

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCE

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CHALLENGES AND PROSPECTS OF FISCAL DECENTRALIZATION IN GHANA:

A CASE STUDY OF KUMASI METROPOLITAN ASSEMBLY

BY

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requirements for the degree of MASTER OF BUSINESS ADMINISTRATION
(FINANCE)

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Finance) and that, to the best of my knowledge, it contains no materials previously published by another person nor material which has been accepted for the reward of any other degree of the university, except where due acknowledgement has been made in the text.

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DEDICATION

With much joy I dedicate this thesis to my parents, Mr. and Mrs. Adu-Ameyaw. Special dedication also goes to my lovely daughter, Princess Marie Lordi Adu-Ameyaw.

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I wish to express my sincerest gratitude to the Almighty God for his abundant grace he showered on me from the beginning of this course to the end of it culminating into the writing of this project work. I would also like to express my deep gratitude to my supervisor, Dr. Osei-Fosu for all his support, advice, guidance and encouragement. His contribution to the development of this research, both in terms of intellectual insight and comments were essential for the success of this work. I am so much indebted to my family for their love, understanding, support and encouragement throughout the course and thesis.

ABSTRACT

This study is concern with assessing the challenges and prospects of fiscal decentralization in Ghana using Kumasi Metropolitan Assembly as a case study. Questionnaires were administered to fifty staff at Kumasi Metropolitan Assembly. Purposive sampling has been used in selecting the staff for the study. The research findings revealed that the Assembly has the power to generate, retain and use its revenue, the power to prepare and approve its budgets, power to invest surplus funds if any and the power to borrow funds where necessary to supplement its budget deficits, however, this power to borrow is restricted to a ceiling of GH¢20,000. The analysis also showed that the assembly has no power to use the DACF at its own discretion. The DACF usually comes with an ambit of vote (spending warrant) and the assembly must disburse the DACF strictly according to the instructions of the warrant and also that the DACF is meant to be used to finance capital expenditures and under no circumstance should any MMDA use it to finance revenue expenditures. The results from the analysis also showed that even though the assembly is given complete power to prepare and approve its own budgets, it still faces many challenges in performing this task which include inadequate budget staff which inhibits on time budget preparation and inadequate skills on the part of some budget staff resulting in difficulty in making realistic and reliable budget estimates. The analysis also indicated that even though the assembly has been given the power to generate, retain and use its revenue there are certain challenges it encounters in doing so. The results from the analysis revealed that in order to overcome the challenges the assembly faces in acquiring loans, financial institutions should charge moderate interest on loans. The results from the analysis also showed that in order to overcome the challenges the assembly encounters in generating revenue, there should be public sensitization on the need to pay tax.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY	1
1.2 PROBLEM STATEMENT	3
1.3 RESEARCH OBJECTIVES	4
1.4 RESEARCH QUESTIONS	4
1.5 SIGNIFICANCE OF THE STUDY	4
1.6 SCOPE AND LIMITATIONS OF THE STUDY	5
1.7 METHOD OF THE STUDY	5
1.8 ORGANIZATION OF THE STUDY	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1 Introduction.....	7
2.2 Definition of key concepts.....	8
2.3 Overview of Fiscal Decentralization in Ghana.....	10
2.4 Objectives and implications of fiscal decentralization in developing countries.....	11
2.5 Arguments for fiscal decentralization.....	12
2.6 Extent of decentralization of fiscal powers	13
2.7 Effectiveness of fiscal decentralization	15
2.8 Challenges of fiscal decentralization in developing countries	15
2.8.1 Intergovernmental transfers	16
2.8.2 Expenditure management and financing	17
2.8.3 Adequacy of local revenues and autonomy	17

2.8.4 Local government borrowing	17
2.8.5 Budget discretion	18
2.9 Prospects of Fiscal Decentralization.....	18
2.9.1 An Agenda for Reforming Expenditure Assignment and Management.....	20
2.9.2 An Agenda for Improving Local Revenue Generation and Autonomy.....	20
2.9.3 An Agenda for Reforming Intergovernmental Transfers	21
2.9.4 Local Government Borrowing and Investment Finance.....	22
2.9.5 Better Framing of Institutional Reform	22
2.10 EMPIRICAL LITERATURE REVIEW.....	23
 CHAPTER THREE.....	25
METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design	25
3.3 Data sources	25
3.3.1 Primary sources of data	25
3.3.2 Secondary sources of data	26
3.4 Population and Sample Size	26
3.5 Sampling technique	26
3.6 Data Collection Instruments	26
3.7 Data Analysis Tools.....	27
3.8 Profile of Kumasi Metropolitan Assembly.....	27
 CHAPTER FOUR	29
DATA PRESENTATION, ANALYSIS AND DISCUSSION	29
4.1 INTRODUCTION	29
4.2 THE EXTENT OF DECENTRALIZATION OF FISCAL POWERS.....	29
4.3 THE CHALLENGES OF FISCAL DECENTRALIZATION	32
4.3.1 CHALLENGES IN ACQUIRING LOANS	32
4.3.2 CHALLENGES IN PREPARING BUDGETS	34
4.3.3 CHALLENGES IN MOBILIZING REVENUE	35
4.3.4 CHALLENGES IN COLLECTING REVENUE	37
4.4 REMEDIES TO THE CHALLENGES OF FISCAL DECENTRALIZATION	39

4.4.1 Measures to Overcome Challenges of Borrowing	39
4.4.2 Measures to Overcome Challenges of Revenue Generation	41
4.4.3 Measures to Overcome Challenges of Revenue Collectors	42
4.4.4 Measures to Overcome Challenges of Preparing Budget	43
4.5 PROSPECTS OF FISCAL DECENTRALIZATION	45
4.5.1 Establishment of adequate access to development capital by MMDAs	45
4.5.2 Assignment of an appropriate set of functions by central government to MMDAs	45
4.5.3 Allocation of correct amount of local revenues to MMDAs	46
4.5.4 Establishment of an adequate intergovernmental fiscal transfer system between central and local governments.....	46
4.5.5 An adequate enabling environment	46
 CHAPTER FIVE	48
SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION	48
5.1 INTRODUCTION	48
5.2 SUMMARY OF FINDINGS	48
5.2.1 The extent of decentralization of fiscal powers	48
5.2.2 The challenges of fiscal decentralization	49
5.2.3 Remedies to the challenges of fiscal decentralization	50
5.2.4 Prospects of fiscal decentralization	51
5.3 CONCLUSION.....	52
5.4 RECOMMENDATIONS.....	53
 REFERENCES:	55
APPENDIX.....	60

LIST OF TABLES

Table 4.1 The assembly's power to borrow and its restrictions	29
Table 4.2 Assembly's power to prepare and approve its budgets	30
Table 4.3 Challenges the Assembly Faces In Mobilizing Revenue	36
Table 4.4 Measures to overcome assembly's challenges in borrowing funds.....	40
Table 4.5 Measures to be put in place to ensure effective revenue generation	41
Table 4.6 Measures to overcome the challenges revenue collectors face	42
Table 4.7 Measures to overcome the challenges the assembly faced in preparing its budgets	44

LIST OF FIGURES

Figure 4.1 Restriction placed on the use of the DACF	31
Figure 4.2 challenges the assembly encounters in acquiring loans	34
Figure 4.3 challenges the assembly face in preparing its budgets	35
Figure 4.4 Challenges faced by revenue collectors in collecting revenue.....	39

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The last decade in Ghana's development policy has witnessed tremendous changes in its fiscal decentralization. Fiscal decentralization is seen as the delegation of fiscal authority to local government agencies for developmental purposes. Accordingly, Lockwood (2006) posits that due to the developmental implications of delegating fiscal powers, governments in developing economies have acknowledged the essence for decentralization as a tool for improving the overall effectiveness and efficiency of their operations (see Bardhan and Mookherjee, 2006).

However, fiscal decentralization as proven by prior studies (see Bird and Vaillancourt 1998; Shah and Chunli, 2006; Shen, Jin, and Zou 2012) serves as an escape path from inadequate progress and inefficient governance. Notwithstanding, development partner and political analysts have consistently argued on the need for decentralization in the development projects of local and municipal assemblies. This arguably will improve the extent of economic efficiency as well as allow for greater differentiation in the provision of public services to the communities. Since local governments are closer to the people at the grass root level, they will be in a position to better understand and know the needs of their people and will therefore provide them with services that will match their needs and preferences than central government. This will help ensure efficiency in the allocation of public resources and also serves as a tool to enable the local people assess the performance of their local governments in order to ensure that there is probity, value for money and accountability for the use of state resources.

Bahl (2000) further noticed that decentralization have many virtues including improving accessibility to government by the local people, local responsibility and effectiveness of government. But Bahl argued that the most prominent challenge with fiscal decentralization as evident in developing economies is the unlikelihood of the decentralization expenditure pattern to reconcile with the expenditure pattern that the central government is willing to implement unless the goals of the central and local government are par (see De Mello 2000; Smoke 2003). The evolution of decentralization programme in Ghana begun from the colonial era during which Ghana was indirect governed through local authorities. These institutional authorities served as oversight authorities for the British government on public health, peace and order and the imposition of taxes and levies for development at the local level. This process has been implemented by successive governments in Ghana after independence as a precondition to achieve both socio-economic development and political objectives (Aryeetey 1990; 1985). The introduction of the assembly system of local government in 1988 with the passage of the Local Government Law, PNDCL 207 and its successor Local Government Act, 1993 (Act 462) established the Metropolitan, Municipal and District Assemblies (MMDAs) with legislating, executing, budgeting and planning powers.

Accordingly, Ahwoi (2000) and Nuama (2003) note that earlier works on Ghana's decentralization programme has focused mainly on four inter-related pillars including political, administrative, planning and fiscal decentralization. A report by the World Bank noted that in a modern developing country, an effective public sector depends on the ability of the central government to provide and harness the resources of lower levels of government (Cochrane, 1983). Although, decentralization has been an essential component in Ghana's transition from colonial era to post-colonial era, fiscal decentralization is yet to be experienced by local authorities promoting government

agenda in the local communities. Ghana has made significant effort to decentralize its fiscal management system. Therefore this study seeks to assess the challenges and prospects of fiscal decentralization in Ghana.

