

Ad-Hoc Expert Group Meeting

7-9 October 2003, UNCC, Addis Ababa

Fiscal Policy and Growth in Africa: Fiscal Federalism, Decentralization and the Incidence of Taxation

**Fiscal Decentralization
Ghanas Experience: Lessons and
Issues**



Economic Commission for Africa

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By

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Economic Commission for Africa

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1. Introduction

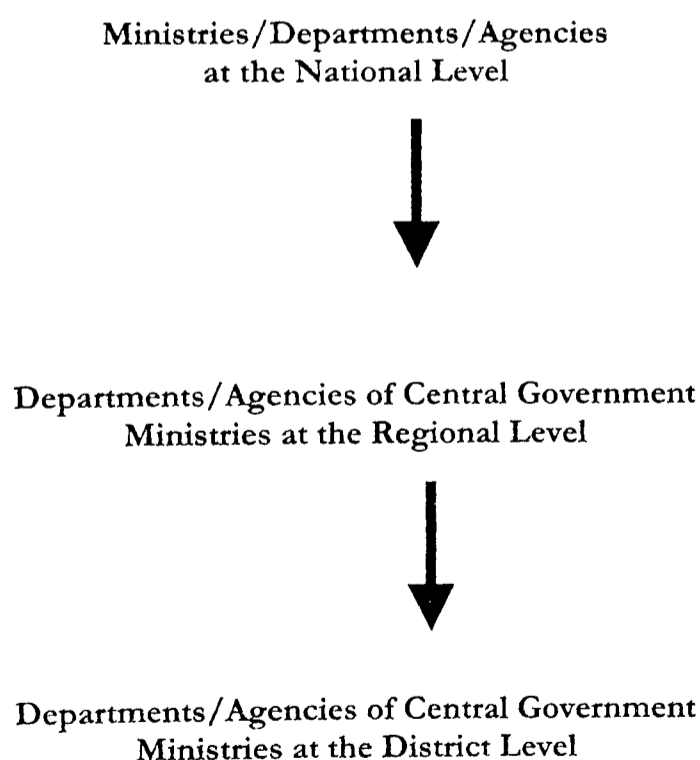
This Paper deals with Ghana Experience in Fiscal Decentralization: Lessons and Issues. It is structured into a number of parts as follows:

- the structure of Ghana's public administration system and financial management arrangements;
- the local government and administrative reforms via decentralization and its objectives;
- the pieces of initiatives in fiscal and the need for a more comprehensive approach to take due account of the structural changes in the public administration system.
- to summarize the major fiscal decentralization issues.

1.1 Overview of Ghana's public administration system

Annex 1 shows the current listing of Ministries and Departments in the public administration system. These Departments/Agencies have been set up various laws, which also specify the functions they are to perform.

The Public Administration System in Ghana has been organised into Ministries – Agriculture, Education, Health, Public Works, Roads, Environment, Sports, etc. Each of these Ministries has established departments and agencies as implementation bodies. These departments and agencies have been organized as territorial hierarchies – as pyramids, with their apexes in Accra, and the subordinate levels in the regions and districts, the last named being the lowest level of government administration (illustrated below).



This arrangement is called variously as 'de-concentration', or the 'ministerial model of decentralization'. Litvack et al¹ contend that this is the weakest form of decentralization.

In this scheme of things, each central government ministry within the realm of the particular sector:

- determines and formulates all public policies with respect to the sector and gets such policies implemented;
- determines all the priorities in the sector;
- undertakes planning and budget preparation, financial management and policies regarding all services;
- service delivery is vested in the sector and carried out in the field – district level ;
- the field (district) offices of the Ministries/Departments report to the central government ministries through the regional level bureaucracy;
- the Departments have responsibility for furnishing basic facts from the field; perspective of their particular professions

Thus the issues of policy, implementation and monitoring and evaluation are vested in the same agency.

The regional level, in this scheme of things, was mainly concerned with administration, protocol, finance and minor works.

Co-located with the branches of the MDA at the district level were the local government bodies, separate and distinct. They have been charged with the responsibility for service delivery in many of those same areas as the former.

The sharp distinction between central and local government bodies at the district level, known as the 'Dual Hierarchy Model of Administration' and associated weaknesses have been widely recognized, underscored and documented. That Ghana had a centralized public administration system has also been long recognized. The weaknesses which persisted and provided *raison d'être* for reforms are:

- parallel relationship between central and local government bodies at the district level with unclear roles and responsibilities, and the attendant empire building, rivalry for clientele, and lack of co-ordination and collaboration;

¹ Litvack et al: Rethinking Decentralization in Developing Countries, World Bank.

-
- lack of participation of the citizenry in the decision-making process in the matters affecting their lives and for that matter in the process of development;
 - wastage of valuable and limited resources;
 - vertical reporting and accountability, weak inter-sectoral and intra-sectoral linkages; and
 - field level functionaries have more leanings towards their departmental hierarchies, continue to operate separate budgets independent of the local governments

1.2 Decentralization

Against the above background and also based on a number of recommendations of Commissions/Committees of Enquiry, the Government of Ghana in 1988, embarked on a major programme of local government and administrative reforms via decentralization as alternative development strategy. The decentralization programme is anchored on five main inter-related pillars. These are:

- Political decentralization;
- Administrative decentralization;
- Decentralized Planning System;
- Decentralized management of public-private sector partnerships; and
- Fiscal decentralization.

