4%) and
 - b. DACF (2.2%);
- (iii) The HIPC funds –
 - a. Through MOES towards basic education (3.1%) and
 - b. directly to the MMDAs with involvement of the MLGRD in a screening process (2.9%),
- (iv) Donor – on-budget and off-budget funds for education and non-sector support (9.4%) and
- (v) Other minor sources (1-2 %).

The most important funding flow is the GOG funded salaries, followed by a number of significant fund flows from the GET-Fund, HIPC and DACF. The salaries are paid entirely from the GOG PE budget component, but the other budget components, particularly the investments, have several sources.

A good example of the complexity in funding flows is the *classroom construction*, which is funded by a great number of sources such as through:

- (i) GOG investment budget,
- (ii) Donor support (on-budget),
- (iii) GET-Fund,
- (iv) HIPC- MOES budget funds
- (v) HIPC-MMDA funds,
- (vi) DACF non-sectoral funds,
- (vii) Various targeted education programmes such as Pilot Programmatic Scheme being implemented with WB funding support, and
- (viii) Non-sectoral district support programmes, e.g. the CIDA supported DWAP.

Many of these funding flows apply various planning, budgeting, accounting and reporting formats as well as audit arrangements.

Provision of textbooks is another area with numerous funding sources (GOG, GET-Funds, HIPC and donor funds) and established transfer schemes, although most of the textbooks are purchased directly by MOES.

The conclusions of the report, which have been confirmed by the present review, is that the general picture of the funding of Basic Education shows a complex flow of funds and involvement of many authorities (GES, MoF, MLGRDE, Regional Authorities and MMDAs) and the system is characterised by fragmented planning, budgeting and accounting systems and procedures. This hinders the establishment of a comprehensive and consolidated overview of all inputs, activities and the outputs measured against these inputs, and reduces the planning and budgeting efficiency and increases the fiduciary risks. The current funding system also reduces the possibilities for efficient programming and monitoring of the various schemes.⁶⁴

⁶⁴ These problems were also identified in the PAD of the Education Sector Project, February 3, 2004, p. 11, but the situation has worsened since then.

The report also documented that the multiple funding channels and off-budget funding flows, e.g. from the statutory funds, HIPC, development partners and the NGOs, make it hard for the MMDAs to get a full overview of the funding and the real coverage of the needs. This impacts negatively on efficient composite planning, budgeting and budget execution. For example many donors and NGOs require specialized planning, budgeting, accounting, auditing and reporting procedures and formats, funds flows outside the GoG system with varying frequency, as well as the use of varying channels, multiple bank accounts and reporting systems, - all findings confirmed by the field visits conducted by the Review Team.

The Basic Education flow fund study also showed that there are serious delays in several funding flows, particularly for the service component of the budget due to various systemic and capacity related reasons. There is inadequate capacity at the MMDA level to account and report in a timely manner for the use of funds. Moreover, these problems are worsened by the multiple funding flows, planning systems, accounting procedures, reporting systems, auditing requirements and bank accounts, again findings confirmed in the sample districts (see the section below).

In Ajumako District the DEO informed that funds for administration have not been transferred since September 2006 and that the service component was very unpredictable and always delayed. As mentioned in the fund flow report (Steffensen, 2006), the unpredictability of transfers in addition to the delays makes it difficult to plan and manage cash flow activities in an efficient manner. It is impossible to use funds regularly during the fiscal year and this leads to delays in implanting activities, bottlenecks and great inefficiencies. DACF transfers are also delayed by about one quarter, but this delay is more predictable, although some significant arrears have been experienced in the past. The dialogue between the MMDAs and the sectors is insufficient in this area to ensure proper planning, budgeting and execution of the DACF investments. The fragmentations and the delays in fund flows have a spill-over effect on service delivery institutions/schools, which have to face lack of funding for operational and maintenance costs particularly at the beginning of the FY.

To summarize, the Basic Education fund flow study and the Decentralisation Policy Review identified a number of problems, which should be addressed in the coming reform process, such as:

- Fragmentation of funding flows,
- Non-coordinated planning and budgeting procedures between the district assemblies and the district departments; and lack of linkage between the planning and the budget process,
- Lack of MMDA /and district administration autonomy and decision-making power,
- Unpredictable funding flows, and lack of communications between the layers of government on the reasons for delays, transfers etc,
- Lack of coherent and efficient reporting and monitoring systems, and lack of linkage between finance and activity based reporting,
- Fragmentation of the financial management (planning, budgeting and accounting skills and positions) at the district level in the core MMDA departments and the sector departments,
- Conflicting and unclear fund allocation criteria.

The Study (2006) outlined a possible strategy towards addressing some of these remedies for education, but elements will be relevant for other sectors as well. The main proposals, endorsed by the Review Team, are outlined below:

The future funding flows will distinguish between:

- *Overall large investments in cross-MMDA facilities (e.g. training institutions):* These will be the prerogative of the central Ministry - the MOES;

- *Larger investments concerning the schools and facilities in Basic Education, e.g. classroom construction:* These will be handled by the District Assembly with the DEO as integrated part of the administration;
- *Salaries:* These will be determined centrally: Salaries should be centrally funded and managed by the center in the short term, until there is more clarity on the funds available to cover the needs, and until the payroll management reform system is fully implemented. MMDA will inform the central payroll about hiring and firing decisions within an overall envelope for the salaries. In the medium term, payroll management will be handled at the regional level, whereas locally managed payroll systems should be considered in the medium to long term. In the short term some flexibility to move funds from the salary to the other budget components and visa versa may be considered (particularly for the MMDAs with more management capacity), and in the medium to long term, MMDAs should be provided with more autonomy to utilise cost savings within one expenditure component on other urgent needs by relaxing the budget lines towards one common grant.⁶⁵ Some flexibility across the expenditure areas may be provided to MMDAs that have complied with certain conditions, e.g. fulfilled the teacher–pupil ratio and the autonomy can be linked to certain minimum conditions and performance measures⁶⁶;
- *Operation and maintenance costs concerning the administrative and inspection (DEO) functions at the MMDA level:* The MMDA with the integrated DEO will handle the funds at this level;
- *Textbook allocation:* MMDA with the integrated DEO will handle this. The costs will be covered by the grant for operation and maintenance (O/M) and other sources, e.g. from locally generated revenues;
- *Operation and maintenance of the schools:* The individual schools and the school management committees with supervision and support from the MMDA;
- *Smaller equipment and operational costs of the schools: (the existing capitation grant):* Will be handled by the schools and the school management committees.

In terms of the future funding system, separate grants to MMDAs should be established within the following core areas:

1. Salary funded directly by the central government or through an earmarked grant (in the medium term or whenever technical possible);
2. Consolidated grant for investments in Basic Education facilities to the MMDAs (covering school construction), either as topping up of the DACF with earmarking for education or as a separate school facility grant;
3. Grant for operational and maintenance (O/M) including coverage of the existing budget lines for service and administration divided in: 1) a budget line for MMDA O/M part and 2) a budget line for the O/M of the schools/institutions (topping up of the exiting capitation grants), supported by clear guidelines to the MMDAs and

⁶⁵ However, the present problem with this idea is that there is so much pressure to increase salary at the expense of non-salary expenditure

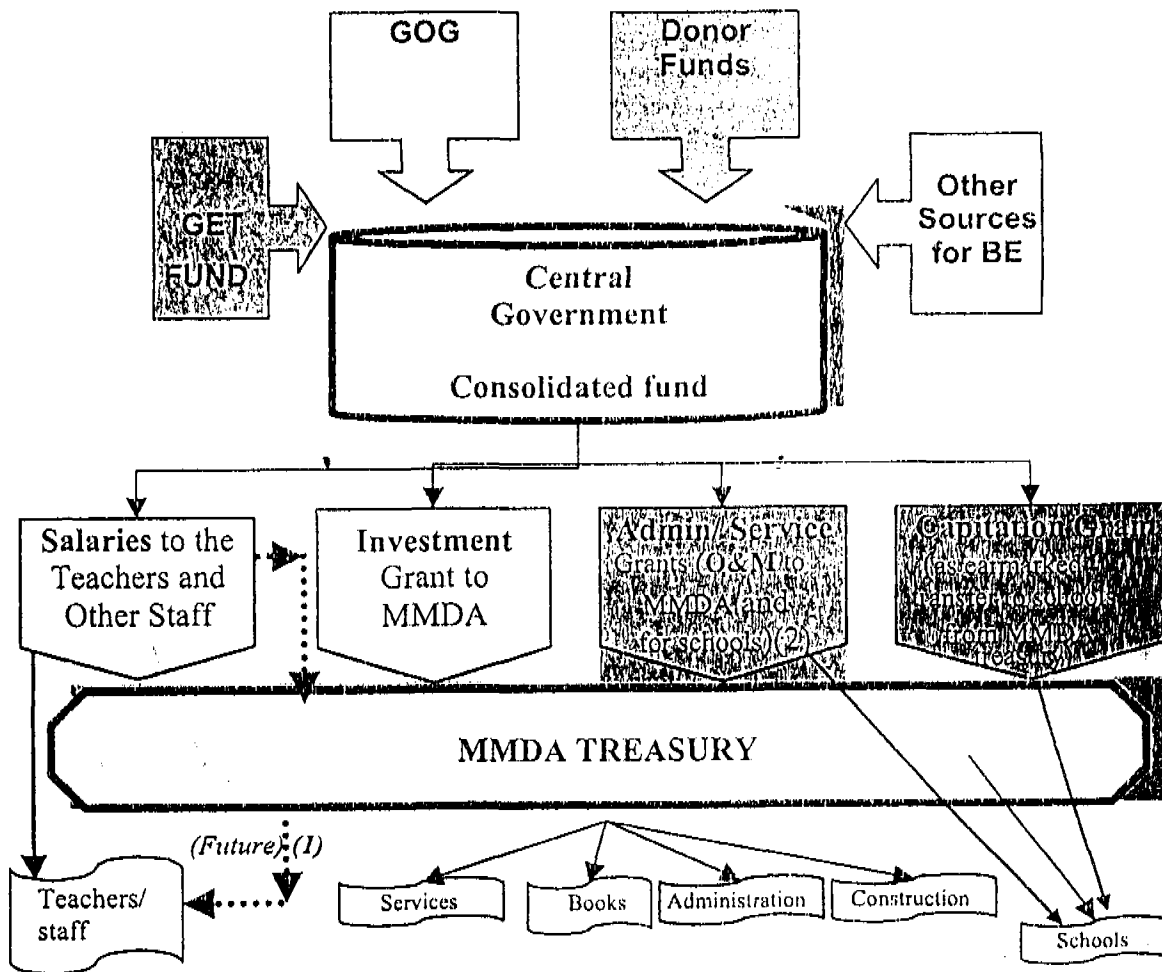
⁶⁶ As mentioned, the PPS has piloted this gradual system whereby the strongest MMDAs are provided with more direct funding streams. Furthermore, the so-called FOAT tool developed by MLGRD/Decentralisation Secretariat has defined a number of core indicators for MMDA performance in areas such as e.g. planning, budgeting, financial management, good governance etc. which may be applied, eventually after some adjustment.

4. Capitation grants directly to the schools through the MMDA Treasury with the O/M schools' part in top of the existing allocation.

Some of the funds (capitation grants) may be transferred directly to the schools, however, it is important that these areas are carefully selected, considering the MMDAs's options for composite planning and budgeting and cross-cutting priority-making to avoid a sector-ring fenced decentralisation process and to ensure full information and transparency is present. It should be noted that fewer grants/budget lines provide more autonomy to the MMDAs, but also demand more capacity at the local level to plan, budget and execute. The MMDA Treasury requires capacity building to effectively handle the increased funding flows. The figure below shows the proposed system of fund flow.

Figure 5: Future Funding Flow for decentralised Funding of Education

The Future Funding Flow Within Basic Education



(Future) when the payroll has been decentralised

(1) Re. direct payment for salaries: When the integrated payroll management system is fully implemented at the central level, and extended to the regional/district level, a grant flow (salary grant) to MMDAs should be considered.

(2) The O/M part will be divided in the budget guidelines between: A) the O/M for the administration at the MMDA level and B) the O/M for school maintenance and operations, which is proposed to go to schools together with the capitation grants.

The model aims to:

- Balance between the wish to adhere to national targets and the GPRS-II and the aim to decentralise decision-making power and funding to ensure local priorities, autonomy and efficiency,
- Harmonise, streamline, mainstream and rationalise the funding system, providing a few main channels (windows) for funding of local education services, see below.
- Harmonise and rationalise the various planning, accounting, auditing and monitoring/reporting procedures and modalities by agreeing with main funding agents about a common system using an improved GOG format.
- The reporting formats will be consolidated, harmonised and simplified to capture financial as well as activity and output performance.
- The model will support the reform started in the CAGD on direct transfer of funds to the regional level and MMDAs, and consolidate, harmonize and streamline the transfer flows from central to LGs, using the GoG transfer system
- The model will facilitate auditing, monitoring and value for the money reviews.

The model should be introduced in the short to medium term (i.e. over the coming 3-4 years), starting with the GOG core funding components. It may be considered to allow flexibility, e.g. 10-15% between the four grants (salaries, investments, O/M and capitation grants), provided that certain conditions of planning, budgeting and financial management procedures are complied with.

Concerning the investment part, there are two options: 1) to introduce a specific investment grants for basic education to the MMDAs, merging the various GOG investment components and HIPC-education grants, with the various development support from development parts or 2) top up the existing DACF grants with a certain earmarking for basic education school facilities.

In the medium to long term, earmarking of funds should gradually be relaxed along with increased MMDA capacity with the objective ultimately to move towards models with more autonomy such as one sector grant and or unconditional multi-sectoral grants. The ultimate goal is to provide the MMDAs with a great level of flexibility and autonomy within the overall development policy and national targets to adjust the inputs towards the local needs and to provide better incentives to balance wage and non-wage components in an efficient manner. The introduction of increased autonomy can be made against evaluation of the MMDA readiness, and may be phased in over time, particularly considering the urban – rural distinction.

4.8 Financial management and accountability experiences

The development and reforms in the MMDA financial management systems, procedures and practices should be seen in the light of the overall PFM reform in Ghana. A serious PFM reform programme is being implemented, initiated under the Public Financial Management Reform Programme (PUFMARP) in the 1990ties⁶⁷, and with core elements such as development of MTEF, the Budget and Public Expenditure Management System (BPEMS), payroll reforms, the Treasury

⁶⁷ See: the "2006 External Review of Public Financial Management, Volumes I and II", June 2006, PREM 3, The World Bank, for a review of the status and the future PFM plans.

Reforms under CAGD and other components, most recently outlined in the GoG Short and Medium Term Action Plan for PFM (S&MTAP).

Ghana has experienced a significant improvement in the most recent years in the PFM reform implementation. However, some of the areas where the central systems are still weak are: the quality and reliability of the budget, internal audit, information on resources received by the service delivery units, and proportion of aid managed by use of national procedures, are also areas where the MMDAs have experienced significant weaknesses.

Although there are elements, such as the initiatives on the new treasury reforms and on the composite budgeting, where MMDAs are addressed, the central PFM initiatives do not generally form a comprehensive PFM framework for the MMDAs. The analytical work under the PFM reform programme, CFAAs etc. only covers MMDA financial management issues in a rather rudimentary manner. The PEFA indicators have been applied for Ghana, but do not cover the MMDA financial management issues except for the performance indicator (PI-8): Transparency of Intergovernmental Relations (please refer to Section 4.5 for a review of the status on these indicators).⁶⁸ The most recent review (WB 2006⁶⁹) concludes that there is a great need for the PFM reform work to coordinate more with the MMDA reform agenda.

However, weak financial management and accountability systems, procedures and practices for the MMDAs have been documented in various other studies⁷⁰, and sometimes used as an excuse for lack of fiscal decentralisation in Ghana as well as in other countries. Despite this, it was the opinion of many stakeholders at the central and local levels that the capacity at the MMDA level in many places was similar to the centralised units and that it would be rather straightforward to improve this capacity along the transferring of additional functions to the MMDAs.

Parts of the weaknesses are caused by weak capacity at the MMDA level, lack of incentives to perform etc., but it should also be noted, that the weaknesses in the central government system, particularly the lack of timely, transparent, reliable information on the transfers, lack of consolidation of fiscal MMDA data, weak central government oversight, monitoring, supervision and follow up on MMDA malpractices, impact negatively on the MMDA performance.

Below are mentioned some of the main issues and the core challenges in MMDA financial management.

MMDA Organisation of PFM

The basic financial management structures are in place in most MMDAs, with an integrated MMDA Finance office with planning, budgeting and accounting functions (note that the accounting functions of the sector departments are not integrated and/or well linked with the central office).

There is a District Development Planning Unit (DPCU) and in some cases a functioning expanded District Planning Coordination Unit (DPCU) headed by a Planning Officer (mostly at least a First Degree holder). The concept of an expanded DPCU means involving the human capacities existing in the various Decentralised Departments in the Districts for effective coordination of district planning and management, but this has not yet been fully realised. MMDAs also have a

⁶⁸ There is an ongoing work under the PEFA framework to customize the PEFA framework to the local government level, and a test of new these indicators have been conducted e.g. in Uganda.

⁶⁹ *Ibid*, p. 29.

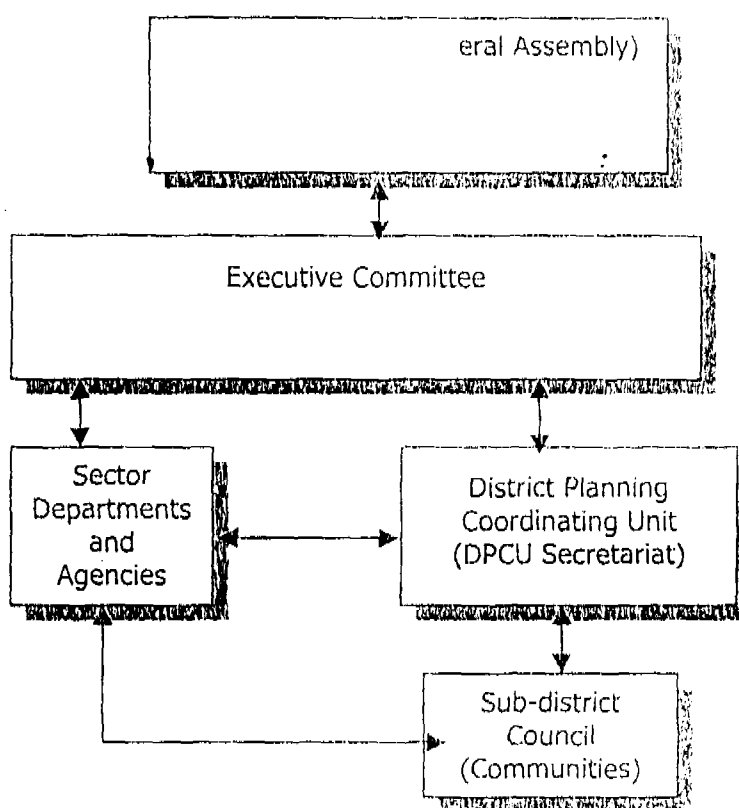
⁷⁰ E.g. the DDF Design Study – *Review of LG Investment Funding Practices* (2005), *op. cit.* and the Republic of Ghana: Country Financial Accountability Assessment March 2004 Draft (CFAA, 2004) supported by the World Bank, IMF and DFID.

Budget Officer (either a graduate or an HND holder and a MMDA Finance Officer (a graduate, a chartered accountant or part qualified professional accountant, posted from the CAGD), to steer the financial management functions. The CAGD and the MOFEP, were of the opinion that the capacity has improved in the most recent years, although further capacity building support is required and planned for. This was supported by evidence from the field visit

Planning and budgeting

As mentioned, NDPC issues guidelines for MMDA planning⁷¹ and most MMDAs utilise these in their local planning process.⁷² The MMDAs are guided by instructions and budget ceilings from the top, but will depend on data from the area councils, see the figure below:

Figure 6: Institutions for DA Planning and Budgeting



The MMDAs use the services of the Sub-Districts Councils, NGOs as well as poverty studies supported by some donors to target the poorest segments of the populations in many places. E.g. Poverty mapping has been supported by GTZ and is being used in Gushiegu District in the planning and budgeting process.

The DPCUs prepare the Medium Term Development Plan and the Annual Action Plans and Budgets. The planning guideline from the NDPC outlines the processes and outputs. The planning guideline also indicates harmonisation and submission requirements. The preparation of the Annual Action Plans and Budgets is guided by the MTEF cycle, which runs from 1st January to

⁷¹ NDPC Guidelines (2006), op. cit.
⁷² DDF, 2005, op. cit.

31st December. The annual planning and budgeting cycle is supposed to include the following activities:

- Mid Year Reviews;
- Preparation and approval of fee fixing regulations;
- Preparation of revenue estimates
- Issue of planning and budgeting circular to sector departments and sub-districts to prepare and submit plans based on national and MTDP priorities;
- Preparation of sector departments and plans and budget in collaboration with the DPCU;
- Harmonisation and consolidation of the plans and budgets by the DPCU;
- Submission of the plan and budget to the District Assembly's Executive Committee (EC) for consideration;
- Review of the draft Annual Action Plan and Budget based on the Exec. Committee's comments;
- Approval of Annual Plan and Budget by the General Assembly of the District Assembly;
- Annual Plan and budget implementation;
- Monitoring and evaluation of programmes and projects in line with agreed indicators
- Reporting on programmes, projects and activities.

The Annual Action Plan after endorsement by the District Assembly is submitted to NDPC through the Regional Coordinating Council (RCC), which harmonises such plans for the whole region for the period. According to the NDPC, the MMDA plans and budgets are often submitted late. The MMDAs are required to incorporate the plans of the district sector departments in the overall development plan, but is it the impression that there is still a rather weak cross-sectoral dialogue (and integration) on the planning inputs and priorities.

Furthermore, the planning and budgeting process are de-linked and the sectors are not included in the development budget and/or recurrent budget in most of the districts (e.g. in Adjumako- Enyan Essiam District Assembly).

Upon the approval of the budget the mandate falls on the District Chief Executive and the District Administration to execute the budget. Monthly trial balances are submitted to the District Assembly, the RCC, the Regional Director- Controller and Accountant-General, and MLGRDE.

Currently the district assemblies manage two budgeting and approval cycles whilst at the national level there is one. These are: (a) the recurrent/development budget funded by the locally generated revenue (IGF) which is prepared and approved in November / December for the ensuing year and (b) "supplementary"/development budget which gets delayed because (1) national ceiling to assemblies is dependent on the approval of the national budget and (2) the early completion of the work on it by the various parliamentary committees and the announcement of DACF budget figures. This means that the District Assembly may have to sit twice - first to approve the recurrent budget only and second, to approve the "Supplementary" budget some time in March-April of the following year.

Information from the field trips confirmed that there is lack of consistency in budget cycle for both funding sources i.e. budgets targeting Central Government Transfers and Internally Generated Fund sources of funding and in the extent to which the assemblies are actually involved in the deliberations. In some places, the assemblies are not involved in both cycles.

Budgeting

The budgeting process show signs of weaknesses in the field. Previous years developments and prospects for the future are not carefully reflected in many MMDAs' budgets and the difference between budget and budget execution is significant most places. Part of the problem derives from the central budget process, which predicts the DACF funds, see below.

Table 12: National Budgets Versus Actual

	2003	2004	2005
BUDGETED REVENUE	C17,520.1billion	C21,365.30 billion	C29,881.30 billion
ACTUAL REVENUE	15,244.20	23,487.90	27,791.40
REVENUE DEVIATION	(13)%	10%	(7)%
BUDGETED EXPENDITURE	C17,054.90 billion	C22,976.80 billion	C27,413.80 billion
ACTUAL EXPENDITURE	15,639.10	21,956.00	25,158.70
EXPENDITURE DEVIATION	(8)%	(4)%	(8)%

() = minus/shortfall.

