KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

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PERFORMANCE BASED FINANCING, LOCAL GOVERNMENT REVENUE AND DISTRICT ASSEMBLY PERFORMANCE IN GHANA: THE CASE OF MMDAs IN ASHANTI REGION

BY

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THESIS SUBMITTED TO THE DEPARTMENT OF ECONOMICS OF THE COLLEGE OF SOCIAL SCIENCES AND HUMANITIES, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR AWARD OF MASTER OF SCIENCE DEGREE IN ECONOMICS.

JUNE, 2016.

DECLARATION

I hereby declare that this thesis is my own original work towards the award of master of science in Economics and that, to the best of my knowledge, it contains no material published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been in my work.

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DEDICATION

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This work is dedicated to my parents and the Budget Class of Local Government Service as well as the staff of Mampong Municipal Assembly, Mampong-Ashanti.

ACKNOWLEDGEMENTS

First and foremost, I am highly indebted to the Almighty God whose divine providence has brought me this far through the challenges of life.

I, as well, express my profound gratitude to Dr. Jacob Novignon, my supervisor, for guiding and correcting various documents of this piece with attention and care. For taking pains to read, in between lines, through the project and made very necessary correction as and when needed, I say bravo to him for the good done me.

My heartfelt gratefulness goes to the staff of DDF secretariat and Local Government Inspectorate unit all of the Local Government Service of the Ministry of Local Government and Rural Development. Especially, Mr. Kwame Osei-Bonsu, coordinator of DDF, Alhaji Alhassan Abdulai Amidu also of DDF, Mr. Lawrence Tizzah and Aunty Agness all of Local Government Inspectorate unit for their relentless effort in providing the valuable information for this work.

Finally, I want to express my appreciation to Mr. P. S. Ntiri-Asiedu, Ashanti Regional Budget Analyst, Mr. D. Y. Gyan-Barimah (former Coordinating Director of Mampong Municipal Assembly) and my immediate head Rev. Antwi Akowuah, Mampong Municiapal Budget Analyst for their diverse support and encouragement.

And to anyone who in diverse ways helped me out with this thesis, God bless you all.

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ABSTRACT

Decentralization is motivated to be the better way of allocating resources more effectively and efficiently because local governments have better information about the needs for and requirements of public goods in their jurisdictions. It is because local governments have a high degree of autonomy and use their discretion when it comes to resource allocation. The level of autonomy and discretion in resource allocation only rest on the local governments‟ ability to generate its own local revenue (IGF) even though the budgets of local governments are dominated by external transfers/grants from the central government that are mostly tied to a specific expenditure item that may not match the priorities of the local government.

A Performance Based Grant System (PBGS) called District Development Facility (DDF) under the Functional Organizational Assessment Tool (FOAT) was introduced into the local government system of Ghana where access to additional development funds is linked to an annual performance assessment under FOAT in 2008.Using local governments‟ public finances (both revenue and expenditure form different sources) from the period 2011 to 2014 panel data of 30 MMDAs in the Ashanti region of Ghana and other local governments‟ specific characteristics, this research work estimated the effect of District Development

Facility on local governments‟ own revenue generation (also called IGF)and further examined the effect of District Development Facility on MMDAs‟ performance in terms of FOAT assessment.

Estimated results show that, DDF was significantly and negatively associated with local governments‟ own revenue generation which implies that DDF transfers/grants to MMDAs appeared to discourage rather than encourage local revenue generation or IGF. Also, evidence suggests that DDF transfers to MMDAs are likely to reduce MMDAs‟ performance score. It is therefore recommended that, the Capacity Building grant component of the facility be used to revalue all landed and immovable properties of all MMDAs in to the country to aid in the collection of property tax.

ACRONYMS

AFD	Agence Francise de Development
BPLM	Breusch-Pagan Lagrange Multiplier
cap	Capital Expenditure
CDA	Canadian International Development Agency
Chps	Community-based Health Planning System
DACF	District Assemblies‟ Common Fund
DANIDA	Danish International Development Agency
DDF	District Development Facility
DPs	Development Partners
FOAT	Functional Organizational Assessment Tool
FY	Fiscal Year
GoG	Government of Ghana
gs	Goods and Services
IGF	Internally Generated Fund
IGFTs	Intergovernmental Fiscal Transfers
KFW	German Development Bank
LGs	Local Governments
LI	Legislative Instruments
MCs	Minimum Conditions
MLGRD	Ministry of Local Government and Rural Development

MLGRDE Environment	Ministry of Local Government and Rural Development and
MMDAs	Metropolitan, Municipal and District Assemblies
NDPC	National Development Planning Commission
OECD	Organisation Co-operation and Development
PBGS	Performance Based Grant System
pe	Personnel Emolument
PMs	Performance Measures
PNDC	Provisional National Defense Council
PNDCL	Provisional National Defense Council Law
RCCs	Regional Coordinating Councils
UDG	Urban Development Grant
UNCDF	United Nation Capital Development Fund
UNDP	United Nation Development Programme

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

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Ghana had practiced a system of local government prior to its independence in 1957. During the pre-colonial era paramountcies were an autonomous and semi-autonomous with defined boundaries headed by a chief and his council of elders. Administration and revenue generation out of their territorial resources for development were some of the duties of the paramountcies (MLGRD, 1996).The colonial era incorporated the traditional system of local administration into the modern system of local governance (MLGRD, 1996).

A number of activities geared towards decentralization took place prior to 1988. The coastal towns of Gold Coast (Ghana) saw the establishment of Municipalities, after the Municipal Ordinance was enacted in 1859, the setting up to elected town councils for Accra, Kumasi, Sekondi-Takoradi and Cape Coast in 1943 by a new Ordinance, the Municipal Council‟s Ordinance was passed in 1943 which was followed by the passing of Local Government Act 54 of 1961 thus after the country gained independence. There were clear difference between local government and central government in all the pieces of legislations that were enacted (MLGRD, 1996). Regional devolution and district public administration, the establishment of a four-tier structure in the 1970‟s.Successive governments of Ghana have attempted decentralization programmes as they looked to a vibrant local government system to aid the country‟s development (Local Government System in Ghana, page 1)

Local Government Administration Act1971, Act 359 was passed and never implemented because government changed in 1972. However, major changes were effected before it was commissioned in 1974, which was described as the “Single Hierarchy Model”, because it

abolished the difference between central and subnational/local government at the local level and created one common structure (i.e. District Councils) with the responsibility of a government in its totality at local level. The Act further created the 65 District Councils (MLGRD, 1996)

In 1988, the Provisional National Defense Council (PNDC) introduced the Local Government Law 1998 (PNDC Law 207) which serves as a reference point for Ghana‟s Decentralization. Its objectives among others were: to promote economic and social development at the local level and the provision of basic needs among people; implementation of development programmes; promoting and sustaining community participation by means of decision making, sharing and distribution of development benefits by ensuring balanced, equitable, fair, integrated and comprehensive development and taking account of the linkage and factors that impinge the process of development such as economic, social, physical, environment and political (Water Aid, 2008).

The 1992 Constitution of the Republic of Ghana accorded constitutional recognition to decentralization and committed successive government to the implementation of decentralization five (5) years after enacting the PNDC law 207 by devoting a whole chapter to decentralisation. Article 240, section 1, states "Ghana shall have a system of local government and administration which shall, as far as practicable be decentralized". To help achieve this objective, a number of enactments were passed such as: Act 462 of the Local Government Act, 1993; Act 455 of the District Assemblies Common Fund Act, 1993; National Development Planning (System) Act 1994 (Act 479); Civil Service Law 1993 (PNDCL 327); National Development Planning Commission Act 1994 (Act 480); Local Government Service Act 2003 (Act 656); Act 647 of the Institute of Local Government Studies Act, 2003.

Decentralization introduced changes in the public administrative system after the constitutional recognition. The establishment of Metropolitan, Municipal and District Assemblies (MMDAs) as the highest administrative, political, development and planning authority in the district; the establishment of sub-national authorities (i.e. Regional Coordinating Council) and sub-district authorities (urban, zonal/ town/ area councils and unit committees) (MLGRD, 1996).

Appiah–Agyekum, Danquah & Sakyi (2013) in their publication had argued that,

Decentralization has finance as its "lifeblood" even though it still remains one of the major challenges in the decentralization process of Ghana. As Ghana has gone through several processes and series of having a good local government system from the pre-colonial era through the colonial era to the current constitutional rule, so has its financing. Activities of the pre-colonial era were financed mainly by traditional court fines, levies imposed on commercial activities like farming, hunting, logging and small scale mining. Communal labour was done in the case of infrastructural development (MLGRD, 1996).

The colonial era saw a number of activities for revenue generation such as import duties, taxes and among others at the central level. A tax system was also introduced which came to be known as Poll Tax Ordinance. Thus, in an attempt to raise revenue to match increasing government commitments from the local people, a poll tax of one (1) Shelling per head for every man, woman or child living within the area under British jurisdiction was proposed, giving rise to the establishment of the Poll Tax Ordinance in April, 1852 (The Gold Coast (Ghana) in the Nineteenth Century, Poll Tax Ordinance (1850-1861). The Poll Tax Ordinance was abolished in 1961 with reasons such as, the unwillingness on the part of tax payers, corrupt officials, and non-participatory nature by the local people during the passing of the law, improper records keeping, and among others. Kessey (2006) added that, there was no evidence

that the revenues generated were being used to promote direct public welfare and this was some of the reasons that called for its abrogation.

An alternative funding source to lower level governments was transfer from the central government. Awal (2007) had argued that several attempts have been made to transfer funds to the local level from the central government. The setting up of Local Government Grants Commission in 1979, the introduction of Ceded Revenue in 1988 which brought a slight improvement in the District Assembly financing and among others. The 1992 Constitution of the Republic of Ghana which gave constitutional recognition to Decentralization also provided means of financing it. Article 252 of the 1992 Constitution created the District Assemblies Common Fund, which required that not less than 5% (now 7.5%) of the country‟s total tax revenue be paid into the fund in quarterly installments based upon a formula submitted by the Common Fund Administrator and approved by parliament. It was followed by the passing of the District Assemblies Common Fund Act, 1993 (Act 455) to help its operationalization. The passing of Act 462 of the Local Government Act, 1993 also made the District Assemblies the only rating authority in the districts and also the power to levy sufficient rates to fund its expenditure within a period. The sixth schedule of the Act itemizes ten (10) main sources and sub sources under which local authorities (MMDA‟s) can generate revenue to fund its activities. They include: Fees, licenses, Rates and levies, etc. These funds available to the District Assemblies are known as Internally Generated Fund (IGF).

Depending on the Government in power and its policies, several revenue sources have been created to meet policy specifics which all came to fund local authorities in achieving those specific goals, these includes HIPC fund, Ghana School Feeding Programme, NYEP, HIV/AIDS grant among others. Even though local authorities have witnessed much fiscal transfers from the central government, funding challenges still persist. Moreover the IGF

available to these local authorities within their jurisdictions have not been fully exploited thereby leaving a financing gap which go a long way to affect “overall performance and the implementation of their development plans.” (MLGRD, 2009)

The Government of Ghana (GoG) in its quest to bridging the gap between financing the growing demand for services and the implementation of development plans at the local levels introduced a Performance Based Grant System (PBGS) called District Development Facility (DDF) where access to additional “development funds” are linked to an annual performance assessment under the Functional Organizational Assessment Tool (FOAT). The FOAT contains indicators which have been agreed upon and are in line with GoG‟s legal and regulatory framework on which all MMDA‟s are assessed and conducted by independent consultancy firms.

In 2008, according to the Budget Statement and Economic Policy for the 2008 Financial Year the final Draft of the District Development Funding (DDF) and the design of the Functional Organizational Assessment Tool (FOAT) and its implementation manual was piloted in some selected districts. The DDF was being supported by number of Development Partners (DPs) namely: Agence Francise de Development (AFD), Canadian International Development Agency (CDA), Danish International Development Agency (DANIDA) and the German Development Bank (KFW).

1.2 Problem Statement

Jensen, Clifford, Gadia, Segev, and Snodgrass, (1992) had argued that, development at the districts level are plagued with insufficient revenue to carry out those developmental agenda at that level. Even though MMDAs‟ are also endowed with more IGF potentials, they have not been fully exploited to meet its responsibilities of providing basic social services and infrastructure. It is an economic reality that resources are limited and human needs are unlimited, it is in view of this that there have over the years been gradual increase in the volume of fiscal transfers (which is evident in the number of funding sources available to MMDAs). Transfers to MMDAs are also part of government‟s policy of bridging the gap between financing growing service demand and district/national development plan implementation as well as yielding to the agitation for an increase in the transfer of resources from the central government to the local levels. A Performance Based Grant System (PBGS) called District Development Facility (DDF) where access to additional “development funds” are linked to an annual performance assessment under FOAT was introduced to enhance local economic development and addressing national poverty reduction objectives in achieving the Millennium Development Goals under the Government‟s Decentralisation and Local Government Reform Initiative (MLGRD, 2009).

Several authors had shown with empirical evidence that intergovernmental transfers disincentivices local governments in generating their own local revenue. Paul Smoke (2001) on Fiscal Decentralization in Developing Countries writes “the historical tendency in many countries of dealing with these various elements as separate aspects of intergovernmental finance has resulted in imbalances between expenditure responsibilities and sources of revenues, transfer programmes that undermine incentives to collect local own-source revenues,…”. Bird and Smart (2002) also added that “a grant system can thus create poor

incentives for local governments to raise their own revenues". UNCDF (2010) also suggests that "in some OECD countries, grant incentives are used to reduce the appetite of LG politicians for mobilising taxes". Thus, local authorities relax in exploiting fully their own revenue resource endowment available to them but rely and depend wholly on the central government‟s transfers leaving several resources untapped. More importantly, evidence from the work of Mogues, Benin, and Cudjoe (2009) on Ghana between the period 1994 - 2004 suggests that, external transfers discourage rather than encourage local governments‟ own revenue generation. Thus, based on the work of Mogues, Benin, and Cudjoe (2009) one can confidently conclude that, MMDAs in Ghana end up relying heavily on central government‟s transfer to the neglect of generating their own revenue locally in the midst of the abundant resource endowment.

It was in the light of the above that this research work sought the need to clearly assess and explore much more thoroughly the relationship that exist between the performance based grant DDF and local governments‟ own revenue generation and performance in Ghana.

1.3 Objectives of the study

1.3.1 General objectives

The general objective of the study was to explore the relationship between District Development Facility and MMDAs‟ own revenue generation as well as District Assemblies performance under FOAT (Functional Organisational Assessment Tool) assessment.