1.2 PROBLEM STATEMENT

Successive governments have tried to exploit the benefits attached to decentralization by advancing the fiscal component of the programme. However, it is interesting to note that most of these local authorities are unable to meet their revenue generation targets. This problem is a critical issue that impedes MMDAs performance of which Kumasi Metropolitan assembly is no exception. The Metropolitan's inability to generate enough revenue from its internal sources makes it dependent on external sources like the District Assemblies Common Fund (DACF) and donor agencies for development which sometimes come with conditions which might not be favourable for the Assembly and the country at large. The main issue here is that, even though the needs of the populace are increasing every day, the resources needed to fulfil these needs are not sufficient. As a result the MMDAs mostly depend on central government for funds to carry out their developmental projects. However, the amount and timing of these inflows from the central government is unpredictable and this retards the rate of development in the MMDAs.

Because central government transfers cannot be predicted in terms of their amount and the timing, the over-dependence of local government on these transfers from the central government can pose a problem. Many stakeholders including district assembly functionaries, local people and development partners among others are not pleased with the state of fiscal decentralization in Ghana. Their revenue generation are inadequate and

as a result their dependence on central government budgetary allocation for developmental projects hence the need for this research.

1.3 RESEARCH OBJECTIVES

The general objective of the study is to examine the challenges and prospects of fiscal decentralization in Ghana. From the general objective, the following specific objectives have been formed:

1. To find out the extent to which fiscal powers have been decentralized in Ghana.
2. To examine the challenges of fiscal decentralization within the Kumasi Metropolis.
3. To examine the prospects of fiscal decentralization in Ghana.

1.4 RESEARCH QUESTIONS

1. What is the extent of decentralization of fiscal powers in Ghana?
2. What are the challenges of fiscal decentralization within the Kumasi Metropolis?
3. What are the prospects of fiscal decentralization in Ghana?

1.5 SIGNIFICANCE OF THE STUDY

The study is aimed at bringing to bare the challenges and prospects of fiscal decentralization. This stems from the fact that little attention has been given to fiscal decentralization as compared to all the other forms of decentralization (see Nuama 2003; Ahwoi 2000). This study seeks to investigate the major challenges of fiscal decentralization in the Kumasi Metropolis and ways of addressing them. The study also seeks to bring on board development partners and central government to undertake an effective economic planning in promoting adequate development. It will also enable both central and local governments to perform well and serve the needs of the people

irrespective of the fact that the international economic conditions are constantly changing as well as the development of structural adjustment programmes meant to improve public sector performance which have resulted in a lot of fiscal decentralization problems for developing countries of which Ghana is no exception. Also, the study will emphasize the need for fiscal autonomy of MMDAs in Ghana. This study also seeks to provide some of the measures that can be put in place in order to ensure effective fiscal decentralization in Ghana.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

The study area includes the Kumasi Metropolitan Assembly, the Regional Coordinating Councils of the Metropolis and all other stakeholders involved in the administration and governance of the Metropolis. As a result of the scattered nature of the geographical area, the study is limited by the inability to cover all towns and villages. The study is also limited by the unwillingness of some citizens to provide information on their activities as it hammers on revenue and tax activities. Coupled with this was the difficulty in administering of the questionnaires due to the inability of some citizens to respond to the questionnaires especially the traders, businessmen and women.

1.7 METHOD OF THE STUDY

The population of the study covers the stakeholders within the Kumasi Metropolis. Due to time and resource constraints, the sample size is however made up of two-hundred participants. This study used primary and secondary data which will make up of the data obtained through the administration of the questionnaires as well as data obtained from published books and journals. The study used both descriptive and inferential statistics in analysing the data. Analysis of the data was done using Statistical package for social scientists (SPSS).

1.8 ORGANIZATION OF THE STUDY

The study is organized into five chapters which are summarized as follows:

Chapter one covers the background of the study, statement of problem, research objectives, research questions, significance of the study, scope and limitations of the study and the organization of the study. Chapter two highlights on the literature review related to the topic of the research. This covers the introduction, the definition of key terms, history of fiscal decentralization in Ghana, Prospects of Fiscal Decentralization, fiscal decentralization goals and implications in developing countries, arguments for fiscal decentralization, and challenges of fiscal decentralization. Chapter three deal with the method which covers sources of data, population and sample size and methods of data collection and analysis. Chapter four is concerned with data analysis to achieve the objectives of the study. It covers the analysis of secondary data, the primary data and the qualitative analysis. Finally, chapter five report the summary of the findings of the research, recommendations and finally, conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Although fiscal decentralization has emerged as a focus of public sector reform in many less-developed nations, there is little substantive research work on local government fiscal role and performance. Most researches in this area are usually in the form of occasional case studies which usually deals with the study of national tax systems, usually conducted by special commissions or sometimes international development partners and agencies, such as the World Bank or the International Monetary Fund (IMF). It is only a few of them that have attempted to conceptualize the issues of fiscal decentralization more broadly (Bird and Vaillancourt, 1998), by comparing decentralization and policies of local finance across countries (Bird, 1993). Some of the existing literature in this area precludes the emphasis on decentralization in recent years, but most of them focus mainly on major urban areas or non-fiscal aspects of decentralization (Blair, 2000).

Public service delivery depends largely on subventions from the central government in most developing countries in African. This usually makes it problematic for local governments to carry out planning and to deliver basic public services efficiently and effectively. Meanwhile, on-going political reforms are concentrated on decentralization, where greater responsibilities are given to local governments to deliver crucial development projects and public services to the local populace. This process notwithstanding, includes administrative reforms and legal reforms that promote planning at the local government level to meet development goals of the local community (Adam, 2007). This chapter deals with a review of information with regard to the topic of study. It brings to bare already existing knowledge that has been published

by other writers and researchers on fiscal decentralization. It also provides a general overview of decentralization and the challenges and prospects of fiscal decentralization.

2.2 Definition of key concepts

Although, the definition of decentralization is multi-faceted and difficult phenomenon to comprehend, its precise form varies from country to country with differing fiscal, political, cultural, and institutional characteristics. The nature and competitiveness of political parties at the local level is critical to influence the local autonomy at the grassroots as well as maintain justifiable levels of central control. Smoke (2003) argues that a well-defined decentralization system will reduce the likelihood of making serious mistakes that will weaken the existence of process. Accordingly, decentralization is seen as involving the delegation or transfer of political as well as legal authority from the central authority to its field agencies to plan and manage public functions (Rondinelli, 1983).

However, Ayee (2003) also notes decentralization to be the transfer of responsibility and resources both human and financial as well as accountability from any central authority to a local self-governing entity. Notwithstanding, Ayee argues further that when only responsibility is assigned but not in terms of resources, then there is de-concentration but not decentralization. Accordingly, decentralization can be seen from the following perspectives;

- a. **Devolution:** is the transfer of legal powers to local authorities that have been formally created to discharge specific or residual functions. Authority for making decisions on certain issues is vested in sub-regional units of government and central government.

- b. ***De-concentration***: is a minimal transfer of power that is needed for decision making on the spot although some latitude is given for routine decision making. Field staff remained employees of the center and the center sets broad guidelines within which the field is administered. Other names for de-concentration are administrative decentralization, field decentralization and bureaucratic decentralization.
- c. ***Privatization***: is the transfer of activities formally performed by state agencies to private sector thereby reducing the role of government. Privatization also involves the market provision of goods and services.

Not worthy of these definitions is, Atakora (2006), who defined decentralization as the assignment of power and authority to local units either through political, administrative, economic and fiscal means, from the central government. Herein, Fiscal decentralization is seen as the ceding of expenditure and revenue mobilization functions by the central government to MMDAs. Decisions about revenue generation and expenditure are reassigned to the local level by the central government (see Ayee 1992, Ahwoi 2009). However, Ahmed et al (2005) find that although there are numerous components and characteristics of decentralization, four major components including the following are well recognized;

1. Expenditure responsibilities assignment;
2. Allocation of taxes;
3. Development and implementation of an intergovernmental grant system;
4. Fiscal flows budgeting and monitoring.

2.3 Overview of Fiscal Decentralization in Ghana

Theories of decentralization normally consist of generalization. The abstraction on fiscal decentralization in developing countries is problematic (Smoke 2003). Although the context of fiscal decentralization cannot be ignored in the analysis of public policy, there are fairly recognized practices and standard institutions that need to be considered in evaluating decentralization policies in every country. These practices are complex than in definition (Ahwoi, 2009).

Accordingly, Kokor and Kroes (2000) note that fiscal decentralization involves assigning local government units with the authority and capacity of generating, allocating and utilizing financial resources to enhance socio-economic development. They further argue that the objectives of Ghana's decentralization program was geared towards increasing local revenue mobilization, restructuring the distribution of resources to meet local needs as well as to empower MMDAs to make decisions regarding the allocation of resources at the local level concerning both the funds transferred from the central government as well as those generated at the local level.

The District Assemblies Common Fund has been created in order to help achieve these objectives. Funds from the DACF are usually disbursed to the MMDAs using a formula for allocation usually approve by Parliament and MMDAs usually have access to these funds on quarterly basis. The DACF is meant to be used mainly by the MMDAs for meeting investment expenditures, thus capital intensive projects. The DACF used to be 5% of total government revenue but in 2008, the percentage was revised upwards to 7.5%. MMDAs are required to submit their Annual Action Plans and Annual Budgets to the DACF Administrator before they can have access to the amounts allocated to them. Section 245 of the 1992 Constitution and Act 462 have also given the power to MMDAs

to collect fines, fees, tolls, rates and licenses in order to promote socio-economic developments in their areas. Several legal instruments such as the Financial Administration Act, 2003 (Act 654, amendment to FAD, 1979, SMCD 221), Financial Administration Regulations, 2004 (L.I. 1802, revoking the Financial Administration Regulations, 1979, L.I. 1234), Public Procurement Act, 2003 (Act 663), Ghana Audit Service Act, 2000, (Act 658) and Internal Audit Agency Act, 2004 (Act 656), have been enacted and passed by Parliament to ensure that there is transparency and accountability in the use of financial resources at the local level.

2.4 Objectives and implications of fiscal decentralization in developing countries.

Evidence from prior studies (Wunsch and Olowu 1990; Roemer and Radelet, 1991) indicated that comprehensive fiscal, political and administrative decentralization has been adopted by only some few developing countries (Smoke 2001). Fiscal decentralization has four major components including expenditure responsibilities assignment to local governments, allocation of taxes to MMDAs, design and implementation of an intergovernmental grant system and fiscal flows budgeting and monitoring.