Table 13: Sampled MMDAs: Budget Versus Actual (¢ Billion)⁷³

GUSHEGU DISTRICT ASSEMBLY

	2003	2004	2005
BUDGETED REVENUE	4.7	8.6	15.2
ACTUAL REVENUE	6.7	8.0	13.1
REVENUE DEVIATION %	42%	(7)%	(14)%
BUDGETED EXPENDITURE	4.3	4.3	15.2
ACTUAL EXPENDITURE	6.1	7.1	11.3
EXPENDITURE DEVIATION %	41%	64%	(26)%

() means minus. (rounded figures)

AJUMAKO/ENYAN/ESIAM DISTRICT ASSEMBLY

	003	2004	2005
BUDGETED REVENUE	6.8	7.6	7.7
ACTUAL REVENUE	7.2	9.0	7.0
REVENUE DEVIATION %	5%	18%	(9)%
BUDGETED EXPENDITURE	6.6	7.9	7.9
ACTUAL EXPENDITURE	5.5	10.9	8.9
EXPENDITURE DEVIATION %	(18)%	39%	13%

() means minus. (rounded figures)

ACCRA METROPOLITAN ASSEMBLY (A.M.A.) BUDGET VERSUS ACTUAL (CBILLION)

	2003	2004	2005
BUDGETED REVENUE	112,687.5	142,999.1	159,987.5
ACTUAL REVENUE	101,837.5	110,242.9	153,524.8
REVENUE DEVIATION %	(10)%	(23)%	(4)%
BUDGETED EXPENDITURE	112,687.5	142,999.1	159,987.1
ACTUAL EXPENDITURE	100,113.9	102,395.8	137,627.9
EXPENDITURE DEVIATION %	(11)%	(28)%	(14)%

() means minus. (rounded figures)

⁷³ Compiled from MMDAs Trial Balances obtained from the visits

From 2003 and 2005 the national revenue increased by 82 % and the expenditure grew by 61%. For the sampled districts the trend was as follows:

Table 14: Trends in Central Government and MMDA Revenues and Expenditures

District	Growth Rate Revenue from 2003-2005 (total %)	Growth Rate Expenditure (total %)
Central Government	82%	61 %
Gushiegu	96%	85%
Ajumako/Enyan/Exima	(3)%	64%
A.M.A.	51%	37 %

() = minus.

The table and other reviews⁷⁴ of MMDA revenues show that the development in MMDA revenues and expenditure varies greatly across the MMDAs, some MMDAs are able to follow the national development whereas others are lacking behind. It is interesting to note that the biggest MMDA (A.M.A) with great revenue potential has not been able to follow suit with the national development in revenues and expenditures from 2003-05.

Composite budgeting

Act 462 Section 92 states that "the budget for a district shall include the aggregate revenue and expenditure of all departments and organisations under the District Assembly and the District Coordinating Directorate, including the annual development plans and programmes of the departments and organisations under the Assembly".

Initiatives to pilot the so-called "*composite budgeting*" have been taken. 3 MMDAs started already in 2003 and during the last two years 25 MMDAs have been enrolled in the pilot test. MLGRDE plans to roll it out to another 35-50 MMDAs in 2007 and aims to have a nation-wide coverage (138 MMDAs) from 2008. The aim of the piloting was to assess the capacity of the districts to handle the composite budget preparation process. The composite budget seeks to integrate the budgets of all district departments into those of the district assembly's own budget and seeks to reconcile the national budgeting process with the assemblies' systems and to reduce delays. It has the intended advantage of further improving the coordination and efficiency of the management of financial and human resources at the district level. The objective is that the composite budgeting should provide a better overview for everybody on the resources and expenditure priorities, improve the linkages between the sectors and the MMDAs in terms of budgeting and the reporting and monitoring systems, to ensure better control with fiscal and HR at the district level, improve coordination, and harmonisation and integrate the district budget system with the national budgeting system⁷⁴.

Although the initiative is a first important step towards creating a conducive environment for fiscal decentralisation, it is far from a system with real integrated, coherent genuine budget for the district as a local area, something, which will require a reform of the organisational structure and decision-making authority at the district level, including an integration of the sector departments with the MMDAs core structures. The present composite budgeting, as shown from the field visit, is not directly linked to the planning process, and is merely a collection of budget information and consolidation at the MMDA level; i.e. it is not a tool for real cross-sectoral priorities and integrated decision-making.

⁷⁴ See Selected Speeches and Papers: Orientation Conference of District Chief Executives, 5th to 9th September, 2005.

Second, it is constrained by the fact that the accounting systems and chart of accounts of the MMDAs, which use 6 main expenditure items (not the MTEF system), and the MDA sectors, which use four components/budget lines: 1) salary, 2) administration, 3) services and 4) investments are different⁷⁵. Therefore, the regional treasury offices have had problems in actually using the new system.

Third, the fact that the MMDA budgeting process is broken up in a recurrent budgeting phase and a development (DACF) budgeting phase with different timing and approval procedures and late announcement of grant figures from the centre compared to the budget year constrain the move towards full integration.

Fourth, the various reporting formats for HIPC, development partner funding, DACF, GOG funding and other funding sources create problems.

Fifth, some of the sectors, apart from education, health and agriculture, perform the budgeting at the regional and national levels without the district departments' inputs. The departments are only given some quarterly allocation, which not always adequate for their operations. To ensure successful implementation of the composite budget there will be the need to accelerate the decentralization to the district level from the regional and national of the MMDAs, which have not decentralized to the district level.

Finally, insufficient training and incentives for the various partners actually to apply the system has hindered a fast move towards implementation of the system, i.e. the visit to Ajumako-Enyan-Essiam District Assembly revealed that the district upon submission of the composite budget to the regional level, was informed to use the old budget, as the regional level was not prepared to use the new system. This has been worsened by lack of an elaborated guideline for preparation of District Composite Budget, a need that is acknowledged by MLGRDE. Work has recently been commenced to address this gap.

It is hard to expect full integrated composite budgeting prior to firm initiatives to address these challenges. However, the composite budgeting initiative, if strongly supported and facilitated, may be an enabling factor for subsequent "real" fiscal decentralisation encompassing cross-sectoral priorities and dialogue.

Capacity in revenue mobilisation

The MMDAs' capacity in revenue mobilisation has been one of the weakest areas in financial management and is being addressed by various initiatives such as collection of best practices, see above.

MMDAs have "regular" and "commission" revenue collectors, but the capacity is generally low. Both the MLGRDE and the MMDAs agree that the system of revenue collection and the extent of revenue leakage require considerable overhauling. In Gushiegu District it was indicated that there is a gradual replacement of the regular collectors with commission collectors. There is also mistrust between commission collectors and the MMDAs for delayed payment of commission and full accountability of all revenue collected on the part of the MMDAs and the commission collectors respectively. The life style of revenue collectors also shows clear signs of leakage. As mentioned under Section 4.5, IGF, strong coherent initiatives are required to improve this area.

⁷⁵ This problem was also stressed in the recent PFM review report (WB 2006, p. 17) op. cit. The BPEMS has harmonised the two charts of accounts, but the reporting does still not follow the new chart.

Accounting and Treasury Reforms

The passage of Financial Administration Act 2003 (Act 654) and Financial Administration Regulations, 2004 (LI 1802) makes the management of the MMDAs responsible for financial accountability. Financial management must be integrated into its mainstream activities.

The following books of account and other records are established in order to account for funds received:

- The Cash Book:- which records cash receipts and payments;
- Stock Ledger:- This records materials and stationeries procured and issued to works etc;
- Fixed Assets Register: This records all fixed assets and relevant data on them;
- Contract Register: This book keeps accounts of all contract awarded and payment made to date;

Other records kept include:

- Payment Vouchers and Waybills Files
- Local Purchase Orders (L.P.O), Stores Receipt Vouchers (SRV), Stores Issue Vouchers (SIV), Files
- Register of Cheque Released
- Receipts Books and Other Value Books

In practice, districts keep the Cash Book; Contract Register; Payment Vouchers and Waybills Files; General Counterfoil Receipt Booklets; Local Purchase Orders (L.P.O), Stores Receipt Vouchers (SRV), Stores Issue Vouchers (SIV), Files. Audit reports from districts⁷⁶ shows that not all districts have Assets Register and that there is great room for improvement in the financial management practices.

One of the major weaknesses is the difference between the formal system, the FAA 654 of 2003, which requires that the Accrual accounting basis be used to prepare accounts to ensure full disclosures and completeness of information in the financial statements and the actual practice at the MMDA level. The MMDAs, like the Central Government, operates the Modified cash accounting basis instead of full Cash or Accrual accounting basis. Besides this, just as there is no CG Accounting Manual in place to guide uniformity in accounting for funds, there is no manual in place for the MMDAs.⁷⁷ In the absence of this, MMDAs generally rely on Departmental Instructions issued by the Controller and Accountant General from time to time. The Financial Memoranda, 2004, specifies "What" should be done, but there is a need to specify "How" it should be done.

A number of important recent initiatives have been taken by the CAGC in order to improve the accountability and smooth transfer of funds. These initiatives will potentially have a great facilitating impact on the prospects for fiscal decentralisation.

The GoG through the CAGD, acknowledges that the previous funding flow system and elements of the existing system are cumbersome for the MMDAs, which have to handle multiple requirements, lengthy approval procedures and difficulties in access to timely funding. The fragmented system makes it hard to track the utilisation of funds. CAGD is therefore spearheading a reform in the accounting and transfer flows of the GoG sources (it is expected that other sources will follow in

⁷⁶ 2004 Audit Report on District Wide Assistance Projects in the 34 districts in the three northern regions.

⁷⁷ It has been informed that such a Manual will be developed soon and that a company has been selected to perform the task.

the medium term), which is pertinent for the possibilities to move forward with fiscal decentralisation. The *objectives* of the reforms are to⁷⁸:

- Operationalize the concept of integrated financial management so that the treasuries become an integral part of the MDAs and MMDAs as the manager assures control over all resources including human,
- Streamline the current disbursement process in order to facilitate *fiscal decentralization*,
- Shorten the procedures for accessing and disbursing funds.

The reform should also make it easier for the MMDAs to monitor the total amounts available at the district level and pave the way for more composite budgeting procedures. The system is intended to address the previous weaknesses in over-centralizing control, undue delays and inefficiencies in disbursement processes.

The reform is introduced gradually. More and more funds will be transferred directly from the CAGD to the RECs and the MMDAs (i.e. not through the central MDA authorities). The reform is being rolled out in phases, and as on June, 2006 it was implemented for the "administration" component of the budget and in November 2006 it also covered the "service" component. The plan of the CAGD is to continue with the "investment" component of the budget from early 2007. The treatment and future involvement of the salary component is still considered. In practise, the reform entails a budget Release Process Re-engineering which allows transfers to be made straight to the Cost Centre instead of passing it through the Ministry/Head Office thereby shortening the duration it takes for the final user to access the fund for ultimate utilization. For now as soon as MOFEP approves the work plan and issues Establishment Warrant (EW), CAG upon that instruction issues Expenditure Authorisation (EA) direct to the cost centre and accompanies it with the Bank Transfer Advice (BTA). Copies of the EA and the BTA are given to the sector Ministry. CAG has begun direct transfers of funds for Items II and III (Item II – Administrative Expenses, Item III – Service Delivery Activities) to respective cost centres with the hope that the transfer of Items IV and I (Item IV – Investment Activities and Item I – Personnel Emoluments) will follow suit in 2007.

Second, the reform entails a division of the GoG's overall budget between the central MDAs, the regions and the district tiers of administration. It thereby provides a better future overview of funds spent at the local and central government levels respectively. This facilitates the development of a better basis for future sector transfer to MMDAs.

Third, the reform is related to capacity building support and training of the treasury staff and better alignment of the treasury at the district level with the district assemblies and at the central government level the establishment of central and stronger coherent Finance Divisions.⁷⁹

E.g. in the Education Sector, the ongoing reform of the administration component of the budget, means that CADG makes a Bank Transfer Advise to the BoG to transfer funds to the MMDA accounts (central treasury). Although the name of the account is "GES", it is substantially a MMDA treasury account with MMDA Treasury signature authority. At the same time, a warrant (and authorisation to spend money) is submitted to the DEO as spending officer. The DEO submits the invoices to the MMDA Treasury for payment. The MMDA Treasury then issues checks to pay contractors, suppliers/other costs. Information about the authorisation is submitted to the Ministry /headquarter as well.

⁷⁸ Controller and Accountant General's Department – Fact Sheet on Treasury Reforms. 2006.

⁷⁹ It was the impression of most informants that the capacity of the local treasury functions is rather strong.

The reform has started with the GOG funding. However, the second phase of the proposed reform will streamline the multiple funding sources (including statutory funds), to make a more comprehensive accounting, reporting and monitoring system. The reforms are linked to the merging of the Treasury, MMDA and local sector accounting functions into one consolidated centralised unit under the district assemblies. It is expected that the sector departments will have limited financial management operations (few accountants) and receive all funds from the central unit in the MMDA when the reforms are fully implemented.

The initiatives to reform the transfer flow are important for improving accountability and fiscal decentralisation, and the CAGD reforms will target some of the challenges within these areas, particularly the problems with late and unpredictable transfer of funds. However, a number of challenges remain:

Firstly, the *investments* and *service* components of the budget are still controlled by prior control and approval by the Ministry of Finance (commencement approval), hence MMDAs are restricted in these areas and do not get a general warrant to spend, even when funds are transferred, contrary to the case within the administration budget component and e.g. the DACF funding flows.⁸⁰ This is seen as a cumbersome procedure seen from a MMDA and fiscal decentralisation perspective.

Second, the reform only in the first phases deals with the GoG funding. E.g. in Education about 30 %⁸¹ of the funding of the Education Sector is provided by non-statutory and external funding, but even with the CAGD reforms, there are still no common reporting standards for disbursement and utilisation of funds. In addition the monetary contributions from NGOs, CBOs etc, in the Education Sector, e.g. for construction of classrooms, are not accounted for in the total resource envelop. A recent study of the transfer flows in Education⁸² supports the finding in the 2005 Education Sector Annual Report, which states that: "*The lack of reporting on external sources of funding is leading to a number of inefficiencies, ...*"⁸³.

Third, the multiple funding channels and off-budget funding flows, e.g. from the statutory funds, HIPC, development partners (DPs) and the NGOs, make it hard for the MMDAs to get a full overview of the funding and the real coverage of the needs. This impacts negatively on the possibilities to make efficient composite planning, budgeting and budget execution. For example many DPs and NGOs require specialized planning, budgeting, accounting, auditing and reporting procedures and formats, funds flows outside the GoG system with varying frequency, as well as the use of varying channels, multiple bank accounts and reporting systems.

Fourth, the district treasury will have double sub-ordination vis-à-vis the district assemblies and vis-à-vis the CAG. It is mentioned in the Fact Sheet of the Treasury Reform (2006) that disciplinary actions will be the responsibility of the head of the MMDA, but that the CAG shall be responsible for the recruitment and posting of accounting staff (including transfers). This arrangement may cause some challenges in the practical implementation.

Fifth, there is still no accounting manual for MMDAs to guide these in their financial management and accounting procedures and processing. The MLGRD/Decentralisation Secretariat has funding available for a MMDA Accounting Manual, but the CAGD wish to have a comprehensive

⁸⁰ Both CAGD and the Auditor General are of the opinion that this control should be loosened to provide the MMDA with more autonomy.

⁸¹ The exact figures are not known, as many NGOs do not report to MOES/MOF on the funding provided.

⁸² Steffensen, 2006. "*Study on Improving Basic Education through a more Transparent, Equitable and Better Financial and Performance Management*", Final Report, June 2006.

⁸³ See the Preliminary Education Sector Performance Report 2005, p 81.

accounting manual reform encompassing both central and local governments and dialogue on the way forward is required.

There is related to the above point, a wish to move from modified cash based towards accrual accounting practice at the MMDA level, but this is not possible without a strong system with guidelines, capacity building and training.

Sixth, although the reporting system for the spending of central government transfers is deemed to be rather efficient by the CAGD, it is acknowledged that the reports are not comprehensive and do not capture all the IGFs.

Seventh, there seems to be lack of clarity at the local level, e.g. in Ajumako District about the reforms, e.g. on the signatories and authorisation to use funds, caused by implementation bottlenecks at the regional treasury level.

Finally, there is a need for further considerations about how the reform is linked to the planning and budgeting systems, including the composite budgeting and reforms of the system for timely transfers of funds to the MMDAs from the main source, the DACF and better cash flow predictions. The latter is related to the possibilities to mobilise the estimated revenues at the centre, see the budget section.

Internal control

One of management's important functions is the design and maintenance of internal controls to achieve accountability at all levels in the district. In the MMDAs the internal control system is made up of accounting and administrative control systems. Typical elements of the internal control system include:

- Enabling legislation;
- By-laws, standing orders;
- Policies, objectives;
- Systems and procedures;
- Organization structures providing for segregation of duties;
- Job descriptions;
- Planning and budgeting procedures;
- Accounting manuals and procedures;
- Financial and physical performance reports;
- Internal auditing.

Another fundamental aspect of organizational control is clear delegation and segregation of duties. In the district the following functional positions exist to permit sufficient delegation and segregation of duties:

- The District Chief Executive who heads the Executive Committee of the assembly (which is charged with the responsibility, among others, of coordinating, integrating, harmonising development plans and policies, as well as overseeing the administration of the district) and symbolizes approval authority. Once the budget is approved it is the responsibility of the District Chief Executive to undertake the execution of it;
- The District Coordinating Director (DCD) who is the head of the district's central administration as well as the other decentralised departments and hence is the spending authority;
- The District Planning Officer (DPO) who heads the District Planning Coordinating Unit (DPCU) and supervises physical implementation;

- The District Finance Officer (DFO) who heads the Accounting and Finance Section is the accounting officer of the district;
- The District Budget Officer (DBO) who is responsible for district budget and warrant for disbursement of funds;
- The District Engineer (DE) who is responsible for works and services in the district;
- The head of Human Resource Section is in charge of staff matters;
- The head of Internal Audit Unit and the Local Government Inspector;
- Other sectional heads also exist in some of the districts.

The structure of the district assembly as an organisation defines and allocates responsibilities with delegation of authority clearly specified. Duties are segregated between the core officers. The District Planning Coordinating Unit is a monitoring and capacity building arm of the assemblies. Clearly therefore, any provider of development fund (government and donors alike) will expect an efficient and accountable fund management system. However the system of fund receipt, recording, disbursement, utilisation and reporting is better appreciated, harmonised, valued and respected when full documentation is found in an accounting manual, which is not present in the districts.

The general *disbursement procedures* are as follows:

- A short memorandum from the accredited officer goes to the District Chief Executive (DCE) the authorisation officer who minutes it to the District Coordinating Director (DCD) the Spending Officer, requesting a release of funds for budgeted activities;
- The DCD who is the chief administrative officer of the district, will deal with the remaining steps by instructing the District Finance Officer (DFO) to raise the Payment Voucher for release of fund for implementation of the approved activity;
- The Accounts Officer raises a Payment Voucher to be passed for payment by both DFO and the DCD;
- Cheque will be prepared for signing by the designated signatories usually the DCE and the DCD in one group and the DFO and the District Budgets Officer (DBO) in another group.
- Cheque is released after entries had been made in Cash/Cheque Payment Register. Recipient signs both the Payment Voucher (PV) and the register to authenticate collection;
- Unless decided otherwise, most transactions should be made by cheque – to enable audit trail to be established;
- All transactions involving purchase of goods and services must be receipted unless the value of transaction is immaterial; and
- All releases made in advance of actual implementation are on imprest held against the officer receiving the amount until it is fully retired soon after the activity has been completed.

In practice the system does not function very efficiently. This statement is supported by audit reports. As an example the audit reports of the District Wide Assistance Project implemented by 34 District Assemblies in the three Northern Regions has documented various problems as outlined below, and highlighting inadequacies, and irregularities in the financial management practices at the MMDA level. Some of these audit issues include:

- Delay in the release of DWAP funds
- Problems, deviations, deficiencies and irregularities on contract and procurement in areas of;
- Selection of DWAP subprojects not based on annual plan and medium term plan.
- Absence of tendering committee, tender boards, tender review panels,
- Invitation to tender not advertised in two widely circulated newspapers,

- No written commitment or endorsement from MDAs or letters of attestation confirming that recurrent costs will be met,
- Choice of subprojects not gender sensitive and community demand responsive,
- Contracts and procurement not based on competitive bidding,
- Problems, deficiencies and irregularities on contract, procurement and project implementation were identified in the following aspects:
 - Relocation of subprojects from one area to another,
 - Variation of subproject designs against District DWAP submissions,
 - Lack of contract file integrity,
 - Non-utilisation of appropriate local expertise for simple subprojects construction.
- In addition, irregularities and problems reported on contract and procurement payments were in respect of;
 - Wrongful payment of contingency fund without any justifiable price fluctuation,
 - Short deduction of retention monies,
 - Excess payment of mobilisation advance,
 - Unacquitted payment vouchers, e.g. non-attachment of payment certificates, disbursement form, warrant, receipts, monitoring and evaluating reports etc.,
 - Non-deduction of withholding tax and non remittance of withholding tax to IRS,
 - Full payment for uncompleted contracts,
 - Payment from DWAP funds for non DWAP activities.
- Problems identified with the completion and use of subprojects in the areas of;
 - Completion of subprojects but not in use,
 - Completion of subprojects but without facilities that can allow for their use.
- Additionally, problems and deficiencies reported on the monitoring and evaluation of subprojects were focused on the following:
 - Non-formation of District Monitoring Team (DMT),
 - Deficiency in the composition of DMT, example non inclusion of a woman, and representatives of beneficiary MDA and communities,
 - No work plan for the DMT activities,
 - Non issue of monitoring reports,
 - Absence of site visitors log book.

The audit issues above indicate that the system of internal control may not be functioning the way it is designed in order to manage the funds of the MMDAs. However, it should be noted that although many of the MMDAs had experienced some capacity gaps in financial management, the larger majority, 32 out of 34 DWAP districts managed to fulfil the basic financial management requirements and avoid severe malpractices in 2005. It should also be noted that the findings from the audit reports are used to target improvements in the systems, and that the performance audit allows for some coaching to overcome these issues.

The Internal Audit Agency Act (Act 658) of 2003, with establishment of the Internal Audit Agency, demands that each MDA and MMDA establishes an internal audit unit staffed with personnel to ensure efficient and effective internal auditing of the MDA or MMDA. The Internal Audit Unit will submit its reports on internal audit carried out to the Director General of the Agency through the Regional Coordinating Council.

Currently, apart from the metropolitan and Municipal Assemblies which have internal Audit Units staffed by the Controller and Accountant General (only 6 out of the 138 MMDAs have IAs in place), the rest of the districts do not have Internal Audit Units. The internal audit sections of the MMDAs have often been weak and non-existent in most MMDAs and the control has focused very much on detailed hands-on pre-audit instead of the genuine IA functions such as systems, procedures and

practices⁸⁴. Some do have Local Government Inspectors with limited or misunderstood scope and very low qualifications for the assignment.⁸⁵ The absence of internal audit unit demonstrates a weakness in the system of internal control.

Internal control systems, where established, are not properly followed. For example, there are instances where payments are made without warrants or warrants prepared after the payment had been made. There are also some projects, which are being implemented, but which are not captured in the Annual Plan or budget. A good example is the donor funded projects e.g. Danish Support to District Assemblies Phase II.