1.2.1 Decentralization Policy

The highlight/nature of the Reforms include:

- devolution of central administrative authority to sub-national governments;
- decentralization of 22 functional areas of government to the sub-national governments;
- fusion of government agencies (22 functional areas of government decentralized) at sub-national level and local government units into one administrative unit (called Single Hierarchy Model), to be achieved through the process of institutional integration, manpower absorption, composite budgeting and provision of funds for the decentralized services;
- divestiture from the centre implementation responsibilities and the transfer of those responsibilities to the local government;
- promotes popular (grass-root) participation in the administration of the various areas concerned from the stand points of planning, implementation, monitoring and achievement of those services which go to improve the living conditions of the people and the orderly, fair and balanced development of the whole country;

-
- role casting between various levels of government.
 - Central Government Ministries/Departments to undertake policy planning, monitoring and evaluation of development policies and programmes;
 - Regions, through the Regional Co-ordinating Councils and respective Regional Planning and Co-ordinating Units, now play an important role of co-ordination, not in regulatory manner, but ensure consistency, compatibility and coherence of district level development, facilitate joint ventures among districts and monitor the activities of District Assemblies within regions; and
 - District Assembly is primarily responsible for the implementation of development policies and programmes co-ordinated by the National Development Planning Commission (NDPC).

As an alternative strategy for rapid development of the country, the objectives of the Reforms are to:

- promote local level social and economic development, including satisfying the basic needs of the people;
- promote and sustain community participation, including decision-making for development, implementation of development programmes, and the distribution and sharing of development benefits; and
- ensure balanced, fair, equitable, integrated and comprehensive development, taking due account of the linkages between economic, social, physical, environmental as well as the political factors that impinge on the process of development.

Decentralization thus introduced structural changes in the public administrative system, the main thrust being the establishment of District Assembly as the highest political administrative planning as well as the rating authority in the district. Decentralization is thus envisioned to transfer powers, functions, competence and means from the Central Government Ministries to them. The District Assemblies are thus viewed as the basic building blocks in the decentralization and democratization process and for reliable and country-wide development. What appeared necessary in the circumstances is a four-tier Metropolitan, three-tier Municipal/District Assembly structure (illustrated as Annex 2 below).

1.2.2 Balance Sheet of Initial Reforms

To date the balance sheet of the Reforms has been as follows:

- The establishment of functioning sub-national structures of Regional Co-ordinating Councils (RCCs) and Metropolitan, Municipal, District Assemblies (MMDAs) as vehicles of accountability, a necessary precondition for fiscal decentralization. There are currently District Assemblies (110), Urban /Town/Zonal/Area Councils (34)/(250)/(108)/(826) respectively; and Unit Committees (16,000). There are thus three (3) Metropolitan, four (4) Municipal and one-hundred and three District Assemblies, and ten (10) Regional Co-ordinating Councils. ;
- The institution of a functioning decentralized Planning System, used in the formulation of the Medium Term Development Plans of the Public Administration System (1996-2000), and it is being used to formulate the Second Medium Term Development Plan (2001-2005), the second step to Vision 2020 and Medium Term District Development Plan (2001-2003) as well as the Ghana Poverty Reduction Strategy (GPRS) following the change of Government in December 2000;
- The expectations of administrative decentralization, through transfer of departments and the fusion of hitherto central government agencies at the district level with those of the local government bodies to form the technical wings of the sub-national governments are yet to materialize, although significant strides have been made with respect to developing the capacities of the Sub-National Governments through the:
 - Establishment of, and appointments to positions of planning and budgeting officers to the District Assemblies, positions and establishments hitherto unknown in local governments in Ghana;
 - establishment of Institute of Local Government Studies to train and develop the capacities of the officials of the sub-national government;
 - pursuance of related capacity building training initiatives
- Fiscal reforms to push decentralization forward have remained the most intractable to implement albeit there have been some pieces of initiatives, including the:
 - merger of two treasuries at the district level into District Finance Office, and headed by a District Finance Officer;;
 - introduction of ceded revenue, a form of revenue/tax allocation;

-
- introduction of the District Assemblies' Common Fund (DACF), a form of grant (initially conditional); and
 - establishment of District Tender Boards.

The pieces of initiatives in fiscal reforms notwithstanding, the need has been expressed for a more comprehensive approach to fiscal reforms to take due account of the structural changes imposed by the programme of decentralization and other reform processes a sort of “new wine in new skin”.

2. Fiscal decentralization in Ghana

2.1 Fiscal decentralization study and objectives

In 1999 the Government of Ghana took a stride to facilitate the implementation of decentralization of the public administration system and other reform processes through the setting up of Fiscal Decentralization Project. The Project is to study the public finance system and design/develop transparent, effective/efficient and accountable instruments and make recommendations and propose strategies for the implementation of decentralized financial management system in Ghana.

Specifically, the Project objectives were to:

- review, reconcile and consolidate those aspects of economic and administrative reform developments that affect financial administration in a format consistent with current socio-economic conditions and structure of governance;
- identify and elaborate accountability and financial arrangements required for sustaining the socio-economic reform programmes and its effect on decentralization;
- present a complete picture of resources available at the sub-national level;
- design a public financial management system that would grant substantial autonomy to sub-national governments in raising and allocating resources;
- make recommendations and propose strategies for implementing fiscal decentralization.

2.2 Organization of the assignment

As noted above, the Ghana's major programme of local government and administrative reforms via decentralization introduced structural changes into the public administration system. There were also the various the pieces of initiatives in fiscal decentralization as well as other on-going public finance and administrative reform initiatives including Public Financial Management Reform

Program (PUFMARP), National Institutional Renewal Program (NIRP), Civil Service Performance Improvement Program (CSPIP), Ghana Poverty Reduction Program (GPRS), etc.

These various reform initiatives have implications for fiscal decentralization and vice versa. There was thus the need for a more comprehensive approach to take due account of the structural changes imposed by these various initiatives. The Fiscal Decentralization Study was organized into three main phases as follows:

- Assessment/Diagnostic Phase;
- Design Phase; and
- Implementation Phase.