However, the absence of appropriate political and administrative decentralization usually results in fiscal decentralization being ineffective thereby thwarting the analysis (Guimaraes 1997). Instead of ensuring that there is an appropriate political decentralization in place, central governments in many developing countries usually replace administrative decentralization with administrative de-concentration by appointing officials of sub-national governments. Contrarily, the constraints impeding the central government's efforts to satisfy the increasing demand for local services underpin the current shift towards decentralization in developing countries. According to

De Mello (2000), there is increase in efficiency in service delivery and reduction in information and transaction costs associated with the provision of public services as a result of the decentralization of fiscal responsibilities. However, Smoke (2001) argues that fiscal decentralization may come with its associated positive impact as evidenced in the case of Kenya where the local governments are responsible for 5% of the total government expenditure. The implication of these decisions for fiscal decentralization, Smoke (2001) reveals to rest with the government's intention to free growth-oriented fiscal decisions that are attributed to the local government's decrees that have been fiscally decentralized.

2.5 Arguments for fiscal decentralization

De Mello (2000) noted fiscal decentralization is very important for the following reasons:

- i. Through fiscal decentralization, sub-national governments are able to take account of differences in local culture, natural resources endowment, environment, and economic and social institutions.
- ii. Because local governments are close to the local people, they are able to extract information on local preferences and needs more easily, cheaply and accurately through fiscal decentralization.
- iii. Fiscal decentralization helps bring expenditure allocations closer to revenue sources thereby enhancing government accountability and transparency.
- iv. Fiscal decentralization promotes the development of local democratic traditions as well as restructuring of public sector activities.
- v. Fiscal decentralization influences macro-economic governance, local growth and poverty alleviation directly as well as through spillovers because through the promotion of allocation efficiency.

As noted by Smoke (2001), the main reasons for the relevance of fiscal decentralization in developing countries include the following;

- i. Central governments have failed in economic planning in order to promote adequate development.
- ii. There have been changing international economic conditions and structural adjustment programs which have been designed and implemented to improve public sector performance thereby creating a lot of fiscal problems for developing countries.
- iii. There has been encouragement of financial autonomy development in developing countries due to changing political climates. Therefore, fiscal decentralization is very crucial in ensuring effective governance, macroeconomic stability and growth of every country.

2.6 Extent of decentralization of fiscal powers

Central governments control the purse of public funds thereby restricting local government autonomy. Local governments are fiscally independent to what extent? Is local government financing commensurate with their responsibilities? To what extent do district authorities rely on central government for their financing needs? Are local authorities revenue raising powers adequate?

The DACF, local taxes and ceded revenue are the three main sources of revenue for the MMDAs. Among these three sources of revenue, the DACF is the primary source of revenue for the local government because it usually provides a constitutionally guaranteed minimum share of revenue from the central government thereby promoting some financial independence even though evidence of its operations is sometimes

confusing. Meanwhile, monies that are usually distributed to MMDAs annually as DACF have increased momentarily in nominal amounts without taking into account inflation over a five year period to 165 billion cedis in 1999 compared to 38.5 billion cedis in 1994 (Nkrumah 2000). Another argument regarding the DACF is that the 7.5% of total government revenue that is usually allocated for the DACF is not sufficient to meet all the developmental needs as well as the responsibilities that are usually assigned to the MMDAs.

The ceded revenue which comprises of revenues from lesser tax fields is another source of revenue which has been transferred by the central government to the MMDAs. It is usually collected by the Ghanaian Internal Revenue Service (IRS) now the Ghana Revenue Authority and then transferred to the MMDAs through the Ministry of Local Government and Rural Development but there has been mixed evidence of its workings. According to Nkrumah (2000), ceded revenue has contributed significant amounts of money to local governments but Ayee (2000) argues that the districts that have been studied have not received DACF disbursements from central government. MMDAs are not depending completely on the central government because they also have some revenue generating powers but their sources of local taxation are limited because according to Nkrumah (2000) “lucrative tax fields” (such as, income tax, import and export duties and sales tax) are usually collected by the central government leaving the local governments with only the low yielding sources of taxes such as basic rates and market tolls.

Comparing the responsibilities that are usually assigned to the local government to their revenue generation abilities; their financial position is usually weak. MMDAs are not fiscally independent and as such they usually rely heavily on central government for

financial resources for development. According to Oyugi (2000), there is loss of operational autonomy resulting in loss of local initiatives due to the over-dependence of local authorities on central government for financial support.

2.7 Effectiveness of fiscal decentralization

There has been substantial progress towards accomplishing fiscal and macro-economic stability in most countries and this has effectively changed the environment in which the decentralization process has been taking place but there has been substantial differences in the nature and pace of reforms across countries. The Eastern European and Baltic countries, which are the advance reformers have made significant progress regarding fiscal decentralization (EBRD, 1998; Valdivieso, 1998). The intermediate reformers such as the South-Eastern European countries of Albania, Bulgaria, and the slow reformers including Armenia, Azerbaijan, Belarus, Georgia, Tajikistan, Turkmenistan, Uzbekistan have been less successful in establishing fiscal institutions, controlling fiscal imbalances, and redefining the role of the state (EBRD, 1998; Valdivieso, 1998).

2.8 Challenges of fiscal decentralization in developing countries

Since the starting of fiscal decentralization in Ghana, some modest gains have been achieved. Despite many concerns regarding misappropriation of funds in MMDAs (Kunfaa, 2002), a substantial number of development projects have been executed on the initiative of almost every MMDA throughout the country which would not have been possible if developmental projects were been initiated by only the central government. There are a number of bottlenecks which are still hindering the fully institutionalization of fiscal decentralization in Ghana including the following:

- The authority is being given to MMDAs does not commensurate the resources needed by them to carry out their responsibilities;

- The composite budget system is yet to be fully operational;
- MMDAs are still required to prepare budget estimates and account for their expenditures on sectorial basis at the district and regional levels;
- MMDAs have limited discretionary authority over the use of the funds from DACF;
- MMDAs have weak local revenue raising and mobilization capacity powers
- The DACF is not usually allocated to MMDAs on time resulting in delay in execution of essential developmental projects.
- There is usually deduction of significant amounts from the quarterly DACF allocation meant for MMDAs to finance programs at the national level such as National Youth Employment Programme and fumigation among others.

According to De Mello (2000), some of the challenges of fiscal decentralization include the following:

2.8.1 Intergovernmental transfers

There is inability by central government to address the question of how to manage intergovernmental fiscal relations in order to satisfy the growing needs of the public at the local level while preserving fiscal discipline nationally and sub-nationally. This entails institutional clarity and transparency to prevent failures in coordination which can results in inefficient spending by local governments which are usually manifested in deficit bias and higher borrowing costs that can worsen the macro-economic imbalances and instability of the country. In preventing such unwanted outcomes, there should be incentives and capacity building on top of institutional checks and balances to ensure prudence in sub-national fiscal management.

2.8.2 Expenditure management and financing

Allocation of expenditure and financing responsibilities to local governments can negatively affect service delivery in so many ways. There has been a loss of economies of scale in service delivery in Latin America due to the decentralization of water and sanitation services to local governments. Governments in both the developed and developing countries are keeping the financing of health and education at the national level due to the fact that the spillover effects from health and education outcomes and the resultant impact on equity will affect the whole nation.

2.8.3 Adequacy of local revenues and autonomy

The absence of clearly defined, stable and uniform revenue assignments between the central and local governments has weakened budgetary management at the local government level resulting in perverse incentives for MMDAs to either hide locally mobilized revenue sources in extra-budgetary funds or reduce their efforts to mobilize local revenues. Over extraction of monies by central governments in the form of clawing back any additional revenues raised by MMDAs by reducing sharing rates have also resulted in negative incentives for revenue mobilization at the local levels in both the developed and developing countries resulting in the trapping of surplus funds in the treasury system and captured by the central government at every year end. The absence of uniformity in revenue sharing and the absence of stability weakened proper fiscal management at the local level (Banks and Pigey 1988).

2.8.4 Local government borrowing

Subject to article 181 of the Constitution and to subsection (2), a District Assembly may raise loans or obtain overdrafts within the Republic of the amounts, from the sources, in the manner, for the purposes and on the conditions approved by the Minister in

consultation with the Minister responsible for Finance. The district assembly does not require approval if the amount needed does not exceed twenty million cedis and the loan or overdraft does not demand for a guarantee from the Government. This poses a challenge to local government (local government Services act, 2003 Act 656).

2.8.5 Budget discretion

Subject to section 3(a) (ii) of the Local Government Act, 2003, MMDAs are to prepare the budget of the district related to the approved plans to the Minister responsible for Finance for approval. Most often, not all the estimates in the budget are usually approved by the Minister of Finance and this constitutes a challenge for MMDAs. The ability of central authorities to pursue fiscal consolidation at the expense of local government budgets by unilaterally transferring financial obligations for politically sensitive social protection programmes, without providing a compensatory increase in local government revenues indicates that in many countries expenditure assignments lacks integrity, clarity and stability. The infringement on local government budget autonomy is further prolonged by the fact that in transferring the financial responsibility, central authorities maintain control over key cost factors including allowable rental charges for housing, administered prices for utilities, minimum wages and benefit rates.

2.9 Prospects of Fiscal Decentralization

A number of initiatives have been designed and implemented in Ghana in order to address the various challenges of fiscal decentralization. There has been the implementation of an inter-governmental fiscal framework which will clearly assign service responsibilities between local government and central government. There has also been the implementation of the Municipal Finance Bill which will always assist MMDAs to source for financial support from the open capital market. The Ghana

government and Development Partners (DPs) have introduced the District Development Facility (DDF) in order to help strengthen the fiscal capacity of MMDAs. The purpose of the DDF is to provide additional financial support to MMDAs through annual assessment of MMDAs performance in order to encourage them to implement programs and policies their Medium-Term Development Plans (MTDPs) which will promote development in their respective districts. The Ministry of Local Government and Rural Development also intends is also considering the introduction of the concept and practice of municipal contracts whereby MMDAs would be evaluated at the financial and organizational levels in order to grant them additional financial assistance to implement projects identified in a Priority Investment Programme prepared after the assessment (Kunfaa, 2002).