However, improvements are under way in the area of internal audit. Initiatives to train internal auditors for posting in the MMDAs have been taken and warrant strong support. The MLGRDE has presented list of applicants after the adverts for recruitment. The Director – General of the new Internal Audit Agency Board is currently training 936 auditors for MLGRDE. However the links to the present MMDA inspectors needs to be clarified

Reporting and auditing

The multiplicity of financial records required to be kept creates additional burden for the already overloaded district staff. Most MMDAs do not have the full complement of required staff to implement the appropriate control procedures relating to segregation and delegation of duties. There is audit fatigue flowing from multiple donor requests. GOG funds are audited by the Ghana Audit Service. Donor funds are audited by external auditors other than the Audit Service. It is possible for a district to experience more than four audits in a calendar year. (Assuming a district is managing funds from DANIDA, EU, GTZ, USAID). This also leads to multiplicity of bank accounts and cash books. For example, Bolgatanga Municipal Assembly has 31 bank accounts to reconcile with the cash books in every month, a problem also experienced in the three sample MMDAs. The Accra Metropolitan Assembly is currently managing about 75 bank accounts⁸⁶.

Monthly returns and trial balances are submitted to the District Assembly, the Regional Coordinating Council, the Regional Director- Controller and Accountant-General, and MLGRDE. For the District Assembly Common Fund, a copy of the Cash Transcript is submitted to: District Assembly, the Regional Coordinating Council, the Regional Director- Controller and Accountant-General, and the Administrator of Common Fund. Annual financial returns are not generally submitted on time (please refer to audit findings stated above). Furthermore, the audit reports do not include a formal audit opinion. As an indication, the audit reports of the District-Wide Assistance Project (DWAP) for 34 districts in the three northern regions for 2005 submissions did not imply a qualified opinion. The audit concentrated on general fund utilisation, compliance with GOG and DWAP Operational Plan, physical project execution issues. The preparation of annual financial reports was also commented upon.⁸⁷

Transparency and Publication

The local planning process commences with obtaining data from the sub-districts and communities. It is therefore possible for the citizens to influence the planning process within the priorities set by NDPC, but the experiences are that the situation varies greatly across the MMDAs, often depending on the possibilities to attract donor funding for involvement of stakeholders.

⁸⁴ World Bank, 2006, op cit. Volume II, p. 30.

⁸⁵ Staff establishment list of Local Government Inspectors, MLGRDE (Inspectorate Division)

⁸⁶ List found in A.M.A Final Accounts for December 2005.

⁸⁷ See the audit report of the DWAP.

The MMDAs are aware that the annual budget and financial statements should be published – at least posted on the notice boards of the Assembly - but this is typically not done. The visit to the sampled districts did not produce any evidence that the budgets and annual financial statements are published.

Most MMDAs have not established an Audit Report Implementation Committee as per the Ghana Audit Service Act 584 Section 30(1) of 2000. However, in many MMDAs the District Chief Executive and District Coordinating Director make sure the audit observations are responded to⁸⁸. Responses to Audit Observations were received from almost 30 District Assemblies implementing the DWAP fund in 2005.

In the absence of the Audit Report Implementation Committee (ARIC) the Auditor-General's audit reports, in accordance with Section 121 of Act 462, are circulated to MLGRDE, the Parliament and the District Assembly where they are discussed. These reports are however not published in the news media.

The MMDAs submit trial balances to the MLGRD and CAGD, but the data processing and follow up is not efficient. Both CAGD and the Inspectorate Division of MLGRDE are under routine obligation to analyse financial reports sent to them for further financial decision making advice to government. Differences observed during the field trip show lack of feedback from either CAGD or the Inspectorate Division.

Although the Ghana Audit Service (GAS) reported that their capacity is weaker than required to coop with all the MMDA accounts, it has managed to complete the audit up to 2004. According to stakeholders interviewed, the capacity to follow up regularly up on the audit queries in the GAS, the Parliamentary Committee and in MLGRD leaves great room for improvement.

Procurement

The new Public Procurement Act 2003 obliges all MDAs and MMDAs to form a: 1) Tender Committee, 2) a Tender Evaluation Panel and 3) Tender Review Board and to ensure that the appropriate procedures are followed at each procurement stage, to ensure that sound judgment is exercised in making procurement decision and that procurement above the approved threshold is referred up to the Tender Review Board. A Tender Evaluation Panel should be constituted for evaluation of tenders. Below is a brief introduction to some of the main requirements.

By the Public Procurement Act 663 of 2003, the MMDAs constitute Procurement Entities and are therefore required to perform the following functions among others:

- (i) Preparation and updating of procurement plans and showing contract packages, estimated costs of each package, procurement method and processing till completion of plan;
- (ii) Preparation of specifications, bidding documents for goods and equipment contracts, Request For Proposal (RFP) for consulting assignments;
- (iii) Arranging for advertising contract opportunities;
- (iv) Assisting and advising on bid and proposal evaluation of proposals received and recommendation for selection of consultants, contractors and suppliers;
- (v) Preparation of required procurement and other documents for review by funding agencies;
- (vi) Finalizing contract to be signed with suppliers, consultants etc;

⁸⁸ Field Response from Gushiegu DPCU staff.

- (vii) Maintaining a record of procurement and ensuring compliance with agreed procurement plans, thresholds etc;
- (viii) The procurement specialist will liaise with the Programme Manager/Coordinator and the Finance manager to prepare progress monitoring report;
- (ix) Monitoring contract implementation by suppliers, consultants, etc;
- (x) Confirming delivery of goods and equipment and recommending payments to suppliers;

Tender Committee

The Tender Committee functions to ensure that:

- the appropriate procedures are followed at each procurement stage;
- sound judgment is exercised in making procurement decision and
- procurement above the approved threshold is referred up to the Tender Review Board. The Procurement Entity will furnish the Tender Committee with the budget and plan for procurement for the period under consideration.

The Tender Committee meets at least once every quarter. The Composition of the Tender Committee is as follows:⁸⁹

Chairperson: the Metropolitan, Municipal or District Chief Executive.

Members: (a) the Director of Finance
 (b) a lawyer appointed by the Metropolitan, Municipal or District Assembly
 (c) one Member of Parliament; and three heads of Departments one of whom represents the beneficiary or user department.
 (d) Coordinating Director as the Secretary.

The quorum is 4 members including the chairperson.

The *functions of the* Tender Committees are the following:

- (a) Review procurement plans to ensure that they support the policies and programmes of the Assembly;
- (b) Confirm the range of acceptable costs of items to be procured and match these with available fund and budget;
- (c) Ensure that procurement schedules and specifications conform to the Procurement Act, its regulations and guidelines;
- (d) Ensure that necessary approval is secured from the relevant Tender Review Board in terms of the applicable threshold prior to the award of the contract.
- (e) Facilitate contract administration and compliance with all reporting requirements under the Procurement Act 663;
- (f) Ensure that stores and equipment are disposed of in compliance of the Act.

The thresholds for the review/decision of each of the bodies are listed below:

⁸⁹ Public Procurement Act 663 of 2003: Schedule 1(Section 17)

Table 15: Decentralised Procuring Entities – Threshold for Review/Approval Authority⁹⁰

Authority	Goods	Works	Technical Services	Consulting Services
Entity Tender Committee	Above C50m up to C250m	Above C100m up to C500m	Above C50m up to C250m	Above C50m up to C100m
District Tender Review Board	Above C250m up to C1.0b	Above C500m up to C2.0b	Above C250m up to C1.0b	Above C100m up to C500m
Ministry/Regional Tender Review Board	Above C1.0b up to C8.0b	Above C2.0b up to C15.0b	Above C1.0b up to C8.0b	Above C500m up to C3.5b
Central Tender Board	Above C8.0b	Above C15.0b	Above C8.0b	Above C3.5b

Tender Review Board

The composition of the Tender Review Board is a 5 – member - board chaired by a public sector person resident in the district with procurement, business management or engineering background appointed by the District Assembly. Other members are:

- (a) the chairperson, Works Committee of the DA;
- (b) the chairperson Finance Committee of the DA;
- (c) the District Directors of:
 - i. Urban roads/Feeder Roads
 - ii. Ghana Education Service
 - iii. Health Services and
 - iv. Ministry of Food and Agriculture;
- (d) The representative of the Attorney-General's Office in the district.
- (e) The secretary is the Director of Planning.

The District Tender Board manages contract award processes and the district awards the contract according to the board's recommendation.

The Tender Review Board by the Procurement Act, is responsible for the following:

- (a) Review of activities at each step of the procurement cycle leading to the selection of the lowest evaluated bid, or best offer with the view to ensuring compliance with the provisions of the procurement guideline;
- (b) Concurrent approval or otherwise to enable the procurement entity to continue with the procurement process;
- (c) Furnish the National Procurement Board with reports in prescribed format;
- (d) Participate in public procurement for a; and
- (e) Review decisions of heads of departments/entities in respect of complaints.

The Tender Review Board may engage the services of consultants and advisors with specialized expertise required from time to time. The Procurement Committee will provide the Tender Review Board with procurements that are above defined thresholds.

The District Tender Review Board has the following thresholds: (i) Goods: > ₵250m-₵1.0b; Technical Services >₵250m-C₵1.0b; (ii) Works >₵500m-₵2.0b; (iii) Consulting Services >₵100m-₵500m (see Table 4.12):

⁹⁰ Public Procurement Act 663 of 2003: Schedule 3 (Sections 21, 42, 44, 66)

The Tender Evaluation Panel

The Procurement Committee will appoint Tender Evaluation Panel with the necessary expertise to evaluate tenders. The panel will be assisted by the Procurement Committee. The Tender Evaluation Panel is expected to follow the predetermined and published criteria set for evaluation.

The system, with the thresholds and limits, if adhered to by the MMDAs, seem generally conducive for local procurement, but the position of the politicians in the Tender Review Boards should be considered as they will have a dual role as policy makers and implementers. The reason for involvement has been that the politicians as the people's representatives are in place to ensure that there is high-level transparency in the procurement process. If there is evidence to suggest that unfairness has been implied in the selection of a contractor, a supplier or a consultant for supply of service the Review Board comes in as final arbiter. However, alternative models may be considered.

Even though there are no proven evidence of political interference or influence in contract awards, fingers are always pointed at favourites of politicians executing one contracts or the other but the usual explanation that the contract was won on merit is quickly offered. Generally audit observations on MMDAs procurement always point to lack of procurement plan and adoption of inappropriate methods for procuring. The 2005 DWAP audit reports identified violation of procedures and sections of the procurement law especially in the areas of tempering with contract values to fit into approved thresholds, undertaking sole sourcing, granting mobilisation to contractors without performance bond or bank guarantees, advancing mobilisation amount in excess of requirement by law, awarding contracts without signing contract documents, releasing retention amounts earlier than necessary, procuring from non-VAT registered suppliers or contractors, inability to advertise contracts appropriately, etc. However, in terms of capacity to contract and execute contractual obligations the districts generally have the capacity to perform.

4.9 Fiscal Incentives

As mentioned in various reports,⁹¹ one of the main problems in the field of planning, budgeting and financial management has been the lack of MMDA incentives to improve performance, particularly the adherence and compliance with established legal framework, standards and procedures. Amongst the reasons for this are the muted downward accountability, insufficient inspection, audit and follow-up on audit queries, and lack of MMDA incentives in the resource allocation system. Examples of the problems are the lack of adherence to planning guidelines and lack of significant improvements of IGF. This is the case also in some of the MMDAs, which have received training and capacity building⁹². The grants from e.g. DACF and HIPC have increased significantly over the past 5 years, and have been perceived as "entitlements", but have not supported improved financial management, accountability and mobilisation of MMDA IGFs.

The DACF's formula includes a "Responsiveness" factor as a criterion in the allocation of funds, i.e. defined as the extent to which a district has improved upon revenue collected. However, the weight of this criterion is low. It started on a higher percentage of 20% in 1994, but has shrunken to 5% in 2006⁹³. Currently there are no performance grants for MMDAs. Districts and parliamentarians alike have been calling for an increase in the amount of the DACF by 2.5%, and discussions have been started to link this to the performance of the MMDAs. As mentioned above.

⁹¹ E.g. the DDF Report (2005), op cit.

⁹² Based on interviews with officials in MOFEP and the sample MMDAs.

⁹³ Memorandum to Parliament on the Proposed Formula for Sharing the Year 2006- District Assemblies' Common Fund Allocation, 6th February 2006. Administrator.

a DDF has been designed with a strong performance based component, and is awaiting ministerial assent for presentation to Cabinet. At the presentation of the DDF design to stakeholders it was convincing that there is a strong support to a incentive based grant system combining more resources to MMDA with introduction of performance assessments and adjustments against MMDA performance.

The plan to introduce a performance-based grant system to address these and other weaknesses is therefore encouraging, and such systems have proved to have an impact in other countries.⁹⁴ However, the design and implementation of this type of system is relative complex and requires a strong operational capacity and coordination. The Review Team has studied the draft of the DDF design and followed the discussions amongst the key stakeholders. The draft design note addresses many of the issues typically included in a DDF design. The objectives of the new system are to:

- Improve MMDA incentives in pre-determined performance areas,
- Provide additional funds for MMDA investments,
- Strengthen the MMDA autonomy and possibilities to make meaningful planning and budgeting,
- Improve the accountability of the MMDA operations and harmonise, mainstream and improve the overall grant system,
- Strengthen the scope and the efficiency in capacity building and
- Use the DDF as an important tool to strengthen harmonisation, mainstreaming and alignment of development partner funding with the government systems.

Many of the design issues are clearly outlined in the draft design, but within important areas such as the future institutional framework for organisation and management of the grant system various options have been discussed (see Annex 4.4 for the Review Team's discussions of the pros et cons of various options).

In the decision-making on these core issues, it is important to keep the main objectives in mind, particularly the need to harmonise and mainstream the existing multiple transfer flows. Hence, to make a case for a new isolated capital development transfer scheme seems less obvious, see Section 4.5.

It is also important to review the various components in the fiscal architecture in common, not randomly and piecemeal, i.e. the transfer system typically impact on the incentives to improve on the IGFs, hence strong revenue mobilisation incentives should be maintained in situations with great non-tapped revenue potential, which seems to be the case in Ghana.⁹⁵ The existing DACF formula does not pay significant attention to this fact. It is therefore important to review the incentives in the entire fiscal framework, not only in one grant scheme.

Other incentives are equally important. Central Government actually employs financial incentives to improve on revenue collection by the revenue agencies such as IRS, CEPS and VAT. The revenue collection agencies are assured of an agreed percentage of the target exceeded, a system also applied at the MMDA level for certain revenues. These more individual incentives, have to be seen in the light of the public pay reform, see the Chapter on Human Resources.

⁹⁴ See e.g. Larsen, Henrik and Steffensen, Jesper (2005), op. cit.

⁹⁵ To the knowledge of the team there has not been conducted a comprehensive revenue potential study, but based on anecdotic evidence and the field trip, it is concluded, that there is a great underutilised potential in most MMDAs.

The DDF framework received strong support from the validation workshop on the Policy Review of Decentralisation⁹⁶. Concerning the institutional framework, it was recommended that:

- The DDF should be hosted in the DACF and closely linked to this transfer system,
- The steering committee composed of central and MMDA representatives, should be part and parcel of a wider coordination arrangement for fiscal decentralisation issues (see Section 4.10), and should be chaired by the MoFEP.

4.10 Inter-governmental fiscal relations and coordination

A good system for intergovernmental fiscal relations and coordination is often one of the main pillars in a successful fiscal decentralisation reform process in order to ensure that all core stakeholders are informed, involved, have ownership, support a common course, have their interests represented and to ensure that all relevant skills and knowledge are utilised. Reforms will typically be more efficiently implemented, if there has been a conducive environment for collaboration amongst the main actors. Many countries have established LG finance commissions, various forms of committees or more low-key informal institutional coordination arrangements with inter-ministerial and intergovernmental coordination⁹⁷.

The present system in Ghana is characterised by an absence of such a framework, the major transfer flow arrangement - the DACF - has no overall board or steering committee with representation from various ministries and/or the MMDAs. This need will be increased with the coming sector reform and the changes in the funding arrangements required as part of the sector decentralisation reform. The need for coordination will cover areas such as:

- Grant design (allocation criteria, funding flow etc.), oversight and guidance of operations,
- MMDA revenue mobilisation efforts, discussions of ways and means to improve, endorsement of regulations and guidelines, etc.,
- Discussions and recommendations on planning, budgeting (including composite budgeting) and financial management guidelines;
- Accounting reforms and implementation, e.g. the future MMDA accounting Manual, computerization etc.,
- Reporting, monitoring and auditing initiatives, including the annual assessments of the MMDAs,
- Coordination of capacity building initiatives within fiscal decentralisation.

It is important to note that the dialogue in the committee/commission/coordination groups, will not lead to a major shift in the responsibilities for the various ministries and authorities within areas such as development of policy, the legal framework and operational implementation arrangements (e.g. MoFEP will be responsible for the budget guidelines and the NDPC for the planning guidelines), but the fiscal committee (and sub-committees) will be a strong advisory/coordination body and may take decisions within areas delegated by the existing authorities.

A draft Design Report⁹⁸ on the DDF proposes an oversight Committee with a shared chairmanship from MOFEP and MLGRDE, and outlined four options for the fund management (two within the DACF, the MOFED model and the MLGRDE model). The oversight committee will have a broad institutional composition with representatives from MoFEP, MLGRDE, MPSR, GAS, CAGD.

⁹⁶ January 30, 2007.

⁹⁷ E.g. the LG finance Commissions in South Africa, Uganda, Malawi, India, Australia, Nepal, fund board (Local Authority Transfer Fund) coordination unit in Kenya, and the inter-ministerial or intergovernmental committees/tasks forces e.g. Tanzania and Cambodia, and various forms of budget coordination arrangements, e.g. in the Scandinavian countries.

⁹⁸ November 2006 version, p. 23.

NALAG, NDPC, the Parliament Committee, LGSC, ILGS, GSS, coordinating donor for decentralisation and local government reform and the DDF manager.

Annex 4 outlines various options for the future management as well. The validation workshop on the draft findings of the Policy on Decentralisation (January 30, 2007) recommended that the DDF should be managed under the auspice of the DACF (with special secretarial support), and that the steering committee, which should not only deal with the DDF but with coordination of the overall fiscal decentralisation reform process, should be chaired by the MoFEP. The workshop found that the representation, suggested in the November 2006 draft was appropriate for the DDF funding arrangements. However, it was recommended to include relevant sector (Education, Health etc.) representatives when the sector devolution reforms take off, as these will have to deal with sector funding/grant issues, planning, budgeting, accounting, auditing, etc. It was not recommended to establish new institutional arrangements for each programme, grant or sub-fiscal decentralisation reform component as this will reduce the synergy between the various components, but rather to have sub-committees under a common fiscal decentralisation institutional reform umbrella.

The Policy Review Team supports the recommendations from the workshop. The final decisions should be taken in the light of the wish to streamline the funding system, harmonise and reduce the funding streams and with the basic aim to improve on the government grant system.

The ongoing reforms, reorganisation of tasks and responsibilities between central and local government, the establishment of the LGS etc. also require changes in the division of tasks between the main authorities at the central level. The plans in MLGRDE to follow the line in the LG Service Act of 2003 and make the LGSC responsible for the general monitoring of the performance of the MMDAs, including the inspection functions, could be a feasible improvement, although more analytical work is required. The reform should be seen in the light of the coming strengthening of the internal audit functions and the recent establishment of an independent Internal Audit Agency. The internal auditors will perform some of the functions of the present inspectors, although mostly focusing on the financial management issues. There is a need to clarify these roles.

As mentioned under the DDF design, the annual performance assessments of the MMDAs linked to the grant access, MMDA fiscal rewards and sanctions can be coordinated by LGSC, and the actual conduction of the assessments should be outsourced to ensure sufficient capacity, independence and neutrality.

Finally, the review has shown a great need to strengthen the collection, processing, storage and analysis of fiscal data on MMDAs. This section of MLGRDE (presently located in the Inspection Section) should be strengthened with extra qualified staff, equipment and capacity building to perform the functions effectively. This is also the case if parts of the functions and staff are being transferred to the LGSC.

4.11 Concluding Findings and Recommendations

Below are summarized some of the main findings on fiscal decentralisation:

Summary of the Main Findings

Overall strategy and fiscal framework

- There are various reform initiatives within fiscal decentralisation, but they are not fully linked and mutually strengthening. There is no fiscal decentralisation *strategy* linked to the overall decentralisation policy and framework, which could have guided the activities and provided

coordination. Ghana has signed various international declarations, which could provide guidance to such a strategy;

- Important parts of the legal framework and guidelines pertaining fiscal decentralisation have been elaborated in the most recent years, but a number of areas are still without proper framework and/ or outdated regulations such as: Budgeting procedures, IGF (rating and fee fixing), borrowing regulations and accounting procedures (lack of an MMDA Accounting Manual) and need for an internal audit manual and roll out of internal auditors to all MMDAs;
- The newly proposed draft Local Government Finance Bill aims to bring various pieces of MMDA finance together in one common act, and to improve on the MMDA revenue mobilisation, particularly the framework for borrowing. The draft Bill needs clarification in certain areas, such as on the central government approval/guarantee functions, level of MMDA revenue autonomy and various types of rates, see Section 4.2;
- The sector reforms, with restructuring of the MMDA organisation and new functional assignment, will influence the future MMDA funding arrangements, but preparations for this have been ad hoc.

Data on MMDA expenditure and revenues

- It is very hard to get a consolidated, reliable and comprehensive overview of the development in MMDA expenditure and revenues, e.g. data bases are not up-to-date, quality assured and consolidated, grant figures varies from source to source, MMDAs are using various accounting systems, etc. making decision-making based on actual facts very problematic.

MMDA expenditure assignments

- The absence of integration of the sector departments under the MMDA structure and the LG Act cause unclear expenditure assignments and blurred accountability, see also chapter 2.

MMDA revenues

- There is a *fragmentation* of the funding flows and grant modalities. There are multiple streams of funds to cover the costs of the same type of investments, particularly for capital development. This makes it hard to monitor and ensure proper financial management procedures and to ensure strong accountability;
- There are delays and *unpredictability* in the grant allocation to MMDAs, hampering local planning and creating inefficiency in spending;
- The DACF is generally a conducive grant and an important achievement for fiscal decentralisation, but needs to be improved in specific areas, such as the allocation criteria, information procedures, flow of fund, timeliness of transfers and budgeting procedures and reporting systems. The DACF's announcements of the MMDA allocations is done some months after the treatment of the national budget and within the ongoing MMDA finance year, i.e. after the completion of the MMDA planning process.
- There has been a tendency to create new funding systems, HICP and statutory funds, sector specific arrangements, etc. instead of improving on the existing system(s);

- There has been an increase in capital development budget over the past 10 years, but this has not been matched with similar increases in the recurrent MMDA budget;
- There are weak *incentives* for MMDAs to improve local governance performance, financial management and revenue mobilisation;
- The draft DDF Design Note is a good basis for elaboration of the final details on the system, and the DDF can potentially address many of the problems in the existing IGFTS. However, the impact will depend on the final design and the institutional arrangements;
- The regulations on *IGF rate and fee fixing are outdated* – date back to 1991. MMDAs are actually not using these regulations, and the practise varies from place to place. Initiatives are being taken by MLGRDE to up-date these guidelines. The Local Government Finance Bill does not provide guidance to this area concerning the level of MMDA autonomy on setting of tax bases and rates;
- Ceded revenues, which have never flowed regularly to the MMDAs, have in reality ceased from 2005 with the Act. 684 on Internal Revenues, 2005;
- There is a significant non-utilised *MMDA revenue potential*. The weak utilisation derives from problems with the legal framework, lack of MMDA revenue collection capacity, lack of interaction with the citizens and citizen awareness, insufficient support from the central government, and weak MMDA incentives to improve the IGF;
- The monopoly and weak capacity of the Land Valuation Board creates bottlenecks in valuation of properties;
- Lack of knowledge on the MMDA revenue potential for taxes/fees impinges on the possibilities to control and monitor tax collectors and contracts on revenue collection;
- The MMDA *borrowing* framework, including the legal framework, is not conducive for MMDA investments. The Local Government Finance Bill aims to address these bottlenecks, but needs clarification in certain areas.