2.3 Findings of assessment/diagnostic phase

The diagnosis/assessment of the Public Financial System to support Fiscal Decentralization carried out under Phase 1 of the Project has unearthed a number of critical issues whose resolution would enhance fiscal decentralization. These are in the areas of regulatory and institutional arrangements, planning and budgeting, revenues, financial management and fiscal monitoring.

2.3.1 Regulatory and institutional arrangements

The factors identified under this thematic area include:

- Inconsistencies in legislation and regulations
 - the laws that set up the various departments have remained un-revised and un-reviewed,
 - new laws (for example the GES Act, 506, GHS&TH Act,525, Forestry Commission Act, 637, among others) run counter to the spirit and letter of decentralization, reflecting sectoral and conceptual differences in approaches,
 - lack of clarity at various levels of government and within various sectors as to the structure and scope of reforms,
 - overlapping responsibilities between central government agencies and local governments at the sub-national level
- under-representation of technical departments- engineering and technology related departments (for example Feeder Roads, Town & Country Planning, etc);
- non-integration of decentralized departments into the fold of the sub-national governments
- attitudinal problems of split loyalties of officers

-
- resource flow to the departments follow the path of provisions of the laws

2.3.2 Revenues

With respect to revenues, the critical factors identified that needs to be resolved to enhance fiscal decentralization include the:

- reviewing laws giving tax exemptions to Utility Companies. [Act 310, 1965 (Water), and Act 461 1993;
- drafting new Legislation to compel or direct VAT Secretariat to pay ceded revenue collected to MMDAs;
- decentralizing the recurrent budget, especially Items 2-3 to the sub-national levels;
- ensuring timely releases of transfers (DACF, Ceded Revenues) to enable MMDAs carry on their development activities, and
- amending laws to reflect current economic situation;
- encouraging private sector participation in service delivery.

2.3.3 Planning and budgeting

The critical factors identified in the area of planning and budgeting included:

- inadequate co-ordination between planning, budgeting and financing;
- insufficient collaboration between Ministry of Finance and National Development Planning Commission, the Line Departments and the Sub-National Governments;
- planning and budgeting are segregated between the district line Departments and District Assemblies
- continuing vertical reporting relationship between the centre and the district line departments;
- different interpretation about the form, scope and content of the District Composite Budget;
- undefined job schedules for planning and budgeting personnel leading to role conflicts; and
- low competence levels of MMDAs due to high personnel turn-over.

2.3.4 Accounting

In the case of accounting the critical factors identified were: Outmoded financial regulations, for example the Financial Memorandum; Improper Chart of Accounts; Weak Cash Management; Lack of reliable/adequate database; Untimely release of transfers (DACF, Ceded Revenues, etc) Lack of uniformity in procurement; Lack of co-ordination between Stores and Estates Department; No

fixed assets registers; No insurance policies, Lack of standardized training programmes; and Roles are not clearly defined for key players

Fiscal monitoring and evaluation

The inhibiting factors identified under fiscal monitoring which will have to be resolved to further Fiscal Decentralization involved:

- the lack of co-ordination between internal and external auditors; non establishment of Internal Audit Units in MMDAs;
- inadequate capacity of internal audit staff in MMDAs;
- lack of audit manuals, standard audit programmes and working papers;
- non-compliance with performance audit; and
- lack of knowledge and skills in computer auditing .

2.4 Design framework

2.4.1 Overall concept of fiscal decentralization

Fiscal Decentralization is the division of fiscal responsibilities between central and local governments and the transfer of such responsibilities with accompanying resources from the former to the latter. It is thus essentially concerned with inter-governmental fiscal relations with respect to expenditure assignment or allocation; tax/revenue allocation/assignment; inter-governmental transfers; borrowing; planning and budgeting; financial management; and legal structures. The relationships are outlined in much details in Annex 3. It is influenced by political, social, as well as economic considerations and founded on a number of premises, including:

- strengthening local government through administrative reforms via decentralization;
- effective fiscal decentralization requires political devolution to empower local governments;
- re-enforcing socio-economic development by enhancing local governments capacity and financial autonomy;
- symbiotic relationship between central and sub-national governments;
- effective fiscal decentralization requires a strong central government
- establish robust financial arrangements to support functions between the various levels of government;
- clear understanding of outcomes between central and local governments;
- the over-arching roles of local governments in the new scheme of things: participatory, facilitative, regulatory, etc; and

-
- strengthened higher level monitoring and oversight of local fiscal performance.

In short the fiscal decentralization framework seeks to achieve the fundamental goals/objectives of public finance - efficiency, effectiveness, equity, economy, accountability and transparency in sub-national as well as central governments. In addition it proposes Systems Approach with a set of interrelated and inter-dependent sub-systems that are dynamic and evolve with changing needs and challenges.

2.4.2 Design

The design framework is rooted in the international best practice (outlined in Annex ...), findings of the diagnosis/assessment of the public administration and financial management systems, the decentralization policy of Ghana and the definition of fiscal decentralization as a complex of inter-related political, legal, administrative and financial management processes that entails expenditure allocation, revenue/tax allocation, inter-governmental transfers, borrowing, financial management arrangements and legal structures (outlined above). The Design thus envisages:

- empowered and responsible local governments as legislative, administrative, development planning, budgeting, rating and service delivery authority;
- sub-national governments have independent financial resources and substantial autonomy in the allocation and utilization of resources;
- sub-national governments have ownership of budget;
- establishment of structures and mechanisms to enhance probity; accountability and transparency in the administration especially at the sub-national level;
- achieving efficiency, effectiveness, economy, transparency and accountability in the management of resources, the fundamentals of public finance; and
- sub-national governments have the capacity to deliver on their mandate.