In ensuring effective implementation of a good fiscal decentralization programme, Smoke (2001) identifies five critical elements. These elements are:

- The provision of an adequate enabling environment by the central government is needed;
- Central government should always assign appropriate set of functions to MMDAs;
- Central government should always assign appropriate set of local own-source revenues to MMDAs;
- There is the need for the establishment of an appropriate intergovernmental fiscal transfer system by the central government; and
- There is the need for an establishment of an appropriate means of access development capital by the MMDAs.

According to Jorge (2011) different countries are at different levels of development and refinement of their decentralized fiscal frameworks. Furthermore, the following measures can be put in place in order to address the challenges of fiscal decentralization in developing countries:

2.9.1 An Agenda for Reforming Expenditure Assignment and Management

A clear assignment of expenditure responsibilities should be at the top of national reform agenda for local government finance. The following topics must be addressed:

- i. Exclusive responsibilities must be identified.
- ii. For concurrent competencies, specific responsibilities for various aspects—regulation, financing, and implementation—must be assigned.
- iii. Higher level controls on local expenditures must be appropriately limited.
- iv. With limited administrative capacity, asymmetric assignments between central and local governments should be considered.
- v. Methods to translate responsibilities into expenditure needs and financing requirements should be developed.
- vi. Unfunded mandates must be avoided.
- vii. Funding and staffing of deconcentrated offices of line ministries should be downscaled or eliminated if services are devolved.
- viii. Implementation of expenditure decentralization needs to be strategic (capacity building and technical assistance).

2.9.2 An Agenda for Improving Local Revenue Generation and Autonomy

The overarching goal should be to increase reliance on own revenues with meaningful discretion.

In addition:

- i. Reforming and modernizing property tax administration must be a priority; and
- ii. Diversifying sub-national tax bases:
 - a) Avoiding nuisance taxes and economic distortions;
 - b) Creating a shortlist of other good local taxes: vehicle taxes, business license taxes, and betterment levies on real estate;
 - c) Implementing business taxes which offer opportunities (using sales turnover as a proxy, but avoiding conflict with national value-added taxes);
 - d) Furthering local tax autonomy through introduction of a local “piggyback” personal income tax with a flat rate and possibly payroll taxes; and
 - e) Implementing “green” taxes related to waste management, water and air-polluting activities, and the production of energy.

2.9.3 An Agenda for Reforming Intergovernmental Transfers

Reforming intergovernmental transfers has several requirements. Among them are the following:

- i. Assuring predictable, regular, and transparent transfer mechanisms;
- ii. Securing an appropriate balance among the various types of transfers (using separate instruments for separate goals);
- iii. Expanding and improving the use of equalization transfers based on a formula using measures of expenditure needs and fiscal capacity and introducing an explicit rule for the pool of funds to be distributed determining the source in origin (fraternal—or contributions by richer jurisdictions versus vertical—or

- contributions by the central government, and in the latter case, also determining the amount as a percentage of central government revenues);
- iv. Reviewing and improving mechanisms for allocating resources under conditional grants (rule based as opposed to discretionary);
 - v. Consolidating specific grants where large numbers of poorly coordinated programmes exist into fewer “block” grants—providing larger but still conditional discretion to sub-national governments;
 - vi. Implementing performance-based grants for encouraging budget process reforms and improvements in service delivery; and
 - vii. Rationalizing capital grants (what is being pursued) and coordinating with borrowing policies.

2.9.4 Local Government Borrowing and Investment Finance

To varying degrees, many countries in Asia and Africa, such as Indonesia, Philippines, Ghana, and Nigeria allow for local government borrowing within a regulated framework. Prudent, fiscally responsible local government borrowing needs to be promoted in many countries in these regions. Legal and regulatory frameworks for local government borrowing need to be strengthened. Options and support mechanisms for local government borrowing must be expanded, including support, where appropriate, to intermediate financial institutions or municipal development funds. Given the needs for public infrastructure, other financing mechanisms should have wider.

2.9.5 Better Framing of Institutional Reform

The reforms above should be reinforced by other measures of an institutional nature:

- i. Strengthen regular and systematic dialogue between sub-national governments and the central government on intergovernmental financial policy.

- ii. Where deconcentrated units coexist with decentralized governments, identify the right roles for and interactions between deconcentrated and devolved government entities.
- iii. Rethink the role of parallel institutions to sub-national units and try to limit them and incorporate them into the main sub-national government stream.

2.10 EMPIRICAL LITERATURE REVIEW

Although, most studies investigating on fiscal decentralization remain inconclusive, many of these studies have advocated for fiscal decentralization as an alternative policy perspective to improve development through the local assemblies (see Crawford 2004; Bossert and Beauvais 2002; Wunsch 2001).

For instance, Thießen (2003) finds that among high-income OECD countries, the degree of fiscal decentralization has converged over the last 30 years towards an intermediate level. He examined the positive relationship between fiscal decentralization and economic growth. However, he noted that this relationship turns to negative after reaching its peak.

Consequently, using seemingly unrelated probit estimation for cross-country data on Brazil and Indonesia, De Mello (2010) assess the impact of fiscal decentralisation on social capital. His findings reveal that populace within a federal or decentralised countries find it more befitting to contribute to government decisions than their counterparts living in unitary and centralised countries. The results further establish that citizens exposed to decentralisation programmes are in general more pro-voice and exhibit interpersonal trust for others.

Using qualitative study, Fjeldstad (2003) explore the extent to which increased fiscal autonomy will improve the efficiency and responsiveness of the public sector. His findings suggest that it is unrealistic to expect that the present administration in many local authorities in Tanzania have adequate capacity and the required integrity to manage increased fiscal autonomy. Further, he examine that in the absence of substantial restructuring of the current tax system combined with capacity building and improved integrity, increased autonomy will increase mismanagement and corruption in Tanzania.

Busemeyer (2011) finds a robust and positive association between fiscal decentralization and aggregate levels of education spending. Further evidence from this study reveal that fiscal decentralization is associated with lower levels of aggregate spending through cross-sectional regressions as well as a pooled time series analysis of education, pension, social and total public spending in OECD countries from 1980 to 2001.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains the methodology employed by the researcher to carry out the research work. The chapter also outlines how the researcher gathered information from a wide range of approaches and analytical techniques which were used as the basis for interpretations, explanations, inferences and predictions. It also highlights the population of the study, the sample size, and the sampling technique, sources of data, method of data collection as well as data analysis.

3.2 Research Design

This research adopts both qualitative and quantitative approaches. The qualitative approach typically would use open-ended and closed-ended questions in order to gather non-numerical data. The quantitative approach on the other hand gathered numerical data such as their budget estimates.

3.3 Data sources

The sources from which data were gathered for this research has been grouped into two, namely primary and secondary data sources.

3.3.1 Primary sources of data

The primary sources from which data were collected were, administering of questionnaires to the officials of the Metropolis comprising the Metropolitan finance officer, the accountant, Metropolitan planner, budget officer, the Metropolitan chief executive, the Metropolitan coordinating director, who are better placed to provide first-hand information on fiscal decentralization of the Metropolis.

3.3.2 Secondary sources of data

The secondary sources from which data were collected were annual budgets and management reports on the comparison of budgets against actual.

3.4 Population and Sample Size

The population of this research covered all the staffs of the Kumasi Metropolis. However, because of resource constraints and time factor, the researcher could not cover the entire population and hence a sample population was drawn. The sample for this research was made up of 50 respondents.

3.5 Sampling technique

Purposive/Judgmental sampling technique has been used in selecting the staff of Kumasi Metropolitan Assembly to be used for the study. This technique has been selected because it is not every staff of Kumasi Metropolitan Assembly that can provide the kind of data needed for the study and as such the researcher has purposively selected only those respondents who can provide the required data needed for the study.

3.6 Data Collection Instruments

The use of questionnaires was the main data collection instruments for the research. Both closed and open ended questionnaires were used in the data collection exercise. The closed ended questions were followed with options from which respondents could choose. Some of the questions were closed because of the respondents' level of understanding of issues concerning fiscal decentralization in the Metropolis. The questionnaires totaling fifty (50) were interviewer-administered and respondents who had difficulties in answering were assisted to answer the questions and all answered questionnaires were submitted on the spot. This was done because it was envisaged that

many would not return the questionnaires when allowed to take them home to answer and also due to the scattered nature of the towns in the municipality.

3.7 Data Analysis Tools

The primary data were analyzed with the help of the Statistical Package for Social Sciences (SPSS) software. While SPSS was used to generate the frequency tables and their corresponding graphs, Excel was used to refine the charts with regards the picture effects. Tables as well as pictorial presentation were used to interpret the results of the data gathered. Strengthen the fiscal capacity of MMDAs Bar charts and pie charts were used in the pictorial analysis.

3.8 Profile of Kumasi Metropolitan Assembly

The Kumasi Metropolis is centrally located in the Ashanti Region of Ghana. Its unique central position makes it accessible from all corners of the country. It is the second largest city in the country and represents the administrative capital of Ashanti region. It is a fast growing Metropolis with an estimated population two million people and above and an annual growth rate of about 5.4%. The Metropolis is about 254 kilometers and its physical structure is basically circular with a central located commercial area. The economic activities are concentrated in the city. The first and most important location is the Central Business District (CBD), which embraces the the Central Market, Kejetia Lorry Park and the Adum Shopping Centre. The other economics activities centers comprise the Suame Magazine which is for the repairing of vehicles, the Kaase/Asokwa Industrial Area and the Anloga Wood Market. Most industries which deal in Timber processing, logging, Food processing and Soap making are concentrated at the Kaase/Asokwa Industrial Area. There is also number of satellite markets in the metropolis including the Asafo Market, Oforikrom Market, Bantama Market, and Atonsu

Markets. It is estimated that 48%, 46% and 60% of the Metropolis are urban, peri-urban and rural respectively, confirming the fast rate of urbanization.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter covers the presentation and analysis of the data that have been gathered through the questionnaires administered to the staff of Kumasi Metropolitan Assembly. Bar Graphs, Pie Charts and Frequency tables have been used for the purpose of the analysis.

4.2 THE EXTENT OF DECENTRALIZATION OF FISCAL POWERS

This section covers discussions regarding the extent to which fiscal powers have been decentralized within the Kumasi Metropolis. Responses from the respondents regarding the Assembly's ability to borrow are shown in Table 4.1 below.