Fiscal Capacity

- The fiscal capacity varies greatly across the MMDAs, and some of the urban authorities have a high degree of self financing, higher capacity to handle staff, functions, and fiscal resources.

MMDA Planning and Budgeting

- There are problems with the existing *MMDA budget cycle* and linkages to the central government budget process. The preparation of the recurrent and development budget processes is separated and not well linked, and there is a non-conductive timing and procedure for MMDAs budgeting. The development budget is in reality approved in the middle of the Finance Year;
- There are weak linkages between planning, budgeting and funding;
- The involvement of the MMDA political councils in the budgeting and priority setting process varies greatly across the MMDAs, and is constrained by the fragmentation of the budgeting process and the central approval process;

- There is a weak participation of the citizenry in the planning, budgeting and decision-making process;
- The ideas behind the composite budgeting are noble, but the implementation is constrained by structural, organisational, coordination and technical factors (see below).

Financial Management

- The new treasury reforms (including accounting and transfer flow reforms) are conducive for fiscal decentralisation but insufficient;
- The MMDA and the MDA charts of accounts differ significantly in reality, are not linked and consolidated. This creates problems for reforms such as composite budgeting. The MTEF is still not rolled out to the MMDA level, but the two systems, the MMDAs' line-based budgeting and accounting system and the MDA activity and output based MTEF system work in parallel, creating difficulties in reconciling expenditure and revenue information. Furthermore, there is an absence of a comprehensive and composite MMDA Accounting Manual. The latter has severe implications for the possibilities to create a proper overview of the total MMDA expenditures (various MMDAs use various systems) and to introduce the MTEF system at the MMDA level. The support from the centre to introduce new reforms is insufficient;
- There is a weak capacity at the MMDA level in most areas of financial management and procurement, but this is also the case at the central government level. Most stakeholders are of the opinion that capacity should be build along the transfers of functions, using a "learning by doing approach";
- Internal audit is only in place in a very few (urban) authorities, but initiatives have been taken to train a large number of IAs for future secondment;
- There is lack of follow up on the results from the external audit;
- The present *capacity building* support to MMDAs in planning, budgeting and financial management is not coordinated and coherent and not linked to any MMDA incentives actually to improve;
- New *procurement* guidelines have been issued and the system is under development. However, some of the politicians are involved in procurement through the Tender Review Board, a practice, which has been changed in other countries to avoid mixture of political and technical interests/issues;
- The computerization of the MMDA budgeting and accounting functions is weak and in a very incipient stage, and a detailed plan to roll out the BFPEMS (or downscaled systems) at this level has not yet been specified.

Coordination

- There is a weak institutional coordination of fiscal decentralisation initiatives and absence of a framework (body for coordination) and regularly contacts between the main stakeholders and reform components.

Recommendations

The recommendations are divided into policy level recommendations (area to be included in the policy on decentralisation) and more practical implementation-specific/technical issues to be addressed in the short to medium term. It is recommended to:

Overall Framework

- Develop a *Fiscal Decentralisation Framework* (strategy and implementation plan) as part of and closely linked to the overall Decentralisation Strategic Framework. The plan will have to deal with the principles outlined in Section 4.1 and the challenges outlined above. It should as a minimum cover the main fiscal decentralisation policy and strategic components listed in the **figure** below. Some of the core guiding principles for the design should be (**Policy**):
 - Expenditure assignments should be in accordance with the principle of subsidiarity (see chapter 2) and well defined for each tier of governance to pursue efficiency and accountability;
 - Revenue assignments should be clearly defined, stipulated in the legal framework, aligned with the MMDAs' functions and commensurate with these, allowing the MMDAs sufficient room to adjust the revenues to the local needs. Significant MMDA own source revenues (assignment of revenues) is important to ensure ownership, accountability and sustainability;
 - The intergovernmental fiscal transfer system should be harmonised, simple, objective, fair, transparent, timely, poverty sensitive and with an element of performance based allocation to promote MMDA efficiency and good governance;
 - Measures to improve MMDA financial management should be strong, comprehensive and well coordinated, and based on the notion that certain capacity can be build as a "learning-by-doing" approach, as long as strong incentives are put in place;
 - Systems of MMDA finance should promote downwards accountability, transparency and participation in the core issues, particularly concerning planning, budgeting and budget execution;
 - Various reform initiatives in the field of fiscal decentralisation, particularly in the areas of IGF, the transfer systems and budgeting and financial management reforms should be well coordinated. The fiscal decentralisation reform should be carried out in a balanced and sequenced manner and should pursue a proper balance between decentralisation of functions/responsibilities (expenditure assignments) and fiscal resources (revenue assignments) and balancing the aim of ensuring sufficient local autonomy/flexibility/efficiency in resource allocation with aim to ensure achievements of national targets and objectives.

Expenditure and Cost Calculations

- Ensure a *clear division of expenditure* assignments across the various tiers of government, according to the principle of subsidiarity, i.e. functions should be assignment to the lowest level possible, which has the capacity to perform. The integration of sector departments under the MMDA, as suggested in the recent report from the LGSC (see Chapter on Human Resources) will require a redefinition of functions and responsibilities of central and local authorities, legal changes and a new funding system. A review and discussion should be initiated as a matter of urgency to define these issues with the point of departure in the proposals from the LGSC. (**Policy and Implementation**)
- Develop a firm system of *cost calculations* and fiscal compensation when functions are transferred across tiers of governance to avoid unfunded mandates when functions are

transferred (this should be done as an immediate step in parallel with the activities in the bullet above). As revenue assignments should be consistent with expenditure assignments, changes in the MMDA functions should lead to a new funding system, **(Policy and Implementation)**

- As part of the activities above, initiate a comprehensive review of the costs of the present (e.g. building structures for basic schools, health centres etc.) and future MMDA tasks and responsibilities to prepare for the future funding system, using internationally recognized methods; **(Implementation)**

Revenue system

- The overall funding system should ensure a proper balance between MMDA own source revenues (IGFs), grants and other sources, in order to ensure local accountability, sustainability and equity in resource allocations **(Policy)**;
- There is a need for new funding instruments (sector funding systems) when expenditure assignments are transferred to the MMDAs as part of the coming reform and authorisations to spend should be provided directly to the MMDAs. The future grant system should reflect the future tasks of the MMDA, but will typically consist of non-sectoral grants (the DACF/DDF) as well as sector specific (earmarked) conditional grants. The design should ensure sufficient MMDA autonomy to adjust funding towards local needs balanced against the need to adhere to national development objectives and sector targets, see below; **(Policy)**

- There should ideally be a clear link between the type of *functions* assigned to the MMDA and the composition of revenues. Generally, MMDAs' functions can generally be divided into three types:

1. *Agency functions: The MMDA perform tasks and services without own influence (or little influence) on the level and quality of the services – the MMDAs perform the functions on behalf of the central government as agents (e.g. some types of pensions or teacher salaries)*
2. *Partly agency functions: MMDAs have only partial influence on the level and quality of services they provide e.g. primary schools in many developing countries today, where the MMDAs perform the tasks but with a number of norms and standards and where the teachers salaries and many other cost items are financed and controlled by central government;*
3. *Discretionary functions: The MMDAs have a strong control and responsibility over the services and the level and quality of these services themselves (e.g. administration, sanitation, smaller constructions, local roads etc.).*

The table below illustrates the principles behind the relationship between type of functions and the typical funding schemes, although other factors such as available feasible MMDA revenue assignments may have a role as well in the final decision-making:

Relationship between the type of MMDA function and their finance:

Type of Function/Financing	MMDA financing	Financed by central government e.g. through grants
Pure Agency functions	(-) Limited own financing	+ Specific grants to encourage the MMDAs to supply service, especially where certain minimum standards are necessary.
Partly Agency functions	+/- Partly funded by own MMDA revenue sources, partly by grants from the central government	+/- (Partly by grants, especially specific "earmarked" grants)
"Own decentralised services" The MMDAs have full discretion on the level and quality of the services	(+) Funded by MMDA own source revenues- e.g. through taxes, fees and user charges	Supplementary funding by general grants with the objective to correct horizontal imbalances and fill in the fiscal gap (through unconditional and/or equalisation grants)

- Elaborate the *DDF design* according to the objectives of the system and to ensure that it is closely related with the existing transfer systems and integrated institutionally with the existing transfer flow system, i.e. the DACF. The background for the development of the DDF was to reduce the number of funding flows and to rationalise and improve on the entire funding system. To pump more funds into the MMDAs is not in itself an objective without addressing the overall remedies of the existing grant system and the incentives to improve performance. Hence the design and implementation should focus on these core objectives of the grant, using, to the extent possible, the existing institutional framework, supported by extra capacity to drive the new system. The design should clarify the links to the fiscal sector decentralisation issues, particularly concerning the investment menu (MMDA utilisation of the grant). The DDF should be part of an improvement of the DACF allocation system and seek to impact on the efficiency of the overall intergovernmental fiscal transfer system; (*Policy and Implementation*)
- It is important to ensure a strong buy in from the GoG and the development partners to promote pooled funding, a harmonisation of funding flows, financial management and reporting systems; (*Policy and Implementation*)
- Ensure that a significant part of the future grant system should be *performance based* to ensure sufficient incentives for the MMDAs to improve performance in crucial areas such as financial management, accountability and good governance (transparency, involvement etc); (*Policy and Implementation*)
- Improve timeliness and reliability of the information transferred to MMDAs on the future intergovernmental fiscal transfers. The DACF indicative allocations should be announced to MMDAs prior to the beginning of the budget process to fit into the MMDA budgeting process, and not later than the time for the Parliamentary treatment of the national budget. The DACF administration should be proactive in the proposals for the distribution of the DACF allocations and submit the proposals together with the first figures on the size of the fund⁹⁹ (*Implementation*);

⁹⁹ This was one of the top priorities in the working group on MMDA Finance during the validation workshop on January 30, 2007.

- Accountability for the use of the DACF funds should be improved with clear and consolidated instructions for treatment of accounts and strong M&E system **(Implementation)**;
- The new Treasury reform with more direct transfer of funds to the MMDAs (and various cost centres) deserves full support from every stakeholder, and needs to be followed up by strong capacity building support to succeed; some of the problems CAGD is facing with non-compliance and delays in implementation derive from the fact that it is seen as a specific ad hoc budget policy. For effective fiscal transfers it should be a *national policy* to ensure that funds earmarked for sub-national governments (MMDAs especially) are transferred direct to such cost centres forming the basis for national budgeting. **(Policy and Implementation)**
- Continue focusing on *improving the IGF*, through review of the revenue potential, collection of best MMDA practices, improving data based on revenue bases, dissemination and capacity building and issuing of new and up-dated MLGRDE guidelines for handling of the core revenue sources, such as rates and licences/(permits), which provides sufficient room for improvement in revenue yield and MMDA autonomy. Two options should be considered:
 - 1) Allow MMDA the full autonomy to set the level on some of the taxes, charges and fees (bases and rates) or
 - 2) Provide sufficient room for autonomy within certain broad and transparently announced ceilings/limits. Central and local governments should also strengthen the cooperation in this area;
 - Central interventions in individual MMDAs should generally be avoid, unless the legal framework is breached or in exceptional cases; **(Policy)**
- MMDA revenues should be rationalised to focus more attention on the major buoyant sources. MMDAs should be assisted to focus and develop the yield from their core sources of own revenues; **(Implementation)**;
- Improve the system of *property valuation* and consider options to allow MMDAs to take own initiatives and to contract out property valuation; **(Policy)**
- MMDAs should take proper steps to improve their administration (tax base definition, rating, collection, monitoring etc.) along the recommendations in various studies and the central government should support them with capacity building;¹⁰⁰ **(Implementation)**
- Review of the entire system of taxation to explore the feasibility of devolving new revenue sources to the MMDAs; **(Policy and Implementation)**
- Improve the entire framework for *MMDA borrowing*, including the legal framework, raising the current ceiling (Cedis 20 million), making it more flexible and related to the MMDA creditworthiness, clarifying that the risks is a matter between the MMDA and the lender (market); **(Policy)**
- The discussions on the *ceded revenues* should be resolved as part of the coming DDF reform, and the future transfer scheme will substitute the supposed revenues from the ceded revenues, which have never flowed regularly to the MMDAs. **(Policy)**
- When, the future structure of the MMDA has been defined, see chapter 2, a review and subsequent measures should be taken on the revenue sharing between districts and sub-

¹⁰⁰ E.g. the recent review of Best Practices, 2006 op cit.

district authorities. There are two options – 1) funds are transferred directly to sub-district authorities, which have the sufficient capacity to handle these, or 2) funds are allocated as indicative planning figures, i.e. not transferred in cash, but ensured in form of IDP for each local area, e.g. in form of a fixed percentage of the total transfers (**Policy and Implementation**)

Phasing and fiscal capacity

- Consider to phase the reforms providing the urban authorities with more expenditure assignments and revenue responsibilities related to their greater fiscal capacity (**Implementation**).

Budget and Budget Approval

- Clarify the LG Act 462, on the issue of budget approval -- approval of the assemblies versus approval of the Minister of Finance and clarify the specific parts of the budget, which need approval (if any). If the budgets are within the budget guidelines, the approval should generally be a matter for the assemblies. There should be a general monitoring of whether the MMDAs are applying the budgeting guidelines; (**Policy**)
- Take urgent initiatives to improve the MMDA *budgeting process*, through timely, predictable announcement of revenue figures, integration of the MMDA recurrent and the development budgeting processes, integration of the sectors in the MMDA plans and budgets (along the integration of the departments under the MMDA assemblies) and sufficient capacity building support to MMDAs. Budgets should be approved prior to the start of the Finance Year; (**Policy and Implementation**)
- Ensure strong support to composite budgeting and ensure that composite budgeting has a real budget integration element and is linked to integrated planning processes and accounting reforms, including the MTEF system, adjusted to the MMDA needs for proper budgeting and accounting. The MMDA budget should be comprehensive (reflecting all revenues and expenditures), composite (reflecting all district departments) and encompass both recurrent and development components in an integrated manner (**Implementation**)

Financial management and reporting

- Strengthen and harmonise the MMDA *reporting systems* and procedures and the central government data management, particularly concerning the submitted budgets and accounts, trial balances etc., and to elaborate strong data-bases for monitoring and reviews. Reporting should pursue a strong linkage between financial and activity- and output-based reporting. MMDAs should start reporting on the four expenditure items and not the previous 6 items; (**Implementation**)
- Ensure that the *Public Financial Management Reforms* at the central level cover the need for fiscal decentralisation and strengthen the capacity building efforts at the MMDA level in a coherent and performance based manner, combining demand and supply driven activities. The reforms should not be sequenced in a manner addressing the central government issues first and then only subsequently the MMDA issues, but be parallel and address the core priority issues at each level in an integrated manner. An example of this is the introduction of MTEF, improvement in the linkage between the various charts of accounts and computerization of financial management procedures. The basic structure of the chart of accounts should be similar for central and local governments, with possible adjustment to local needs at the MMDA level to ensure consistency and coherence in aggregating the national budget. Implementation of a new classification and reporting system should have a high priority. A close cooperation between the activities under the NDAP (and fiscal decentralisation) and the PFM reforms should be pursued. The *MTEF*

approach should be applied with adjustment/customization to the MMDA level; **(Implementation)**

- Review the feasibility of *computerization* and systems and procedures to be applied for budgeting and accounting at the MMDA level **(Implementation)**;
- The composition of the Tender Review Boards should be considered with a view to separate political and implementation functions; **(Implementation)**
- (Part of the PFM reforms) Strengthen the *internal audit* functions by the new initiative to post IAs in each MMDA and move away from pre-audit to genuine IA functions such as system audit, sample audit of specific areas, audit of procedures, audit of performance etc. A supporting internal audit manual should be produced; **(Implementation)**
- Strengthen the system and coordination of monitoring, inspection and follow-up on MMDA performance, linked to the grant system mentioned above. A clear division of tasks between *internal audit*, external audit and monitoring and inspection has to be established to ensure synergy and avoid duplication. A review of the need to have inspectors at the MMDA level when internal auditors are posted should be initiated; **(Policy and Implementation)**
- Strengthen the capacity of the *Auditor General* in auditing and coordination of auditing of MMDA's accounts, instead of pursuing project- and grant specific separate audits; **(Implementation)**;
- When sectors are integrated, the main focus for reporting and information channels should change from *vertical reporting* between the district departments and the centre to interactions between the MMDA and the relevant central authorities and between the MMDAs and the constituencies (citizens, private sector etc); **(Implementation)**

Coordination

- Establish an overall *institutional coordination arrangement for fiscal decentralisation*, covering initiatives within IGF, grant reforms and financial management (and treasury reforms) and reporting systems, with representation of all core stakeholders (MOFEP, CAGD, MPSR, MLGRDE, LGS, DACF coordinator, DDF representative(s), NALAG, representatives from MMDAs, sector ministries) to support the introduction and implementation of fiscal reforms. Coordination arrangements should not be set up as a steering committee for a specific revenue funding flow or reform activity (e.g. a specific grant or PFM issues), but as a common coordination arrangement, linking the considerations on various issues with specific relevant working groups for core issues. As MoFEP is responsible for coordination of the intergovernmental fiscal transfer system, it would be naturally for this Ministry to chair the coordination arrangement¹⁰¹; **(Policy)**
- Central government oversight and monitoring of the MMDA finance should be strengthened, including reporting, collection, storage and use of fiscal data, consolidated reports etc. **(Implementation)**

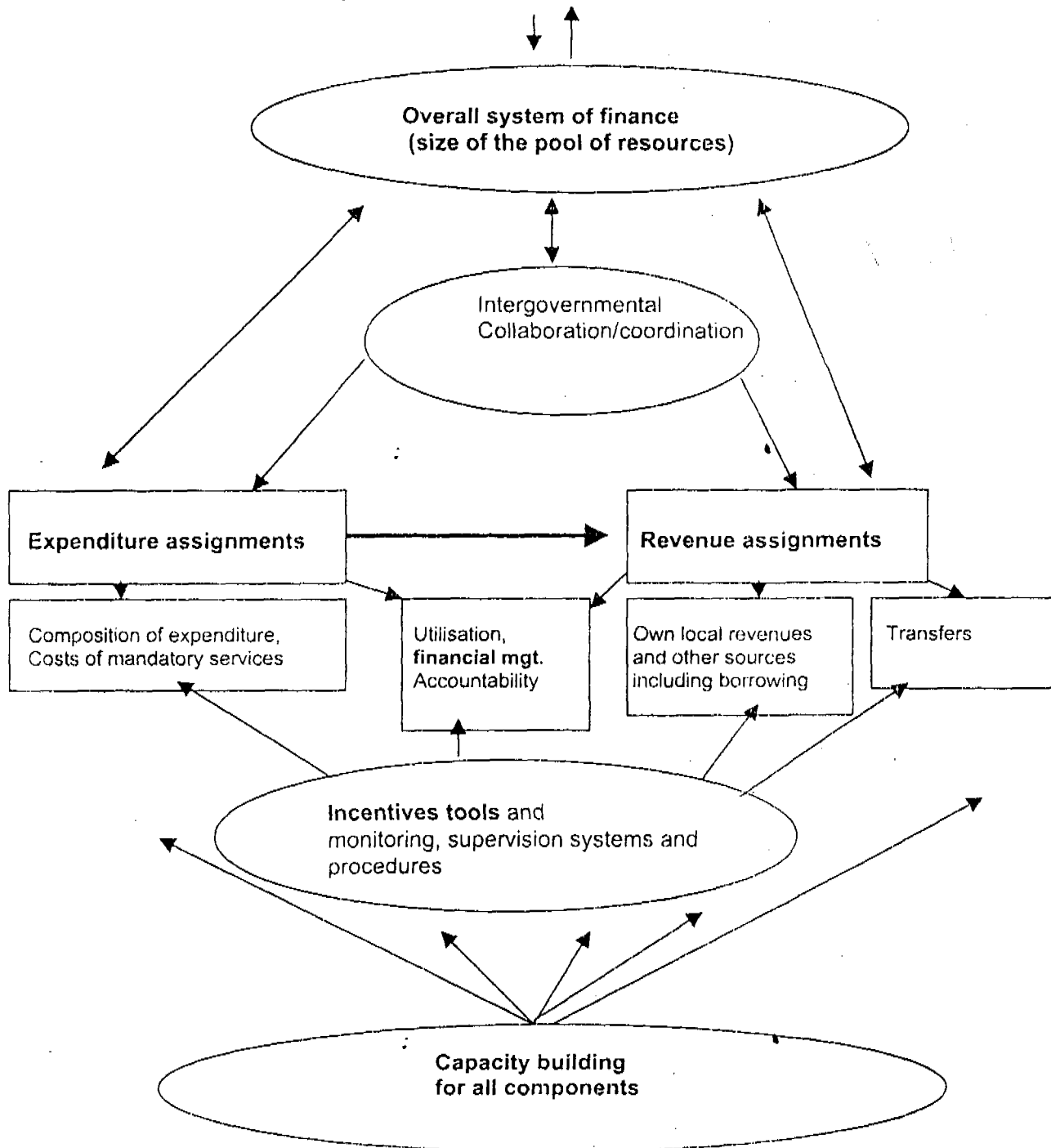
Capacity building

- Conduct extensive training of all relevant politicians and staff in financial management procedures and fiscal decentralisation in a coherent and coordinated manner based on a strategy and implementation plan **(Implementation)**.

¹⁰¹ This is in accordance with the clear recommendation from the validation workshop on January 30, 2007.

Overview of the Components of Fiscal Decentralisation:

Basic conditions/size of MMDAs, functions, available resources for public consumption, number of units and structure of the system



5. LOCAL GOVERNMENT HUMAN RESOURCES

5.1 Introduction

5.1.1 International Practices and Concepts¹⁰²

The literature on Local Government personnel systems is not as developed as the literature on fiscal aspects of decentralisation. However, it is well recognized that an efficient and professional cadre of LG staff is essential for LG delivery of quality services. Furthermore, it is evident that some level of local control of executive staff is essential for the local accountability of staff and thus autonomous and responsive LGs – which, in turn, is assumed to lead to more effective services. However, local level control of staff has some risks including:

- Bias in selection of staff according to local preferences without due consideration of professional competencies and rather, an emphasis on e.g. ethnicity or relationship with a specific politicians)
- Stronger local political pressure on LG staff – including pressure on them to undertake illegal payments to councillors or other financial mismanagement
- Limitations on career prospect for the higher level cadres, as possibilities for promotion within a specific LG are limited
- Excessive local recruitment drives and/or non-payment of staff salaries or pension contributions, which leads to accumulated debts that ultimately may have to be carried out by the central government

On the other hand, the above weaknesses can arguably also be found in central government managed systems, and the weaknesses in LG administration of personnel can likewise be argued to be results of e.g. the low level of financial resources available to LGs, insufficient capacities for HR management, inappropriate regulations or lack of incentives for proper LG management of personnel – all probably to be better resolved by improved support to LGs rather than centralization of responsibilities. Different models have been applied to resolve the challenges associated with LG personnel management. These can according to Mawhood¹⁰³ be categorised into three main systems:

- Separate - every LG acts as a completely autonomous employer; the LGs will hire and fire staff independently and also to a large degree determine conditions of service;
- Integrated - LG staff is composed of central civil servants, which normally will limit LGs measures for local accountability, as LGs are not employers and with limited or no involvement in central HTRM practices.
- Unified - LG staff are employed locally but organized nationwide in a single civil service parallel to the central one. The extent of LG's autonomy in hiring and firing locally can vary as the central institutions (such as a Local Government Service Council) may have significant powers over the process. Likewise staff's scheme of services will be determined centrally.