2.4.2.1 Assignment of expenditure responsibility

Assigning responsibilities between the various levels of government has been stressed. This is necessary to avoid twin dangers of over-decentralization of expenditures, and over-decentralization of revenues. In this respect, and for the twenty-two (22) functional areas of government listed as decentralized, the Design emphasizes that:

- decentralization contract should be clearly spelt out;
- roles of each tier of government are clarified;

-
- organizational reforms are outlined in order to create appropriate incentives for workers at all levels;
 - local governments are supported with institutional capacity to implement decisions
 - results are monitored vis-à-vis implementation and adjusted as necessary

The framework further emphasizes the following as national level responsibilities: national defence, national security, international affairs, fiscal and monetary policies, policy regulations to harmonize, an enabling environment for economic development, regional equity, resource allocation, development/preparation of mandates or regulations, establishing guidelines for efficiency, accountability and transparency, and access to information.

The recommendations are made to review and reconcile legislation in consonance with decentralization; clear definition of roles and responsibilities between the various level of government; restructure MDAs and institutionalising/integrating new departments at the regional and district levels, including defining the organizational structure of the RCCs and MMDAs; undertake budgetary reforms based on the clear identification of functions between various levels of government; and undertake training in support of decentralization in general and fiscal decentralization in particular.

2.4.2.2 Assignment of revenues

Revenues are a key component of fiscal decentralization. The design framework seeks financial autonomy for the sub-national governments. It thus emphasizes assignment of revenues consistent with expenditure requirements. In this regard, the framework will:

- build on own revenues and will ensure efficiency and effectiveness of mobilization;
- emphasize assignment of revenues consistent with expenditure requirements;
- design system of inter-governmental transfers to mitigate fiscal gaps;
- examine donor funds and how to pool them; and
- examine borrowing and its impact on functioning of the sub-national governments.

2.4.2.3 Planning and Budgeting

Within the framework of the Medium Term Development Plan the Design Framework further will underline the following for the sub-national governments:

- a hard budget constraint (balanced budget), and tailoring expenditure to resource availability;
- MDA/RCC/MMDA ownership of the budget
- Budgeting to have medium term (3-5 years) outlook as this improves predictability, consistent with the Medium Term Development Plan
- achieving linkage between medium term development plan, annual Action Plan and Budget
- reporting and aggregating financial information along ministry, regional and district lines;
- allowing financial information to be aggregated and compared across budget/cost centres, within entity; not to directly control the operations of the centre.

It was recommended to ensure co-ordination between planning, budgeting and financing; ensure sufficient collaboration between Ministry of Finance, National Development Planning Commission, Line Departments and District Assemblies (MMDAs); clearly and properly define the structure of the district budget to effect proper integration at the district level; restructure reporting relationship to promote horizontal as well as vertical reporting relationship; promote consultation between district line Departments and the District Assembly to effect District Integrated Planning and Budgeting; and propose training requirements

2.4.2.4 Design accounting instruments

Local governments are accountable for the administration of their financial affairs and resources to their constituents/jurisdictions, central government and Parliament. It is therefore necessary to have in place a transparent, timely and reliable reporting system. The Design Framework will emphasize the following key elements to ensure financial accountability:

- keeping proper books of account;
- preparing monthly financial statements;
- preparing annual financial statements; and
- submitting quarterly and annual reports.

The recommendations for accounting Design under Fiscal Decentralization include revising Financial Regulations; introducing appropriate computerised accounting system; introducing cash flow forecasting at the sub-national level; introducing fixed assets management; designing procurement policies and procedures, and defining roles of key players and designing financial management training programmes

2.4.2.5 Monitoring mechanisms (arrangements)

A system of inter-government fiscal relations would of necessity require a system of monitoring arrangements. In that respect the Design Framework would require that the:

- MMDAs undertake monitoring as part of internal operating requirements;
- RCCs undertake monitoring as mandatory requirement;
- MDAs undertake monitoring to ensure compliance with policy objectives;
- Audit to certify that agencies operated within mandate, statutory rules and regulations; ex-post audit is an aid to sound financial management,
- strengthening and ensuring higher level monitoring and oversight of governance and lower fiscal performance.

Fiscal Decentralization Design will put in place fiscal monitoring and control mechanisms to facilitate decentralized financial management system.

2.4.2.6 Legal structures

There is no doubt that reforms with implications for structural changes in the public administration system would require comprehensive legislative reviews as for example: the review of the Financial Administration Decree and Financial Administration Regulations; Financial Memorandum (FM) 1961, Review of Legislation establishing the Decentralized Departments; review of other Acts which are exempted from paying rates to the sub-national government, among others.

2.5 Risks and their mitigation

Fiscal Decentralization entails significant risks and costs in terms of macro-economic management, distributional equity, provision of certain goods and services and capacity. Fiscal decentralization, it has been argued, risks macro-economic stability, reduces central government control over public resources, creates the incentives for sub-national governments to spend irresponsibly and unsustainably, reduces the tax and expenditure base that central government can use to carry out its stabilization functions and takes away scarce resources from national projects that can make greater contribution to growth.