Specifically the study sought to:

1. To identify and estimate the various components and their contribution to the IGF of MMDAs in Ashanti Region.

2. Estimate the effect of District Development Facility on MMDAs‟ own revenue generation.
3. Examine the effect of District Development Facility on Metropolitan, Municipal and Districts Assemblies‟ performance in terms of FOAT (Functional Organisational Assessment Tool) assessment.

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1.3.2 Research Questions

1. What makes up the IGF of an MMDA and what are their contributions to the total IGF?
2. Does the receipt of District Development Facility discourage or encourage MMDAs in their own revenue generation?
3. Does District Development Facility affect MMDAs performance?

1.4 Scope of the Study

The study carefully concentrated on how MMDAs in the country especially MMDAs in Ashanti Region have felt in local revenue generation after the implementation of the Performance Based Grant System (PBGS) District Development Facility (DDF) under the Functional Organizational Assessment Tool (FOAT) between the periods 2011 to 2014. Geographically, the study covers all MMDAs in the Ashanti Region of Ghana.

1.5 Justification

The choice of the topic for this research was informed by the several ways that the country had tried in financing its decentralization agenda towards the provision of goods and service and other capital projects (infrastructure) to reduce persistent growing demands for services, thus the financing gap. In closing the financing gap, the country resorted to transfer funds from the central government to the subnational governments but this transfer mechanism was fragmented with many sources which included: DACF, HIPC, development partners‟ on and

off-budget funding, and etc. In addressing the difficulty saw the introduction of the PBGS called District Development Fund.

UNDCF (2010) states that, intergovernmental fiscal transfers (IGFTs) has been recognised internationally with many literature on its theory in general, practises and principles, but none of such whether analytical work or information can be said on performance-based grant system (PBGS) which is a new phenomenon emerging and being practise in some countries. Thus, there are empirical works which claim that intergovernmental transfers obviate the need for local revenue generation (i.e. Mogues, Benin, and Cudjoe, 2009; Zhuravskaya, 2000) but none of such empirical work could be found on PBGS. But PBGS has been identified as a new phenomenon that incentivises local governments performance because of access to and the amount of funding.

The research would provide empirical evidence if District Development Fund will also encourage or discourage MMDAs in generating their own revenue because some IGFTs have proved empirically to either discourage or encourage local revenue generation. PBGS has also been said to incentive local governments in their performance because of the attached funding, the work further examined whether District Development Fund indeed incentivizes MMDAs in their performance score during FOAT assessment.

1.6 Organisation of the Study

This thesis was organized into five chapters. Chapter one was dedicated to the general introduction with background, problem statement, objectives, justification and scope as its sub topics. Chapter two constitutes the literature review where relevant terms were defined as well as reviewing theoretical and empirical studies relevant to the subject matter. Chapter three constitutes the methodology of the research, thus how research data was collected and the

procedure used in analyzing them. The next was Chapter four which was dedicated to analyzing data collected, reporting and discussing of the major findings. The final Chapter looked at the summary of major findings, recommendations and conclusion.

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CHAPTER TWO

LITERATURE REVIEW

This chapter review literatures relevant and related to this study. It takes into account both theoretical and empirical works that are related to this study.

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2.1 Definition of Terms and Concept

2.2 The Concept of Decentralization

Attempts have been made by various individuals (authors) and institution in defining decentralization and they have defined decentralization in various perspectives.

Decentralization has been defined as "the transfer of political power, decision making capacity and resources from central to sub-national levels of government" (Walker, 2002). Rondinelli and Nellis (1989) also defined decentralization as the transfer of the responsibility for planning, management and raising and allocation of resources from the central government and its agencies to field unit of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area–wide, regional or functional authorities or nongovernmental private or voluntary organizations". The definition provided by Rondinelli is and discusses what should be transferred and why. Thus, power has to be devolved to make decisions, plan and implementations of plans.

World Bank (1998) also suggests that decentralization is "the assignment of fiscal, political administrative responsibilities to lower levels of government is occurring worldwide for different reasons, at different paces, and through different means". Thus, the World Bank sees decentralization as political administrative and also a financial phenomenon.

Conyers (1981) also sees decentralization as both political and administrative phenomenon and focusing on transferring both decision making and administrative power to fewer tier governments by defining it as “any transfer of powers or functions of government from the national level to any subnational level”.

From the above definitions given by various authors and institutions, decentralization can be summarized as where authority of administration and making of decisions are transferred to a regional or subnational level government from the central government. But it should be made clear that decentralisation is not an alternation to centralization. Even though both are needed, a country‟s specific objective could be achieved by stating clearly the complementary roles that should be played by both the central level the subnational level (UNDP, 1999).

Moreover, decentralisation should not be seen as “exclusively public sector reform” (i.e. civil service or administrative reform) but rather in designing decentralization programmes. It must take into account societal actors‟ relationship and roles being civil societies, private sector, the government, etc. (UNDP, 1998)

2.2.1 Forms of Decentralisation

Good governance as an impact of decentralization to a greater extent depends on the nature, design and form decentralisation practiced in a particular country, and the unit type with which authority or transferred in the process of decentralization (UNDP, 1997). Several authors and literature have identified and grouped decentralisation into four main forms with some having sub-forms. They include: political decentralization; administrative decentralization with deconcentration, delegation and devolution as its sub-form; fiscal decentralization or federalism; and economic or market decentralisation with privatization and deregulation as its

most complete form (Schneider, 2003). But Rondinelli (1981) identified four types or forms of decentralisation; namely: deconcentration, delegation, devolution and privation.

According to Rondinelli, Deconcentration (also known as administrative decentralization) is the least extensive form: thus, it involves workload shifted to staff who are not in the country‟s capital from central government‟s headquarters (Rondinelli, 1981).

Thus, administration or service delivery or specific task are deconcentrated to lower-level units such as regional, district or local offices. Authority is limitedly transferred (UNDP, 1999). Deconcentration can highly be achieved by transferring field administrators the power to plan, decide and implement within their jurisdiction set by the central government (Smith, 1985).

Delegation also involves transferring planning and implementation decisions concerning specific activities within a specified spatial boundary to an organization (Lalitha, 2002). Thus, aspects of governance are delegated through legislation to lower-level units with carefully spelled out task and decision-making and administrative authority (UNDP, 1999). It is more extensive compared to administrative deconcentration (Rondinelli, 1981).

Devolution also known as political or democratic deconcentration is the form considered to be extensive amongst the others, because it involves the creation of lower-levels or units that are independent of the central government. It is the "Divestment of functions by the central government and the creation of new units of governments outside the control of central authority" (Rondinelli, 1981). Thus, resources, activities and power to decide are transferred to lower authorities who are autonomous and independent from the center. Thus, little or no direct control exercised by the central government. It also involves inter-governmental transfers from the central government to the lower authority in the form of political, administrative and technical functions (Manor, 1995).

Privatization, according to Rondinelli (1981) is a "means of diversifying government responsibilities for functions and have either transformed them to voluntary organizations or allowed them to be performed by private enterprises". Thus, functions that were previously performed by the central government are now privatized or transferred to private parallel organizations to reduce or relief the government of its fiscal burden. Advocates of privatization, such as Rondinelli, argues that, since decentralisation has to do with the transfer of power from the central government to private firms or organizations, it will increase choice for "customers" who receive service (Rondinelli, 1989).

2.2.2 Arguments for Decentralization

Decentralization came in the 1980s as a result of dysfunctioning of most central or national governments. Although, the driving force behind decentralization may be positive as people perceive, there are other "push and pull" factors that fuels it. Several literature promises decentralization to have a desirable ends in terms of economic, political and social impacts on the implementing country. Moreover, it has been seen as an effective tool and mechanism for development administration in the aspects of planning and management.

Rondinelli, et al (1983) argues that, due to the fact that planning were centralized in the period 1950s and 1960s, developing countries resulted to decentralisation as the effective way of planning and administration, and also the means of accelerating peace and spreading of growth through the efficient and effective use of scarce resources.

Smith (1992) added by emphasizing that, rural masses who were hither to neglected will now enjoy the benefits of development, since evidence from developing countries show that, living standard people living in the remote areas are deteriorated due to over-centralization of the government.

2.2.3 Critiques/Argument against Decentralisation

Against all the favourable arguments for decentralisation, others have also argued negatively against decentralization. Griffin (1982) argues that, in countries where decentralisation is practiced, power is concentrated more at the local level and are fiercely used against the poor more than the central level. He further argued that, the gap between the rural and locals especially the rural areas as a result of power handed over to local politicians and elites who intend allocate central governments resources in their favour.

Slater (1989) also said "decentralization is like a mirage, myth and mask". Thus, to Slater, decentralization appears in name, but is always in isolation when it comes to the people controlling it directly and participating. Decentralization seeks to give authority to because the intension to devolve power can be hampered by factors such as pressure groups, dominant elite and the likes which is seen very often in the developing countries.

Lalitha (2002) had also argued that, as a limitation to decentralisation, maintenance and administration expenses are incurred as a result of the creation of more institutions and hierarchies due to decentralisation. Lalitha (2002) further argued that, "decentralisation is good in theory, but bad in practice" if desired objectives of decentralization are not achieved and if management of local levels (applicable to the central government) lacks the "required management skills, knowledge, experience and competence".

2.2.4 Fiscal Decentralisation or Federalism

Since there has been calls to improving the performance of the public sector, prompting both the industrialised and developing countries to devolve. Thus, by assigning responsibilities and fiscal instruments to the various level of governments. It is hoped that local authorities" are

closer to the people and can respond more to their heterogeneous preferences by finding better and innovative ways of providing for those services (Oates, 1999).

Fiscal federalism or decentralization as a major element of decentralization (Rondinelli, 1999), has been defined in several ways by several authors. Fiscal decentralization has been developed and defined by the United Nations Development Program (UNDP) as "Fiscal decentralization constitutes the public finance dimension to decentralization in general, defining how and in what way expenditures and revenues are organized between and across different levels of government in the national polity" (UNDP, 2005). Thus, finance responsibility is a major element of decentralisation. Sufficient revenue (either by locally raising them or/and transferring from the central government) and expenditure making decisions are required of subnational governments if responsibilities are to be carried out effectively. Fiscal decentralization therefore involves the process of distribution of public finance and responsibilities to the other governments.

Traditionally, fiscal federalism theory tells a broad normative framework for functions assignment to different government levels and the applicable fiscal instruments for executing these functions (Oates, 1999). The above theory postulates that, the central government should concentrate on macroeconomic stabilisation functions (such as, monetary and exchange rate policies in a case where the economy is open); redistribution of income in correcting income disparities among individuals; and allocation function such as the provision of certain national public goods that serve the entire population such as defense,

etc.

The stabilization function involves governments‟ fiscal policies i.e. the taxing and spending role and monetary policy in managing the entire activities of the economy. Research proves

that the central government should be assigned to these macroeconomic functions due to the broad-based tax available to the central government.

The distribution function on the other hand deals with government‟s role in the redistribution of wealth, income and/or other economic wellbeing indicators to make them more equitable than would otherwise be the case. Based on assumptions that: redistribution of income can well be done through taxation and the central government has that broad taxing powers; and local government‟s ability to “soak the rich and redistribute to the poor” is weakened because tax payers are mobile and that they have the ability to take advantage of a fair taxing and spending policies that have been adopted by a competing local governments by the act of moving (Shah, 1991).

The central government‟s allocation function is also to decide the combination of public and private goods that the central government needs to provide. In the allocation process, economists are concern with vertical imbalances (efficiency in matching local expenditure to local revenues), horizontal equity (i.e. capacity amidst regions fiscally), externalities (i.e. spillovers) (Shah, 1991).

2.2.5 Arguments for Fiscal Decentralisation

Oates (1972) argues that, the a priori reasons calling for countries to choose decentralization of its fiscal structure is to consider fiscal decentralization. That is, the theory of fiscal federalism rather than centralization. These a priori arguments might be recast in a developing and transition country framework, and are viewed, as disadvantages and advantages of fiscal decentralization (Bahl and Linn, 1992).

Efficiency Values

Efficiency value is the act of social welfare "maximisation". The public sector does not contain the same price signals as the private sector, to regulate supply and demand. Efficiency criterion is invoked by Economists in arguing for fiscal decentralisation. Welfare is maximized if preferences of individuals are voted for and the mix and amount of public services they prefer are achieved. Moreover since desire for public goods differs among individuals, they choose to reside in communities where social welfare will be maximised. The economic argument due to closeness to its citizens than a central authority, divergent interest and views are able to be met local authorities as well as efficiently allocating resources. Oates (1993) also reiterates the efficiency argument by saying that, fiscal decentralisation has efficiency as its basic case economically.

Revenue Mobilisation

According to Oates (1993) and Bahl and Linn (1992), another argument for fiscal decentralisation is local revenue mobilisation. The local revenue mobilisation argument for fiscal decentralisation argues that, revenue mobilisation will totally increase if collection is decentralised. Secondly, cost of mobilising those revenues by bringing small taxpayers into the tax net is small and negligible. Therefore, local authorities might be able to bring together these small tax payers through rates and local taxes which could be used for providing and maintaining local public services at costs that are lower than the central government.

Governance Values

Wolman (1997) argues that the governance values makes local authority accountable and responsive, diverse, and promotes political participation. Through decentralisation decision

making is closely placed to the people. Local officials become responsive and accountable to its citizens. This is because, it is expected that decision makers are aware of the needs and problems which faces area than centralized decision makers. Tiebout (1956) adds that, diversity is achieved through the choice citizens have in public service and options relating to tax in their decision of where to reside due to mobility. Finally, political participation as well as democratic values and political stability are enhanced by providing platforms for debating politically.

2.2.6 Arguments against Fiscal Decentralisation

Tanzi (1995) summarises this criticisms by drawing attention to some situations that may bring about less than the best results where fiscal decentralization is been applied more importantly in countries that are developing by raising a number of situations. First of all, Tanzi argued that, corruption may even persist more or at least at par with local politicians than national politicians. Secondly, decisions that bring about efficiency in the use of resources may not be achieved because of inadequate information and/or lack of political power on the part of taxpayers.

2.2.7 Instruments of Intergovernmental Finance

To carry out functions by the different levels of government requires each to its specific fiscal instrument. A central government typically has access to tax on the revenue side and debt instruments on the debt side. An intergovernmental transfer is a method for fund allocation among levels of different governments in the public sector. The central government transfers mostly the surplus between its tax revenue generations in excess of its expenditures to partly finance the subnational or local government's budget. Intergovernmental transfers according to literature are associated with three roles: fiscal equalization across jurisdictions, overall improvement in tax system and internalization of spillover benefits to other jurisdictions

(Oates, 1999). Intergovernmental transfers can broadly be classified into two categories: specific-purpose transfers (conditional) and general purpose transfers (also unconditional) (Shah, 2006).