Table 4.1 The assembly's power to borrow and its restrictions

	Frequency	Percent
Yes, but restricted to GH¢ 2,000	45	90
No	5	10
Total	50	100

Source: Field survey July, 2015

Table 4.1 above shows responses from the respondents regarding whether the assembly has the power to borrow funds and whether there are any restrictions attached or not. As can be seen from the table, 90% of the sample respondents indicated that the assembly has the power to borrow, but this power is restricted to a ceiling of twenty thousand Ghana cedis (GH¢20,000). Furthermore, five respondents representing 10% of the

sample on the other hand indicated that the assembly does not have the power to borrow funds. It can therefore be deduced from the above analysis that the assembly has the power to borrow but this power is restricted to a ceiling of GH¢20,000 hence any borrowing beyond this ceiling must be permitted by the sector minister and also approved by Parliament. The five respondents who stated that the assembly does not have the power to borrow might be due to their lack of information with regards the assembly's power to borrow because this ceiling has been clearly stipulated in the Local Government Services Act of 2003, Act 656.

Concerning the assembly's power to generate and use its own revenue, interview responses indicate that all the respondents constituting about 100% of the total sample size stated that the assembly has absolute power to generate, retain and use its own revenue. It can therefore be concluded from the above analysis that the assembly has been given complete power to generate, retain and use its own revenue without any restrictions.

The study was also interested in finding whether the assembly has the power to prepare and approve budget. The responses to the question are presented in Table 4.2 below.

Table 4.2 Assembly's power to prepare and approve its budgets

Valid	Frequency	Percent
Power to prepare and approve its budget	50	100.00
No power to prepare and approve its budgets	0	0

Source: Field survey July, 2015

Table 4.2 shows the responses given by the respondents regarding the assembly's power to prepare and approve its budgets. As can be seen from the table, all the respondents

representing 100% of the sample size stated that the assembly has been given complete power to prepare and approve its budgets. This implies that in terms of the preparation, approval and implementation of budgets, the assembly does not need any approval from central government. Even though the assembly has been given absolute power to prepare and approve its own budgets, they should ensure that amounts stated in the budgets are realistic and reliable in order to increase the possibility of them achieving their budgets estimates.

The study was also interested in finding whether there are any restrictions on the use of the DACF. The responses to the question are presented in Figure 4.1 below.

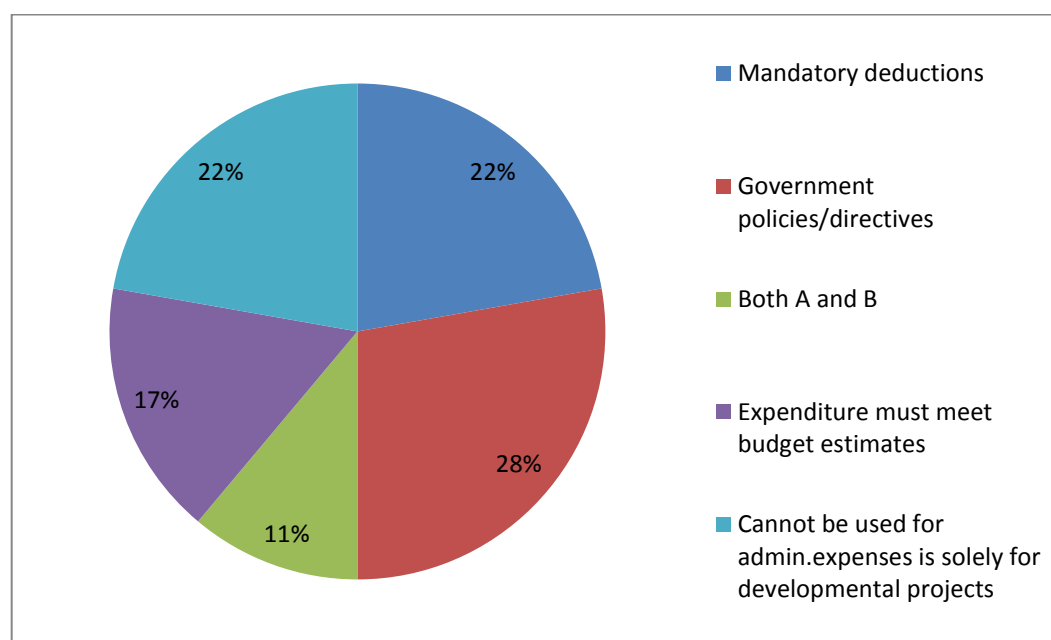


Figure 4.1 Restriction placed on the use of the DACF

Source: Field survey July, 2015

Figure 4.1 above shows information concerning restrictions placed on the assembly with regards the use the DACF. As shown in the figure, 22% of the sample stated that mandatory deductions by the central government restricts the assembly from having access to the full amount allocated to it. Also, 28% of the sample indicated that

government policies/directives restrict the assembly's power to use its share of the DACF at its own discretions. This implies that it is the central government that directs the assembly as to how it is to use its share of the DACF. In addition, 11% of the sample indicated that the restrictions placed on the assembly's use of the DACF are both the mandatory deductions and government policies/directives. Furthermore, 17% of the sample indicated that one of the restrictions the face regarding the use of the DACF is that expenditure must always meet the budget. Also, 22% of the sample also said the DACF cannot be used for administrative expenses, thus revenue expenditures because it is solely for developmental projects or capital expenditures like building of schools, hospitals and construction of roads among others. It can therefore be deduced from the above analysis that the assembly does not have absolute power over the use of the DACF.

4.3 THE CHALLENGES OF FISCAL DECENTRALIZATION

This section of the analysis covers the challenges Kumasi Metropolitan Assembly usually encounter regarding its fiscal decentralization.

4.3.1 CHALLENGES IN ACQUIRING LOANS

The study was also interested in finding whether the assembly usually encounters any challenges in the acquisition of loans. The responses to the question are presented in Figure 4.2 and discussed below.

Figure 4.2 below reports findings concerning the challenges the assembly encounters in acquiring loans. As can be seen from the figure, 50 percent of the sample indicated that the assembly lacks or does not have adequate collateral security in acquiring loans. This constitutes the major challenge of the assembly in terms of acquiring loans. The

implication of this is that projects that the assembly intends to finance through loans will not see the light of day. Also, 6% of the sample indicated that unfavorable time of repayment of loans poses a challenge to the assembly when it comes to acquiring loans. Since the assembly is a service rendering organization and most at times goes in for loans which it usually invests in long term projects of which the benefits do not flow to the assembly directly, there are instances where these loans may be due for repayment at a time the assembly does not have money to service them. In addition, 11% of the sample respondents indicated that high interest rate is yet another challenge the assembly encounters in acquiring loans. The interest rates usually charge by financial institutions are so high that the assembly finds it difficult to generate enough funds to repay the interest plus the principal as to and when they fall due. Furthermore, 33% of the sample said that the limited ceiling of GH¢20,000 poses a challenge to the assembly in the process of acquiring loans as evidenced in the Local Government Act, 1993, (Act 462), that MMDAs are allowed to borrow up to a maximum amount of GH¢20,000 and that in order for the assembly to borrow beyond this amount, permission must be sought from the sector minister as well as from Parliament which involves some level of bureaucracy and may delay certain projects the assembly wishes to finance through the loans.

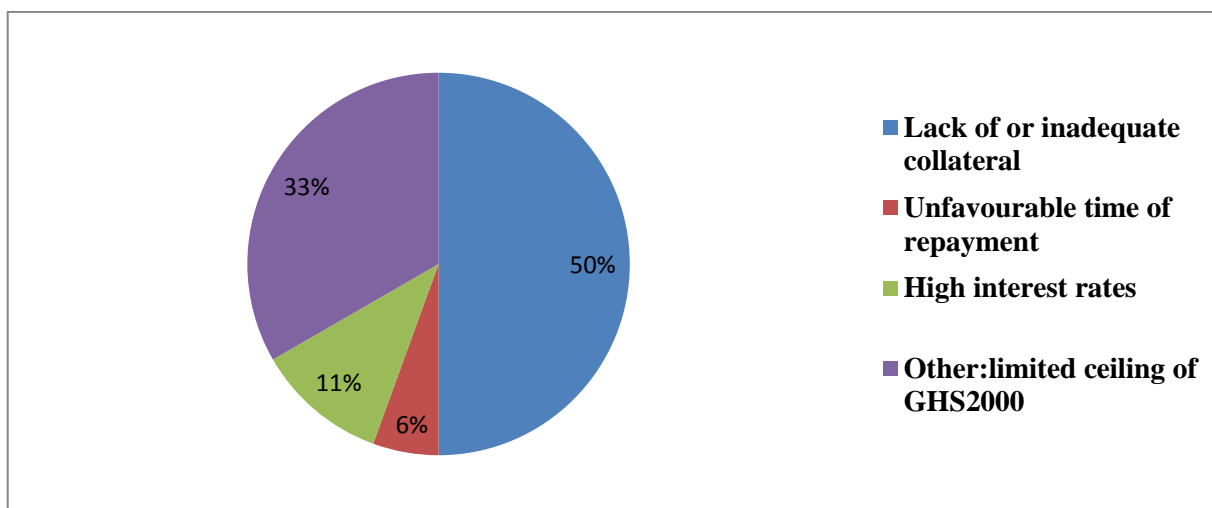


Figure 4.2 challenges the assembly encounters in acquiring loans

Source: Field survey July, 2015

4.3.2 CHALLENGES IN PREPARING BUDGETS

The study was also interested in finding whether the assembly usually encounters some challenges in the preparation of its budgets. The responses to the question are presented in Figure 4.3 below.