¹⁰² This section 5.1 draws significantly on Steffensen and Tidemand 2004. Decentralisation in East Africa – A Comparative Analysis, Synthesis Report.

¹⁰³ Mawhood, 1983: Local Government in the Third World – the Experiences of Tropical Africa

As we will see in this chapter; the system for LG personnel management has to date largely been an "integrated system": staff in LGs have largely been central government employed civil servants under central control. The LG Service Act creates a "unified system" system for personnel management. The extent to which some HRM aspects have been decentralised or will be decentralised under the LG Service Act will be discussed in this chapter.

Decentralized administration means that local government has the means to effectively deliver its functional responsibilities. To do so it must be able to:

- Hold staff to account
- Allocate staff where need is greatest
- Manage its financial resources
- Attract and retain skilled staff

5.1.2 Ghana LG HRM study approach and limitations

In order to explore the current situation of LG personnel management in Ghana we will in this chapter review the following key areas:

- Legal and policy framework with a particular emphasis on LG autonomy in hiring, firing and other key HRM functions,
- Local and central Government employment, structural features and trends
- Conditions of service for local government staff.
- Current capacities in LGs
- Capacity building initiatives and plans

Major challenges encountered in the analysis of issues for this chapter includes:

- The Legal framework is under transformation; the LGS Act was passed several years ago but is still to be operationalised; it is unclear to the team how far the LGSC has progressed in development of operational regulations (schemes of service, guidelines for local level HRM etc) and thus difficult to gauge how "ready" the LGS is for implementation just as we cannot assess the extent to which those guidelines are in correspondence to good international practices or not,
- Data on personnel management are scarce, and very rarely kept in a format that allow for assessment of the issues we tried to explore. At the Office of the Head of the Civil Service (OHCS) for instance it was not possible to obtain even a list showing the distribution of personnel in the Administrative Class deployed to the districts which was in the past appearing in the Hansard. Very scanty information was available on the sector departments in spite of the fact that, all Sector Departments sought approval for recruitment from OHCS. Similarly, OHCS had virtually no overview on centrally managed information for capacity building. Yet OHCS has the legal mandate for maintaining standards and efficiency in the Civil Service.
- At the sector level, particularly with respect to planning officers, the information on them was scanty and not readily available. Responsibility for HRD issues on the planning officers was handled by the Directorate for planning, monitoring and Evaluation and the HRD Directorate of MLGRDE in an uncoordinated manner.

- At the District Assembly level, the issue of poor HR management becomes even more visible. At Gushegu DA for instance, the officer in charge of the HR could not produce an establishment schedule showing the officers occupying the positions and vacancies available. The only available document worth considering as useful was a list showing the salaries of all workers of the assembly. This covered only staff of the District Assembly and conspicuously excludes information on staff of the decentralized departments.

5.1.3 Definition of "LG Staff Categories"

As discussed further below, the intended decentralisation of departments to MMDAs has not yet effectively taken place, although clearly intended in law (see chapter 2 as well as section 5.2 below). The discrepancy between policy, law and practice regarding the effective decentralisation of the so-called "decentralised departments" brings some confusion when MMDAs are asked about "their staff". The fact that some MMDAs from own source revenue employ a significant number of personnel out of the own internally generated revenue further create some confusion. However in summary we can distinguish between the following three main types of LG personnel in MMDAs.

Table 16: Terminology/Staff Categories of personnel in LGs

Current "Core MMDA Staff" Referred to later in chapter as "MMDA Staff"	These are civil servants deployed in the MMDAs and paid from the consolidated Fund. They include the DCD, DPO, DFO, DBO and other core staff within the MMDAs, which report through the DCD and in this manner "decentralised". They all appear in the official pay roll of Central Government.
Local Government own recruited staff Referred to later in Chapter as "LGs own staff"	Staff recruited by the district assembly and paid from the district's IGF. These are found in particular large numbers in the major urban LGs. These staff can be disciplined and fired by the assembly. Among them are graduates such as planners, lawyers, architects; but they are mainly composed of more junior staff such as sanitation officers, watchmen, security men, traffic wardens, revenue collectors, etc.
Local Government Service Staff	This term is used for the future new Service. Membership of the Service shall comprise persons holding non-elected public office in, RCCs, MMDAs, Sub Districts Councils, Secretariat of the Service and other persons as may be employed for the Service. This will include all existing MMDA Staff. The extent to which LG own recruited staff will be included is unclear and unlikely to happen initially.

5.2 Legal And Policy Framework for HRM in MMDAs

5.2.1 Historical Perspective

Since independence the management of the human resource in the Ghanaian Civil Service had been executed under a number of legal enactments and Instruments. The following are notable.

- Civil Service Act, 1960 (C.A.5);
- Civil Service (Disciplinary Code Regulations) Decree, 1973 (NRCD 197);
- Civil Service (Amendment) Decree 1978, (SMCD 199).
- Civil Service (Amendment) Decree 1967, NLCD 134.
- Article 190, Section 2 of the 1992 Constitution.
- Civil Service Law, 1993 (PNDCL 327)
- Local Government Act, 1993 Act 462.
- Local Government Service Act, 2003, Act 656.

The Public Service Commission (PSC) and OHCS have over the years being the sole agencies of Government responsible for recruitment into the service.

The 1992 Constitution and the Civil Service Law, PNDC Law 327 emphasized that "service comprised service in a civil office of government". And in accordance with this provision, the civil service was responsible for personnel management functions at both the central and local levels.

It is pertinent to note that it was in 1974 that a local government system described as the single hierarchy model evolved from the passage of the Local Administration Act, 1971, Act 359. Before then there was a sharp distinction between the Local Government and Central Government. The whole concept of government then was predicated on two different types of machinery for the administration of the country, one based in Accra, with branches in the Districts referred to as Central Government and the other separate and distinct, based in a number of well-defined localities and referred to as Local Government. The latter bodies were required to provide municipal services and social amenities including, environmental sanitation, public hygiene, schools, local roads etc. without due regard to whether or not they had the resources to accomplish the tasks.

The Local Administration Act 1971, Act 359 and Local Administration (Amendment) Decree 1974, NRCD 258 sought to correct this separate identity with the fusion of Central and local Government institutions through a process of institutional integration and manpower absorption.

To support local administration for effective decentralization, Central Government approved recruitment of manpower DAs whose wage bill would be paid from the consolidated fund.

For brevity, the new monolithic system of local Government never worked even though it was well intentioned and on paper looked feasible for the following reasons:

- There was no legitimate political and effective authority at the district level.
- The functions that were transferred to the Local Government (District Councils) were not accompanied by a simultaneous transfer of competence and means.
- The authority for District for District Councils to recruit and central Government foot the remuneration was abused by the Councils.
- Infrastructural and logistics needs of District Councils were not addressed.

- Centralization of fiscal controls as a result of the enactment of the Financial Administration Decree.

5.2.2 Current Legal and Policy Guidance

The current legal and policy framework for management of HR of MMDAs is based on the Civil Service Law, 1993, (PNDCL 327), the Local Government Act, 1993 (Act 462) and the Local Government Service Act, 2003 (Act 656).

The Local Government Act, 1993, Act 462, Section 38 subsection (1) established departments of the assemblies. Section 32 of the Civil Law, PNDCL 327, states, "The existing government departments in the district shall be known as the Departments of the District Assembly". Sections 33 and 34 of the same Law state further that Departments of the DA shall be headed by Heads of Department of the DA who shall be responsible for the efficient and effective performance of the functions and responsibilities assigned to the office. They were also to be responsible for the implementation of the decisions of the DAs. And Section 15 of the same Law states emphatically "a department of the DA shall not be a unit of the Ministry". Section 38 of Act 462 also confirms the establishment of Departments of the Assemblies.

Up to the enactment of the Local Government Service Act, 2003, Act 656, (and during this period of its take-off for implementation) the Civil Service Law has been the legal instrument guiding personnel management, manpower development, management services, salary administration and complaints at both the Central and MMDA levels.

During the implementation of the Local Administration Act 1971, Act 359 and the Local Administration (Amendment) Law 1974 NRCD 258, efforts were made to transfer personnel of Departments of Central Government to the Local Government (District Council). The following departments were supposedly decentralized to the District Councils.

- Office of the District Administrative Officer
- Ministry of Education (Ghana Education Service)
- Department of Social Welfare and Community Development
- Ministry of Agriculture
- Ministry of Health
- Controller and Accountant General's Department.
- Public Works Department
- Department of Game and Wildlife
- Department of Parks and Gardens
- Department of Town and Country Planning

The newly established Administrative Machinery of the District Council was under the District Chief Executive who was the head of the administration. Amongst others, the District Chief Executive was to exercise control over all departments and, in accordance with the Civil Service Act, 1960 (C.A.5) direct, control and discipline the staff of the Council.

The dominant role of the District Chief Executive was stressed in Sections 57, 58 and 59 of the "New Local Government June 1974" published by the Ministry of Local Government.

Section 57 identified the decentralized departments; Section 58 brings officers of the decentralized departments under the district Chief Executive for discipline, performance appraisal, control and supervision. Section 59, further explained that "for purposes of technical guidance, transfer, training, promotion and postings, the officers of the decentralized departments will retain their

memberships of their parent departments and ministries, save that in all cases the Head of Department will act in consultation with the District Executive Officer and the Regional Administrative Officer”.

A critical analysis of the framework reveals that even though conceptually the thrust was for a decentralized system, the approach lacked a clear definition of the type of decentralized system being pursued. After about fourteen years (1974-1988) of implementation, District Councils still had little control over their departments and the latter maintained dual allegiance with stronger vertical links with their parents departments at the regional and national levels.

Until 1997 the Office of the Head of the Civil Service controlled Personnel Management functions centrally. This control has now been ceded to the following:

- Chief Directors for staff at the ministries/
- Departments (Head Office)
- Regional Coordinating Directors for Regional Staff;
- Heads of Department (Head Office) for staff of Department;
- District Coordinating Directors for District Staff; however in practice this only applies to the office of the administrative officer (planner etc) as the other key departments haven't yet been effectively decentralised.
- Heads of Class for their respective staff

The creation of the Local Government Service (LGS) is yet to be effected. The LGS aims to ensure that all staff in MMDAs is integrated into one management structure reporting through the DCD and thus strengthen MMDA administration. However, the LGS Act is rather silent on the extent to which HRM functions will be devolved to MMDAs (see chapter 2). The Act transfers a very substantial range of functions from the MLGRDE to the LGSC (see chapter 6).

5.2.3 Overview of Current Personnel Management Functions in MMDAs

A detailed outline of the division of responsibilities for personnel management will illustrate the current rather centralised system for HRM in MMDAs: the two tables below present the functions for the MMDA staff and Ghana Education Service respectively.

In summary it can from the two tables be concluded that personnel management in general is highly centralised, especially for senior posts. For lower cadres, some personnel management functions have been deconcentrated, but in a manner that only to a limited extent institute any kind of local accountability of staff to the MMDA. For the GES personnel the lines of accountability are entirely through the sector ministry- for the MMDA the lines of accountability are through the DCD and thus partly the local authority itself.

Table 17: MMDA Personnel Management Functions

Function	Responsible Institution	Remarks
a) Recruitment	MMDA/Decentralized Depts. Limited to recruiting category "C and D" staffs. MMDA/Decentralized Dept. will conduct interviews, written examination or assessment of qualifications	Category A: include Directors: (RCD and DCDs) Category B: deputy Directors Category C staffs include stenographers, Higher Executive Officers, Assistant Engineer, Asst. Director etc. Category D staffs include Executive Officer, Revenue Staff, typist, etc. Recruitment is regulated by manpower ceiling and financial clearance controlled at the centre.
b) Employment	Formal employer is the OHCS.	As above
c) Appointment	MMDA/Decentralized Depts. Issues appointment letter.	However, cannot fire.
d) Transfers	OHCS Heads of MDAs Heads of Class RCDs DCDs	Staffs can be transferred without due regard to MMDA. A staff can request for transfer the MDA without due regard to the MMDA.
e) Promotions	MMDA/Decentralized Depts. issues promotion letter after conducting interview and obtaining Civil Service Council authorization.	Where officer to be promoted is of the same category as the head of Department, then the process will move to the regional level.
2) Staff Development	MMDA/Decentralized Depts.	DCD appraises all heads within the MMDA. The completed form is forwarded to Head of class at the Regional level. The Head of the Dept conducts performance appraisal within each department.
Performance Appraisal		
b) Training and other Staff Development	MMDA/MDA/Decentralized Depts.	MMDAs undertake training as a result of on-going funded projects. MDAs have specialized training programmes for their staffs, e.g., Public Admin courses at GIMPA for Admin officers. Community Development Officers, Planners, etc all have prescribed training programmes. Training and staff dev. is uncoordinated at MMDA.
3) (a) Salaries and salary Scale.	Centrally determined	MMDAs have no say in input in the determination of staff salaries. Once an employee's salary has been mechanized it is usually difficult to block, e.g. for disciplinary reason.
b) Incentives	Not institutionalized	Best worker awards are prevalent. Awards are not monetized.
4. Staff Relations a) Discipline Authority	MMDA/Decentralized Depts./Class Heads	This includes queries, warnings both verbal and written, and suspension at appropriate levels after consideration by a disciplinary committee.
b) Appellate Authority	MMDAs consider complaints from category "D" and E staff in the MMDA. RCCs consider complaints from other Civil Servants posted to the MMDA including category "C" "D" and "E" staff posted to the Regional Coordinating Council. MDAs do as above for category "C" "D" and "E" Civil Servants posted to the MDA. PSC and CSC handle petitions from OHCS from category "A" and "B" Staff.	Aggrieved petitioners may appeal to the Head of State if they are dissatisfied with the decisions of PSC and Civil Service Council.

Table 18: GES Personnel Management

Function	Responsible Institution	Remarks
1) Personnel Provision	District Directorate of GES up to senior superintendent. Directs selection to the National directorate GES for approval.	Processes applications, interviews and selects suitable applicants.
a) Recruitment	Approval is to verify the correctness of qualification and to ensure quality. Only a copy of the above activity is forwarded to the Reg. /GES for information.	Recruitment for up to senior superintendent For pupil teacher intake a quota is given from the centre and DA/GES
b) Employment	District directorate/GES employs teaching and non-teaching staff at the district level.	In addition DD/GES deploys staff to educational institutions.
c) Appointment	Director General GES	
d) Transfers	District Director/Course Centre Manager. Regional Director/GES	Normally based on individual request. DD effects Intra district transfer (from one school to another). Transfer from one district to another in the same region for disciplinary reasons.
e) Promotions	a) District Directorate b) Director General	Up to Principal Teacher (graduate and non graduate) For levels above Principal teacher. This is based on competitive interviews of suitable candidates
2) Staff Development - Performance appraisals	District Directorate Circuit Supervisors appraise Teachers Heads of Secondary Schools Heads of Secondary Schools are appraised by District Director GES/ Regional Director, GES.	Appraise Circuit Supervisors and Heads of 2 nd Cycle institutions. Fully district based at Basic school level. Heads appraise teachers in their schools. Appraisal forms are counter signed by District Director GES. Also District based. Involves the region only at one level.
b) Training and other Staff Development	District GES GES National level	District has its own programme based on its needs but within the overall framework of what is approved by GES. Training for newly appointed Directors.
3) (a) Salaries and salary Scale.	This is fixed at the centre nationwide. Director General's office.	Salaries and benefits are even for all at the same grade/scale under GES.
b) Incentives	National Directorate District/GES	Approval at the national level in favour of deprived areas. Criteria for selecting good performers are developed at district level; include provision of items in kind and cash. Shorter duration at a particular grade. Approval for study leave given quicker to those in deprived areas.(3 years instead of 5 years) Teachers Awards Day institutionalized.
4. Staff Relations	School disciplinary committee District Disciplinary Committee (DDC)/GES	Local and district based. The DDC handles all forms of disciplinary issues at the district level.
a) Discipline Authority		
b) Appellate Authority	DDC up to the GES Council	Disciplinary appeals could be carried from local level to the DDC, to the Director General's office and finally to the GES Council.

5.3 Local and Central Government Employment Trends

Time series data available is scanty to enable trend analysis to be undertaken. This situation has arisen as a result of ineffective HR management system. An analysis of employment trends for local and central Government would have indicated the readiness of Local Governments (DAs) to assume employment responsibilities on the one hand and Central Government's commitment to the implementation of decentralization on the other. Such a responsibility enables the DA to hire and fire, discipline, transfer and hold staff accountable.

The tables below show the number of staff employed and corresponding wage bills by central and local government respectively in some selected MMDAs over a five year period (2000-2005).

Table 19: selected data on LG employment trends¹⁰⁴

	Accra		Suhum		Tema		Cape coast		Ajumako	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
Central Government	1317	1377	90	102	NA	224	1998	1081	155	155
Local Government	1033	855	33	72	NA	476	1093	1116	--	--
Total	2350	2232	123	174	NA	700	3091	2197	155	155

Table 20: Selected data on LG Wage bills (billion Cedis).

	Accra		Suhum		Tema		Cape coast		Ajumako	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
Central Government	5.01	16.76	0.521	1.371	NA	NA	0.394	1.239	0.333	0.794
Local Government	*6.37	10.60	0.043	0.251	NA	3.60	0.083	0.259	--	--
Total	11.38	27.36	0.564	1.622	NA	NA	0.479	1.498	0.333	0.794

The two tables above together show that the MMDAs are making efforts to augment their staff strength by employing their own staff with Internally Generated Fund.

Decomposition of categories of staff employed show that the bulk of staff engaged by the MMDAs are revenue collectors, sanitary workers, watchmen, environmental health workers and labourers. However some Metropolitan and Municipal and a few of the resourceful DAs employed highly qualified professionals and paid them from their own resources. Ajumako has not been able to recruit its own staff because it cannot foot the wage bill- it is one of the poor Districts in the Central Region.

Tema Municipal Assembly, for example engaged the services of, an architect, a lawyer and two planners in addition to the other categories it normally employed.

¹⁰⁴ Source Primary data from MMDAs (* indicates that figure is for 2002)

Many other smaller districts including Jirapa-Lambussie, Lawra, Sissalá in the Upper West Region and Tano North and Tano South in the Brong Ahafo Region employed and paid for the services of personnel in planning who acted as planning officers or volunteers until their appointment were regularized.

The actual wage bill as shown in table reveals an increasing trend for the MMDAs though at varying rates and is indicative of the capacities of them to manage manpower issues when fully empowered. Accra, Suhum and Cape Coast show an increase. This positive trend notwithstanding, there seems to be no mechanism in place for rightsizing of local government staff to complement staffing arrangements from the centre.

There is therefore the need to put in place a mechanism to monitor type, quality and output of staffs recruited to negate any abuse of the recruitment dispensation.

5.4 Pay and Service Condition

Pay and Service Condition form a part of what is termed compensation that organizations provide their employees, in order to make them maintain a reasonable standard of living. In essence, the compensation is the financial remuneration the organization gives to its employees in exchange for their services.

In Ghana, pay and service conditions are determined centrally. For example, all directors appointed on the same day with the same qualification receive the same pay and enjoy similar condition of service irrespective of where they work. Generally, service condition enjoyed by senior civil servants including, car maintenance and kilometrage allowances, housing facilities, free medical treatment, use of official vehicles, payments in lieu of a houseboy, gardener and a watchman. A number of the items in the service condition have been consolidated into the pay package of the beneficiary civil servants.

Trends in Salary

The determination of salary and service conditions falls under the portfolio of the PSC in consultation with Ministries of Finance and Economic Planning, Manpower and Youth Employment and Public Sector Reforms. The Civil Service Law, 1993, PNDCL 327 also mandates the Service to initiate action on pay policy for the staff of the Service.

Available data show that there is currently about 650,000 employees in the public sector and that their average monthly salaries have increased by 360 per cent over the last six years under the Ghana Universal Salary Structure. *This increase accordingly moved a worker from an average monthly of ₵114,750 (equivalent to US \$17) in 2001 to ₵528,120 (equivalent to (US\$ 58) in 2005.*

Information from the budget statement for 2007 reveals that total wage bill for 2006 was ₵11 trillion which formed 40% of discretionary expenditure for the year. Total wage bill has been projected to increase to ₵13.2 trillion in 2007, equivalent to 66 percent of the discretionary expenditure. (Graphic 17th November 2006).

Table 21: Salaries of MMDAs Staff Compared

The table shows the yearly salaries of three categories of staffs paid from the consolidated fund under the GUSS between 2001 and 2006.

	2001	2002	2003	2004	2005	2006	% change 2001& 2006
Asst. Director/II	NA	7,152	8,592	9,636	16,500	16,548	*132
Typist Grade One	3,300	4,428	5,136	5,664	8,556	9,432	185
Sanitary Labourer	3,180	4,248	4,956	5,724	7,596	8,364	163

*Calculated using figures for 2002 and 2006. Source: Ajumako/Enyan/Essiam District Assembly.

During the study we did not receive background analysis from the pay reform analysis, so our observations are based on rapid review of locally available data. From the above table it appears for instance that salaries generally increasingly are compressed (the relative difference between professionals such as Asst Directors and support staff) is diminishing, which typically will lead to problems of attracting professionals. However, we don't have sufficient data to conclude firmly on these trends.

Pay Reform

Before the coming into existence of the Ghana Universal Salary structure (GUSS), the statutory body for determining and administering salaries was the Prices and Incomes Board. This body acted as the technical body implementing the legislative mandate conferred on PSC under Act 482 of 1994.

The Civil Service pay structure had 130 levels with 125 of them having five incremental steps. With the 130 levels, the relativity relationship between the lowest and the highest paid employee on the structure was 1:13.

The major problems of the system were:

- Requirements for jobs from one level to the next were not clearly defined.
- Overlaps on the 130 level structure.

With respect to overlap, salary of level A 46 step 5, for example, was the same as level A50 Step 1. Furthermore the salary increment from step 1 of one level to step 1 of the next higher level varies from 3.0 to 3.6 percent for levels A1 – A11; from 2.0 to 2.9 percent for levels A12 – A69 and from 1.1 to 1.9% for levels A70 – A130. There was therefore no incentive to strive for promotion and improved productivity.

To correct the disparities and inequities in the pay structure of the public Service, Government adopted in 1999 an incomes policy framework, which ushered in the Ghana Universal Salary Structure (GUSS).

The Central theme of the Incomes Policy then was equity: "equal pay for work of equal worth". Over the past five years the GUSS had been used to determine salary levels. It was considered effective until a year or two ago when it was thought otherwise. Inherent problems in the administration of GUSS identified are:

- The Central Management Board, which managed GUSS, had no legal backing and resources to maintain it.
- GUSS did not pay attention to demand and supply issues related to critical skills which required special compensation.
- There were disparities in compensation for those on the same grade.
- Ad hoc decision over the years had resulted in different structures within the public sector.
- A number of Public Service institutions were permitted to opt out of it and operate their own systems.
- To correct the distortion, the Government is to establish a "Fair Wages Commission" in 2007 to supervise pay administration in the country.
- Over the years none of the salary frameworks employed has had a compensatory factor that took care of differences in work locations. Even where ideas of incentives/ allowances representing hardships and inconvenience suffered by some staff have been considered and implemented (as in the GES) they were not effectively administered.
- During the early stages of implementation of the decentralization Programme Ministry of Local Government, Rural Development and Environment mooted the idea of a special incentive package as compensation for personnel working in districts considered deprived by the Ministry. It was however never implemented.