2.2.8 General-Purpose Transfers

General-purpose transfers also known as unconditional grants are transfers or grants given as general budget support, with no strings or conditions of grant usage attached. They are transfers in a form of lump sum and the recipient uses it as it wishes. Thus, they are also termed bloc transfers and used in providing broad support in general areas of the local authorities‟ expenditures and also allow recipients discretion in allocating the funds among specific uses. It only augments the recipient‟s resources (Shah, 1991, 2006).

It is argued to be the appropriate vehicle for local autonomy and enhance interjurisdictional equity or fiscal equalization purposes, a form of general revenue-sharing. Thus by channeling funds to poorer areas from relatively wealthier areas (i.e. redistribution motive). An equalization formula that considers the fiscal capacity and needs of the area are mostly considered (Shah, 1991, 2006).

2.2.9 Specific-Purpose Transfers

Specific-purpose transfer also known as conditional grants and has the intention of providing incentives for certain activities to be undertaking by governments. In other words, specificpurpose transfers or grant places restrictions on the usage by the recipient. This fund is mostly used in addressing issues that are considered to be important to the central government but less important to the local authorities

It spells out the expenditure type that can be financed from the fund (input-based conditionality). Results from service delivery (output-based conditionality) may also be required before attainment of such grant. Input-based conditionality is argued to be intrusive and may yield no results to the grantor, whereas grantors‟ objectives can be advanced through output-based conditionality while preserving local autonomy (Shah, 2006).

2.2.10 Nonmatching Transfers

Grants from the central government are not supposed to be matched by the receiving government mostly the subnational government. Activities considered as low priority to the subnational government but are of high priority to the central government could mostly be addressed by conditional nonmatching grants. So are activities considered to generate positive externalities of some categories of expenditure across certain jurisdictions. Grant recipients prefer unconditional nonmatching because of the flexibility in the usage and also maximizes welfare by augmenting (Shah, 1991, 2006).

2.2.11 Matching Transfers

Matching transfers are also known as cost-sharing programs, and requires that funds be expended on a particular public good and that the recipient mostly the subnational government matches the funds to some degree. Conditional marching grants can be grouped into two categories, namely; open-ended and closed-ended (Shah, 1991, 2006).

2.2.12 Open-Ended Marching Grants

This form of grant is appropriate for correcting inefficiencies in the provision of public goods arising from benefit spillovers, or positive externalities. Benefit spillovers occur when provision of a public good or service is done by one local government but members of other

local government benefit from its usage. The central government could correct this by subsidizing the cost of its provision. The subsidy to give could be determined by the extent of the spillover and can be achieved by simply using the rationale behind "Pigouvian" (Shah, 1991, 2006).

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2.2.12.1 Closed-Ended Matching Grant

Under this system of conditional marching grant, both the subnational and the central government have a ceiling of amount to contribute in the provision of a public good. This system of grant has an inbuilt budget control mechanism and it"s preferred by most countries. It has been argued that, closed-ended marching grant is not the best for solving public good provision inefficiencies. Instead, this grant is to promote spending on activities given priority by the grantor (mostly the central government). Overspending in few functions such as expenditure on capital goods as against operating cost (if funds are only expended on capital intensive initiatives) are some of the disadvantages of this grant (Shah, 1991, 2006).

2.3 Rationale for Intergovernmental Fiscal Transfers

In theory, reasons have been assigned as to why the central government (mostly the grantor) transfers funds or grants to the subnational or local government (mostly the recipient). They may include inter alia: vertical fiscal imbalance, horizontal imbalance, and spill over benefit or positive externalities (Shah, 1991, 2006; Bird and Smart, 2002).

2.3.1 Vertical Fiscal Imbalance

Vertical fiscal imbalance arises when there is an imbalance in revenues (i.e. own-source revenues) and expenditures of each level of government. Transfers are means of supplementing inadequate local own-source revenues to improve the ability of local governments to meet their

expenditure responsibilities. Thus, sufficient mismatch in the revenues and expenditures assigned to different levels of government remains for some balancing role to be assigned to intergovernmental fiscal transfers (Boadway & Hobson, 1993).

Ahmad (1997); Ahmad and Craig (1997) had argued that, this vertical fiscal gap at levels of different government may be caused by incompatible own expenditure and own revenue assignments. Furthermore, the gap could expand if an increase in expenditure has no corresponding increase in revenue arising from policy choice of the local government. Bird and Smart (2002) had suggested that, certain percentage of central governments‟ revenue as well as formula driven basis and adhoc transfers should be the some of the ways in closing the gap.

2.3.2 Horizontal Fiscal Imbalance

This horizontal fiscal imbalance occurs when there are differences in fiscal (i.e. revenueraising and expenditure) capacity among subnational or local governments. This fiscal imbalance may arise as a result of disparities in tax or financial needs

Broadway and Keen (1997) had argued that, horizontal imbalance among subnational governments could be addressed through intergovernmental transfers. Oates (1997) also added that, the central government may wish to equalize fiscal position of the fiscally weak regions.

2.3.3 Addressing Inter-Jurisdictional Spill-Over Effects

Intergovernmental transfers are means of addressing external spillover effects (Broadway and Keen, 1997). Some public goods or services have positive externality effects (spillover effects) on other jurisdictions. Without reaping all the benefits of the public good, subnational governments tend to under invest in its provision. Musgrave and Musgrave (1997) added by saying that, the consequence of the positive spillover will make the jurisdiction not to provide

optimal quantity if local public goods to its citizens thus leading to collective inefficiencies. In view of this it has been argued that, incentives must be provided by the central government to correct the under-provision problem.

2.4 Background on Decentralisation and Intergovernmental Transfers in Ghana

2.4.1 Decentralisation, Ghana's Experience

Inanga and Osei-Wusu (2004) identified some experiences Ghana had had with Decentralisation. According to them, colonization and assistance in the form of development brought Ghana‟s decentralization. Crawford (2004); Antwi-Boasiako (2010) added that, the chiefs and elders were the medium through which colonial administration ruled the people of Ghana with a local authority as a district and had the power performing local government functions. The establishments of Municipal Ordinance of 1859 and the enactment of Local Government Act, Act 54 of 1961 identified central government and local authorities as its agencies. But some of the challenges to decentralization identified were lack of expertise on the part of personnel and others were inadequate financial resources to meet their duties (Inanga and Osei-Wusu, 2004).

Inanga and Osei-Wusu (2004) further identified the current decentralization programme which has implications for the management of finances to include features like: promoting decision-making in a participatory manner and implementation; the composition of the district assemblies (i.e. elected and appointed members); empowerment of district assemblies as the legislative, budgeting and rating, administrative, service delivery, development planning authorities; the co-ordination of decentralized development planning by the National Development Planning Commission (NDPC); the capacity for bottom-up planning and the effective resourcing of such plans, etc.

MLGRDE (2008) identified three goals of Ghana‟s decentralization programme (which is embodied in the 1992 Constitution): to expand and strengthen democracy locally; to promote economic and social development locally and; to increase people‟s choice and reduce poverty.

Under Legal Environment, Chapter 6, Article 35 (6) d, the 1992 Constitution establishes a decentralised government structure for Ghana. “The State will make democracy a reality by decentralisation of the administrative and financial machinery of government to the regions and districts and by affording all opportunities to the people to participate in decision-making at every level”. Thus, the constitution implied that, Ghana will practice devolution as a form of decentralisation.

MLGRDE (2008) further identified other important legislation support that defined the scope of decentralisation in Ghana which includes: Act 462 of the Local Government Act, 1993 – which focuses on the administrative and political arrangements associated with RCCs and MMDAs; Legislative Instruments (LI) – which defines every MMDAs‟ jurisdiction and the functions to be performed; Public Procurement Act, 2003 (Act 663); Act 656 of the Local Government Service Act, 2003 – which established the Local Government Service separate from Civil Service; Act 480 of the National Development Planning System, 1994 –for development planning of the RCCs and MMDAs; Act 455 of the District Assembly‟s Common Fund Act, 2003 – which develops the structure, responsibilities and operations of the DACF; Audit Service Act, 2000 (Act 584); Financial Administration Act, 2003 (Act 654);Internal Audit Agency Act, 2003 (Act 658); Financial Administration Regulations, 2004 (LI1802) (MLGRDE, 2008; Ankamah, 2012).

2.4.2 Fiscal Decentralization, Ghana’s Experience

According to Ankamah (2012), the financial authority of all subnational governments of

Ghana is rooted in section 10 (3c) of the Act 462 of the Local Government Act, 1993 and Section 245(b) of the 1992 Constitution of the Republic of Ghana, which provides that each local government unit shall have a sound financial base with adequate and reliable sources of revenue. The Sixth Schedule of Act 462 of the Local Government Act, 1993listsall sources of revenue available to district governments which includes: duty on entertainment, tax on betting, income tax gambling tax, registration of trades, levies and rates, licenses, fees, casino revenue, taxes chargeable on incomes of certain category of self-employed persons and other miscellaneous receipts.

2.4.2.1 Internally Generated Funds (IGF)

MLGRDE (2008) defines IGF as all revenue collected by and on behalf of MMDAs and it is the only revenues MMDAs have control (in terms of collection and usage) over. The authority to generate revenues by MMDAs have its legal backing from Article 245(b) of the 1992 Constitution and sections 34, 50, 60, 74, 76, 85, 86, 94, 95 and 99 of Act 462 of the Local Government Act, 1993which gives powers MMDAs to raise revenue to finance their development.

2.4.2.2 District Assemblies Common Fund

DACF is a statutory arrangement backed by article 252 Sections 1 and 2 of the 1992 Constitution of Ghana as well as Act 455 of the District Assemblies Common Fund Act, 2003.Introduction of the DACF was an important achievement for Ghana‟s fiscal decentralisation which requires an allocation of 5% currently 7.5% of total central government‟s tax revenue based on a formula with an approval from parliament (MLGRDE, 2008).Disbursement of the fund MMDAs is based on the recommendation of the

administrator of the fund with an parliament‟s approval (Osei-Akoto et al, 2007). Five factors are considered in the fund sharing they include: Service Pressure Factor, Responsive Factor, Equality factor, Need Factor and Reserve Factor (Fynn, 2011).

2.4.2.3 Central Government Transfers

According to MLGRDE (2008) central government‟s transfers are associated with two issues: the transfer mechanism and the amount of funds to be transferred to support RCCs and MMDAs. This fragmentation of funds made monitoring difficult due to different reporting formats and delay in release of funds because of the many sources including HIPC, DACF, etc. In addressing the difficulty, a “new District Development Fund is being developed to address donor support challenges and implementation is in 2008” (MLGRDE, 2008).

2.4.2.4 Development Partner Support

A number of sources including NGOs and development partners fund MMDAs with different reporting and disclosure requirement. These partners work in districts and regions of their choice even though there are consultations with the sector ministries.

MLGRDE (2008) proposed that a “comprehensive guidelines will be developed for development partners and NGOs to harmonise direct development support and target all projects and funds to Government of Ghana priorities”

2.4.2.5 Borrowing

According to MLGRDE (2008), a proposal that a “clear guidelines on MMDA borrowing will be developed to avoid unnecessary financial risk to public funds” including Municipal Finance Bill and Municipal Finance Authority Bill since MMDAs should have the ability to access credit or financial markets.

2.5 Litrature on Performance Based Grant System (PBGS)

Intergovernmental fiscal transfers has been recognised internationally with many literature on its theory in general, practises and principles, but none of such whether analytical work or information can be said on performance-based grant system (PBGS) which is a new phenomenon emerging and being practise in some countries UNCDF (2010).

2.5.1 Definition

UNCDF (2010) defines performance-based grants as a system that "incentivises improvements in performance by linking LGs performance in pre-determined areas with both access to and the amount of funding". This according to UNCDF, PBGS is different from other transfers where grants or funds are transferred to local governments to give them means to perform some specific functions. It adds that, even though design varies from country to country, there are common characteristics of improving local government"s performance.

2.5.1.1 Rationale Behind PBGS

UNCDF (2010) argues that, PBGS provides incentive for LGs to improve upon their performance in key areas and adhere to national standards; misuse of funds are reduced since there are greater discretion over the use of grants; functional capacity gaps in LG are identified and need assessments are easily linked to actual support; to improve management and organisational learning; capacity development efforts are strengthened since performance are linked to funding, LGs have stronger incentive to Capacity-Building support efficiently; accountability to central government, electoral constituents or local citizens and political (elected politicians) and administrative (LG staff) arms of LGs are improved through the

publication of assessment results, the use of good governance indicators and the likes; finally, it serves as a useful tool in bringing and coordinating funds from DPs.

2.5.2 Grant Classification

UNCDF (2010) identified two dimensions, namely: recurrent and capital; and sector specific and non-sector specific.

2.5.3 Assessment System and Measures

LGs performance is assessed annually using a set of clearly defined indicators mostly divided into two categories (evident from most countries) as an assessment manual (UNCDF, 2010).

Minimum Conditions (MCs) – constitutes the basic conditions (for instance, administration, planning, financial management and etc.) which local governments are to comply before accessing the grant is in place to handle additional funds. All indicators of MCs should be complied with before LGs can have access to their performance grants.

Performance Measures (PMs) – on the other hand are variables measure LGs performance and are more qualitative in nature. They usually go into details other than MCs

2.6 Empirical Literature

Bradford and Oates (1971) argues that, all other things being equal, grants to district governments would be transferred to local residents reduce fees and local taxes if there is an optimal balance between local private consumption and local public consumption. A study by Zhuravskaya (2000) on Russia established a crowding-out effect, Thus, about 0.9 units of grants from the central government crowds out each unit of own-revenue raised subnational

government, this implies strongly that there will be virtually no incentive on the part of subnational governments to exert any tax effort.

Liu and Zhao (2011) conducted an empirical study by exploring incentive effect of total fiscal transfers of central government and its components (including equalization grants and tax rebates) on provincial tax reforms in China. Using a panel data of 30 Chinese provinces from 1995 to 2007 (13 years). The study results supported the other works that equalization transfers and total fiscal transfers generate disincentive effects on provincial tax effort.

Contrary to the above, Masaki (2015) study in Africa with evidence from Tanzania after analyzing fiscal data on local expenditures and revenue over the period of FY2010/2011–FY2012/2013 showed that, central grants improve the mobilization of local revenue.

Available literature also suggests other factors to influence local revenue generation other than intergovernmental grant. They could include: fiscal variables; political economy; and other socio-economic and demographic characteristics (such as: the capacity to collect more taxes and a local governments‟ tax revenue base) peculiar to a local or subnational government‟s area of coverage. Mogues, Benin, and Cudjoe (2009) proved that the degree of urbanisation of a district is positively related to local revenue generation in Ghana whiles the poverty rate is negative.