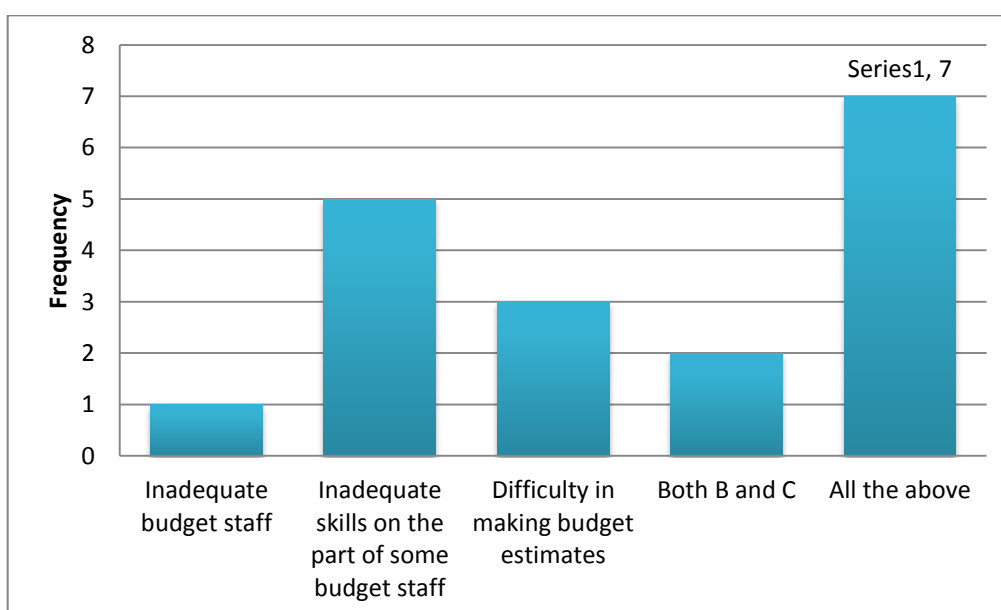


Figure 4.3 challenges the assembly face in preparing its budgets

Source: Field survey July, 2015

Figure 4.3 above reports the challenges the assembly encounter in preparing its budgets. As shown in the figure, 11% of the sample indicated that inadequate budget staff is one of the challenges the assembly encounters in preparing its budgets and that this may result in delay in budget preparation as well as compromising on the quality of budgets being prepared because of the few staff and their rush to prepare budgets on time, respectively. Also, 22% of the sample respondents stated that inadequate skill on the part of some budget staff is another challenge the assembly faces in preparing its budgets. Furthermore, 6% of the respondents indicated that another challenge the Assembly usually face in preparing its budgets is the difficulty in making budget estimates. This might be due to the fact that budget staffs do not have the requisite knowledge and skills needed to use economic, mathematical and statistical models appropriately in making budget estimates that are reliable. In addition, 17% of the sample indicated that both inadequate skills on the part of some budget staff and the difficulty in making budget estimates are the challenges the assembly face in its budget preparation. Also, 44% of the respondents said that the assembly's challenges in preparing its budgets are; inadequate budget staff, inadequate skills on the part of some budget staff, difficulty in making budget estimates and that the budget must be within the allocated funds even though most often the allocated funds are usually lesser than the actual budget.

4.3.3 CHALLENGES IN MOBILIZING REVENUE

The study was further interested in finding whether the assembly has being facing some challenges in mobilizing revenue for developmental purposes. The responses to the question are presented in Table 4.3 below.

Table 4.3 Challenges the Assembly Faces In Mobilizing Revenue

	Frequency	Percent
Tax evasion	4	8
Lack of cooperation from taxpayers	30	60
Pilfering on the part of revenue collectors	6	12
All the above	10	20
Total	50	100

Source: Field survey July, 2015

Table 4.3 above shows the challenges the assembly face toward its revenue mobilization drive. As can be seen from the table, 8% of the respondents noted that the assembly losses revenue through tax evasion by tax payers. Although this represents a small percentage of the challenges the assembly faces in revenue mobilization, its impact on the amount of revenue the assembly can generate within a period cannot be under estimated. Also, 60% of the sample stated that lack of cooperation from tax payers is a challenge the Assembly encounters all the times in generating tax revenue. The survey showed that most tax payers are not willing to cooperate with the revenue collectors as they go them to collect taxes. This could be as a result of several factors including lack of public sensitization on the part of the assembly on the need to pay tax, unfavorable time of tax collection, some of the tax payers feel that the tax system is not fair, and lack of collaboration between the assembly and the tax payers in the determination of the tax rates. Pilfering on the part of some revenue collectors is another challenge the Assembly has being facing in raising enough revenue for its developmental projects as noted by

12% of the sample respondents. This implies that some of the revenue collectors do not account for all the moneys they collect from the tax payers in the market since some of them always duplicate the tickets they issue to the traders and even sometimes they do not issue tickets at all especially when they feel a particular tax payer is not educated or does not care about collecting tickets for moneys paid. Furthermore, 20% of the respondents stated that all the above factors are the challenges the assembly encounters in generating revenue in addition to lack of revenue mobilization data as well as lack of resources (logistics and personnel). Also, an interview with the budget officer revealed that the assembly faces a challenge in generating revenue from property taxes. This is as a result of the fact that the assembly does not have Professional proper value estimators who will place values on the properties of tax payers to enable the assembly gets the needed revenue from property taxes.

4.3.4 CHALLENGES IN COLLECTING REVENUE

The study was also interested in finding whether there are certain challenges facing the assembly regarding the collection of revenues. The responses to the question are presented in Figure 4.4 below.

Figure 4.4 below shows the responses by twenty revenue collectors regarding the challenges they face in collecting revenues. Two respondents constituting about 10% of the sample indicated that one of the challenges that they faced is that they do not have adequate logistics that will enable them to discharge their responsibilities effectively. They said that sometimes the receipt books do get finish on the field and also they do not have logistics such as cars and motor vehicles which they can use to ease their movements around the whole town to collect the taxes from taxpayers and as a result it reduces the amount of revenue they are able to generate for the assembly. Also, 75% of

the sample stated that lack of co-operation from taxpayers is also a challenge that they do face on the field. They said some taxpayers are sometimes not willing to honor their tax obligation because they do not know what the tax moneys are being used for and also due to their lack of knowledge about the need to pay tax. Furthermore, 5% of the respondent also indicated that they find it difficult to locate unregistered businesses and this reduces the amount of revenue they could have always generated. This is because there are some businesses that are not registered and as a result they do not have their addresses or information concerning where they are situated and this makes it difficult for them to trace such businesses to ensure that they pay their taxes. In addition, 10% of the sample respondents indicated that all the above discussed factors are the challenges they usually encounter in the process of collecting tax revenues for the Assembly.

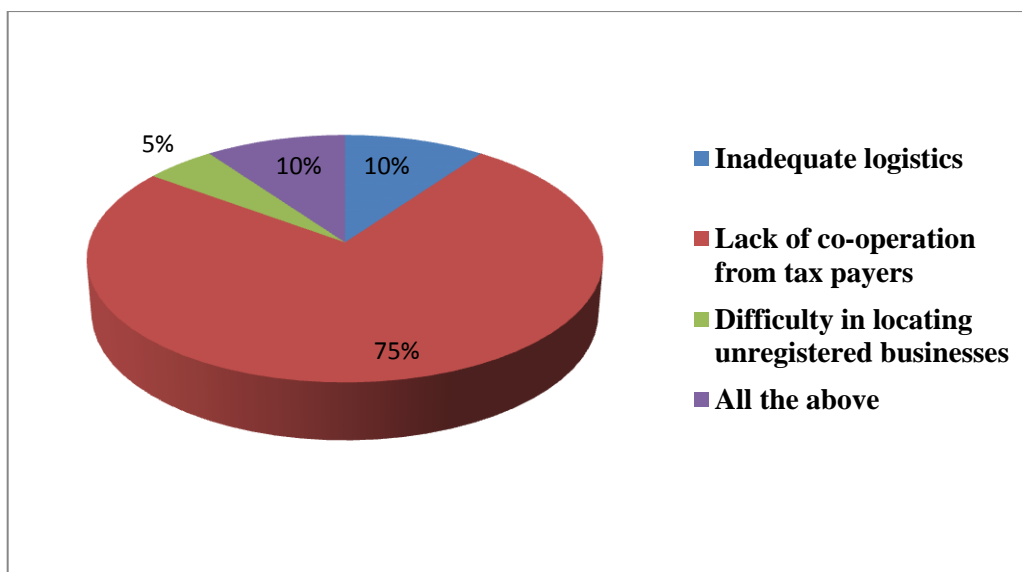


Figure 4.4 Challenges faced by revenue collectors in collecting revenue

Source: Field Survey July, 2015

4.4 REMEDIES TO THE CHALLENGES OF FISCAL DECENTRALIZATION

This section covers discussions on the measures that can be put in place to help address the challenges Kumasi Metropolitan Assembly has been facing in generating revenue as well as borrowing of funds from financial institutions.

4.4.1 Measures to Overcome Challenges of Borrowing

The respondents were further asked the measures that should be put in place by the assembly in order to overcome the challenges in borrowing funds. The responses from the respondents are shown in Table 4.4 below.

Table 4.4 Measures to overcome assembly's challenges in borrowing funds

	Frequency	Percent
Charging of moderate interest on loans by financial institutions	4	8
Financial institutions should demand a reasonable amount of collateral security	30	60
Financial institutions should extend period of repayment of loans if necessary	6	12
The ceiling should be reviewed upwards	10	20
Total	50	100

Source: Field survey July, 2015

Table 4.4 above shows the responses by the respondents about measures to be put in place to overcome challenges the assembly face in borrowing funds. As shown in the table, 8% of the respondents stated that financial institutions should charge moderate interest on loans. Since basic interest rates are usually fixed by the Bank of Ghana (BoG) in collaboration with the Ministry of Finance, they should try to reduce the basic rate which will enable the banks to also reduce the interest rates they charge on loans. Also, 60% of the sample respondents indicated that financial institutions should demand a reasonable amount of collateral security. Financial institutions should reduce the amount of collateral they require before advancing loans to borrowers which will enable most borrowers especially the assembly to meet these borrowing requirements. Furthermore, 12% of the sample indicated that financial institutions should extend the period of repayment of loans if necessary. This will allow MMDAs enough time to generate revenue from their various revenue sources to repay such loans and also allow them to use such loans to invest in long term projects. In addition, 20% of the respondents suggested that the MMDAs borrowing ceiling of GH¢20,000 should be reviewed

upwards. This will enable the MMDAs to raise sufficient funds through loans in order to finance their budgets and also to undertake developmental projects.

4.4.2 Measures to Overcome Challenges of Revenue Generation

The respondents were further asked the measures that should be put in place by the assembly in order to effective revenue generation. The responses from the respondents are shown in Table 4.5 below.