Given the opportunity to select locations of their choice, most personnel in deprived DAs will not opt for their duty station. The several complaints were the following:

- Limited chances of exposure and meeting people,
- Limited access to further education for personal and career development.
- Children of personnel from deprived districts normally lose in accessibility to quality education facilities.
- The general poor infrastructural development.

Any reform in salary administration would need to focus attention also on the varying location conditions under which persons of the same qualifications; grade and skills work to ensure that salaries are commensurate with these variations.

The list of districts categorized as poor and deprived has been captured in the GPRS II. And though not well researched, the general belief is that the deprived rural districts attract fewer number and lowly qualified staffs compared to the more developed ones, which have also the capacity to employ their own staff.

If Human Resource development is seen as a key factor in the ability of the MMDAs to deliver, then more attention should be given to the process that would facilitate the attraction and retention of quality staff in deprived rural areas.

Pensions

The social security pension scheme is currently the main scheme for administering pensions in the country. The Scheme established under the PNDC Law 247 of 1991 is managed by the Social Security and National Insurance Trust (SSNIT).

Even though small proportion of workers still have their pensions determined under the Cap 30 Scheme, the vast majority of employees in the Civil Service either at the Centre or MMDA levels come under the SSNIT pension's scheme.

Basically, the scheme insures a worker against contingencies of old age, invalidity and death. Every member of the scheme contributes five per cent (5%) of his/her salary and the employer adds 12.5 percent, making a total of 17.5 percent which is paid to SSNIT. To qualify for full pensions, a person must be 60years of age and should have made a minimum contribution of 240 months in aggregate.

Three factors are employed in determining pensions due a person who has attained the pensionable age of 60years. These factors are age, the average best three years salary and the number of months contributions have been made to the scheme.

Salary is the main critical factor in determining pensions. As mentioned, salaries are centrally determined and factors for determining salaries, though based on the concept of "equal pay for equal work", fail to factor in, location and job environment for which some forms of compensation might have been justified.

New Approaches To Pensions

The major criticisms against the SSNIT pension scheme are that it is linked to salaries. Where salaries are low, pensions would correspondingly be low.

A new pension scheme has been proposed. It is designed as a three-tier scheme. The first tier will continue with the SSNIT scheme. The second is a supplementary pension, which will be based on an agreement between the employer and the employee. The third will be on an individual basis in which an employee as an individual can purchase his security scheme from a private social security "Window".

A critical factor, which requires further attention, is improvement in salaries and service conditions. Salaries should be determined in such a way that hardship incentives / allowances are consolidated in the salaries.

Summary observations of pay and service conditions

In absence of access to detailed background analysis of the pay reform in Ghana it is difficult to make firm conclusions and recommendations, however, tentatively we conclude:

- At present there are no significant differences between salaries for staff deployed centrally and at local levels.
- The new local government service should establish a competitive scheme for the local government service. However as the public service currently expands in Ghana and as

there will be many different external pressure on Governments for selective salary increases it will be a significant challenge to ensure such a competitive scheme.

- From field observations, it appear foremost a problem to attract professional staff (engineers, doctors etc) and it is crucial that pay reform addresses this rather than give general pay increases. Lower cadres are not difficult to attract and retain and more significant decompression may be desirable.
- At present there are no special incentives in place to attract staff to remote districts – yet this is already a significant problem which may be even more challenging in future with a new Local Government Service and further decentralisation of responsibilities and staff.

5.6 HR Capacities in Local Government System

Ghana's local Government System is made up of Regional Coordinating Council and a four tier Metropolitan and a three-tier Municipal/District Assemblies structure (see organogram in Annex 5-1)

Apart from the Civil Service Law PNDC Law 327 which stipulates that the administrative headship of Regional Coordinating Directorate should be the Regional Coordinating Director with the rank of a Chief Director, and the headship of the District Coordinating Directorate be the District Coordinating Director with the rank of a Director, there is no explicit staffing norms for the various levels of the decentralized administrative structure. However over the past few years the following staffing patterns have evolved.

5.6.1 Staffing Pattern at the Regional level

A typical organization of a Regional Coordinating Directorate is included as Annex 5-2 and the staff typically includes:

Office of Regional Coordinating Director; this office has at least the following;

- Regional Coordinating Director with a University Degree and not less than a fifteen years experience as an administrator.
- Two Deputy Regional Coordinating Directors, both with University degrees and not less than between ten experience as an administrator
- At most four to five Assistant Directors with ranks of Assistant Director I or II. All are University graduates with experience of between one and ten years.

Regional Planning Coordinating Units (RPCU), this unit has at least the following:

- The Regional Planning Officer with rank of a Chief Economic Planning Officer (CEPO). The post holder is a graduate with a professional degree in Planning or other related discipline. He has not less than fifteen years experience in planning.
- At least one Principal Planning Officer who is professionally qualified as the CEPO but with less than twenty years working experience,
- At least three other officers in the grade of Senior Planning /Planning and Assistant Planning Officer,

Each of these officers is expected to have a University degree in Planning or other related Planning disciplines. Their number of years of experience varies from one for the Assistant Planning Officer to eight for the Senior Planning Officer.

Normally a Senior Planning Officer and above level would have obtained a professional charter from the Ghana Institute of Planners.

In addition to the planners the RPCU also has at least the following positions:

- One Regional Accountant
- One Regional Budget Analyst,
- One Local Government Inspector.

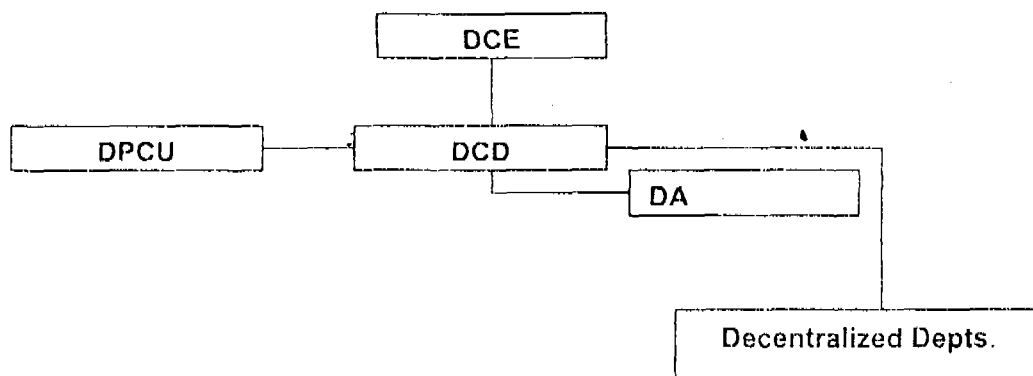
The above officers particularly the Accountant and budget analyst generally have a professional or University qualification.

Decentralized Departments at Regional Level

Virtually all the 22 decentralized departments are operational at the regional Level. Some however suffer from staffing problems. In many instances where a department is present, it may not have the right calibre of Officer heading it. In the case of the Department of Community Development, for example only a substantive Deputy Director as required in the establishment schedule heads three out of the ten regions. Similarly, the Department of Cooperative has none of the Regions headed by a Deputy Registrar as stipulated in the establishment schedule. The Department of Agriculture is about the only institution which is well staffed with suitably qualified personnel.

5.6.2 Staffing Pattern at the District Level.

A typical Organogram of the District Assembly is shown below:



As in the case presented for the regional level, the district is to have at least the following number of staff with the following qualifications:

Office of the District Coordinating Director:

- One officer serving as the DCD with the rank of a Director. He should be in possession of a University degree and should have a working experience of about fifteen years.

- One or more Deputy/ Assistant Directors with a University degree but with about ten years post qualification experience.

The current situation however is that for most of the DAs this is not possible. Some districts such as Birim North, Asuogyaman, Asikuma- Odoben, amongst others have Deputy Directors acting as District Coordinating Directors.

The Case of Tema Municipal Assembly presents another scenario in staffing patterns. The Municipality has a Coordinating Director with none of the three deputy directors scheduled for the positions of Works, HR and Finance/ Administration at post. It has however six Assistant Directors performing functions of Deputy Directors.

District Planning Coordinating Unit (DPCU): was scheduled to have at least three Planners with the highest ranked being of the grade of Principal Planning Officer.

Available data from the PPMED of MLGRDE shows the distribution of Planning Officers for six regions in the table above. The table indicates that the distribution of personnel is very uneven; a significant number of DAs have no planners, whereas others have more than one.

The Principal Planning Officer and other Planning Staff working under him have similar qualifications as indicated for planning officers, in the RPCU at the Regional level.

The DPCU has other officers such as the District Budget officer, Local Government Inspector and the District Finance Officer. These officers particularly the budget officers have first degrees in Economics, Geography, and Sociology with additional training by the Ministry of Finance and Economic Planning.

Most of the District Finance officers have professional qualification at middle or intermediate levels – particularly HND in Accountancy. Currently the CAGD has a total number of 62 suitably qualified Accountants in the 138 districts – an apparent shortfall.

Decentralized Departments

The LGSC recently developed an overview of the status of the decentralised departments at MMDA levels and with main findings summarised in the table below.

Table 22: Update on Integration of line Departments into MMDAs¹⁰⁵

District Department	Constituent Departments	Progress to Date
1. Agriculture	<ul style="list-style-type: none"> a. Animal Health & Prod b. Fishes c. Crops d. Extension e. Agric Engineering f. Livestock g. Veterinary h. WIAD i. MIS/M&E j. PPRS/Seed Inspection 	<p>MoFA has a number of initiatives as follows:</p> <ul style="list-style-type: none"> • Merged and integrated all these agencies at the district and regional levels • Undertaken major re-posting of staff (Directors) at the regional and district levels • Allocated FEs to regional and district levels
2. Works	<ul style="list-style-type: none"> a. Public Works b. Rural Housing c. Feeder Roads d. Assembly's Works Unit 	<p>Public Works Department is represented in some few districts. Rural Housing Department is found few districts. Feeder Roads Department is also in few districts. Each Assembly has a Works Unit</p>
3. Physical Planning	<ul style="list-style-type: none"> Town & Country Planning Parks & Gardens 	<p>These two agencies are well represented in all districts</p>
4. SW & CD	<ul style="list-style-type: none"> a. Social Welfare b. Community Dev. 	<p>These two agencies are well represented in districts</p>
5. Trade & Industry	<ul style="list-style-type: none"> a. Trade b. Industry c. Cooperatives 	<ul style="list-style-type: none"> a. Cottage Industry has been fused into the NBSSI. b. Trade is only represented at the regional level c. Cooperatives appears to be the only Department represented at the district level
6. Finance	CAGD	Represented in all districts
7. Education Youth & Sports.	<ul style="list-style-type: none"> a. GES b. Youth c. Sports d. Library Board 	<ul style="list-style-type: none"> a. Youth, Sports and Library are represented only at regional levels; b. GES out of the LGS, albeit represented in all districts c. Staff of GES perform these function as part of education service delivery
8. Health	<ul style="list-style-type: none"> a. ODMoH B. Environmental Health 	<ul style="list-style-type: none"> a. Act 525 enacted to create Health Service as a Centralized service. GHS found in all Districts b. Environmental Health found in almost all MMDAs
9. Disaster Prevention	<ul style="list-style-type: none"> a. Fire Service Dept b. NADMO 	<p>Their respective laws as centralized agencies set these two agencies. District Assemblies however have functions in respect of these areas.</p>
10. Natural Resource Conservation	<ul style="list-style-type: none"> a. Forestry Department b. Wildlife 	<ul style="list-style-type: none"> a. The above two agencies absorbed into Forestry Commission b. Assemblies assigned functions in these two functional areas

¹⁰⁵ This table is from the report by LGS November 2006: The Establishment of Departments of District Assemblies (November 17, 2006), Annex A page 6.

District Department	Constituent Departments	Progress to Date
11. Central Administration	a. General Administration b. District Planning c. District Budgeting d. Births & Deaths e. Information Service	General Administration, Planning and Budget are integrated at the district level and form the core of administration in every district. Integration other department like the ISD and B&DR into the Assembly yet to take place

The LGS concluded that the decentralised departments largely were in place – the detailed reports from the LGS have not been made available to the team, but the summary tables of the LGS Report (Annex A) indicates that some departments, e.g. works departments will require substantive recruitments before been operational.

Staffing at the Sub District level

Town/Area Council: This is the last level of the administrative ladder of the DA. It is primarily tasked with the responsibility of mobilization of resources for development at the community level. The establishment schedule of the Town/Area Council is three, comprising of a Clerk of Council, a Treasurer and a Secretary.

At the moment about 95 per cent of the Councils are not functioning effectively because the MMDAs which are expected to pay the salaries of this staff cannot afford to do so.

In a study of staffing situation at the sub district level in the Brong Ahafo commissioned by the Decentralization Secretariat of MLGRDE in 2005 the following emerged:

- Out of the 145 chairperson/clerks of the sub districts in BA, 27 percent possess the General Certificate of Education, ordinary level; 6 percent had University education and 15 percent had the Middle School Leaving Certificate.
- 34 percent of the secretaries had GCE O' Level whilst 17 percent had either GCE A/L or SSCE.
- 21 percent of the treasurers had GCE O/L and 7 percent had either GCE A/L or SSCE.

This information points to the fact that the majority of sub districts have low calibre of staff.

5.7 Capacity Building in the Local Government System

5.7.1 Introduction

Capacity building relates in its broadest sense to any activities that enhance the ability of an organisation to meet its intended objectives. Although commonly restricted to "training", the term should also human resource development in a broader sense, organizational and institutional development, logistics, resources, adequate incentives and change management.

Thus, HRM as a sub component of capacity building will relate to, issues of recruitment and retention of employees; training; career planning, Institutional development amongst others.

From issues raised about the dimensions of capacity building, it becomes apparent that a number of institutions have a role to play in capacity building. The Table below sets out to list institutions and identify the specific role they play in capacity building in local government.

Table 23: Institutional Roles in Capacity Building

Role/Activity	Institutions
1. Recruitment	MMDAs, Sector Ministries Sector Departments OHCS (Grade A Staff) LGSC, PSC
2. Compensation – Pays and Salaries	PSC OHCS/OHLGS PSC/Central Management Board. Fair Wages Commission
3. Institutional/Organization restructuring	OHCS/Civil Service Council/MSD PSC Ministry of Public Sector Reforms
4. Career Planning	OHCS/OHLGS (Administration) MLGRDE/NDPC (Planning) MDAs, GES, GHS
5. Training	OHCS/OHLGS MLGRDE (Planning) ILGS, NALAG NDPC (Planning) MDAs, MMDAs Dev. Partners

5.7.2 Current Approaches to Capacity Building for LGs

Decentralisation Secretariat undertook an analysis of LG capacity building initiatives in 2004¹⁰⁶. The main observations of the study are still valid:

1. There is a high prevalence of programme specific, parallel management structures;
2. The district tier of local government receives much more support than the regional and sub-district tiers;
3. Geographically as well as thematically, capacity building efforts overlap to a significant extent; this compromises optimal use of resources while at the same time creating considerable opportunity costs for recipient organisations;
4. Monitoring and evaluation is conducted at the level of individual programmes, thus compromising methodical performance monitoring of local government as a system;
5. Suppliers of capacity building services are not appropriately managed and coordinated (e.g. no eligibility or accreditation criteria, no performance monitoring);
6. To a very large extent, institutional weaknesses in local government are responded to in the form of training and semi-capital support; this approach seems to overlook structural capacity issues like staff vacancies, logistics, funding and incentive structures;

¹⁰⁶ Ministry of local Government and Rural Development, Decentralisation Secretariat: "Comparative Assessment of Local Government Capacity Building Initiatives and Institutional Providers for the Period 1999-2004". Final report September 2004.

7. Comprehensive institutional base-line assessments are rarely conducted, also not at the level of individual programmes; :
8. Although all programmes have been formulated within the Government's broad development agenda, the link with the Medium Term and Annual District Development Plans is less straightforward;
9. Capacity building is not always focused on structural improvements in the existing local government system but, rather, biased towards achievement of programme specific objectives.

Since then it may be observed that the overall institutional arrangements for management of capacity building have progressed only marginally. Some recent challenges include:

1. Although the Local Government Service Act I bestows significant powers on LGSC to spearhead capacity building, then there has yet been no clear outline of this will be operationalised,
2. Although the Institute of Local Government Studies is given a clear mandate for LG training, then funding for ILGS has been ad-hoc. Between 1999 and 2001 there was evidence that part of the 2 per cent deduction of the DACF was used to finance ILGS training programmes, the same is not evident now. The Guidelines for utilization of the DACF for 2005 does not explicitly direct the release of part of the 2% deduction to ILGS for training programmes. As a matter of fact it states simply *"up to two percent of each Assembly's share of District Assemblies Common Fund will be deducted to finance the cost of training and other capacity building programmes."*

5.7.3 Recommended Strategies for improved LG Capacity Building

The 2004 Study by the Decentralisation Secretariat on capacity building made a range of significant recommendations that most importantly included:

1. Establishment of generic performance indicators which would enable better targeting of capacity issues at LG levels and better tracking of CB effectiveness.
2. Clarification of the institutional responsibilities for capacity building among central stakeholders, most notably among LGSC, ILGS, NALAG,
3. LG capacity building should address all levels of LGs and not only the district level,
4. The approach for LG capacity building should go beyond "training" and also address institutional structures, staffing arrangements and wider incentives,
5. Donors should move away from project specific interventions and instead support a coordinated national approach,

In some areas progress has been made, e.g. in drafting a manual with generic performance indicators (the FOAT – also discussed in chapter 4).

However, in other areas that is need for further substantive work most notably regarding:

- The clarification of roles and responsibilities among key institutions such as LGSC, ILGS and NALAG,
- The practical arrangements for implementing the broad policy on capacity building; here the development of the DDF will be instrumental: once a FOAT and DDF is agreed upon it will establish a practical framework for funding, planning, implementation and monitoring of capacity building. However, it must be observed that the design of the Capacity Building

Grant (CBG) under the DDF is most superficially treated and more work is required regarding e.g.:

- The operational aspects of the CBG,
- The costs of the CBG,
- The specific needs for standardisation (which type of courses etc)

5.8 Summary of Key issues and recommendations.

5.8.1 Legal and policy Framework

The vision for the future decentralised arrangements for HRM in Local Governments is outlined in the Ghana Constitution Section 240(d): that "as far as practicable, persons in the service of local government shall be subject to the effective control of local authorities".

The Local Government Act 1993 Act 462 outlined the decentralised departments that MMDAs were to establish (11 in Districts, 13 in Municipals and 16 in Metropolitans).

Effectively these have not yet been put in place but have awaited the operationalisation of the Local Government Service that later was established by the Local Government Service Act, 2003 Act 656.

Key policy challenges faced by the LGS included the creation of sector services in education, health and forestry while many of their sector key functions have been identified for decentralisation.

The LGS has initiated work to operationalise the structures and presented November 2006 its report on Integration of Departments into MMDAs that recommended the immediate establishment of the decentralised departments and integration of line departments including education and health into MMDAs. Implementation awaits approval of Implementation Memorandum by Cabinet and issuance of implementation circular (expected January 2007). Subsequently some sector legislation may require amendment

The LGS Act will when implemented establish an integrated district structure where all heads of departments are answerable to the District Chief Executive through the District Coordinating Director (Section 23) and be responsible for the implementation of the decisions of the District Assemblies. The District Assemblies will be responsible for career progression and discipline of the officers.

However, the Act maintains substantial central control over LG staff, as they are employees of a national local government service rather than recruited by individual LGs. The LGS Act stipulates that committees will be established by the LGS Council at district and regional level for appointments, promotions and discipline. The Head of Civil Service has emphasised that central control over these committees will be maintained in order to alleviate fears of the concerned public servants to work under the DCEs and MMDAs. The LGS is yet to develop detailed guidelines for recruitment, training, promotion, remuneration and disciplinary procedures within the service.

5.6.2 Current Practical HRM Issues in LGs

LGs have at present very limited autonomy in managing their human resources. Furthermore data on local staff management, staff deployment and qualifications are rarely available in aggregated formats at central level and also kept in fragmented form at local levels that limits the possibilities

for analysis of HRM issues in depth. However the following general issues of relevance to a revised policy and decentralisation strategy can be identified:

- 1) At present there is no integrated system for local HRM; most departments scheduled for decentralisation are centrally managed and report through regions to central government without effective coordination by the Chief Executive and DCD. Only a small group of staff within the envisaged "Central Administration Department" reports through the CEO, but even these are largely centrally recruited, promoted, disciplined and transferred. In addition to these civil servants the Education and health Service have their own separate system. Finally there is a small group of staff that is completely under MDAA control as they are paid from internally generated revenue.
- 2) The number of staff paid from internally generated revenue is in most MMDAs small and mainly include very junior staff. However in major urban local governments they constitute a sizeable number and include some professionals. No systematic information is collected on their numbers, practical HRM procedures and the relative effectiveness of these staff. The remaining observations in this section do not apply to this staff category
- 3) Recruitment and appointment procedures are centralised except for most junior staff cadres; the current system leads to limited allegiance of staff to Assemblies and is also administratively very slow; several cases were reported on where positions have remained vacant for years in districts and delays in effectuation of appointments and registration on payroll.
- 4) The central ministries manage staff transfers with occasional consultations with Assemblies. Transfers have in several cases led to LG frustration since they may have invested in capacity building of staff just prior to transfers.
- 5) Attraction and retaining of staff is problematic in several districts considered "remote" or otherwise disadvantaged. A systematic assessment of the scope of problem has not been undertaken to date but the problem appears significant – also for core administrative posts such as District Planners.
- 6) The staffing of MMDAs appears uncoordinated. Some MMDAs complain of long standing vacancies. This is in part explained by lack of coordination between OHCS, which approves recruitment requests, and MFEP, which gives financial clearance for MMDAs to engage staff.
- 7) A problem related to the above is the absence of national data on staffing patterns in MMDAs – the information is scattered across several central and local institutions. At central level there is no overview of how many staff are locally employed.
- 8) LGs have except for staff paid from IGF no control over the size and structure of their establishments. Structures are determined centrally and staff paid centrally – the bigger the approved number of posts the more salaries will be paid by central government. In this manner LGs have for most staff categories no incentives for staff retrenchments nor the potential to tailor staff structures to local priorities.
- 9) Procedures for staff discipline are very weak. While district based heads of departments may report on staff performance they cannot dismiss but most often only recommend for transfers. Local autonomy for staff discipline e.g. for teachers appears ineffectual and cases of suspension rare even in extreme cases of staff performance.

10) Promotions are largely done automatically based on years in service rather than based on performance as assessed locally. Thus the system at present gives weak incentives to staff to enhance their performance in accordance to local needs.

11) Capacity Building in LGs is mainly interpreted as training and is currently provided in a fragmented, duplicative and uncoordinated manner. Donor funded projects is the major source of funding. Government funded support is often deducted the DACF and administered centrally. LGs have limited autonomy to plan and manage their own capacity building. However, a system is under development through the NDAP that seek to coordinate, rationalise and decentralise capacity building in MMDAs by

- Systematically to assess MMDAs capacities through an annual assessment exercise (FOAT) that also will determine key capacity building needs of individual LGs,
- Through the proposed DDF grant modality to provide incentives for MMDAs to address those identified gaps and
- Provision of the financial means to MMDAs that will enable them to plan and implement locally identified capacity building measures. This is planned to be effected through a window of the overall DDF termed "capacity building grant".