Empirical research applied to industrialised countries also reveals that political economy (such the subnational government‟s political structure and partisan politics) also has potential influence on locally generated revenues. Works by Borge and Rattsø (1997) in the contest of Norwegians and Allers et al. (2001) on Netherlands, identified that the size of local taxes were greatly affected by the political ideology of the government: i.e. taxation is larger if the government is more left-leaning than when the government is not.

Banful (2010) examined with evidence from Ghana, if formula-based intergovernmental transfer (i.e. DACF, between 1994 and 2005) mechanisms eliminate politically motivated targeting thus, whether the political characteristics of recipient areas have any bearing on their allocation. After the use of redistributive politics model by Dixit and Londregan (1996), the results provided evidence that, there are political motivation in the sharing of the DACF endowments and that governments target more resources to districts where the vote of a higher proportion of the population may be influenced by economic benefit. Results from the use of core-supporter model also provided evidence against the DACF being targeted to the ruling party's core supporters.

2.7 Empirical Research on Ghana

Mogues, Benin, and Cudjoe (2009) on a study on External grants and Own-Revenue Generation in Ghana examined whether External Grants to District Governments Discourage Own-Revenue Generation. Panel data on district governments‟ public finances in Ghana were used to examine the impact of the flow and size of external transfers on districts‟ internallygenerated revenues. The panel data set which covered all of Ghana‟s 110 districts existent at the time of 2004 for a period of 11 years (1994-2004). The study tried to deal with whether districts with higher levels of per capita external transfers and grants experience greater (or lower) IGF growth, as well as whether past *increases* in external grants (for a given magnitude of per capita grants) have an IGF-growth boosting or dampening effect. The results showed that, greater past external transfers are significantly and negatively associated with local governments‟ levels of IGFs: district governments with higher externallygenerated revenues tend to have significantly lower levels, as well as experience slower subsequent growth in internally generated revenues. Therefore, the nature of the flow of local

governments‟ external sources of revenue appear to discourage rather than encourage their internal revenue generation.

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CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methods that were used in the study. It describes the types of data and sources of data used in this research work. It further deals with the specification of the model used for this study; the description of variables and their measurements.

Ashanti Region had a total of 27 districts (made up of 1 Metropolitan, 8 Municipals and 18 Districts) before the year 2012 but in the year 2012, additional 3 districts namely: Asokore Mampong Municipal; Asante Akyim North District; and Sekyere Afram Plains South District were created through the splitting of some larger districts summing up to a total of 30 districts in the Region.

3.2 Types and sources of data

The research work was based mainly on secondary data and draws mainly on three sources of data, all aggregated at the district level. Since the study covers all districts in the Ashanti Region of Ghana, a panel data of 4 years which ranges from 2011 – 2014 on the districts‟ public finance both revenue and expenditure aggregated to the district level was obtained from the Local Government Inspectorate Unit of the Ministry of Local Government and Rural Development. These district revenues are disaggregated by source: e.g.: internally generated fund (IGF) (made up of rates, land & royalties, rents, licenses, fees & fines, and miscellaneous); external grants (are also made up of personnel emolument, district assemblies‟ common fund, district development facility, urban development grant, etc.) The districts‟ expenditures are also

disaggregated by economic classification: e.g.: personnel emolument, goods and services, and capital expenditure.

Data on MMDAs‟ performance scores represents each district‟s score attend after FOAT (Functional Organizational Assessment Tool) assessment; and DDF represents DDF transfers made to MMDAs in a particular financial year. Both data were obtained from the DDF secretariat of the Ministry of Local Government and Rural Development.

The last source of data was the 2010 Population and Housing Census as well as 2015 Ghana Poverty Mapping Report. These were both used primarily for districts‟ socio-economic and demographic variables.

3.2.1 Empirical Model Specification

The study employed two econometric models in achieving the desired objectives of the study. Following the work of Mogues, Benin, and Cudjoe (2009), the models are specified below

3.2.2 IGF AND DDF

Equation 1 estimates the effect of DDF transfers on Local governments‟ own revenue generation or IGF. With IGF as the dependent variable, the model is specified as:

$$igf = f(ddf, teg, pe, gs, cap, popd, litr, urb)$$

The research is interested in degree of responsiveness of IGF to DDF thus; functional form of the general functional form above takes log-linear model (Gujarati, 2004). The log-linear model is given as:

$$lnigf_{it} = \alpha_0 + \beta_1 lnddf_{it-1} + \beta_2 lnteg_{it} + \beta_3 lngs_{it} + \beta_4 lnpe_{it} + \beta_5 lncap_{it} + \beta_6 lnpopd_{it} + \beta_7 lnlitr_{it} + \beta_8 lnurb_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

3.2.3 MMDAs' FOAT Performance Score and DDF

Equation 2 estimates the effect of DDF transfers on MMDAs‟ performance score after FOAT assessment. With MMDAs‟ performance score as the dependent variable, the function is specified as:

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$$pfs = f(igf, ddf, texp, pops, pov)$$

The research is also interested in degree of responsiveness of MMDAs‟ FOAT Performance Score to DDF thus; functional form of the general functional form above takes log-linear model (Gujarati, 2004). The log-linear model is given as:

$$lnpfs_{it} = \alpha_0 + \beta_1 lnigf_{it} + \beta_2 lnddf_{it} + \beta_3 lnddf_{it-1} + \beta_4 lntexp_{it} + \beta_5 lnpops_{it} + \beta_6 lnpov_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Table 3.1 Variable Description

Variables	Description
pfs	MMDAs‟ performance score
igf	internally generated fund
ddf	District Development Facility
$texp$	total expenditure
$pops$	population size
pov	poverty level
teg	total external grants
pe	expenditure on personnel emolument
gs	expenditure on goods and services
cap	capital expenditure
$popd$	population density
$litr$	population proportion that are literate
urb	share of population that are in the urban areas
α_0 and βs	represents intercept and slope coefficients respectively
ε_{it}	represents composite error term

Note: All variables were transformed and used in natural logarithms

Source: Author‟s compilation

3.3 Estimation Issues

Panel data analysis was used in our estimation because we studied different entities (i.e. local government districts) across different time period. Panel data analysis allows us to control for unobserved variables like cultural factors or difference in business practices across companies; or variables that change over time but not across (Torres-Reyna, 2007). That is, panel data analysis accounts for heterogeneity that exists among individual entities. Both fixed and random effect models were used under the panel analysis. The Fixed Effect model explains that, an individual entity has its own individual characteristics that may or may not influence the independent variables and the fixed effect is used in controlling for all timeinvariant differences between the individual entities which makes the model unbiased. The Random Effect model on the other hand assumes that, variation across individual entities is random and uncorrelated with the independent variables included in the model. Thus, the dependent variable is believed to be influenced by the individual characteristics across entities.

The Hausman test was used in choosing between the fixed or random effects. Diagnostic tests included Breusch-Pagan Lagrange multiplier (BPLM) and test for hetroskedasticity. The Breusch-Pagan Lagrange multiplier (BPLM) test helped us in deciding between a random effects regression model and a simple OLS regression model whereas heteroskedasticity test was also run on the fixed effect model in detecting constant variance or homoscedasticity.

3.4 Definition of Variables

This section defines the data employed in the analysis.

Performance Score (pfs)

Performance score represents the score (between 0% and 100%) a district attains after the DDF secretariat has contracted independent consultancy firms to conduct FOAT assessment. FOAT assessments are done at the end of every financial year: thus, for instance, 2010 financial year‟s assessment was done in 2011 and 2011financial year‟s assessment was also done in 2012, and so on. Local governments performance is assessed annually using a set of clearly defined indicators mostly divided into two categories as an assessment manual (UNCDF, 2010). The categories are Minimum Conditions and Performance Measures.

District Development Facility (DDF)

DDF represents the actual amount of grant a district gets after the FOAT assessment. The grant is disaggregated into Capacity Building Grant for human resource development and institutional strengthening and Investment Grant for development or capital investments.

Internally Generated Fund (IGF) or Local/Own Revenue Generation

MLGRDE (March, 2008) defines Internally Generated Funds as all revenue collected by and on behalf of MMDAs and it is the only revenues MMDAs have control over (in terms of collection and usage). The authority to generate revenues by MMDAs have its legal backing from Article 245(b) of the 1992 Constitution and sections 34, 50, 60, 74, 76, 85, 86, 94, 95 and 99 of the Local Government Act, 1993(Act 462). MMDAs‟ IGF is disaggregated into Rates, Land & Royalties, Fees & Fines, Licenses, Rent, Investment, and Miscellaneous.

Total Expenditure (texp)

Total expenditure refers all expenditures incurred by a district. MMDAs‟ total expenditure is disaggregated into personnel emolument, goods and service (which includes: travelling and

transport; general expenses and miscellaneous) and capital expenditure (which also includes: repairs and renewals; assemblies‟ own capital expenditure and DACF & other capital expenditure).

Personnel Emolument (pe)

Personnel Emolument also known as Compensation of Employees refers to payments (or salaries) made to employees on the central government‟s payroll. Personnel emolument is part of MMDAs‟ expenditure.

Goods and Services (gs)

These are expenditures made for day to day running of an MMDA and are made from different fund sources but more importantly they are made from the IGF of MMDAs since it‟s the only fund source they exercise discretion when it comes to its spending.

Capital Expenditure (cap)

This form of expenditure is also known as Assets or Investment. It is a form of expenditure made by MMDAs in acquiring fixed assets such as school buildings, market stalls, chps compound, etc. and are tied to funds sources such as DDF, UDG, etc.

Total External Grant (teg)

Total external grant refers to funds or grants that are transferred to MMDAs from the Central Government. Total External grant are also disaggregated into DACF, DDF, UDG, HIPC, Compensation of employees, goods and service transfers to decentralized departments, etc.

Population Size (pops)

Population refers to the total number of persons living a certain geographical area at a particular time irrespective of their nationality.

Population density (popd)

Population density refers to the total number of people living per unit of an Area. It is calculated by dividing the total population size of an area by the size of the land area (in sq km or sq miles). It tells how crowded an area is.

Literacy (lit)

2010 Population and Housing Census define Literacy as "the ability of a person to read and write a simple statement with understanding in a Ghanaian language, English or French."

Share of Population living in the Urban Areas (urb)

This refers to the share of the total population size that is in the urban areas and those that are in the rural areas.

Poverty Level (pov)

The poverty headcount is the proportion of population living below the national poverty line.

4 CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the output of data analysis to estimate the effect of District Development Facility (DDF) on MMDAs Internally Generated Fund (IGF) and to also examine the effect of District Development Facility (DDF) on Metropolitan, Municipal and

Districts Assemblies‟ performance in terms of FOAT (Functional Organisational Assessment Tool). The presentations were in the form of tables and charts. The presentation in chart form shows the composition and trend in IGF, DDF and external grants from the central government. Nominal values and per capita values were both considered in the analyses. Regression models used in the analysis were also explained.

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4.2 Breakdown of Revenue Source and Composition of IGF

MMDAs have two main sources of revenue, namely: IGF (generated locally) and external grant (from the central government). The components of IGF includes: rates, lands and royalties, fees and fines, licenses, rents, investment income and other miscellaneous. On the other hand, the components of external grants include: compensation of employees or personnel emolument, district assemblies‟ common fund (District Assemblies‟ Common Fund is subdivided into the assemblies‟ share, MP‟s share and that of persons living with disability (PWD), HIPC Fund, HIV/AIDS grant, Youth Employment Programme, Ghana School Feeding Programme, District Development facility (DDF) and Urban Development Grant (UDG). Table 4.1 below shows the components of IGF and sample revenue items found under them across MMDAs in Ashanti region.

Table 4.1 COMPONENTS OF MMDAs IGF AND SAMPLE REVENUE ITEMS

COMPONENTS OF IGF	SAMPLE REVENUE ITEMS
Rates	Basic rate, Property rate, etc.
Lands and Royalties	Building permit, Stool land royalties, Mineral royalties, etc.
Fees and Fines	Court fines, Market tolls, Lorry park tolls, Artisans/ self-employed, etc.
License	Financial institutions, Chop bar/ Restaurants, Hotels/Hostels/Guest houses, Advertising Billboards, etc.
Rent	Community centers/Grounds/Parks, Store rent, etc.
Investment	Interest on DACF, etc.

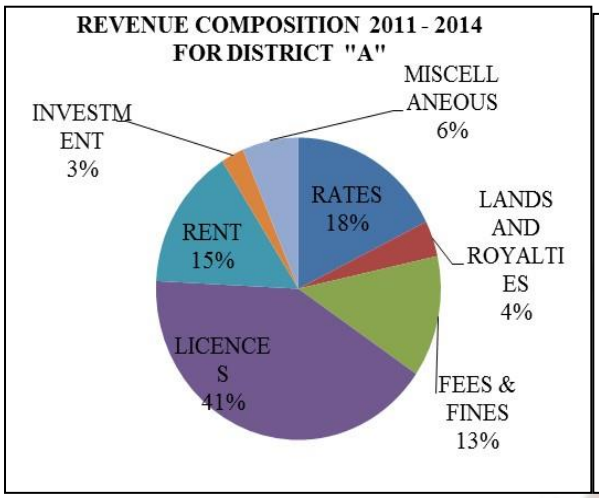
Miscellaneous	Unspecified Receipts

Source: Author‟s construct, 2016

4.3 Graphical Representation and Analysis of the Composition of IGF for Districts in the Ashanti region between the period 2011 – 2014

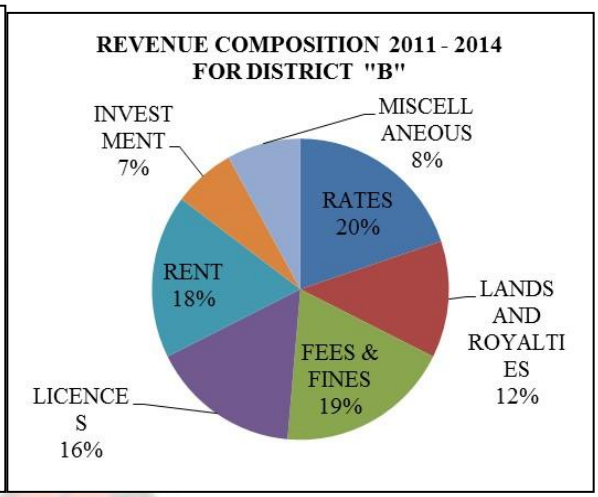
Districts in Ashanti region were grouped (based on districts that share boundaries, similar characteristics and that hitherto was one district, for instance, Asokore Mampong Municipal was curved out of KMA) and figures 4.1 to 4.5 shows the composition of IGF in these districts, whiles fig. 4.6 shows the summary composition of IGF for the whole region i.e. the regional view. The districts are grouped as follows: District „A‟ includes Kumasi Metro and Asokore Mampong Municipal; District „B‟ includes Ahafo Ano North, Ahafo Ano South, Ejura Sekyedumase, Mampong Municipal, Offinso Municipal, Offinso North, Sekyere Kwumawu, Sekyere Afram Plains, Sekyere Central, Sekyere East and Sekyere South; District „C‟ also includes Adansi North, Adansi South, Amansie Central, Amansie West and Obuasi Municipal; District „D‟ also includes Afigya-Kwabre, Asante Akim North, Asante Akim South, Asante Akim Municipal, Ejisu-Juaben Municipal and Kwabre East; and finally District „E‟ includes Atwima Nwabiagya, Atwima Mponua, Atwima Kwanwoma, Bekwai Municipal, Bosome Freho and Bosomtwe.