Table 4.5 Measures to be put in place to ensure effective revenue generation

	Frequency	Percentage
Education of the public on the need to pay tax	20	40
Insist on issue of receipts to tax payers	10	20
Severely punishing tax evaders to deter others	5	10
Responsive to the needs of the local people	15	30
Total	50	100

Source: Field Survey, July, 2015.

Table 4.5 above shows the responses by the respondents regarding the measures that can be put in place in order to ensure effective revenue mobilization in the assembly. As shown in the table, 40% of the respondents indicated that the assembly should carry out public sensitization on the need to pay tax. They can do this through the media, use of information vans among others. This will enlighten the public on how their tax moneys are being used thereby motivating them to always honor their tax obligations. Also, 20% of the respondents stated that the assembly should ensure that revenue collectors always issue receipts to tax payers. This can be done by sensitizing the public to always insist on receipts any time they pay taxes. The assembly can also set up a surveillance committee

which will always conduct surprise checks on tax payers to ensure that revenue collectors are actually issuing receipts to them any time they pay taxes. 10% of the respondents suggested that the assembly should punish tax evaders severely in order to deter others from perpetrating the same acts. This can be done by confiscating their goods, taking legal actions against them, closing their shops or banning them completely from operation by taking their operating licenses from them. Furthermore, 30% of the sample suggested that government should always try to respond to the needs of the local people because this will motivate them to pay their taxes knowing that such taxes will be used for their own benefit.

4.4.3 Measures to Overcome Challenges of Revenue Collectors

The respondents were further asked the measures that should be put in place by the assembly in order to overcome the challenges facing the revenue collectors. The responses from the respondents are shown in Table 4.6 below.

Table 4.6 Measures to overcome the challenges revenue collectors face

	Frequency	Percent
Public sensitization on tax payment	28	56
Provision of adequate logistics	15	30
Public sensitization on the need to register businesses	7	14
Total	50	100

Source: Field Survey July, 2015

Table 4.6 above reports the responses given by the respondents concerning the measures that can be put in place to overcome the challenges the revenue collectors usually face in collecting taxes for the Assembly. As shown in the table, 56% of the respondents stated that there should be public sensitization on the need to pay tax. The assembly should educate the public on why they should pay taxes in order for the assembly to undertake developmental projects and provide other social amenities. Also, 30% of the sample respondents also suggested that the assembly should provide the revenue collectors with adequate logistics necessary for them to execute their responsibilities effectively and efficiently. These logistics include; motor vehicles, receipt books, carbon papers, pens among others, in order for them to effectively carry out their responsibilities. Furthermore, 14% of the respondents suggested that the assembly should educate the public on the need to register their businesses, as this will make it easy for the revenue collectors to easily locate the businesses to collect the taxes. It can therefore be deduced from the above analysis that the measures that can be put in place by Kumasi Metropolitan Assembly in order to make it easy for its revenue collectors to collect taxes include public sensitization on the need to register their businesses and pay taxes as well as provision of adequate logistics for the revenue collectors to operate effectively.

4.4.4 Measures to Overcome Challenges of Preparing Budget

The respondents were further asked the measures that should be put in place by the assembly in order to overcome the challenges they face in the preparation of budgets. The responses from the respondents are shown in Table 4.7 below.

Table 4.7 Measures to overcome the challenges the assembly faced in preparing its budgets

	Frequency	Percent
The assembly should be given more budget staff	20	40
Training for budget staff	25	50
Employment of economic and statistical models in making budget estimates	5	10
Total	50	100

Source: Field Survey July, 2015

Table 4.7 above shows the responses by the respondents concerning the measures that can be put in place in order to overcome the challenges the assembly encounters in preparing its budgets. As can be seen from the table, 40% of the respondents suggested that the assembly should be given more budget staff in order to help reduce the work load that is placed on the few budget staff. This would help reduce the pressure that is always on the budget staff to prepare budgets on time thereby minimizing errors in the budgets. Also, 50% of the respondents stated that the assembly should organize periodical training programs for the budget staffs in order to help improve their knowledge in budget preparation. The training programs would help the budget staff to learn how to use statistical, mathematical and economic models in making appropriate and reliable budget estimates. Furthermore, 10% of the sample indicated that the budget staff should always employ economic and statistical models in making budget estimates. This would help ensure that estimates made are realistic and reliable. It can therefore be concluded from the above analysis that some of the measures that can be put in place by Kumasi Metropolitan Assembly to overcome its challenges in preparing budgets include employing more budget staff in the assembly, organizing training programs for the

budget staff and ensuring the use of economic and statistical models in making budget estimates.

4.5 PROSPECTS OF FISCAL DECENTRALIZATION

For fiscal decentralization programme to be effective within the Kumasi Metropolis, the following elements must be present:

4.5.1 Establishment of adequate access to development capital by MMDAs

Since the sources of revenues for MMDAs in Ghana are limited and intergovernmental transfers to them is not sufficient, there is the need for central government to allow MMDAs to access sufficient funds from financial institutions to supplement their budgets. On the contrary, MMDAs in Ghana though are allowed to borrow; this borrowing power is restricted to a ceiling of GH¢20,000 which is not sufficient. Before they can borrow beyond this limit, they have to seek approval from Parliament which most of the times takes a long period of time thereby resulting in delay in a lot of vital developmental projects which MMDAs usually want to execute. By reviewing this ceiling upwards will be a step in the right directions.

4.5.2 Assignment of an appropriate set of functions by central government to MMDAs

Central government should always decentralize appropriate set of functions to MMDAs to enable them operate effectively. However, central government agencies in Ghana do not have the willingness to decentralize services they have been providing, especially if it will results in loss of status and resources to them. Also, decentralization of sectors to MMDAs should commensurate with their capacity to handle these sectors. However; MMDAs in Ghana are always given a lot of functions and responsibilities without the

necessary accompanying resources for them to carry them out. By decentralizing appropriate set of functions to MMDAs which commensurate their revenue generation powers will help ensures their effective operation and proper fiscal decentralization in Ghana.

4.5.3 Allocation of correct amount of local revenues to MMDAs

Central government should always assign correct amount of local own-source revenues to MMDAs to enable them operate effectively. On the contrary, the sources of revenue assigned to MMDAs in Ghana are inadequate to meet their local expenditure requirements because central government usually collect the most lucrative tax fields such as income tax, import and export duties and sales tax leaving only the low yielding taxes such as basic rates and market tolls for the MMDAs. Central government should therefore try to cede some of the lucrative tax fields to MMDAs in order to enable them generate enough revenues to finance their developmental programs.

4.5.4 Establishment of an adequate intergovernmental fiscal transfer system between central and local governments

The limited sources of revenue for the MMDAs make it difficult for them to generate enough revenue to meet their expenditure requirements. Therefore, central government should develop intergovernmental fiscal transfer systems to help cover local government fiscal imbalances, supplement inadequate local own-source revenues to improve the ability of MMDAs to meet their expenditure responsibilities

4.5.5 An adequate enabling environment

The establishment of the Local Government Act was a move towards transferring powers and responsibilities to MMDAs to operate effectively. Even though the local government act was established to transfer powers and responsibilities to MMDAs to operate

effectively, it has placed certain restrictions on them such as not borrowing beyond the ceiling of GH¢20,000. Other elements however, must be present in order to create an enabling environment for MMDAs to operate effectively. There must be a strong national will to decentralize; this is present as the central government has adopted the composite budget approach to facilitate the transfer of resources to MMDAs and development of significant transfer programs that will allow central government to transfer substantial proportions of total central revenues to MMDAs.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

This chapter covers the summary of the main findings of the research, recommendations made and conclusions drawn from the study.

5.2 SUMMARY OF FINDINGS

5.2.1 The extent of decentralization of fiscal powers

The extent of decentralization of fiscal powers within the Kumasi Metropolitan Assembly is not sufficient and this is applicable to other MMDAs in Ghana. The research findings revealed that the Assembly has the power to generate, retain and use its revenue, the power to prepare and approve its budgets, power to invest surplus funds if any and the power to borrow funds where necessary to supplement its budget deficits, however, this power to borrow is restricted to a ceiling of GH¢20,000. This makes it difficult for the assembly to undertake developmental projects which will involve any amount more than GH¢20,000 and which are to be financed through loans. The analysis also showed that the assembly has no power to use the DACF at its own discretion. The DACF usually comes with an ambit of vote (spending warrant) and the assembly must disburse the DACF strictly according to the instructions of the warrant and also that the DACF is meant to be used to finance capital expenditures and under no circumstance should any MMDA use it to finance revenue expenditures. In a whole, complete fiscal powers have not been transferred to MMDAs in Ghana. While some fiscal powers have been transferred to them, the central government still holds onto some, which are crucial for the effective operations of MMDAs in Ghana.

5.2.2 The challenges of fiscal decentralization

The results from the analysis also showed that even though the assembly is given complete power to prepare and approve its own budgets, it still faces many challenges in performing this task which include inadequate budget staff which inhibits on time budget preparation and inadequate skills on the part of some budget staff resulting in difficulty in making realistic and reliable budget estimates.

The analysis also indicated that even though the assembly has been given the power to generate, retain and use its revenue there are certain challenges it encounters in doing so. These include lack of cooperation from tax payers, tax payers unwillingness to honor their tax obligation simply because they feel they do not receive any benefit from the assembly and due to lack of public sensitization on the need to pay tax, pilfering on the part of some revenue collectors in the sense that some Revenue Collectors sometimes get away with some moneys generated out of tax collections as a result of weaknesses in internal controls. Again most tax payers evade taxes in several ways which poses another challenge to the assembly in terms of its revenue generation and inadequate logistics for collectors to work with.

High interest rates charged by financial institutions poses a challenge to the assembly as regards loan acquisition. Furthermore, the assembly does not have enough collateral required by financial institutions before advancing loans to the assembly and the borrowing power of the assembly is limited to a ceiling of GH¢ 2000 making it sometimes difficult for the assembly to meet its borrowing requirements.

5.2.3 Remedies to the challenges of fiscal decentralization

The results from the analysis revealed that in order to overcome the challenges the assembly faces in acquiring loans, financial institutions should charge moderate interest on loans. Since basic interest rates are usually fixed by the Bank of Ghana (BoG) in collaboration with the Ministry of Finance, they should try to reduce the basic rate which will enable the banks to also reduce the interest rates they charge on loans. Also, the borrowing ceiling of GH¢20,000 should be reviewed upwards to enable MMDAs raise sufficient funds through loans in order to finance their budgets and also to undertake developmental projects.