Empirical evidence and experience of other countries suggest that the risks associated with macro-economic stability are only true where Sub-national governments control substantial resources. The risks will be mitigated, by taking care to avoid unwanted outcomes, through:

- following the design principle, ‘finance follows function’;

-
- defining and clarifying the functions, roles and responsibilities between the various levels of government;
 - involving the SNGs in the pursuit of any needed fiscal adjustments

Another risk which needs mitigation is one of the varying and weak capacities of sub-national governments. It is generally contended that the SNGs do not have the required skills mix, training and expertise to deliver on their mandate. This is even so where they are charged with important social and economic infrastructure investment. Auditor General's Report is often cited to support this claim. The risk of inadequate administrative and technical capacity of the SNGs can be mitigated through:

- integrating the line departments (22 decentralized departments) into the fold of the District Assemblies;
- orienting and training of the personnel in other Institutions including Institute of Local Government Studies (ILGS);
- backstopping the District Assemblies technically from the regional level;
- promoting private sector participation in service delivery at the district level;
- undertaking monitoring of the performance of the District Assemblies from the regional and national levels.

Closely related to the above is the risk of sub-standard provision of certain public goods and services with respect to infrastructure. It is often argued and wondered how central government can influence goods produced locally in the light of the clear assignment of responsibilities. This risk will be mitigated through:

- setting policy guidelines for their delivery;
- transferring resources to sub-national governments to equalize their capacity to meet these guidelines;
- monitoring ex-post the level and quality of local services;
- strengthening and ensuring higher level monitoring and oversight of governance and lower fiscal performance;
- improving government accountability through properly structured (simple, transparent, consistent with objectives) fiscal transfers.

3. Lessons

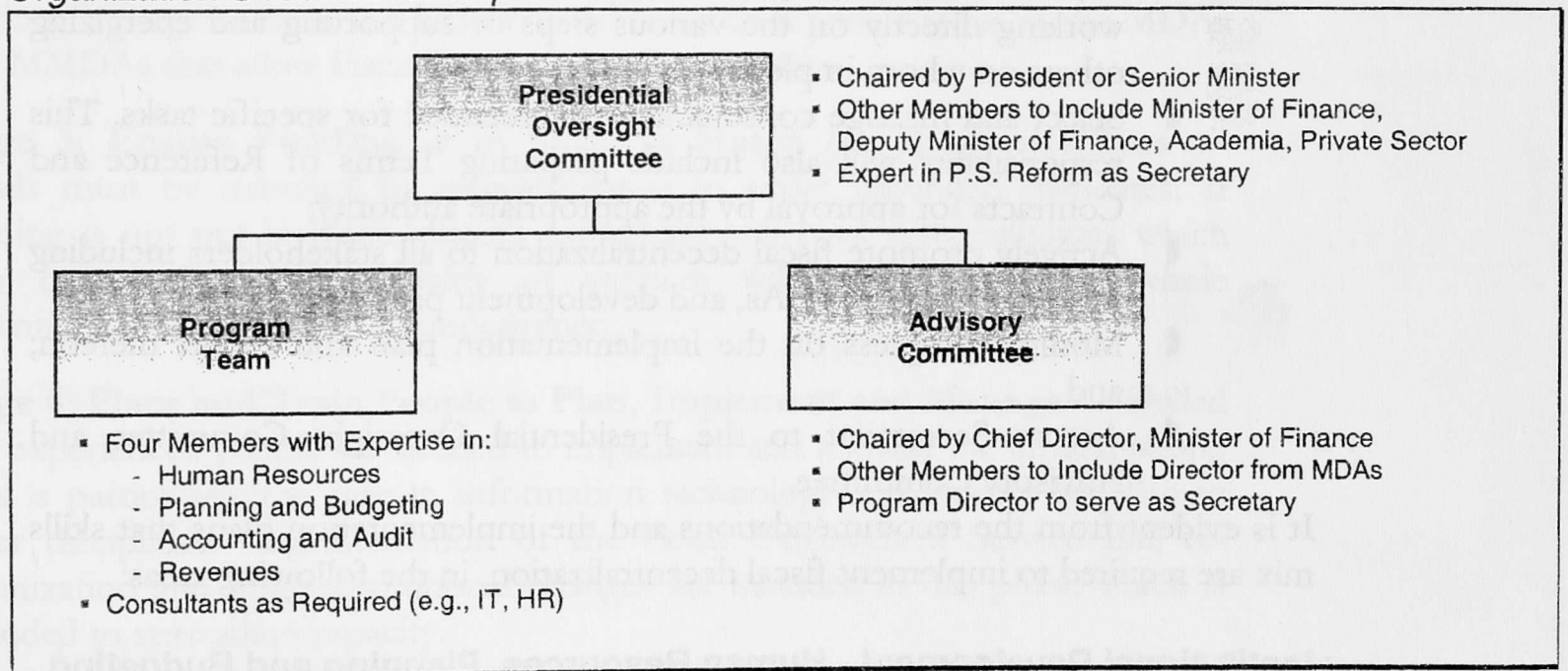
A number of lessons have been learnt in the implementation of decentralization in general and fiscal decentralization in particular. These are summarized as follows:

- Decentralization is a process which needs a political and bureaucratic/technocratic will and support and needs the commitment of all. It also requires a **champion**.
- Decentralization involves structural changes in public administration and public finance. It cannot be implemented using "old ways of doing things". Public education and re-orientation of public officials is necessary.
- Decentralization requires the human resources and institutional capacity to be implemented.

4. Implementation

Based on our understanding of the issues, we proposed the figure below to guide the implementation

Organization Structure for Implementation of Fiscal Decentralization



It is recommended that the implementation work be organized as shown in the figure above which incorporates:

A Presidential Oversight Committee to champion the work, and provide overall direction and guidance. It would have the following characteristics:

-
- membership would include the President, Senior Minister, Minister of Finance, Deputy Minister of Finance (who also chairs PUFMARP), individuals from academia or the private sector who are knowledgeable in the technical aspects of Fiscal Decentralization, and an expert in public sector reform who would serve as Secretary; and
 - it would meet monthly initially during the critical start up period, and then quarterly the approving body

An Inter-Ministerial Technical Working Committee to address policy and resource issues, to receive direction from and provide input to the Presidential Oversight Committee. It would have the following characteristics:

- the Chief Director, Ministry of Finance would chair the Committee;
- membership would include Director-level representatives from Ministries and Central Agencies;
- the Secretary of the Committee to be the Project Director.