12) It is noted that the entire DDF system assumes that MMDAs can be made accountable for their institutional performance and thus hold their staff accountable. With the present arrangements this is a questionable assumption – but may be fulfilled if decentralisation of staff and HRM progress.

13) Institutional arrangements for central oversight and support to HRM in LGs has changed significantly over the last 4 years with the Institute of Local Government Studies and Local Government Service Council now being the lead institutions. However, this is yet to be operationalised as both institutions at present are substantially under funded compared to their substantive mandate

5.6.3 Recommendations

First priority should be the implementation of the immediate establishment of the decentralised departments and integration of line departments including education and health into MMDAs as recommended by LGS. If this is effectively implemented it would forcefully clarify substantive areas of previous policy debate and the decentralisation reforms may then move towards the operationalisation of appropriate local financing and HRM procedures.

The envisaged Decentralisation Policy should further clarify the vision for decentralised HRM. It is suggested that the following areas of HRM and corresponding autonomy of LGs be clarified in Policy (see table below for outline of relationship between employer functions and impact on administrative autonomy):

- 1) The degree to which LGs are to hold staff accountable and the measures that will be put in place to ensure that. This may encompass decentralisation of
 - Recruitment functions,
 - Powers to fire and discipline,
 - Other decentralised measures for performance management

- 2) The degree to which LGs will be given staff budget and establishment control – this will require a certain degree of fiscal autonomy for instance achieved through central government formula based allocations of staff salary budgets within which LGs are given some degree of discretion. Having staff being partly or fully paid by LGs own budgets may only apply for larger urban LGs with substantive own source revenue; alternatively it may be considered to provide a basic block grant for LGs that can cover the costs of a recommended LG structure.
- 3) Measures to ensure that also "remote or disadvantaged" districts can attract and retain staff; this could include introduction of some "hardship allowances", other special benefits or a policy regarding enhanced training and career development benefits for staff in such areas.
- 4) In a medium term perspective consider the introduction of a decentralised payroll system to ensure faster and more effective payroll management.

Issues of a more operational character that need to be addressed in a Decentralisation Implementation Strategy include:

- 1) Immediate support for the LGS Action Plan for establishment of the decentralised departments and integration of line departments including¹⁰⁷.
 - Education and sensitisation of stakeholders on the changes in the public administration system,
 - Implementation arrangements, including implementation monitoring,
 - Development of scheme of service; prescribing terms and conditions of service and remuneration;
 - Passage of LI to effect the transfer of staff and functions to LGs,
 - Filling of MMDA staffing gaps through transfers and recruitments,
 - Capacity building
 - Arrangements of asset transfer,
 - Effecting implementation of integrated district budgets (see chapter 4).
- 2) Through LGS (ref section 6 of LGS Act):
 - Development of performance standards for District Assemblies and Regional Coordinating Councils (possible as revised FOAT),
 - Monitor and evaluate performance standards
 - Develop and coordinate personnel plans and assess personnel needs of LGs,
 - Develop and coordinate training plans of LGs,
 - Develop professional standards and guidelines for the various categories of staff of the LG service,
- 3) Establishment of LG capacity building modalities, including financing modalities – building upon and revising the proposed FOAT and capacity building grant within the DDF,
- 4) Implement studies, research and routine monitoring of HRM practices and issues within LGs

¹⁰⁷ The LGS indicated that they had progressed work on these aspects, but our team could not access the material during the mission, thus we cannot assess the extent to which substantial work remains or not, nor can we assess the appropriateness of the guidelines developed to date.

Table 24: Relationship between Employer Functions and Impact on Administrative Autonomy¹⁰⁸

Dimensions of the employer function:	Impact on Administrative Autonomy: Ability to:			
	Hold staff account-able	Allocate staff	Manage financial resources	Attract & retain skilled
Budget Transparency <ul style="list-style-type: none"> ▪ Paying staff from its own budget 	✓		✓	
Budget & Establishment Control <ul style="list-style-type: none"> ▪ Controlling overall staff numbers ▪ Controlling staff no's in local offices ▪ Authority to dismiss surplus staff 		✓ ✓	✓ ✓	
Recruitment <ul style="list-style-type: none"> ▪ Recognition as the formal employer ▪ Authority to hire ▪ Ind. merit-based recruitment mech. 	✓ ✓ ✓	✓		
Career Management <ul style="list-style-type: none"> ▪ Transfers within local government ▪ Horizontal mobility ▪ Promotion 	✓	✓ ✓		✓
Performance Management <ul style="list-style-type: none"> ▪ Directing & supervising activities & tasks ▪ Conducting evaluations ▪ Ability to discipline/fire 	✓ ✓ ✓			✓
Pay Policy <ul style="list-style-type: none"> ▪ Setting local hardship/remote allowances ▪ Setting overall wage rates 		✓	✓	✓

¹⁰⁸ Framework follows Evans World Bank.

6. REFORM COORDINATION

✓ Internationally it is increasingly recognised that effective reform coordination is one of the most critical factors for successful decentralisation reforms – at least when decentralisation by devolution is pursued in a context that requires substantial realignment of functions between central government and local governments and where several sector ministries are involved. The limited literature in the area¹⁰⁹ recognises foremost the primacy of politics but also point to certain specific institutional arrangements that have proved effective in selected countries' strategies for decentralisation such as:

- The importance of a guiding policies strategies: these may be in the form of guiding principles for decentralisation in the Constitution itself or enabling LG legislation or decentralisation policies,
- The existence of effective policy coordinating bodies for general reform coordination; this may be in the form of a Cabinet Committee with a technical secretariat, various inter-ministerial committees or similar arrangements. However the effectiveness of such arrangements depends on the existence of a sufficiently clear and politically supported reform agenda as well as sufficient technical competence by technical departments and staff supporting reform initiatives.
- The establishment of a "neutral" institution to drive controversial aspects of reforms may be useful. This may be the case e.g. where substantial reorganisations are to take place and where some sector ministries may feel threatened and where the ministry traditionally in charge of local governments may be perceived as biased. The office of the President or Prime Minister has often taken a lead role. Occasionally the Ministry responsible for local governments have been integrated within the Presidents or Prime Ministers Office.
- Furthermore organisational theory suggests that the segregation of the policy process in smaller units can increase cooperation and coordination since policies then seem less risky¹¹⁰ - also for practical purposes it obviously desirable to have coordination issues broken down into manageable entities where a limited number of stakeholders at technical level possibly may suffice rather than overburden large policy coordinating bodies with an array of reform issues.
- Such institutions may include special institutional arrangements for coordination of local government finance (e.g. in the form of Local Government Finance Commission) or human resource aspects etc.

¹⁰⁹ See for instance Rainer Rohdewohld: Managing Decentralisation, ADB Governance Brief, Issue 15, 2006 and Steffensen and Tidemand 2004 op.cit. Chapter six.

¹¹⁰ O'Toole 2003: Inter-organisational Relations in Implementation – chapter in Handbook of Public Administration edited by Guy Peters, London Sage publications 234-243 and Brinkerhoff, Derrick and Benjamin Crosby 2002: Managing Policy reforms, Concept and Tools for decision makers in developing and transitional countries, Kumarian Press – both quoted in Rainer Rohdewohld op cit.

Box 6: Uganda 1989-1997: A Period of Radical Decentralisation Reforms

Political Support and Well Facilitated Decentralisation Reform Secretariat

In this period very substantive decentralisation reforms were implemented within a short period:

- Basic analytical work was undertaken on reform issues and options – led by a presidentially appointed Commission (1989)
- A Decentralisation Secretariat was established under the Ministry of Local Government with dual reporting to the Permanent Secretary and Minister (1993) – the secretariat was staffed with professionals recruited on market rates,
- A clear policy on Government vision for decentralisation was developed (1993) that inter alia stipulated the functions that would be devolved from central government to local government, the basic administrative and political structure and
- The above was backed by basic legislation and from 1993 the majority of local deconcentrated staff was transferred from central government to local government and funding provided -- initially mainly as unconditional block grant and own revenue,
- From 1994-95 a Constitutional Review was undertaken that completely in great detail outlined the principles of decentralisation by devolution and a great deal of details on the LG system. The Constitution also included provisions that guaranteed LGs that any Constitutional Amendments pertaining to LG system only can be passed with their consent.
- In 1997 a comprehensive LG Act was passed that in further detail outlined the LG system.
- The main instruments for successful reform coordination in this phase was: clearly articulated Policy by President, professional and competent technical guidance by well facilitated technical secretariat, clear articulation of vision, basic principles and unambiguous outline of key elements of the devolved system of governance in the Constitution as well as comprehensive LG Act

Box 7: Uganda 1997-2007: Increasing Resources to LGs but some Deconcentration

- Early in this period Uganda qualified for HIPC and LGs were clearly seen as key responsible for the delivery of basic services.
- Funding to LGs in the form of fiscal transfers from central government increased dramatically. However, both donors and sector ministries pushed for significant earmarking of sector funding to LGs.
- Systems for decentralisation of development funding (similar to the envisaged DDF in Ghana) were devised and implemented nationally from 1999 but not increased compared to sector funding. Significant progress was made on a range of technical capacity building issues in LGs, including increase of competent technical staff.
- From 1997 the Decentralisation Secretariat was phased out and emphasis put on permanent Government institutions such as the Ministry responsible for LGs and a constitutionally defined Local Government Finance Commission to lead reforms.
- From 2000 it is recognised that LGs have become very reliant on earmarked fiscal transfers and that the number of conditional grants and degree of earmarking has been a constraint for the devolved system,
- Efforts to uphold and coordinate the intended decentralisation reform came to focus in particular on coordination of LG finance initiatives since multiple sector funding modalities each were associated with particular planning and reporting guidelines undermining the integrated LG planning process;
- The Ministry responsible for local governments and the LG Finance Commission were increasingly seen as too weak compared to sectors and the Ministry of Finance came to take a stronger coordinating role.
- Central political support for decentralisation gradually declined as many opposition politicians are locally elected and as both central politicians and bureaucrats perceive loss of control.
- From 2004 onwards this is inter alia articulated in abolishment of many LG taxes and centralisation of the appointment of key LG staff.
- From 2006 it was recognised that decentralisation support increasingly had been reduced to "LG support" with unsatisfactory linkages with other reforms and efforts were made to enhance coordination through the Prime Ministers Office into one overall Public Sector Management Reform.
- In summary this period of decentralisation reforms in Uganda saw very significant increases in the budgets and technical capacities of local governments, but this was in the later period combined with some elements of deconcentration. Reform coordination was foremost of a technical character with focus on finance. Central political support for decentralisation by devolution declined. The effectiveness of coordination through PMO is still to be determined.

In Ghana the Ministry of Local Government and Rural Development has over the years been the lead actor for decentralisation reforms, but at the same time it has for long also been widely recognised that the Ministry on its own cannot progress decentralisation reforms in areas that require the active participation of sector ministries and other key actors.

Various institutional arrangements for coordination of decentralisation have therefore been put in place to ensure wider reform coordination over the years. For the implementation of the National Decentralisation Action Plans (NDAP) since 2003 this has mainly included three key institutions:

- The Decentralisation Secretariat (DS)
- The Presidential Advisory Committee on Decentralisation (PAC); and,
- The Inter-Sectoral Working Group on Decentralisation (ISWG);

More recently two new key reform institutions have emerged with substantive reform coordination mandates established by law:

- The Local Government Service Council established by Act 6756 in 2003 but yet to be fully operationalised and
- Ministry of Public Sector Reform created in 2005

The purpose of this chapter is to assess the experiences to date with the arrangements for reform coordination, including an assessment of the above-mentioned institutions as well as the Ministry responsible for Local Governments. Finally the chapter makes recommendations for future arrangements for enhanced reform coordination.

6.1 NDAP Experiences with Decentralisation Reform Coordination

The NDAP included three institutional innovations for enhanced reform coordination and implementation:

- The Decentralisation Secretariat (DS) to strengthen the Ministry responsible for local government in its work on decentralisation,
- The Presidential Advisory Committee on Decentralisation (PAC) intended to provide policy guidance; and,
- The Inter-Sectoral Working Group on Decentralisation (ISWG) to coordinate technical aspects of the decentralisation reforms across the involved key ministries;

6.1.1 Decentralisation Secretariat

The Decentralisation Secretariat was established as an interim arrangement in 2003 to coordinate efforts for the elaboration and implementation of the National Decentralisation Action Plan. As such, the DS was primarily concerned with donor coordination and servicing the Inter-Sectoral Working Group on Decentralisation

The work of the Secretariat was to be supervised by the Chief Director of the Ministry of Local Government, through whom correspondence on issues needing Ministerial approval were directed.

According to the NDAP, the DS would undertake the following functions:

- Coordinate the preparation and on-going revision and refinements of strategic action plans for decentralisation implementation;

- Define tasks to be undertaken in developing detailed programmes for the implementation of the NDAP;
- Through the PAC and ISWG, facilitate liaison with the MLGRD and other MDAs/CMAs to agree on priority actions for decentralisation implementation;
- Coordinate the implementation of agreed programme priorities and components;
- Provide feedback on progress of NDAP implementation to the PAC;
- Produce reports on the implementation status of NDAP and recommend needed modifications to the plan.

The MLGRD would staff the DS with the same staff currently working in the secretariat, and through the Minister of Finance and Economic Planning, request additional core staff, particularly persons with finance, planning and M&E skills. As the main institution to coordinate the implementation and NDAP and also service both the administrative and programming needs of the Inter-Sectoral Working Group, the DS presently has:

- A full-time Coordinator, appointed by the MLGRD.
- A full-time Danish Technical Advisor.
- An administrator/secretary,
- Financial controller and
- A programme officer financed through a EU programme.

Some of the originally anticipated officers (as indicated in NDAP) have not been recruited for instance: a Professional Officer in the area of Human Resource Development and Management, just as the DS has no professional officers working on LG finance (only working on internal financial administration).

6.1.2 Presidential Advisory Committee on Decentralisation

The PAC was appointed by the President in July 2003 to support the process of strategic thinking on decentralisation and advise government on the most practical ways of consolidating and expanding decentralisation. As a body designated to provide an overview on the Government's Decentralisation Review efforts, the PAC was intended to bridge the gap between the MLGRD and the other sector ministries on efforts in decentralisation.

According to NDAP the specific mandate of the PAC included:

1. Undertake comprehensive studies of the implementation of the decentralisation process;
2. Identify obstacles and potential conflicts impeding implementation and operation of decentralisation;
3. Develop information and database for the acceleration of the decentralisation process;
4. Advise on plans and strategies on decentralisation and local government reform options;
5. Advise on the maintenance of close liaison and partnership with all stakeholders of decentralisation;
6. Submit recommendations arising out of the above mentioned functions to the President; and,
7. Perform other advisory functions relating to decentralisation and local government as the President may direct.

The PAC would closely liaise with the Advisory Group for overall co-ordination of public sector reforms (through the OSM) and will report either to the President's Office or to the OSM. The PAC was in part a compromise arrangement to the Presidential Oversight Committee suggested earlier by the team working on fiscal decentralisation prior to the NDAP. The Oversight Committee was intended to play a more direct role than the PAC.

6.1.3 Inter-Sectoral Working Group (ISWG)

The Inter-Sectoral Working Group on Decentralisation was to be the third "arm" of Government's coordination mechanism for the NDAP. The ISWG comprises a selected group of senior sector representatives who meet regularly to coordinate the technical aspects of the implementation of decentralisation.

The specific mandate of the ISWG includes:

- Review the status of decentralisation strategies being adopted by sectors;
- Outline work plans to implement these strategies;
- Review any current and potential conflicts in approaches being adopted by MDAs and CMAs in their decentralisation efforts;
- Assess the impacts of various enabling legislations on decentralisation and seek consensus in resolving any differences in the interest of harmonization;
- Coordinate with the PAC, DS and the MLGRD in operationalising the Local Government Service Bill, to ensure its smooth implementation;
- Deliberate and recommend any other technical actions on decentralisation as may be determined necessary by Cabinet.

6.1.4 Key Experiences of NDAP Arrangements

On the positive side, the DS has initiated a range of technical exercises to harmonise donor interventions in support of decentralisation in Ghana. This has foremost included the work in relation to the establishment of joint donor funding to districts: the District development fund (DDF) discussed in chapter 4 and the related work for harmonisation of capacity building discussed in chapter 5.

On the negative side, it is clear that the institutional arrangements for reform coordination that was proposed under the NDAP; in particular the PAC and ISWG have been largely dysfunctional; not meeting and not being recognised within the overall Government as useful. Furthermore it may be observed that other institutional arrangements such as the LGS and Ministry for Public Sector Reform have emerged with significant reform coordination mandates; the opportunities arising from this may not have been fully explored under NDAP in part because the division of roles and responsibilities between the institutions have not been fully clarified and in part because many of the institutions have substantial capacity constraints in terms of skilled manpower and finance.

6.2 Local Government Service Council

The Local Government Service Council (LGSC) was established by Act 656 in 2003. The Act gives the LGSC significant legal provisions for support to the overall decentralisation process. The overall objective of the LGS is according to the Act "to secure the effective administration and management of local government in the country" and its work includes to "initiate plans and programmes...to activate and accelerate the local government decentralisation process..." (Section 15-d).

The LGSC is appointed by the President, but the LGSC reports on policy issues through the Minister responsible for local governments – and not directly to e.g. Cabinet or Parliament. The Act stipulates that "The Council recommend to the Minister matters of policy relating to the management of the service (section 6) just as the Minister may issue directives in writing to the Council on matters of policy and the Council shall comply with the directives" (section 12)

The functions of the LGSC are very substantial and include:

- Recommend to the Minister matters of policy relating to the management of the service;
- Ensure the implementation of the functions of the service;
- Recommend to the Minister a scheme of service prescribing the terms and conditions of the service;
- Develop policy guidelines for handling matters relating to recruitment, training, promotion, remuneration, discipline, arbitration and petition within the service;
- Set performance standards within which District Assemblies and Regional coordinating Councils shall carry out their functions and discharge their duties;
- Monitor and evaluate the performance standards of District Assemblies and RCCs;
- Develop and coordinate the personnel plans and assess the personnel needs of the DAs and RCCs in consultation with the respective assemblies and RCCs;
- Develop and coordinate the training implementation plans of DAs and RCCs in consultation with the respective assemblies and RCCs;
- Develop professional standards and guidelines for staff members of the service,

The LGSC will thus in future undertake many of the key functions currently performed by the MLGRDE itself and a restructuring of the Ministry will subsequently have to be undertaken.

The Council has not yet established its secretariat but started its work, which during our mission included the presentation of its report on establishment of departments of district assemblies¹¹¹. The related workshop in November 2006 was well represented by Chief Directors of key ministries and other senior Government officials. The exercise was to a large degree spearheaded by the Head of the Civil Service, which augurs well for implementation of the recommended transfer of staff from the Civil Service to Local Government Service. At the workshop it was declared that immediate steps for transfer of staff and establishment of decentralised departments would be taken in January 2007.

If these recommended steps of the LGS are progressing in January 2007 as indicated, it would suggest that LGS and the related alliances have been successful in progressing significant elements of the decentralisation reforms. Further progress of decentralisation reforms would then to a large degree evolve around the subsequent implementation plans of the LGS. However, for the LGS to be fully effective in implementing its mandate it needs to:

- Have its secretariat appropriately established,
- Be appropriately funded,
- Have a clear implementation plan

¹¹¹ Local Government Service: The Establishment of departments of District Assemblies (Including the Integration of Decentralized Departments) November 17, 2006.

6.4 Ministry of Public Sector reform

6.4.1 PSR Background and objectives

For the past two decades, Ghana has been engaged in a number of Public Sector Reform (PSR) programmes designed to improve the efficiency and service delivery of all branches of the machinery of the Government. Unfortunately for various reasons, most of these reform programmes have not fully achieved their set objectives. In order to revitalise the reform efforts, the Ministry of Public Sector Reform (MPSR) was established to facilitate and coordinate future governmental efforts. Thus Cabinet at a retreat in August 2005, considered and approved proposals to restructure the management of the PSR programme with specific recommendations to reform the public sector with special emphasis on the Civil Service.

In order to ensure comprehensive management and oversight of these reforms and as a follow up to the above initiatives, the MPSR has developed a fully costed, prioritised and time bound three-year programme for all the key reforms being undertaken in the Public Sector.

The overall objective of the Public Sector Reform is stated as: "to deliver prompt, efficient and cost-effective public services to improve service delivery, facilitate good governance, provide the enabling environment for private sector development and to improve human capital development of public sector employees"¹¹². The overall public sector reforms include some 22 key reforms of which decentralisation is considered as one. They are briefly summarised in Table 25 below.