The results from the analysis also showed that in order to overcome the challenges the assembly encounters in generating revenue, there should be public sensitization on the need to pay tax. This will enlighten the public on how their tax moneys are being used thereby motivating them to always honor their tax obligations. Furthermore, the assembly should ensure that revenue collectors always issue receipts to tax payers. This can be done by sensitizing the public to always insist on receipts any time they pay taxes. Revenue collectors should as well be provided with adequate logistics to enable them discharge their responsibilities effectively. Also, the assembly should punish tax evaders severely in order to deter others from perpetrating the same acts. This can be done by confiscating their goods, taking legal actions against them, closing their shops or banning them completely from operation by taking their operating licenses from them.

The research findings further revealed that in order to overcome the challenges the assembly faces in preparing its budgets, the assembly should be given more budget staff in order to help reduce the work load that is placed on the few budget staff. This would help reduce the pressure that is always on the budget staff to prepare budgets on time

thereby minimizing errors in the budgets. Furthermore, the assembly should organize periodic training programs for its budget staff in order to help improve on their knowledge in budget preparation.

5.2.4 Prospects of fiscal decentralization

Even though there has not been complete fiscal decentralization in Ghana among MMDAs due to the numerous challenges they encounter in carrying out their responsibilities to the fullest, there is still hope because improvement can be achieved through creation of an enabling environment by the establishment of the Local Government Act as a move towards transferring powers and responsibilities to MMDAs to operate effectively, ensuring the existence of a strong national will to decentralize and the development of significant transfer programs that will allow central government to transfer substantial proportions of total central revenues to MMDAs. This will provide enough breeding grounds for effective fiscal decentralization to thrive. Furthermore, the allocation of the correct set of functions to local governments through the decentralization of appropriate services and the provision of the requisite resources to enable them provide such services is a step in the right direction. Also, fiscal decentralization can be enhanced through the transfer of the right set of local own-source revenues to local governments. This would enable them mobilize enough revenue to meet their budget requirements. To add to that, despite the inadequacy of intergovernmental fiscal transfers, central government can still improve upon such transfers.

Also, even though MMDAs do not have adequate access to development capital, as a result of their limited sources of revenues and insufficient intergovernmental transfers to them, there is still room for improvement since the central government can allow

MMDAs more access to sufficient funds from financial institutions to supplement their budgets.

5.3 CONCLUSION

This study is concern with assessing the challenges and prospects of fiscal decentralization in Ghana using Kumasi Metropolitan Assembly as a case study. Specifically, the study seeks to find out the extent to which fiscal powers have being decentralized in Ghana, the challenges of fiscal decentralization within the Kumasi Metropolis and the prospects of fiscal decentralization in Ghana. Questionnaires were administered to fifty staff at Kumasi Metropolitan Assembly. Purposive sampling has been used in selecting the staff for the study. Data has been analyzed through the use of the Statistical Package for Social Sciences (SPSS). The research findings revealed that the Assembly has the power to generate, retain and use its revenue, the power to prepare and approve its budgets, power to invest surplus funds if any and the power to borrow funds where necessary to supplement its budget deficits, however, this power to borrow is restricted to a ceiling of GH¢20,000. The analysis also showed that the assembly has no power to use the DACF at its own discretion. The DACF usually comes with an ambit of vote (spending warrant) and the assembly must disburse the DACF strictly according to the instructions of the warrant and also that the DACF is meant to be used to finance capital expenditures and under no circumstance should any MMDA use it to finance revenue expenditures. The results from the analysis also showed that even though the assembly is given complete power to prepare and approve its own budgets, it still faces many challenges in performing this task which include inadequate budget staff which inhibits on time budget preparation and inadequate skills on the part of some budget staff resulting in difficulty in making realistic and reliable budget estimates. The analysis also

indicated that even though the assembly has been given the power to generate, retain and use its revenue there are certain challenges it encounters in doing so. The results from the analysis revealed that in order to overcome the challenges the assembly faces in acquiring loans, financial institutions should charge moderate interest on loans. The results from the analysis also showed that in order to overcome the challenges the assembly encounters in generating revenue, there should be public sensitization on the need to pay tax.

5.4 RECOMMENDATIONS

Kumasi Metropolitan Assembly like most districts in Ghana is unable to meet its revenue and expenditure targets not because it has limited powers to operate but because the assembly is not fully utilizing its sources of revenue like property taxes. This study therefore recommends that the assembly should employ the services of Professional property Value estimators who will value the numerous properties in the assembly to enable it tap revenue from property tax which is aimed to be the major source of tax revenue for the assembly.

Even though the establishment of the Local Government Act was intended to provide an adequate enabling environment for MMMDAs to operate effectively, it also poses some restrictions on their operations including the borrowing ceiling of GH¢20,000. It is therefore recommended that this ceiling should be reviewed upwards. This would enable MMDAs to have access to sufficient funds for their developmental activities.

The sources of revenue assigned to MMDAs in Ghana are also inadequate to meet their local expenditure requirements because of the fact that central government usually collect the most lucrative tax fields such as income tax, import and export duties, sales

tax while MMDAs are in charge of collecting less yielding taxes such as basic rates and market tolls. It is therefore recommended that some of the lucrative tax fields should be ceded by Central government to MMDAs to ensure that the correct amount of resources are available to MMDAs to enable them finance their day to day operating expenses as well as carry out important developmental projects which will improve the well-being of the populace.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
COLLEGE OF ART AND SOCIAL SCIENCES
MASTER OF BUSINESS ADMINISTRATION
SCHOOL OF BUSINESS

PROJECT TOPIC: CHALLENGES AND PROSPECTS OF FISCAL DECENTRALIZATION IN GHANA: A CASE STUDY OF THE KUMASI METROPOLIS.

PROJECT QUESTIONNAIRE

Kindly take some time off your busy schedule to answer the following questions as applicable. This exercise is purely for academic purpose and information provided would be treated confidentially and would not be used against the respondent in any way.

A. BACKGROUND OF RESPONDENTS

1) Gender of respondent

A. Male ☐

B. Female ☐

2) Age of respondent

A. 18-25 ☐ B. 26-35 ☐ C. 36-45 ☐ D. 46 and above ☐

3) Level of Education

A. Basic ☐

B. Secondary ☐

C. Tertiary ☐

D. Other (specify).....

B. EXTENT TO WHICH FISCAL POWERS HAVE BEEN DECENTRALIZED

4) Does the assembly have the power to invest surplus funds?

A. Yes ☐

B. No ☐

5) If yes, how are such funds invested?

A. Given as loan to the general public ☐ B. Investment in agriculture ☐

C. Investment in fixed assets ☐ D. Other (specify).....

6) Is the assembly allowed to borrow funds?

A. Yes ☐

B. No ☐

7) If yes, is the assembly restricted to a certain amount?

A. If Yes (how much).....B. No ☐

8) Is the assembly always able to repay its debts as and when they fall due?

A. Yes and at the time they fall due ☐ B. Yes but not on the due date ☐

C. Both A and B ☐ D. No ☐

9) Apart from borrowing, is the assembly given the power to generate its own revenue?

A. Yes ☐ B. No ☐

10) If yes, from which sources?

A. Special levies ☐ B. Fines ☐

C. Interest on investments ☐ D. Other (specify).....

11) How are such revenues used?

A. Retained and used by the assembly ☐

B. All is sent to central government ☐

C. Retain part and send part to central government ☐ C. No idea ☐

12) Is the assembly allowed to use its share of the District Assembly Common Fund without any restrictions?

A. Yes ☐ B. No ☐

13) If no, what are some of these restrictions?

.....
.....
.....
.....

14) To what extent is the assembly given the power to prepare and approve its budgets?

A. power to prepare only ☐ B. power to prepare and approve ☐

C. Other (specify).....

C. CHALLENGES OF FISCAL DECENTRALIZATION

15) What are some of the challenges the assembly encounter in investing surplus funds?

.....
.....
.....
.....

16) Does the assembly encounter any challenges in acquiring loans?

A. Yes ☐

B. No ☐

17) If yes, what are some of these challenges?

A. Lack of/ inadequate collateral ☐

B. Unfavorable time of repayment ☐

C. High interest ☐s

D. Other

(specify).....

18) Does the assembly encounter any challenges in generating revenue?

A. Yes ☐

B. No ☐

19) If yes, what are some of these challenges?

A. Tax evasion ☐

B. Lack of corporation from tax payers ☐

B. Pilfering on the part of revenue collectors ☐

D. Other

(specify).....

20) Does the assembly encounter any challenges in the preparation of its budgets?

A. Yes ☐

B. No ☐

21) If yes, what are some of these challenges?

A. Inadequate budget staff ☐

B. Inadequate skills on the part of some budget staff ☐

C. Difficulty in making budget estimates ☐

D. Other (specify).....

D. THE PROSPECTS OF FISCAL DECENTRALIZATION

22) What do you think are some of the measures to be put in place to overcome these challenges the Assembly encounters in investing surplus funds?

.....
.....
.....
.....

- 23) What do you think are some of the measures to be put in place to overcome the challenges the Assembly encounters in acquiring loans?
- A. Financial institutions should charge moderate interest on loans ☐
- B. Financial institutions should demand reasonable amount of collateral security ☐
- C. Financial institutions should extend period of repayment of loans if necessary ☐
- D. Other (specify).....
- 24) What do you think are some of the measures to be put in place to ensure effective revenue generation?
- A. Education of the public on the need to pay tax ☐
- B. Insists on issue of receipts to tax payers ☐
- C. Severely punishing tax evaders in order to deter others ☐
- D. Other (specify).....
- 25) Does the assembly always meet its budget plans?
- A. Able to meet both revenue and expenditure plans ☐
- B. Able to meet only revenue plans ☐
- C. Able to meet only expenditure plans ☐
- D. Unable to meet both revenue and expenditure plans ☐
- 26) What do you think are some of the measures to be put in place to overcome the challenges the Assembly usually face in the preparation of its budgets?
- A. The assembly should be given more budget staff ☐
- B. Training for budget staff ☐
- C. Employment of economic and statistical models in making budget estimates ☐
- D. Other (specify).....
- 27) Does the assembly always earn good returns on its investment?
- A. Yes always ☐ B. Yes but not always ☐ C. No ☐

END OF QUESTIONNAIRE, THANK YOU.