Fig. 4.1: Revenue Composition for District A



Source: Author"s construct, 2016

Fig. 4.2: Revenue Composition for District B



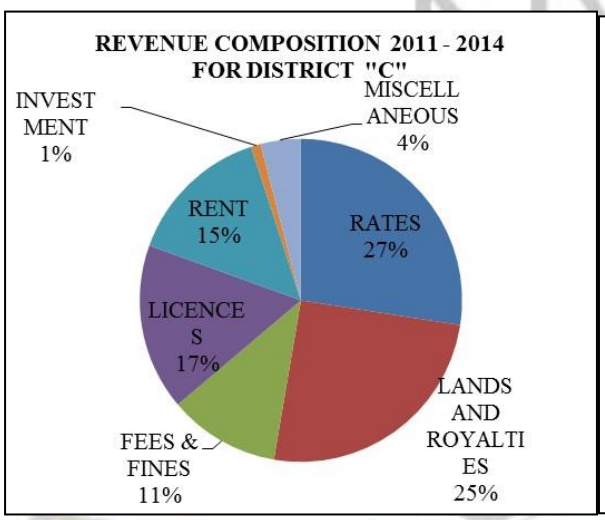
Source: Author"s construct, 2016

In figure 4.1, License from businesses contributed about 41% followed by Rates and Rents which also contributed 18% and 15% respectively in the period under review. It is intriguing to know why these components of IGF are very high in terms of its contribution to IGF. The 2010 PHC revealed that Kumasi Metropolis which gave birth to Asokore Mampong Municipal had no rural settlement, in other words 100% of their settlements are urban. Because of the urban nature of these districts coupled with Kumasi being the regional capital, more business are found there giving the Assembly the power to collect more business licenses in the form of business operating permits. Rates in the form of property tax were the second highest contributor because of the number of properties sprouting up in the capital. Investment income contributed 3% to IGF and it was the least.

Figure 4.2 showed that, Rates, Fees and Fines, and Rent are the major contributors to IGF in these districts in the year under review contributing 20%, 19% and 18% respectively. License is not part of the major contributors of IGF because these districts aggregated together had an average urbanisation rate of about 34.52%. Thus more than 60% of these districts are rural. In

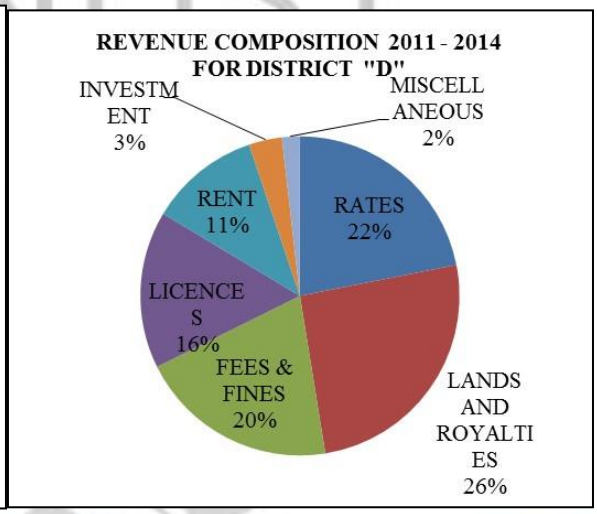
view of this, rates are the most reliable and the reason for its contribution. Investment income was the least contributing 7% but was the highest comparing it with the other aggregated districts.

Fig. 4.3: Revenue Composition for District C



Source: Author"s construct, 2016

Fig. 4.4: Revenue Composition for District D



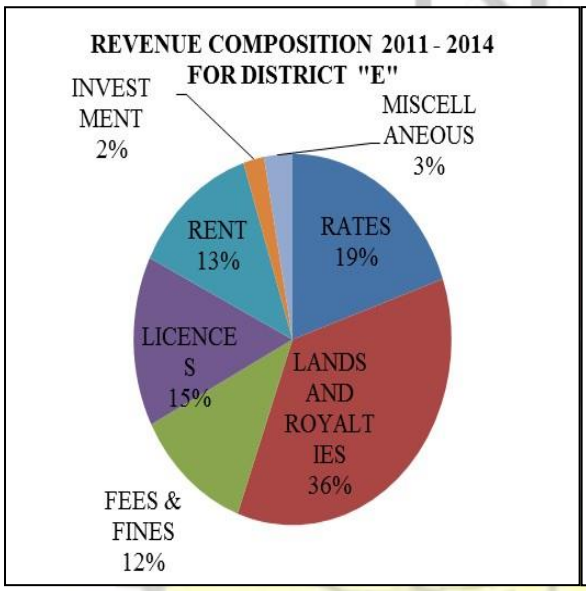
Source: Author"s construct, 2016

District "C" from figure 4.3 had Rates, Lands and Royalties, And Licenses being the major contributors to IGF in the year under review contributing 27%, 25% and 17% respectively. The 27% contribution of Rates confirms its reliability to almost all districts in the region. These districts have majority of their lands being used for mining therefore receiving so much in terms of mineral royalties. Investment had the least contribution of 1% to IGF and it is also the least comparing it with the other aggregated districts.

District "D" from figure 4.4 on the other hand had Lands and Royalties, Rates, Fees and Fines being the major revenue sources in the composition of IGF in the period under review with a contribution of 26%, 22% and 22% respectively. Out of the six districts making up district "D", three of them contribute a total of about 77.04% namely: Ejisu-Jabeng Municipal, Kwabre East and Afigya Kwabre. These districts share boundary with the KMA and due to the crowding

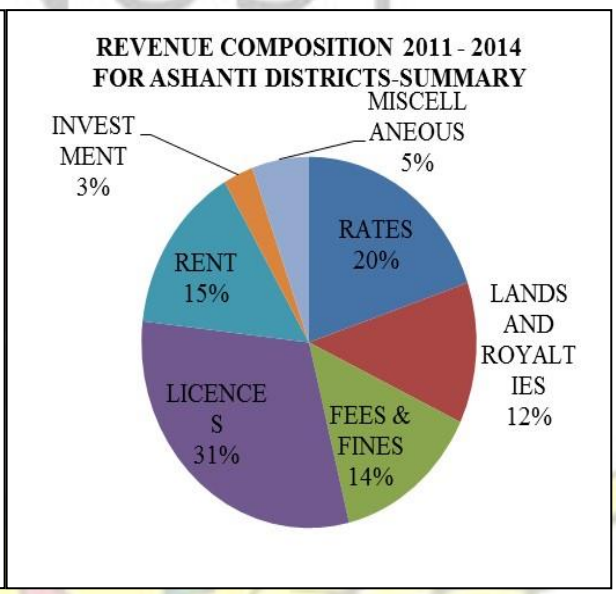
nature of KMA, attention in the form of owning residential properties are now moving to the nearby districts which gives them the power to take more revenue in terms of giving building permits and property taxes.

Fig. 4.5: Revenue Composition for District E



Source: Author"s construct, 2016

Fig. 4.6: Summary Composition for Ashanti



Source: Author"s construct, 2016

Figure 4.5, shows the revenue composition of district "E". Lands and Royalties, Rates and Licenses were also the major contributions to IGF in these districts. The contributions were 36%, 19% and 15% respectively. Majority of these districts have mineral deposits and large vast of land, thereby making them have access to more revenue in the form of royalties from stool land and minerals. Revenue from investment income was the lowest in terms of its contribution to the composition these districts IGF which is not different from the others discussed so far.

Figure 4.6 shows the summary of the composition of the regional"s IGF and the magnitude of their contributions. In other words, it is the regional view. It is interesting to know that district

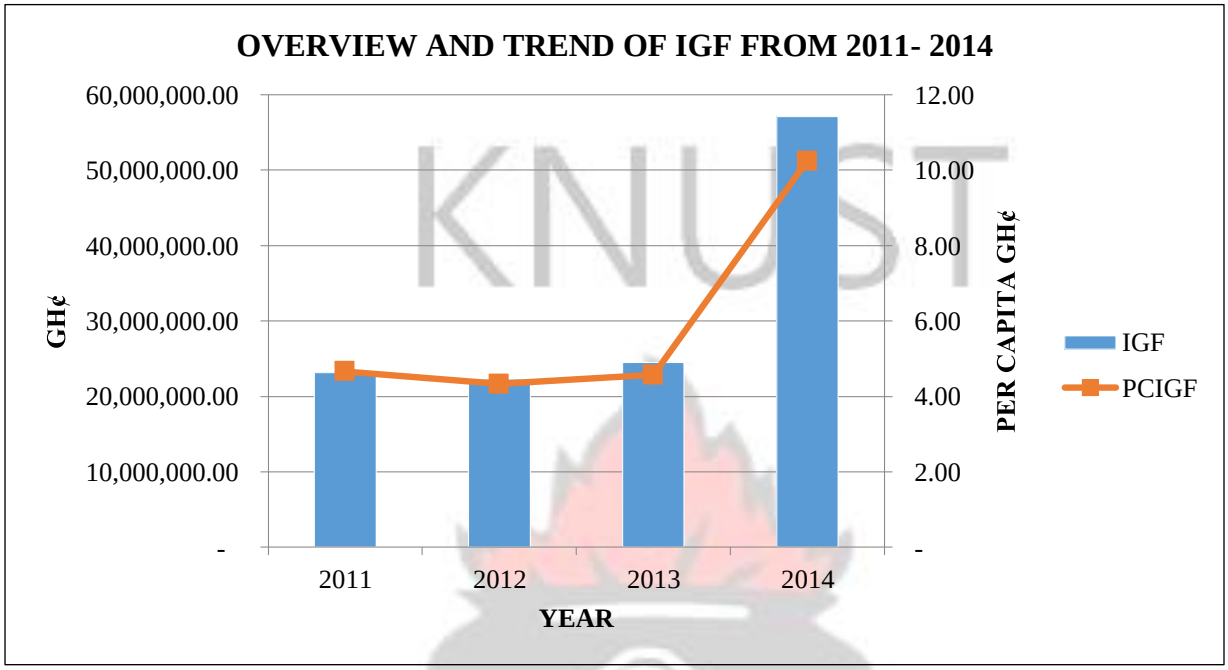
"A" alone contributes to about 57.98% to the regional IGF, followed by district "C" with a contribution of about 13.01%. Districts "B", "D" and "E" in that order contribute 10.96%, 10.47% and 7.56% respectively to IGF. In the year under study, the chart depicts that in the Ashanti region the major contribution among the six components of IGF are as follows: Licences, Rates, Rents, Fees and Fines, and Lands and Royalties with contributions of 31%, 20%, 15%, 14% and 12% respectively. Districts in District "A" alone contribute to about 78.03% of the total revenue generated from Licenses. Also Districts in District "A" alone contribute to about 51.84%% of the total revenue generated from Rates i.e. property tax. Districts in districts "C" on the other hand contributes to about 26.76% of total revenue generated from Lands and Royalties. Investment income still remains the least contribution of about 3%.

In conclusion, even though every individual district has a source that dominates its IGF collection, aggregation to the regional level show that Licenses from businesses and Rates from property tax play the dominant role whereas Investments in financial capital play minor role in revenue generation in the period under study.

4.4 Overview and Trend in IGF

Figure 4.7 shows the overview and trend in IGF in absolute terms and in per capita terms respectively in the year under study. In the year 2011, local governments collected a little above GH¢23,000,000.00 of their own revenue in absolute terms but in per capita terms, IGF amounted to GH¢4.66 per person in the region. Local government"s IGF grew by -3.55% between 2011 and 2012, 9.80% between 2012 and 2013 and 133% between 2013 and 2014. The year 2014 had the highest IGF generation both in absolute and per capita terms with GH¢57,075,724.47 and GH¢10.25 per person respectively.

Figure 4.7: IGF Overview and Trend



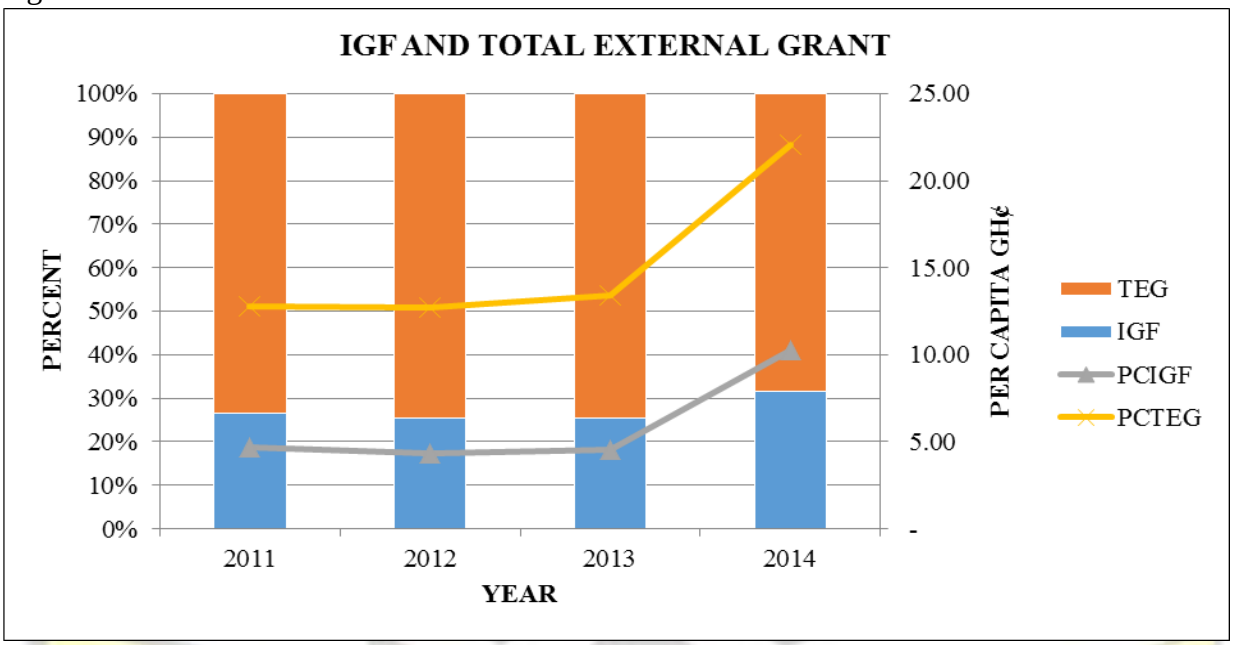
Source: Author"s construct, 2016

4.5 IGF and Total External Grant (teg)

Figure 4.8 shows the share of both IGF and external grant to total revenue and the trend in both IGF and external grant in aggregated form. In the period under study, IGF of districts in the region contributed an average of 27.30% whiles external grant on the other hand contributed an average of 72.70% to the regions total revenue (which is measured along the left axis). IGF in 2012 saw the worst decline amongst the years under review, contributing about 25.35% whiles 2014 saw the highest contribution of about 31.70% of total revenue. Per capita IGF was relatively low and flat until 2014 and per capita total external grant on the other hand was relatively high and stable until 2014. Both per capita total external grant and per capita IGF saw a stable growth between 2011 and 2013, and had sharp positive growth after 2013. The relatively low growth in IGF for districts in Ashanti aggregated to the regional view as depicted in figure 4.8 somewhat suggests that, external grants to local governments are used to increase

districts revenue budget other than creating more incentive for districts to generate more revenue internally.