The Program Team

The role of the Program Team should be to:

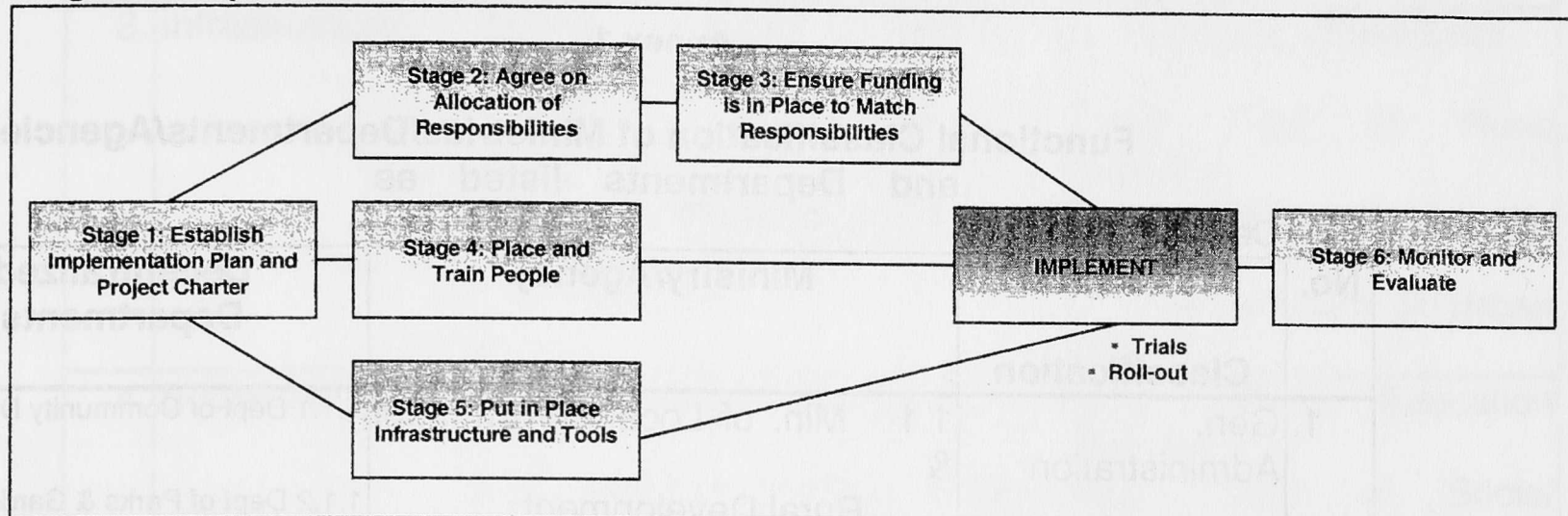
- Work pro-actively on each of the implementation steps with the objective of achieving a successful implementation. This will require working directly on the various steps or supporting and energizing others on whom implementation depends;
- Select and manage consultants to be retained for specific tasks. This responsibility will also include preparing Terms of Reference and Contracts for approval by the appropriate authority;
- Actively promote fiscal decentralization to all stakeholders including MDAs, RCCs, MMDAs, and development partners;
- Monitor progress on the implementation plan and report thereon; and
- Act as Secretariat to the Presidential Oversight Committee and Advisory Committee.

It is evident from the recommendations and the implementation plans that skills mix are required to implement fiscal decentralization, in the following areas:

Institutional Development, Human Resources, Planning and Budgeting , Accounting and Audit Revenues as well as Information Technology.

The recommendations fall within the framework for implementing fiscal decentralization depicted below.

Stages of Implementation



The stages are as follows:

Stage 1: Establish Implementation Plan, Project Charter and Project Organization — This step ensures that the project is established properly and is organized and equipped to ensure a successful implementation.

Stage 2: Define and Agree the Allocation of Responsibilities Between National and Sub-national Governments — This is the most basic element of decentralization upon which everything else depends. While the respective responsibilities have been defined in the legislation, there needs to be agreement and commitment about operationalizing them and in particular developing working arrangements at the District level between representatives of the MDAs and MMDAs that allow Fiscal Decentralization to occur.

Stage 3: Ensure Funding is in Place to Match the Responsibilities — Funds must be matched to responsibilities to avoid unfunded mandates. If funding is not put in place, district assemblies will have responsibilities which they cannot fulfill; the quality of services will decline and the whole decentralization effort will be undermined.

Stage 4: Place and Train People to Plan, Implement and Manage — Skilled and experienced people are needed to implement and manage the infrastructure. This is particularly the case in information technology and finance but also in other disciplines. Implementation of the Local Government Service Bill, re-organization and other institutional changes are included in this phase which is intended to strengthen capacity.

Stage 5: Put in Place Infrastructure and Tools

▪ **Stage 6: Monitor and Evaluate** — Fiscal Decentralization will continue to be a work in progress for some considerable time and it is essential that there be a process of monitoring and evaluating experience, learning from successes and failures, and then applying that learning so that improvements can be made.