Table 25: Key GoG Public Sector Reform Initiatives

1. Civil Service Reforms	12. National Governance Program
2. Service Delivery Improvement	13. Ghana Central Governance Project
3. Records Management - Storage and Retrieval of Information	14. Land Administration Project
4. Public Sector Pay Policy and Pension Reform	15. Forestry Sector Development Project 2
5. Restructuring CMAs and SMAs	16. Business Law Reform
6. Decentralisation	17. Business Registration Reform Programme
7. Development of Communication Enhancement Programme	18. Justice Sector Reform Programme
8. Information and Communication Technology	19. Private Sector Development Strategy
9. Public Financial Management	20. Institutional Reform - Ministry of Road Transport
10. Support to Judicial Training	21. Trade Sector Support Programme - Min. of Trade & Industry
11. Subvented Agencies	22. Energy Sector Reforms

11 of these reforms – including decentralisation - are considered as "Prioritized Reform Programmes" and described briefly below

¹¹² Government of Ghana, Ministry Of Public Sector Reform: Work Programme To Coordinate The Implementation Of Public Sector Reforms, Project Implementation Manual, January 2006

Table 26: Eleven Prioritised PSR Programmes

<p>1. Civil Service Refocus Mandate and Structure of the Service Significantly improve the operational procedures Right-size the Service Develop Scheme of Service Strengthen HR Function Implement an accelerated training programme for all Civil Servants</p> <p>2. Service Delivery Improvement Revise service charters in selected MDAs Establishment of Client/Customer Service Units in selected MDAs Improve physical work environment Undertake public education and information campaign Develop and implement an M & E mechanism for service delivery in selected MDAs</p> <p>3. Records Management - Storage and Retrieval of Information Prepare simplified Operational Procedure Manual for selected MDAs & MMDAs Design Registry and Document Management System Establish an Archival System and Storage Facility for MDAs & MMDAs</p> <p>4. Public Sector Pay Policy and Pension Reform Implement GUSS Standardise non-cash benefits and monetize where appropriate Review implementation of GUSS and refine appropriately Review and standardize job titles and update job classifications in the Public Sector Improve pensions and streamline their processing</p> <p>5. Restructuring, Realignment and Modernization of CMAs and SMAs Analyse and define the role and functions of the state Design appropriate institutions and systems to implement this role Rationalize existing structures and operations to meet the new design</p> <p>6. Decentralisation Mainstream decentralisation in the overall PSR process Streamline roles and functions of sub-district structures Operationalise and implement Local Government Act 656 Consolidate legal framework for decentralisation Design District Development Fund Build capacity at local government levels</p>	<p>7. Development of Communication Enhancement Programme Develop a National Development Communications Policy Support passing of the Rights to Information Bill Overhaul Public Relations Units of MDAs Develop relevant capacity building programmes for strategic communication Support CSO and the media to promote dialogue and oversight for service delivery Support effective implementation of MPSR's communication programmes</p> <p>8. Information and Communication Technology Facilitate the development of national ICT infrastructure backbone Develop legal and regulatory framework Adopt a single standard for ICT within Government Increase of ICT throughout the Public Sector Promote universal access Complete GOG portal, place services and key officials of MDAs on the new system</p> <p>9. Public Financial Management Continue implementation of FAA (654), IAA (658), PPA (663) Implement simplified and inexpensive Expenditure Management Systems for Cost Centres Consolidate BPEMS at MoFEP & CAGD Deploy BPEMS to MoH, MoES, MoRT etc. Improve Revenue Generation Reconcile Treasury's main cash book Implement HR Information Management System using IPPD 2</p> <p>10. Support to Judicial Training Conduct training needs assessment for staff of the Judicial Service Develop an institutional development and training plan for the Judiciary Develop a pool of skilled trainers to develop curriculum and design courses Apply knowledge and skills in the delivery of a number of quality education courses Continue efforts in building records management systems and information technology training Strengthen the Research and Monitoring Dept of the Service</p> <p>11. Subvented Agencies Assess transformation/commercialization impact and learn lessons from overall reform in GUP & GIMPA Begin implementation of recommendations and agreed actions Assess and support reform initiatives of other SAs Review identified SAs for classification into groups which have pre-defined criteria Initiate the implementation of the SA Reform Bill provisions</p>
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However, out of these reforms, the MPSR only take a lead role in the following targeted areas of intervention that focus on the overall public service and central ministries:¹¹³

- Organizational restructuring of the Civil Service and developing training programmes
- Service Delivery Improvement in identified public sector agencies
- Records Management
- Conditions of Work
- Public Sector Pay Policy and Pension Reform
- Monitor reform implementation in selected Sub-vented Agencies (SAs), and Central Management Agencies (CMAs)
- Facilitate the deployment of ICT infrastructure (backbone) and skill within the Civil Service, in order to facilitate the efficient execution of government programmes
- Organize, publicize more outreach/consultative programmes
- Establishment of a Monitoring & Evaluation Framework

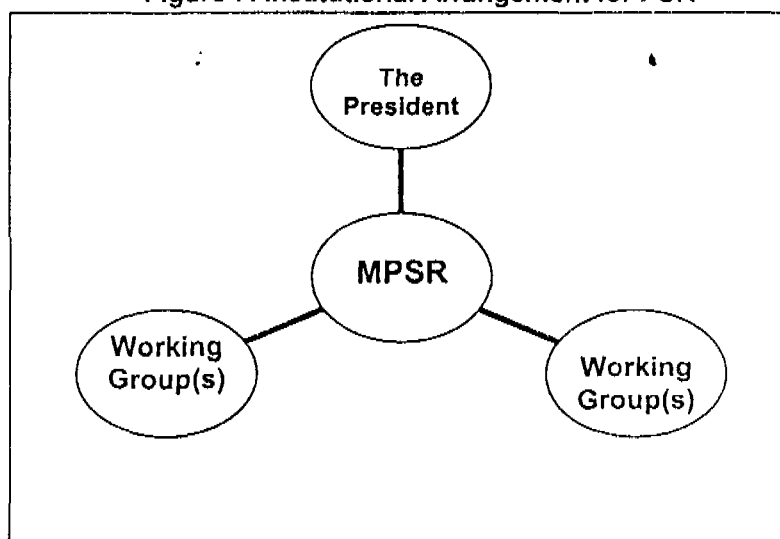
6.4.2 PSR Institutional Arrangements

The Public Sector Reform will involve several institutions with different roles, - primarily

- a. The President and cabinet
- b. The MPSR and
- c. Working Groups

The key institutional relationship is illustrated in the figure below.

Figure 7: Institutional Arrangement for PSR



¹¹³ MPSR Work Programme for 2007 (December 2006), page 13. Consultancy services to support the above areas are advertised early 2007 and seem to be the main focus of the "own" activities of the Ministry for some time.

A. The President and cabinet provides the overall political guidance and leadership to the reforms including:

- Consideration and approval of key reform decisions
- Review of results of ongoing initiatives
- Provision of resources and support
- Broad policy guidelines in keeping with government's policies
- Recommendations to Parliament for modification and enactment of new legislation supporting the reforms.

B: Ministry of Public Sector Reform: The facilitation and coordination of all Public Sector Reforms remains the responsibility of the MPSR under the Minister of Public Sector Reform. This role includes the monitoring and evaluation of the reforms and ensuring that a comprehensive reform is achieved across public sector institutions. The MPSR will maintain a collaborative relationship with all other public sector institutions so as to remain informed on the progress made and challenges faced by the institutions. There will however be certain reform initiatives that will be driven by the MPSR in order to gain the required uniformity and level of service delivery across board e.g. Client Service Units. The MPSR will report and dialogue with Cabinet with regard to progress of the reforms and any new initiatives that may be necessary to achieve the most effective reforms for Ghana. The MPSR will also liaise with Developmental Partners, mainly through the lead partner, DFID, in order to source funds when appropriate and keep them updated on achieved milestones and any issues arising. The role of the MPSR is outlined below:

- Ensure the effective coordination of all reform initiatives;
- Serve as a research resource on all areas of public sector reform;
- Support the monitoring and evaluation of reform efforts taking place in each institution;
- Mobilize resources for PSR priorities in the MTEF and annual budget process;
- Ensure an effective results based M&E system is deployed and the reports are widely disseminated
- Maintain effective relationships with various working groups, committees, task forces, and undertaking activities relevant to PSR (e.g. NDPC's Cross Sectoral Planning Groups, Judicial Sector Reform Secretariat, Private Sector Oversight Committee, etc.);
- Secure and arrange for technical support on public sector reform;
- Facilitate the process of securing funding (adequate & predictable) for the reforms
- Provision of training, workshops and seminars on issues of public sector reform;
- Support effective communication on all aspects of public sector reform
- Serve as a clearing house for PSR information;
- Provide technical advise to the various reform teams as and when required;
- Communicate PSR objectives and progress to implementing agencies, and follow up on progress;
- Establish and manage the PSR Knowledge Centre
- Review progress jointly with the Development Partners and coordinate direct Development Partners' support for implementation within the framework of the PSR work program

C: Working Groups are to be established as the key technical unit of the PSR process. There will be a core group established in consultation with the MPSR and based on the reform priority areas. Each Working Group will be chaired by a member selected from their ranks who has the relevant experience and ability to facilitate successfully the deliberations of the Group. The Working Groups

will be inter-sectoral and include both governmental and non-governmental representatives selected for their knowledge of the thematic area and according to the priority areas being addressed by the MPSR. MDA staff, relevant Development Partner staff, knowledgeable researchers, Private Sector and Civil Society Experts, would be co-opted when necessary.

The Working Groups output will be presented to the MPSR, and their role would be to:

- Provide technical leadership and close cooperation between MDAs and MPSR in the implementation, M&E of the PSR process.
- Define, support implementation and review reforms in a thematic area, with particular attention to the objectives to be achieved.
- Discuss and make recommendations on issues which have sector wide implications
- Review and discuss specific reform initiatives
- Highlight challenges, opportunities and issues related specific interventions
- Provide input to M&E process
- Make suggestions on impact assessment, evaluations and beneficiary assessment surveys to be undertaken.
- Provide a forum to share experiences and resources.

6.4.3 Experiences with Decentralisation Reforms within the PSR

In theory the MPSR has the advantage of a being a "neutral broker" whereas many sector ministries see MLGRDE as a potential threat with biased interested in decentralisation reforms. The MPSR expressed during the mission its commitment to the decentralisation reforms, but has very limited technical capacity to drive initiatives.

The MPSR provided some financial support to the November LGS workshop, but has otherwise not been deeply engaged in the decentralisation reforms. It should be noted that decentralisation is only one out of several reforms (11 key reforms) that the MPSR is to coordinate.

The working Group for decentralisation under the MPSR is not operational and seemed during our mission even without a member from the Ministry responsible for local government!¹¹⁴

The MPSR has also in its reform agenda bestowed significant tasks upon the Ministry of Local Government and Rural Development as it is given a key role in facilitating and coordinating consultation of the PSR at regional and district levels. This aspect of local level implementation of the overall PSR appears also weak, as this task is not reflected in the overall MLGRDE strategic plan or assigned to specific officers.

In summary, the MPSR holds some potential as a coordinator of decentralisation reforms but to date this has not effectively been realised. The MPSR have too many other urgent tasks at hand and too limited capacity to initiate reform initiatives but can as most ensure cross dissemination of reform plans and experiences across key stakeholders and may also assist in providing policy guidance to the President and Cabinet on such issues. However, driving or guiding decentralisation reforms seem at present beyond the capacity and mandate of the MPSR.

¹¹⁴ Interview Chief Director MLGRDE 18th December 2006.

6.5 Role of MLGRDE

6.5.1 MLGRDE Mission and Organisation

The MLGRDE outlines its mission statement as¹¹⁵:

- Formulation of policies on governance (including decentralisation policies), rural development and environment and guidelines on the acquisition and use of human and financial resources by Assemblies,
- The design and delivery of systems for monitoring of performance of Assemblies,
- Development and monitoring of sector plans and provision of management advisory services to the Assemblies,

The Ministry is according to the latest organogram (see Annex) structured into four main directorates:

- a. Policy
- b. Performance Management
- c. Management Services and
- d. Planning, Budgeting, Monitoring & Evaluation

A detailed organogram, with outline of established offices and their corresponding responsibilities is not available, but it is generally recognised within the ministry that a reorganisation is required as several of the original functions of the Ministry now has been transferred to LGS. This includes foremost Performance Management as well as Human Resource Management functions.

6.5.2 MLGRDE Functional capacity for supporting decentralisation reforms

It is difficult to measure the effectiveness of the ministry in supporting decentralisation reforms because its objectives, plans and outputs are defined rather vaguely. The MTEF framework for the Ministry (2007-09) includes a range of objectives related to the implementation of the decentralisation policy. Many of the objectives are very broad in nature and often it is difficult to see whether the achievement of the planned specific outputs substantially will contribute to meeting the objectives.

For instance the Policy objective "2115 accelerate the devolution of political power to the districts and sub-district structures" is planned to be achieved through six outputs:

1. Local government officials sponsored for short courses and workshops,
2. Local Government Information Digest, Ministerial speeches and selected papers presented,
3. Office and residential accommodation of the sector rehabilitated/equipped,
4. Awareness on AIDS/HIV promoted among staff in the ministry,
5. Implementation of projects/programmes of the ministry facilitated annually,
6. Capacity built for local and regional economic development in the Brong Ahafo and northern regions under RUTIPP project by 2009

¹¹⁵ MLGRDE Strategic Plan for 2007-2009

Output number 4 (office renovation) consumes 88% of the budget.

Another way to access the capacity of the Ministry is to review the available documentation on some core MMDA functions that the ministry is supposed to support – e.g. information on MMDA fiscal data, the use of HIPC funds transferred to the ministry to MMDAs, the use of composite budgeting guidelines, data on MMDA HRM capacities (the extent that all MMDA staff categories are vacant or filled, the training undertaken by MMDA staff) etc. Such data were requested as part of this assignment (data in chapter 4 and 5 of this report) and virtually non available in the ministry.

6.5.3 Envisaged Restructuring of the Ministry

With the creation of the LGS and the decentralisation of departments to the MMDAs it will be necessary to reorganise the ministry substantially.

Sanitation that currently take up a substantive part of the Ministry resources will be fully devolved to the MMDAs. The responsibilities for local government HRM as well as performance management will be transferred to the LGS. The Ministry role will accordingly mainly be "policy" as well as monitoring and evaluation.

The role and organisation of the DS needs consequently to be rethought.

6.6 Government-Donor Coordination

Coordination of donor support is currently mainly undertaken in context of the activities of the NDAP. It has for long been realised that donor support to the decentralisation process and District Assemblies in Ghana has been fragmented and uncoordinated. Within the NDAP it has therefore been pursued to harmonise approaches, primarily through the envisaged common funded District Development Fund modality and corresponding capacity building arrangements. The recently completed report by the DS on capacity building initiatives¹¹⁶ amply documented the fragmentation of support, overlap and other issues related to lack of harmonisation of donor support.

In view of the team, there is no doubt that the finalisation of the work for the DDF, FOAT and capacity building grant are preconditions for effective donor coordination. Without such common agreed modalities it will not be possible to pursue coordination in any meaningful manner. The progress in finalisation of the DDF etc has however been slow and should be given priority.

Other aspects of donor harmonisation and coordination such as common reviews will probably only be possible once common funding and capacity building modalities have been agreed upon.

Within the given constraints, it appears that the GoG – Donor Coordination could be further improved upon. Information is not always effectively shared. Also among donors themselves there seem still to be scope for improvements – the recently GTZ supported legal review within the Ministry appears for instance not to have been shared with other donors.

¹¹⁶ MLGRD DS Comparative Assessments of Local Government Capacity Building Initiatives and Institutional Service Providers for the period 1999-2004.

6.7 Key Issues and Recommendations

Decentralisation reforms can in part be defined narrowly as "local government reforms" where the overall distribution of responsibilities between central government and local governments already are well established and where "reforms" then mainly are concerned with improvements of an existing local government system: its modalities for planning, financing, capacity building etc given within a largely unchanging central-local division of labour. Such "local government reform" includes foremost a range of technical issues that require limited degree of policy approval but also some issues pertaining to "pure LG Policy", such as rationalisation of the sub-district structures, where the policy mandate will fall squarely within the mandate of the Ministry responsible for local governments and thus not require a great deal of coordination with sector ministries.

However, an alternative broader definition of decentralisation reform is the "rearrangements of the entire public sector – the transfer of powers, functions and resources from central government to sub-national governments". Given the current status of reforms in Ghana and range of issues identified during this review as well as stakeholder endorsement of the main elements of the draft report it is clear that future decentralisation reform efforts in Ghana clearly should fall in this category. The trust of our recommendations for a future Ghana Decentralisation Policy is that the original intentions of decentralisation reforms are to be highlighted; that key elements of the Reform Policy are to be boldly stated as "Decentralisation by Devolution", that the assignment of responsibilities to the Local Governments are to be clearly stated, staff decentralised and subsequent review of sector legislation and modalities for funding be reviewed etc as summarised in the executive summary and elaborated upon in specific chapters.

This form of decentralisation: "decentralisation by devolution" will require a substantive reorganisation of the public sector: not only the effective creation of the decentralised departments at MMDAs but also a reorganisation of the central government ministries from where functions and corresponding financial and human resources are to be transferred to local governments. This was also clearly recognised by the Head of the Civil Service in his deliberations in the November Workshop¹¹⁷. This crucial phase of the reforms will require strong policy direction and oversight.

While policy direction will be provided by the expected Decentralisation Policy, then it will also be necessary to establish clear institutional arrangements for monitoring and guiding the key ministries and central institutions efforts for implementation of the policy. The capacities and mandates of both the MPSR and MLGRDE are too limited for that purpose. It will instead require a form of higher-level political direction and "neutral brokerage" that only can be mobilised from the Presidents Office. This may possibly best take the form of a "Commission on Decentralisation by Devolution" appointed by the President. It is recognised that such a recommendation may be controversial in view of past debate and experiences with a Presidential Oversight and later Advisory Committee. The precise modalities have to be agreed upon by Cabinet as part of the deliberations of the Decentralisation Policy itself. It is important to ensure that past experiences are fed into a revitalised arrangement, and in this regard the Team will in particular highlight the following key differences between previous attempts and what will be required:

1. Previous PAC had no clear policy mandate – its functions were primarily related to vaguely defined intentions of the NDAP and broadly to "advise on plans and strategies on decentralisation and local government reform options". The envisaged Commission will be charged with the implementation and oversight of a clearly defined Decentralisation Policy.

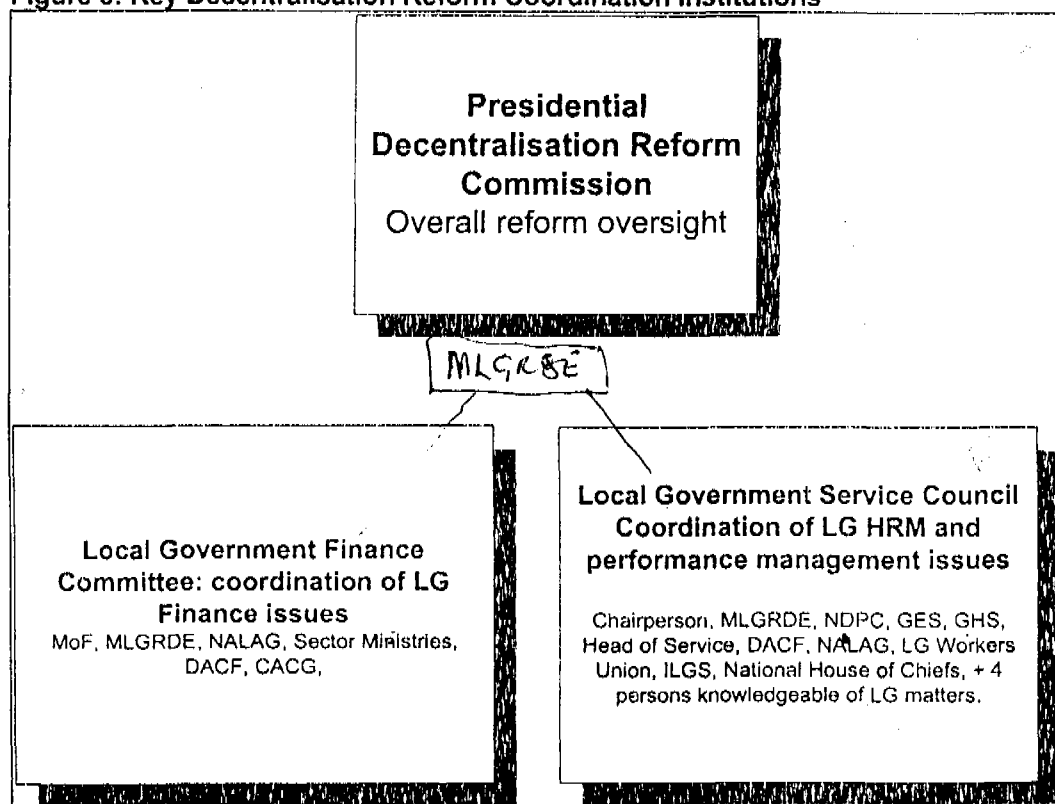
¹¹⁷ Workshop on Integration of Decentralised Departments into MMDAs arranged by LGS.

2. The Commission needs to be well resourced to discharge its functions. This will include direct access to highly competent technical support. A Reform Secretariat should be established under the Commission rather than within the MLGRDE. The Secretariat will have very different functions than the present Decentralisation Secretariat that mainly have focused on donor coordination in support of core elements of the NDAP (in particular the DDF, FOAT and harmonisation of capacity building). The reform secretariat will support the Commission in core policy issues such as initiatives in support of legal harmonisation and guidance to sectors on reform coordination aspects.
3. The legal status of the institution needs to be well defined and not merely established as a committee. This can be achieved if established as a Commission operating within Office of the President. When established as a Commission by Act of Parliament it will also imply that provision will be made for its operation under the Consolidated Fund.
4. The reform coordination within Presidents Office will not be expected to deal with all aspects of reform coordination; more specific reform issues will be dealt with by other institutional arrangements in specialised areas (see below)

It is important that the recommended Commission focuses on core legal and policy aspects and is not overburdened with a range of technical and lower level policy issues that can be dealt with in specialised institutions. Likewise it is obviously important to ensure that all technical preparatory work is undertaken of a high professional standard and thus to ensure that the responsible institutions are capacitated in order to achieve this.

Effective coordinating arrangements will therefore include both high level policy oversight, coordination of more technical aspects of reform in specialised institutions as well as capacity building of core institutions to ensure their inputs are of a sufficiently high technical standard.

Figure 8: Key Decentralisation Reform Coordination Institutions



In summary, the following types of decentralisation reform coordination and support arrangements are required:

- a. Overall policy guidance of reforms is the mandate of the Cabinet and President. The finalisation of a substantive decentralisation reform policy will be a key instrument to achieve this form of guidance. The Policy will clearly articulate Government vision for Decentralisation by Devolution. Effective dissemination of the Policy is a key requirement, but continuous guidance to the central institutions charged with reform implementation (in particular the sector ministries, MoF, MLGRDE, LGSC, DACF and MPSR) is required and can only be achieved through the Presidents Office. It is recommended that a Commission for Decentralisation by Devolution be established for this purpose.
- b. Coordination of LG Finance aspects. This will include IGF, fiscal transfers and borrowing as well as financial management procedures. At present there is no specific arrangement in place for overall coordination of the different activities in support of fiscal decentralisation. There is no systematic coordination of the different grants transferred to MMDAs, there is no institutionalised arrangement in place for coordination between e.g. the ministries responsible for local government, finance and the local governments themselves in determining transfers and taxes etc. These issues were highlighted in chapter 4, and it is recommended to establish one institution (e.g. a LG Finance Committee) for this purpose lead by the MoFEP with representation of MLGRDE, MPPSR, key sector ministries, DACF, NALAG and MMDAs.
- c. Coordination of Local Government Human Resource Management (HRM) and performance management within the local government system: the establishment of schemes of service,

pay conditions, training and career development modalities, development of performance management system and implementation of the system are now the mandate of the LGSC. The LGSC itself need to be strengthened by having its secretariat fully in place. There appears at present no need to create other institutional arrangements for coordination of these issues but to strengthen the existing one (LGSC).

Several of the core ministries, in particular the ministries responsible for local government and finance, are in need of having their capacities enhanced in order effectively be able to facilitate decentralisation reforms and manage the new types of central-local government inter-relationships. MLGRDE in particular will require substantial reorganisation in view of the established LGS. The future role and relevance of the existing DS will have to be assessed as part of such overall restructuring and capacity building arrangement.

7. WAY FORWARD

Following extensive discussions with senior members of the Decentralization Reform community after the completion of the report, the following steps are recommended as initial elements of a road-map towards putting in place a Policy on Decentralization:

1. Review and Endorsement by Inter-Ministerial Steering Committee for Decentralization Policy Review

The inter-Ministerial Steering Committee comprises the Minister of Local Government, Rural Development & Environment; the Minister of Finance; and the Minister for Public Sector Review. These three Ministers will need to review and endorse the recommendations presented in this report.

As part of this endorsement, the committee may provide a "Policy Note" or fully fledged zero ^{draft} decentralisation Policy to Cabinet, covering the core issues recommended by the Review Team, including:

1. The focus of decentralization as Devolution,
2. The re-alignment and integration of decentralized departments of MDAs into MMDAs as proposed in November 2006 workshop by LGSC and the OHCS
3. The direction of fiscal decentralization as reviewed and proposed, and support for deepening the treasury reforms of the CAGD
4. The proposed institutional arrangements for decentralization reform coordination as outlined in this report.
5. Outline of a road map for completion of the Policy – this is recommended to include step 2 below.

Step 2: Dialogue on Decentralization Policy to Obtain National Buy-in

The Minister for MLGRDE has suggested that a focused and representative forum on Decentralization Policy should be convened to engage a wide spectrum of stakeholders on the proposed Policy Paper on Decentralization. This forum may include:

- Representatives from the Political Parties – not more than 2 per party, and notably (1 from the Parliamentary Caucus of each Party and 1 other who leads their policy on decentralization)
- Leadership of the Parliamentary Select Committee on Local Government

- Two representatives from National House of Chiefs
- Two representatives from Civil Society (LOGNET)
- Selected representatives from the MDAs at the political and administrative levels
- NALAG to be asked to select and put forward a range of its members representing MMDAs in a manner that ensures that there are equal numbers from central government as there are from Local Government
- FIDA to be requested to select as least 2 women both or at least 1 being an Assembly member.
- Representatives of Development Partners, as observers.
- At least 2 representatives from the National Development Planning Commission.

A substantive National Policy on Decentralisation can subsequently be developed and tabled Cabinet for approval. t₂