Figure 4.8 IGF AND TOTAL EXTERNAL GRANT

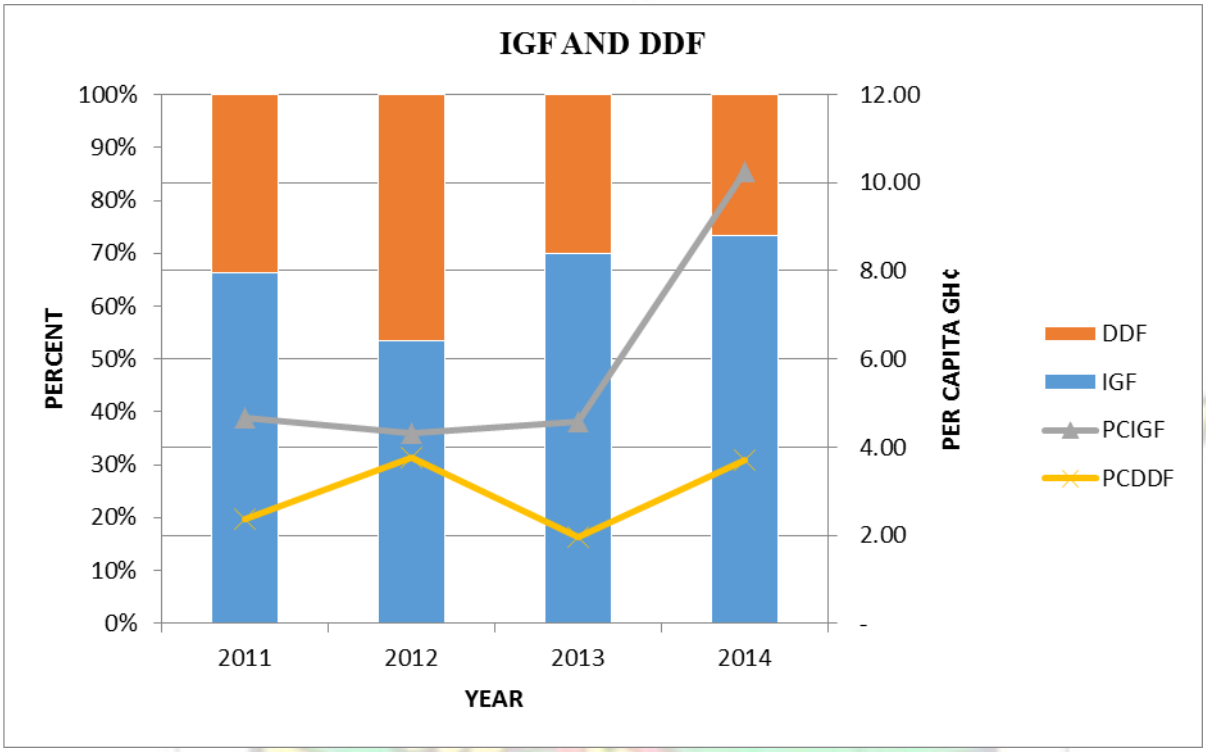


Source: Author"s construct, 2016

4.6 IGF and District Development Facility (DDF)

Figure 4.9 below shows graphically the share and trend of both IGF and DDF as different sources of revenue in aggregated form or regional view. In the period under study, IGF of districts in the region contributed an average of 65.79% whiles DDF on the other hand contributed an average of 34.21% (which is measured along the left axis). IGF in 2012 saw the worst amongst the years under review with a share of about 53.51% whiles 2014 saw the highest share of about 73.44%. A further glance at the trend (which is measured along the right axis) depicts the business cycle nature of the two sources of revenue and direction i.e. opposite. Per capita IGF was relatively high whereas per capita DDF on the other hand was relatively low but both exhibited the nature of business cycle. Whereas per capita DDF saw a high positive growth between 2011 and 2012, per capita IGF on the other hand saw a relatively

stable negative growth. Contrary to the former, per capita DDF saw a relatively sharp negative growth between 2012 and 2013 whereas per capita IGF on the other hand saw a stable positive growth. The relatively low growth in IGF for districts in Ashanti aggregated to the regional view as depicted in figure 4.9 somewhat further suggests that DDF a form of external grants to local governments are used to increase districts revenue budget other than creating more incentives for districts to generate more revenue locally. Figure 4.9 IGF and DDF



Source: Author"s construct, 2016

4.7 Estimation Results and Discussions

Available data permits to assess empirically whether District Development Facility (DDF) incentivised or disincentivised local revenue generation (i.e. IGF) and to further assess whether District Development Facility (DDF) grants received by MMDAs has any influence on their performance score during FOAT assessment.

4.7.1 IGF AND DDF

The main objective of the study was to test empirically whether DDF grants to MMDAs discourages or encourages MMDAs in their own revenue generation. By estimating the model in equation 1, the test results are reported and summarized in Table 4.2 below. The first column estimates the relationship using Ordinary Least Squares (OLS) whereas the second and the third column also does same using district unobserved effects in a Fixed Effect model (FEM) and Random Effect model (REM) respectively.

The joint significance of the model is confirmed by the probability values of the Wald chisquare test and F-test statistics for the fixed and random effects models. The within, between and overall R^2 values for both fixed and random effects models as well as the R^2 for the pooled OLS also suggests the model has fits that can be trusted. Again, the Hausman chisquare specification tests presented in Table 4.3 show that results from the Random effect is better. The BPLM test for Random Effects also confirmed that, relative to the OLS analysis, there were panel effects and hence the Random Effect specification should be used.

The relationship between DDF and MMDAs‟ own revenue generation (i.e. IGF) was estimated to be negative and statistically significant at 1% level for both OLS and REM, but statistically significant at 5% level for FEM. This indicates that, DDF in the previous year impacts on MMDAs‟ own revenue generation negatively, thus a rise in the previous year‟s DDF grants to MMDAs are likely to reduce MMDAs‟ current year own revenue generation with estimated elasticities of approximately -0.105 for OLS, -0.092 for FEM and -0.099 for REM. Thus, the estimated elasticities suggest that a 10% increase in DDF transfers to local governments one year back reduces current year‟s local government‟s own revenue generation by 1% for OLS, 0.9% for FEM and 1% for REM. It is worth noting as the negative relationship that exists between these two variables is consistent and statistically significant at 1% across all estimation

models. The results shows a strong evidence that DDF has a negative relationship with IGF, thus DDF transfers appear to discourage rather than encourage local revenue generation

Attention must be drawn to the fact that DDF is a performance based grant system and transfers are only made to local governments who pass during the FOAT assessment (i.e. assessment indicators are agreed upon and are predetermined). As part of the performance measures is Fiscal Capacity which among others require the absolute size of a districts‟ IGF to grow annually at 20%, 10% and 5% for Metropolitan, Municipal and Districts respectively (FOAT VII Indicators, 2014). This indicator discourages MMDAs to annually grow their IGF above certain limit but remain in the required level by the indicator (even if more IGF could be attained and with the fear of not being able to grow by what would be required in the following year). Thus, as required by the indicator, district assemblies will have to annually grow their local revenue generation by only 5% even if they have the capacity to increase it by more than the 5%. The above explains the negative relationship between the lagged DDF and local revenue generation.

Another variable to note is the relationship that exists between IGF and external grant (teg); even though not statistically significant across all estimation models, it showed the expected negative sign. The negative relationship had estimated elasticities of approximately -0.045 for OLS, -0.041 for FEM and -0.035 for REM. This suggests that, a 10% increase in teg is likely to reduce IGF by about 0.45% for OLS, 0.41% for FEM and 0.35% for REM. This negative relation suggests that, external grants discourage rather than encourage local governments‟ own revenue generation (Mogues, Benin and Cudjoe, 2009).

In contrast to the above variables are local governments‟ public expenditure in categories (i.e. personnel emolument (pe), goods and services (gs), and capital expenditure (cap)) are

positively related to local governments‟ own revenue generation across all estimation models (Mogues, Benin and Cudjoe, 2009). Thus, a greater local governments‟ public expenditure in the current year is significantly associated with greater local governments‟ own revenue in the current year. The result estimates that, a 10% increase in pe is likely to increases local revenue generation by 1% for all estimation models. Likewise, a 10% increase in gs is also likely to increases local revenue generation by almost 4% for OLS, 1% for FEM and 3% for REM. Finally, a 10% increase in cap is likely to increases local governments‟ own revenue by approximately 2% for both OLS and REM, 1% for FEM. This tells how districts‟ revenues are linked to certain expenditure types.

Other control variables that showed statistical significance in influencing the level of local governments‟ per capita local revenue generation include population density, level of urbanisation and population proportion that are literate. Urbanisation showed positive and statistically significant at 1% for both OLS and REM estimators but was negative and not significant for FEM. That is, local governments that are more urbanised have greater per capita local revenue generation thus, a 10% increase in the level of urbanisation leads to more than 1.5% increase in local revenue for both OLS and REM but about 0.6% fall for FEM. The positive sign is expected because business licenses form an important source of revenue to local governments and such of those businesses also do operate in the more urbanised districts which gives local authorities the opportunity for local revenue generation through the issuing of business operation permit or license (Mogues, Benin and Cudjoe, 2009).

The relationship between population density (popd) and DDF was also estimated to be positive and statistically significant at 1% level for only OLS and REM, but statistically not significant FEM. The result indicates that, a rise in the level of popd is likely to increase

MMDAs‟ per capita revenue generation with estimated elasticities of 0.214 for OLS, 0.213 for REM and 0.378 for FEM. Population proportion that are literate (litr) was estimated to be negative for both OLS and REM with elasticities of -0.922 and -0.800 respectively. It was on the other had estimated to be positive for FEM with elasticity of 1.948.

Table 4.2 Level IGF and DDF

	Pooled Ordinary Least Squares	Fixed Effects	Random Effects
	-0.1047267***	-.0915693**	-.099776***
	(-0.0377529)	(.0432314)	(.0363708)
	-0.0445055	-.0414994	-.035295
	(-0.0611363)	(.0756647)	(.0597314)
	0.1085398**	.1020854	.1040488*
	(-0.0516878)	(.0730265)	(.0537811)
	0.4380329***	.1458147	.3668456***
	(-0.0669051)	(.1110115)	(.0705638)
	0.2243208**	.1086395	.1886983*
	(-0.0995318)	(.1142278)	(.096494)
	0.2138935***	.3777386	.2027716***
	(-0.0444199)	(1.884165)	(.0542155)
	-0.9223412**	1.94751	-.80001*
	(0.3749906)	(1.972897)	(.4678107)
	0.1522514***	-.0604044	.1530927***
	(0.0449744)	(.5055392)	(.0564256)
constant	2.990669*	-9.301762	2.629685
	(1.534716)	(9.643727)	(1.870499)
Number of obs.	90	90	90
No. of Groups		30	30
Within R^2		0.3160	0.2780
Between R^2		0.2533	0.7178

Overall R^2	0.5850	0.2332	0.5811
Prob.	0.0000	0.0076	0.0000

Notes: All local public finances are in real per capita form and natural log. Standard errors are in parenthesis. Level of statistical significance are as follows: 1%***, 5%** and 10%*

Source: Author‟s computation

Table 4.3 Diagnostic tests for Level IGF regression

Test	Fixed Effects	Random Effects
Wald test (Chi2)	1.9e+05***	
BPLM test (Chibar2)		4.02**
Hausman (Chi2)	9.96	9.96

Note: Level of statistical significance are as follows: 1%***, 5%** and 10%*

Source: Author‟s computation

4.7.2 FOAT Performance Score and DDF

The study then takes a look at the second objective of the study by assessing whether DDF grants influences MMDAs‟ performance score which is verified in an annual assessment called the Functional Organisation Assessment Tool (FOAT). In the assessment, the performance of all assemblies is determined against predetermined agreed upon indicators. The model in equation 2 was estimated and the test results are reported in Table 4.4 as well as its diagnostic test in Table 4.5 below.

In Table 4.4, the first column estimates the relationship using Ordinary Least Squares whereas the second and the third column also does same using district unobserved effects in a Fixed Effect Model and Random Effect Model respectively.

The Hausman test was used in choosing between the fixed effect and random effect model. “The null hypothesis underlying the Huasman test is that the fixed effect model and the random effect model estimators do not differ substantially” (Gujarati, 2004). In this case, the test

statistics gave us the chance to reject the null hypothesis and conclude that the random effect model was not appropriate and are better off using the fixed effect model as shown in Table 4.5. To further test whether to use OLS or the REM, the Breusch-Pagan Lagrangian Multiplier (BPLM) test for random effect was applied. The null hypothesis in the BreuschPagan LM test states that variances across entities are zero. That is, no significant difference across units (i.e. no panel effect) (Torres-Reyna, 2007). The test statistic gives us the chance to reject the null hypothesis and conclude that random effect was appropriate and that there is a significant difference across units. Additional to the diagnostic tests was test for Heteroskedasticity, our test statistics rejects the null hypothesis and conclude the presence of Heteroskedasticity as presented in Table 4.5.

The results from Table 4.4 showed a negative relationship between DDF and MMDAs‟ performance score. The negative relationship that exists between these two variables are evident in both the level and lagged independent variables and across all estimation models but at different statistical level.