Annex 1

**Functional Classification of Ministries/Departments/Agencies
and Departments listed as**

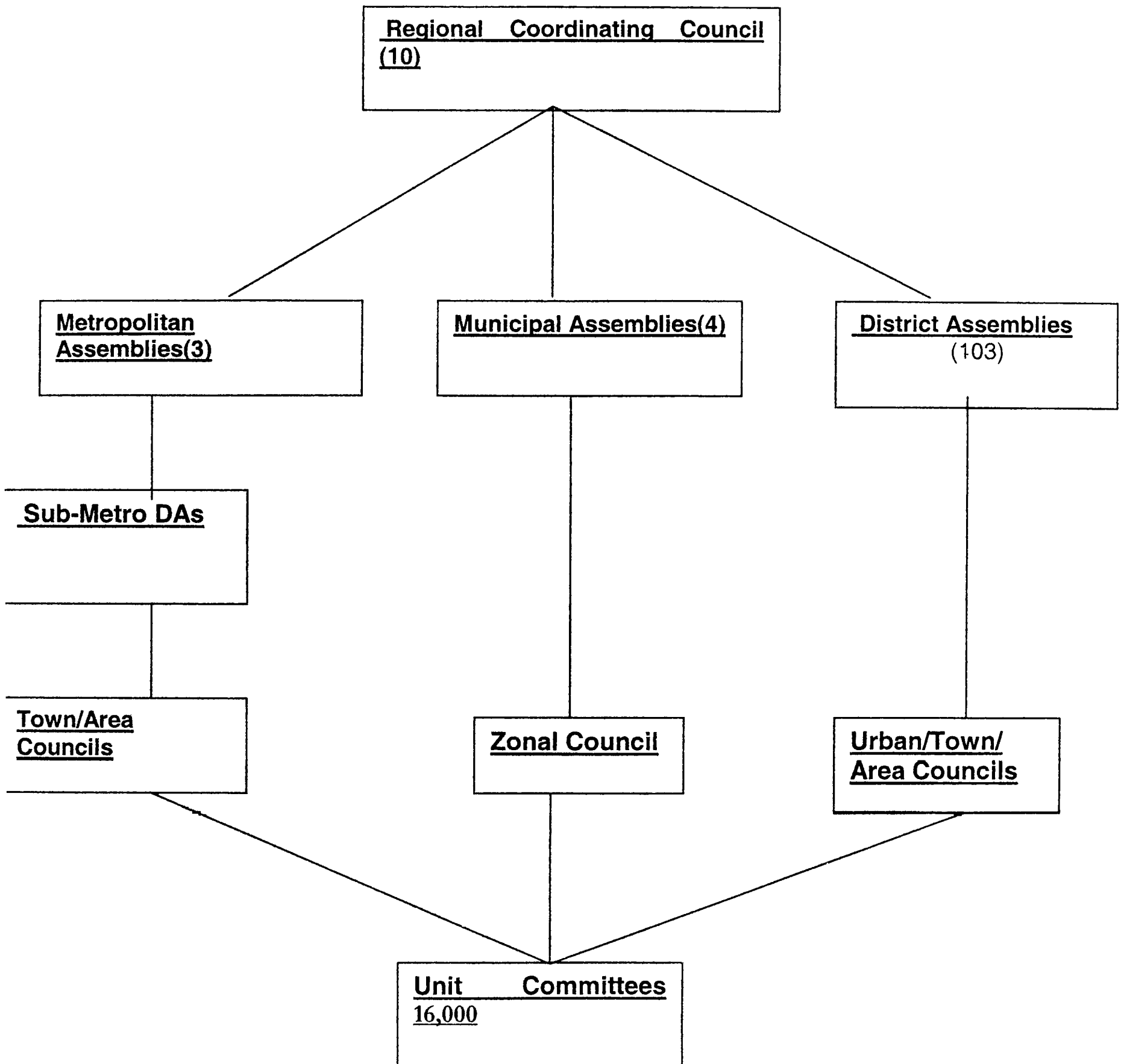
Decentralized

No.	Functional Classification	Ministry/Agency	Decentralized Departments
1.	Gen. Administration	1.1 Min. of Local Government & Rural Development 1.2 Office of Government Machinery 1.3 Ministry of Foreign Affairs 1.4 Ministry of Finance 1.5 Ministry of Parliamentary Affairs 1.6 Audit Service 1.7 Public Services Commission 1.8 National Electoral Commission 1.9 Office of Parliament 1.10 General Government Services 1.11 Office of DACF Administrator	1.1.1 Dept of Community Dev 1.1.2 Dept of Parks & Gardens 1.1.3 Births & Deaths Registry - - - - - - - - -
2.	Economic Services	2.1 Ministry of Food & Agriculture 2.2 Ministry of Lands & Forestry 2.3 Ministry of Mines & Energy 2.4 Ministry of Trade & Industry 2.5 Ministry of Tourism 2.6 Ministry of Env. Science &	2.1.1 Dept of Animal Prod. 2.1.2 Dept of Fisheries 2.1.3 Dept of Agric Extension 2.1.4 Dept of Crops Services 2.1.5 Dept of Agric. Eng. 2.2.1 Forestry Department 2.2.2 Wildlife Department - 2.4.1 Cottage Industry - 2.6.1 Dept of T &C

		Tech	Planning
3.	Infrastructure	3.1 Ministry of Works & Housing 3.2 Ministry of Roads & Transport	3.1.1 Public Works Dept 3.1.2 Dept of Rural Housing 3.2.1 Dept of Feeder Roads/ Department of Urban Rd
4.	Social Services	4.1 Ministry of Education 4.2 Ministry of Empl. & Social Welf. 4.3 Ministry of Youth & Sports 4.4 Ministry of Communication 4.5 NCCE 4.6 NCC 4.7 Ministry of Health 4.8 National Media Commission	4.1.1 Ghana Education Service 4.2.1 Dept of Social Welfare 4.2.2 Dept of Co-operatives 4.3.1 NYOC 4.3.2 National Sports Council 4.4.1 Information Services Dept - - 4.7.1 Ministry of Health -
5.	Public Safety	5.1 Ministry of Justice 5.2 Ministry of Defence 5.3 Commission on HRAJ 5.4 Ministry of Interior	- - - 5.4.1 Fire Services Dept.