The relationship between DDF and MMDAs‟ performance score (pfs) was estimated to be negative and statistically significant at 5% level for only FEM, but showed a negative relationship even though not statistically significant in both OLS and REM. The result indicates that, a rise in the level of DDF grants to MMDAs are likely to reduce MMDAs‟ performance score (pfs) with estimated elasticities of approximately -0.013 for FEM, -0.004 for OLS and -0.005 for REM. The estimated elasticity for this relationship suggests that MMDAs‟ performance score (pfs) will be reduced by approximately 0.13% for FEM, 0.04% for OLS and 0.05% for REM when DDF increases by 10%.

The one period lag of DDF included in the regression also was estimated to be negative and statistically significant at 1% for OLS and 10% for both FEM and REM. This also indicates that, DDF in the previous year impacts on MMDAs‟ current year performance score (pfs) negatively, thus a rise in the previous year‟s DDF grants to MMDAs are likely to reduce MMDAs‟ current performance score (pfs) with estimated elasticities of approximately -0.025 for OLS, -0.006 for FEM and -0.005 for REM. The estimated elasticities suggest that a 10% increase in DDF one year back reduces current year‟s performance score (pfs) by 0.25% for OLS, 0.06% for FEM and 0.05% for REM.

The results further estimates that, IGF was positively related to MMDAs‟ performance score (pfs), even though the relationship was not statistically significant in any of the estimation models. The positive sign was anticipated because, absolute size of an MMDA is considered as one of the PMs, meaning the more an MMDAs‟ IGF, the more score it gets under that indicator and eventually the more performance score to be attend. Also, total expenditure (texp) was estimated to be positively related to MMDAs‟ performance score (pfs), even though the relationship was not statistically significant in both REM and FEM, it was significant (at 5% level) in the OLS estimation model. The positive sign was also anticipated because the FOAT assessment awards MMDAs that expends more on both maintenance and capital expenditure. Both population size and poverty on the other hand did not show statistical significance in any of the estimation models even though their expected signs (positve) were observed.

Table 4.4 PERFORMANCE SCORE AND DDF

	Pooled Ordinary Least Squares	Fixed Effects	Random Effects

	0.0063903	.0260471	.0131105
	(.0230145)	(.0240287)	(.0195163)
	-.0039819	-.0128834*	-.0051634
	(.0088658)	(.0064712)	(.0059672)
	-.0245653***	-.0061969*	-.0051575*
	(.008221)	(.0068031)	(.0059759)
	.0269668**	.0054448	.0114226
	(.0120261)	(.0090274)	(.0083015)
	.0318458	.0016057	.0308638
	(.020626)	(.3268827)	(.0263946)
	.0155565		.0127601
	(.0159338)		(.0225452)
	4.034357***	4.322729	4.00421***
	(.2887203)	(3.799104)	(.35792)
Number of obs.	59	59	59
No. of Groups		30	30
Within R^2		0.1847	0.0721
Between R^2		0.1478	0.1344
Overall R^2	0.2502	0.1221	0.1201
Prob.	0.0165	0.0760	0.0521

Notes: All local public finances are in real per capita form and natural log. Standard errors are in parenthesis. Level of statistical significance are as follows: 1%***, 5%** and 10%*

Source: Author‟s computation

Table 4.5 Diagnostic tests for MMDAs‟ Performance Score (pfs) regression

Test	Fixed Effects	Random Effects
Wald test (Chi2)	2.5e+28***	
BPLM test (Chibar2)		12.64***
Hausman (Chi2)	22.75***	22.75***

Note: Level of statistical significance are as follows: 1%*** and 5%** **Source**: Author‟s computation

CHAPTER FIVE

KEY FINDINGS, RECOMMENDATIONS AND GENERARL CONCLUSION

5.1 Introduction

This chapter mainly focused on key findings of the research, recommendations and conclusion.

5.2 Summary of Key Findings

The research assessed whether District Development Facility (DDF) has any influence on MMDAs‟ local revenue generation between the period 2011 and 2014. Some of the key findings of the study are summarised as follows:

That, MMDAs in Ashanti region of Ghana have access to two main sources of revenue namely: internally generated fund or local governments‟ own revenue generation and external transfers or grants. Between these two sources, MMDAs have control over its own or internally generated fund in terms of its generation (i.e. from rate imposition thus through its fee fixing resolution to its collection) and its spending. The later on the other had is released as and when they are due, e.g.: DACF is released quarterly; DDF and UDG are both released in tranches, etc.

Also the composition of MMDAs IGF are as follows: rates with basic and property rate as examples; lands and royalties with building permit and mineral royalties as examples; fees and fines with market daily tolls and lorry park tolls as examples; license with business operating permit to financial institutions, hotels, hostels, etc. as examples; rent with rents from stores as examples; investment income with interests on DACF as examples; and finally miscellaneous for unspecified receipts. The most reliable source amongst them is rates since they are taxes levied on immovable properties predominantly buildings.

Most importantly, there was enough evidence to suggest that DDF had a negative relationship with IGF. Thus, an increase in DDF grants to MMDAs reduces local revenue generation. This negative relationship implies that, because of the risk of not attaining a higher or equivalent growth rate in the next assessment MMDAs grow their own revenue within the required growth rate (as prescribe by the FOAT indicators) even if MMDAs have the capacity to exceed. Meaning DDF transfers/grants to MMDAs appeared to discourage rather than encourage local revenue generation or IGF.

Also, a negative relationship between IGF and external grant was established even though not statistically significant. This suggests that, external grants discourage rather than encourage local governments‟ own revenue generation.

Finally, local governments that have a greater proportion of its population in the urban settlement turned to have greater per capita local revenue generation. Similarly, local governments with high population density turns to also generate more revenue locally where as local governments with smaller population density turns to also generate less revenue locally. As both variables (*popd* and *urb*) were estimated to have positive signs.

On the issue of whether DDF influences MMDAs performance during the annual FOAT assessment, the study found that, DDF was not only negatively related to MMDAs‟ performance score but was statistically significant. This implies that, DDF transfers to

MMDAs are likely to reduce MMDAs‟ performance score.

Furthermore, MMDAs who have high population size as well as high proportion of its population below the poverty line are likely to have high performance score. Even though not statistically significant, their expected signs were established.

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5.2.1 Recommendations

The following recommendations are made for policy implementation for DDF to positively influence MMDAs‟ local revenue generation:

The research found out that, rates in the form of property tax was the most reliable source of local governments own revenue generation across all MMDAs even though licenses had the largest share as a result of the level of urbanization of MMDAs around the regional capital, it is therefore recommended that, the DDF Secretariat should use the Capacity Building grant component of the facility to contract the Lands Valuation Division (according to section 22 of the Lands Commission Act 767, it has the sole mandate of determining the values of properties amongst other functions) of Ghana to revalue all landed and immovable properties of all MMDAs in Ghana to aid in the collection of property tax.

The research further found that, absolute growth in IGF, percentage of actual against projected IGF among others were some of the indicators under Performance Measures of the FOAT assessment in improving MMDAs‟ IGF collection. Attention should be drawn to the fact that DDF is a performance based grant system and performance based grant system is divided into two parts namely: Minimum Condition (MC) and Performance Measure (PM).

Indicator under MC either fails or passes an MMDA whereas an indicator under PM allocates marks/score from 0 to 100. An MMDA who passes all indicators under PM and fails a single

indicator under MC fails the overall assessment. Therefore it is recommended that, indicators relating to performance in IGF collection (especially year on year growth in IGF) should be kept under both MC and PM. The PM should indicate additional score/mark for MMDAs who are able to exceed the quota.

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Lastly, more marks/score should be allocated to MMDAs who perform well in the collection of property tax/rate as well as MMDAs who have up to date data available and an action plan in improving its revenue generation.

5.3 General Conclusion

Even though some have argued that decentralization is like a mirage and appears in name, but always isolated in terms of participation and direct control by the people, decentralization is also motivated to be the better way of allocating resources more effectively and efficiently because local governments have better information about the needs for and requirements of public goods in their jurisdictions. The later argument is on the assumption that local governments have a high degree of autonomy and use their discretion when it comes to resource allocation. The level of autonomy and discretion in resource allocation only rest on the local governments‟ ability to generate its own local revenue (IGF) even though the budgets of local governments are dominated by external transfers/grants from the central government that are mostly tied to a specific expenditure item that may not match the priorities of the local government.

In 2008, the Government of Ghana introduced a Performance Based Grant System (PBGS) called District Development Facility (DDF) under the Functional Organizational Assessment Tool (FOAT). The fund amongst other objectives was to provide additional “development funds” to MMDAs after an assessment has been conducted.

Using local governments‟ public finances (both revenue and expenditure form different sources) from the period 2011 to 2014 panel data of 30 MMDAs in the Ashanti region of Ghana and other local governments‟ specific characteristics, this research work estimated the effect of District Development Facility on local governments‟ own revenue generation (also called IGF)and further examined the effect of District Development Facility on MMDAs‟ performance in terms of FOAT assessment.

The research found that, DDF was significantly and negatively associated with local governments‟ own revenue generation /IGF thus, an increase in DDF grants to MMDAs reduces local revenue generation. This negative relationship implies that, because of the risk of not attaining a higher or equivalent growth rate in the next assessment MMDAs grow their own revenue within the required growth rate (as prescribe by the FOAT indicators) even if MMDAs have the capacity to exceed. Meaning DDF transfers/grants to MMDAs appeared to discourage rather than encourage local revenue generation or IGF. Results from the second objective of the analysis showed that, DDF was significantly and negatively related to MMDAs‟ performance score, this implied that, DDF transfers to MMDAs are likely to reduce MMDAs‟ performance score.

It is therefore recommended that, the capacity building (CB) component of the DDF grant should be used to revalue all properties to help MMDAs generate more revenue from property tax since it is one of the most reliable sources of local revenue generation. Also, FOAT indicators relating to performance in IGF collection (especially year on year growth in IGF) should be kept at both MC and PM, and lastly, MMDAs who perform well in the collection of property tax/rate should be awarded with extra mark/score as well as MMDAs who have available up to date data and an action plan in improving its revenue generation

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APPENDIX

Annex 1: Outline of Minimum Conditions and Performance Measures

FOAT Minimum Conditions

Minimum Condition	Indicators of Minimum Condition	Information Source and Assessment Procedure
1. Functional Capacity in Development Planning and Budgeting	1.1 Composition of a DPCU based on the Guidelines for the Operationalisation of DPCUs & RPCUs, 2004	From the District Coordinating Director (DCD) obtain information on membership and signed minutes of the quarterly meetings as well as dated invitation letters to members of the DPCU. i. if a minimum of 85% of members attended; ii. If a minimum of one week noticed of the meeting was given; and iii. If each meeting and minutes duly recorded and signed by both the Secretary and the Chairman, the MC is fulfilled. *(Section 2.2 of Guideline for Operationalisation of DPCUs & RPCUs)*
	1.2 Work planning by departments of the District Assembly	From the DCD receive copy of 2013 annual action plans (AAPs) of all existing departments and review this in line with 2013 Composite AAP of the District Assembly. If all programmes and projects in 2013 AAP of the Assembly are from the costed AAPs of the existing departments of the Assembly, the MC is fulfilled. *(LG Act 462, & L.I 1961)*
	1.3 Composite budget has been prepared based on Composite AAP	From DCD receive a copy of the 2013 approved Composite Budget and Annual Action Plan (AAP) If all programmes and projects in the Composite Budget are from the 2013 AAP, the MC is fulfilled. *(Composite Budget Manual: Section 2.1)*

2. Functional Capacity in Financial Management and Accounting	2.1. Annual Statement of Accounts prepared and submitted according to the Financial Administration Act, 654, Financial Administration Regulation LI1802/ and Financial Memorandum	From the District Office of the Ghana Audit Service obtain information on whether the Annual Statement of Accounts for 2013 has been prepared and submitted by the 31st March 2014. If the annul statement of accounts for 2013 was prepared and submitted by the 31st March 2014 , the MC is fulfilled.

Minimum Condition	Indicators of Minimum Condition	Information Source and Assessment Procedure
		(Financial Administration Regulation and the Financial Administration Act)
	2.2 No adverse comments on financial indiscipline in audits conducted.	From the DCD receive a copy of the Auditor General's Annual Audit report for 2012 and the Management Letter for 2013. i. If the management letter (composite) for 2013 has no financial indiscipline reported on embezzlement and misappropriation; and ii. If the sum total of the following financial irregularities is less than 3% of the total expenditure of the Assembly for 2013 in the case of a Metropolitan Assembly, and 8% in the case of a Municipal/District Assembly, then the MC is fulfilled. *Percentage of financial irregularities is calculated as: (Total financial irregularities/total expenditure) * 100* The financial irregularities are: • Un-presented payment vouchers • Unsubstantiated/unsupported payment vouchers (including "imprest not retired") Items paid for but not supplied • Items procured but not routed through stores • Revenue collected but not accounted for *(FAA, FAR, FM)*

	2.3 Preparation and submission of monthly financial reports to CAGD	From DCD obtain and review copies of monthly financial reports (Trial Balance) prepared and submitted to CAGD. If all twelve monthly financial reports for 2013 were prepared and submitted to CAGD within 15 days after the month to which they relate, the MC is fulfilled. *(FAR LI 1802, section 189 ; Part VII, Section 75 of the Financial Memoranda, 2004 of the MLGRD)*
3 Functional Capacity in Procurement	3.1 District procurement plan available and prepared based on Public Procurement Act (PPA) 663 of 2003	From the DCD receive information on the preparation and approval of the 2013 Procurement Plan by 30th November 2012 and obtain quarterly updated plans on the procurement plan for 2013. If the annual procurement plan is linked to the Composite Budget and approved by the Entity Committee as evidenced by meeting minutes and follows the PPA guidelines; and *(Part III Section 21, Sub section 1, PPA 663, 2003 on the preparation of procurement plan)*
Minimum Condition	**Indicators of Minimum Condition**	**Information Source and Assessment Procedure**
4 Functional Capacity of Assembly	4.1 Assembly meeting according to minimum requirements	From the DCD receive a copy of invitation letters, list of participants and signed minutes of meetings of the General Assembly held in 2013. i. If a minimum of two weeks' notice was given to members; ii. If the assembly has held at least three ordinary meetings and minutes duly recorded andsigned by both PM and DCD in 2013; f iii. If one of the meetings was for approving 2014 Composite Budget before November 2013 and iv. If key decisions and actions taken based upon the previous meetings and the participant list are available, the MC is fulfilled. *(Section 18 of Local Government Act, Act 462)*

5 Plan Implementation Capacity	5.1 Progress Reports on the implementation of activities in the Annual Action Plan	From the RCD obtain information on whether the MMDA has submitted four quarterly and annual progress reports on the implementation of the 2013 Composite Annual Action Plan to the Regional Coordinating Council (RCC). i. If the quarterly reports for 2013 have been prepared and submitted by the 15th of April, 15th of July and 15th of October, 15th of January 2014 (ensuing year); and ii. If the annual report prepared and submitted before the 28 of February 2014, the MC is fulfilled. *(NDPC District M&E guideline 2009)*