Source: Appropriation Act 1999
Local Government Act, 1993, Act 462

Annex 2: Local Government Structure



Annex 3: Relationships between Central and Local Governments under Fiscal decentralization.

No.	Characteristics:	Central - Sub-National Government Relations	
		Central Government	Sub-National Governments
1	Broad Relationship.	Central Government intervention into local government roles are through local government channels	Local Governments have discretionary authority, bound only by broad national guidelines, and the human, financial and material capacities available to them.
2	Organization Structure	MDAs become policy and planning bodies with regard to local government services.	Local Governments have autonomy to design their policy and planning operational structures.
3	Policy and Planning	MDAs become policy and planning Bodies in regard to local government Services	Within their discretionary powers, local governments have full responsibility for determining policy, planning and operational procedures which may be impacted by national policies and priorities.
4	Financial Structure	Central Government is independent except through linkage revenue sharing and/or transfer payments	
5	Fiscal Policy	This is a responsibility of Central Government, but may be affected by the extent to which revenue Generating and expenditure power have been devolved to the local Governments	-
6	Revenue Generation	Central Government generates revenues within its assigned taxing areas . Central Government undertakes revenue sharing with and/or transfer payments with/to local Governments	Local Governments generate revenues within its assigned tax areas Receives transfer payments from Central Government
7	Budget Preparation	Central Government prepares budget in accordance with its legislated Responsibilities	Sub-National Governments prepare budget in accordance with its legislated responsibilities.
8	Financial Management And Control	Central government independently manages and control own finances Central Government may perform External audit functions for the local governments	Local Governments independently manage and control own finances Local Governments are audited by external auditors or may provide their own external auditors in accordance with legislation
9	Public Sector Staffing	Central Government responsible for all aspects of human resource Management	Local Governments responsible for all aspects of human resource a management, subject to general labor statutes.

Annex

Literature Review for Fiscal Decentralization

International experience and available literature have stressed the following in the design of a framework for fiscal decentralization:

- importance of clear and fundamental strategy of decentralization;
- a political system of representation and accountability at the sub-national level, accountability of local officials require significant local fiscal autonomy;
- clear definition of the roles of the various levels of government and the public and private sectors in the economy;
- the primacy of expenditure assignment in inter-governmental fiscal relations; and
- administrative capacity of the sub-national levels to perform.

For example, the Victoria Falls Declaration, as endorsed by the Africities Summit, 2000 recommended that:

- a) the purpose of decentralization should be to devolve power and responsibilities to the lower echelons, promote local democracy and good governance, with the ultimate objective of improving the quality of life of the people;
- b) decentralization should be to local government structures, which are representative of, and accountable to, all sectors of the local population, including marginalized and disadvantaged groups;
- c) decentralization should be to levels of local government structures, which enable effective community participation in local governance;
- d) decentralization should involve the transfer to local government institutions those powers and functions necessary to enable them to provide services for the local population efficiently and effectively; provide conducive environment for local economic development; and develop and manage local resources in a sustainable manner;
- e) decentralization should include the provision of access to resources needed to execute the above powers and functions efficiently and effectively, including financial and manpower resources;
- f) financial resources should be available to local authorities in a manner which is reliable, adequate, predictable, transparent, sustainable and equitable; and
- g) the basic components of a decentralized system of local government should be enshrined in the constitution.

With respect to the functions, roles and responsibilities, available literature and international experience suggest that the national level ministries/central government is usually assigned the following functions:

- “the task of maintaining macro-economic stability... and should have the tools that go with it such as the control over monetary policy and at least some control over fiscal conditions”², “macro-economic stabilization, income redistribution and resource allocation”. And national public services such as national defence, international affairs,

² Litvack J and Seddon J: op cit p.89

monetary policy, fiscal policy regulation and regional equity should also be the responsibilities of central government.

- "...providing some services less expensively on a larger scale or their benefits may spill over across districts: providing these services centrally creates economies of scale and captures externalities'. These can be improved through mandates and regulations.
- '...there are some normative policy setting, informational, and technical assistance functions which central government ministries should continue to perform...decentralization requires restructuring of central government ministries towards improved capacity in these areas away from direct service provision'
- '...important role in establishing the enabling conditions for efficiency, accountability and transparency' ...producing and disseminating public information, ensuring that citizens have access to the information required for accountability';
- '...decentralization includes a redefinition of the role of central government with increased emphasis on setting policy, financing and ensuring efficient and equitable provision of services by regional and local governments'³
- '...not all functions should be financed and managed in a decentralized fashion...when national governments decentralize responsibilities, they often retain important policy and supervisory roles... Central Ministries have crucial roles in promoting and sustaining decentralization by developing appropriate and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibilities for the new functions';
- '...central government should be involved with: overall policy, setting standards, auditing, informational and technical assistance functions, and ensuring efficient and equitable provision of decentralized public services through mandates and regulations'.

Local Governments 'are in a good position to implement and administer standardized national policies...primary health care, basic education, child care, housing, public transport, rural roads, etc'⁴. They should be:

- concerned with the provision of infrastructure and services; and
- assigned with all local services consistent with allocative efficiency and should follow principle of subsidiarity.

With respect to the functions of the regions, they should have oversight functions; and in areas of shared responsibility, roles should be clarified.

³ Winkler D.R: The Design and Administration of Intergovernmental Transfers, World Bank, 1994 p.7

⁴ Rethinking Government: p.115