MC No.	MC	No. of Indicators
1	**Functional Capacity in Development Planning and Budgeting**	3
2	**Functional Capacity in Financial Management and Accounting**	3
3	**Functional Capacity in Procurement**	1
4	**Functional Capacity of Assembly**	1
5	**Plan Implementation Capacity**	1
	TOTAL MCs	**9**

DDF PERFORMANCE MEASURES (PMs)

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
1. Management and Organisation **Total Score - 10**	1.1 Meetings of the political structure: a) Executive Committee/Authority (EC/A)	From the DCD receive and review the composition, attendance and minutes of the meetings: a) If at least a meeting of the EC/A was held prior to each of the three mandated General Assembly meetings in 2013 and minutes duly recorded and signed by both DCD and DCE respectively, score 2, else score 0 *(Section 19 of the Local Government Act, Act 462)*	2	
	b) Sub-committees of the Assembly ***Sub-total Score - 4***	b) If each of the 5 Statutory Sub-committees held at least one meeting prior to each of the three meetings of the EC/A in 2013 and minutes are recorded and signed by both the secretary and the chairperson of sub-committees, score 2, else score 0 *(Section 24 of the Local Government Act, Act 462)*	2	
	1.2 Accessibility of public places to the physically challenged ***Sub-total Score - 1***	From the DCD receive information on plans and efforts that have been put in place in 2012/13 (plans and progress reports) to enhance access for the physically challenged to offices, new construction or renovation of classroom blocks, sanitation facilities, water points, and markets etc. in 2013. If there is evidence of provision of access or efforts to provide access to the physically challenged for all projects, score 1 else score 0.	1	

	1.3 Regular management meetings ***Sub-total Score - 3***	From the DCD, receive copies of duly recorded and signed minutes of management (Departments of the District Assembly + DA core staff) meetings held in 2013. If management meetings were held at least quarterly and duly attended by at least 80% of heads of departments of the District Assembly, score 2, else score 0. If 2 of these quarterly meetings were held under the chairmanship of the Chief Executive score an additional 1, else score 0. *(Departments of the District Assembly as stated under schedule 1 of LI 1961 (2009)*	3	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
	1.4 Follow up to management meetings ***Sub-total Score - 2***	From the DCD, receive signed minutes of meetings and review it against implementation reports on decisions taken in 2013. If at least 85% or more of decisions have been implemented score 2, If 60-84% score 1, below 60% score 0.	2	
2. Transparency, Openness and Accountability **Total score – (11)**	2.1 Information to the Public ***Sub-total Score - 2***	From the DCD receive information on evidence of dissemination of the Assembly's activities to the public (e.g. public hearings, consultations, publications, available newsletters, letters on notice boards, receipts for radio discussions and announcements). If evidence of dissemination to public exist score 2, else score 0. *(Chapter 3, Step 10, NDPC M&E Guidelines)*	2	

	2.2 Publication of annual statement of accounts (LGA Section 125) ***Sub-total Score - 3***	From the DCD receive documentation of publication of the 2013 annual statement of accounts which should include the following: • Balance sheet; • Revenue and expenditure statement; and • Notes to the account If copies of 2013 statement of accounts have been given to DA members, score 1, and If published on the notice board score an additional 2. If not, score 0. *(Part 7 Section 77 of the Financial Memorandum)*	3	
	2.3 Availability of the External Auditor's Report ***Sub-total Score - 2***	From DCD receive a copy of the external auditor's report, review the report and establish actions taken on the issues raised in the report. If the latest audit report has been made available to the public (Assembly Members, notice board, website or in other ways) score 2, else score 0. (*Section 125 of the Local Government Act, Act 462)*	2	
	2.4 Publication of draft Annual Composite Budget ***Sub-total Score - 2***	From DCD receive documentation of publication of draft annual composite budget. If the 2013 draft Composite Budget was made available to DA members (despatch book) two weeks before Assembly meeting, score 2, if not score 0.	2	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
		(Part V, Section 40 of the Financial Memoranda, 2004 of the MLGRD, Composite Budget)		

	2.5 Submission of Monthly Financial Statement. ***Sub-total Score - 2***	From DCD receive documentation on submission of monthly financial statements. (I.e. trial balance, revenue & expenditure statement and balance sheet) If 12 monthly financial statements for 2013 have been submitted to the F&A Sub-committee within 15 days after the month to which they relate (despatch book / register), score 2, else score 0. *(Part VII, Section 75 of the Financial Memoranda, 2004 of the MLGRD)*	2	
3. Planning system **Total score – 18**	3.1 Participation: Involvement of key stakeholders in plan implementation and monitoring ***Sub-total Score - 2***	From DCD receive and review implementation reports on key stakeholders' participation in the implementation of 2013 AAP If minutes or records exist for participation by key stakeholders (beneficiaries, DA members and service providers in 80-100% of the 2013 AAP, score 2, else score 0. *(Chapter 5, NDPC M&E Guideline 2009)*	2	
	3.2 Level of plan implementation ***Sub-total Score - 2***	From DCD obtain information on the status of implementation of Projects& Programmesbased on theComposite Annual Action Plan for 2013. Calculation will be as follows: No. of projects & programmes in composite AAP of 2013 = X No. of projects & programmes implemented & being implemented in 2013= Y Total budget in Composite Annual planned budget for2013 = A GhC Total budget released in 2013 = B GhC Calculate the Ratio of 2013 Annual Implemented No. of Projects & Programmes /2013 Annual Planned No. of Projects & Programmes = Y/X % = M% Calculate the Ratio of Annual Released Budget / Annual Planned Composite Budget = B/A% = N% Calculate the Ratio of M / N= M/N% = R% If R% is 70% or more Score 2, If R% is 50% - 69% score 1, If R% is less than 50% score 0	2	

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PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
	3.3 Internal monitoring and evaluation of plan implementation ***Sub-total Score - 2***	From DCD receive minutes of quarterly M&E meetings (district administration and departments of the District Assembly). If review meetings have been held within the framework of the M&E system with 4 meetings held and reports duly submitted to NDPC within 15 days, score 2, If 3 meeting report submitted score 1, if less than 3 reports submitted score 0. *(NDPC M&E Guideline 2009)*	2	
	3.4 Work planning by departments of the District Assembly ***Sub-total Score - 2***	From the DCD receive copy of annual action plans (AAPs) of all departments of the District Assembly's and review these in line with the 2010-13 MTDP. If 90% or more of projects and programmes by all departments of the District Assembly' are integrated into the Assembly's AAP score 2, If 80-89% score 1, else score 0.	2	

	3.5 Vulnerability and social protection programmes ***Sub-total Score - 3***	From DCD receive the District Profile. If the district profile includes a vulnerability assessment/analysis score 1, else score 0 *(NDPC District Planning Guidelines Section 3.3 Step 2 (i) (i))*	1	
		From the DCD receive the district's Annual Action Plan. If there is social protection programme, addressing the issues identified in the vulnerability analysis score 1, else score 0 *(NDPC District Planning Guidelines Section 3.3 Step 10 (viii))*	1	
		From the DCD receive the Annual Progress Report: If 65% or more of the Social Protection/Vulnerability programmes are reported on with sex disaggregated data in the Annual Progress Report, score 1, else score 0	1	
	3.6 Climate change interventions ***Sub-total Score - 1***	From DCD receive information on climate change and disaster risk reduction (CC-DRR) programmes in the District. If 5% or more of the programme and l projects in the 2013 AAP focus specifically on CC-DRR issues score 1, if not score 0	1	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
	3.7 Local Economic Development (LED) ***Sub-total Score - 1***	From the DCD receive copy of the 2013 Composite AAP If at least 2 LED interventions in the AAP have been implemented score 1, else score 0	1	
	3.8 HIV/AIDS interventions ***Sub-total Score - 2***	From the DCD receive the District HIV/AIDS Profile. If there is a HIV/AIDS profile/analysis score 1, else score 0	1	

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		From the DCD receive the district's Annual Action Plan. If there are clear and specific HIV/AIDs mainstreaming interventions addressing HIV/AIDS, score 1, else score 0	1	
	3.9 Gender Mainstreaming ***Sub-total Score - 3***	From the DCD receive the District Profile. If there is a gender profile/analysis score 1, else score 0 *(NDPC District Planning Guidelines Section 3.3 Step 2 (i) (l))*	1	
		From the DCD receive the district's Annual Action Plan. If there are clear and specific gender mainstreaming interventions addressing the issues and gaps identified, score 1, else score 0 *(NDPC District Planning Guidelines section 3.3 step 10 (iv) and (v))*	1	
		From the DCD receive the Annual Progress Report. If 60% or more of the gender mainstreaming interventions are reported on with sex and age disaggregated data in the 2013 Annual Progress Report, score an additional 1; else score 0	1	
4. Human Resource Management **Total score (5)**	4.1 Composite Training Plan ***Sub-total Score - 2***	From the DCD receive a copy of the 2013 Composite Training plan based on needs assessment If Composite Training plan for 2013 is available, score 2, or else score 0.	2	
	4.2 Implementation of training plan	From the DCD receive a copy of the 2013 implementation of Capacity Building/ training Reports. If 60% or more of programmes in the training plan have been implemented, score 1.	1	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
	Sub-total Score - 3			

		If all quarterly reports on DDF capacity building activities (both generic and demand driven) have been submitted to LGSS within two weeks after the end of quarter, score 1. If all the reports included sex-disaggregated data, score an additional 1 point	2	
5 Relationship with substructures **Total score (3)**	5.1 Revenue sharing between Assembly and sub structures (transfer to sub-districts 50% of ceded revenues collected in sub-structures) ***Sub-total Score – 3***	From the DCD obtain information (payment voucher/receipts) on transfer or remittance of 50% of revenue collected to sub-structures on behalf of the District Assembly. If 50% of revenue collected by any of the sub-structures are remitted, score 2 Score additional 1 point, if 50% or more sub-structures are functioning (defined as collecting revenue), else score 0 *(Legislative Instrument 1967)*	3	
6 Financial Management and Auditing **Total score (20)**	6.1 Functionality of Budget Committee ***Sub-total Score - 2***	From the DCD receive information on the composition and functionality of the Budget Committee. If Budget Committee is functional and duly submits recorded and signed minutes of at least 4 quarterly meetings with 85% of members present, score 2or else score 0. *(Section 150 Financial Administration Regulations LI 1802*	2	
	6.2 Compliance with budgetary provisions. ***Sub-total Score - 6***	From the DCD obtain information on the annual expenditure returns of the Assembly. If total annual expenditure returns are kept within the total budget approved, and all expenditure returns relate to items in the approved budget, score 2 *(Financial Memoranda issued by MLGRD 2004 Part VI sec. 2)*	2	
		From the DCD obtain information on the use of warrant for budget releases in the 2013 composite budget If the total actual expenditure covered with warrant is equal to total annual	4	

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PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
		expenditure, score 4, or else score 0 *(2013 Budget Statement, MOF)*		
	6.3 Estimation of revenue from fees, rates and licences ***Sub-total Score - 3***	From the DCD obtain information on the basis for estimation of revenue from fees, rates and licences (data on target group e.g. property rates, chop bars, drinking bars etc.) If estimation was based on recent data provided (from 2010 and onwards) score 3, else score 0. *(Schedule 6 and Section 86 of the Local Government Act, Act 462)* *(Financial Memoranda issued by MLGRD 2004).*	3	
	6.4 Prompt responsiveness to external audit queries ***Sub-total Score - 3***	From DCD obtain evidence on queries from the management letter for 2012 on the external audit and whether the report was submitted to the Audit Report Implementation Committee (ARIC) within the specified period and actions taken on the queries. If the management letter was submitted to ARIC within 30 days of receipt of management letter, score 1 If actions have been taken on all recommendations in the management letter, score an additional 2 *(Section 121 of the Local Government Act, Act 462, 1993)* *(Part 3, section 29 of Audit Service Act , Act 584, 2000)*	3	
	6.5 Functionality of Internal Audit Unit ***Sub-total Score - 2***	From the DCD obtain quarterly internal audit reports submitted to the Presiding Member of the Assembly. If all quarterly reports have been submitted to the Presiding Member of the Assembly30 days after the end of the quarter, score 2, else score 0.	2	

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		IAA LI 1994, Regulation 43 (4)		
	6.6 Responsiveness to the internal audit observations ***Sub-total Score - 4***	From the DCD obtain evidence on ARIC's comments on the internal audit reports for 2013 and management's actions on the comments If management (DCE / DCD) has acted on the comments in the 4 quarterly internal audit reports score 3, else score 0.	4	
7 Fiscal Capacity;	7.1 Absolute Size of IGF	From the DCD obtain information on average annual growth in IGF between 2012 and 2013.	4	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
Total score (20)	***Sub-total Score - 4***	If growth is equal or higher than 20% for Metropolitan, 10% for Municipal and 5% District Assemblies, score 4, else score 0. ***(Show calculation)***		
	7.2 Efforts to improve Internally Generated Fund (IGF) ***Sub-total Score - 5***	From the DCD obtain a copy of the Revenue Improvement Action Plan. If the plan is available score 1. If 75% of the activities in the plan for 2013 have been implemented accordingly, score an additional 4.	5	

	7.3 Collection cost of Internally Generated Fund (IGF) ***Sub-total Score - 3***	From the DCD obtain information on the collection cost of IGF. If the collection cost of IGF is 30% or less of the total IGF score 3, else score 0. *Observe the following and sum up to arrive at the cost of revenue collection:* - *Salaries of revenue staff on central government payroll* - *Commission received by revenue collectors including private collection agents* - *Cost of value books used*	3	
	7.4 Share of Internally Generated Fund (IGF) used for Development Expenditure ***Sub-total Score - 3***	From the DCD obtain information from the trial balance on the use of the IGF for development (investment) and maintenance. . If more or at least 15% in the case of a Metropolitan Assembly, 10% in the case of a Municipal Assembly and 5% in the case of a District Assembly, of the IGF was spent on investment and maintenance in 2013, score 3 else score 0.	3	
	7.5 Operation and Maintenance (O&M) plan ***Sub-total Score - 3***	From the DCD obtain information on the availability of O&M plan and the percentage of the approved budget for operation and maintenance as against capital budget. If there is a plan for O&M and activities are captured and provisions made in the 2013 annual budget, score 2. If the percentage for O&M is 10% or higher as against the capital budget, score an additional 1.	3	
	7.6 Preparation of Asset Registers	From the DCD obtain a copy of the Asset Register.	2	

PMs	Indicators	Information source, Assessment basis and Scoring	Max Score	Scoring
	Sub-total Score - 2	If the Register is available score 1, If it has been updated in 2013, score an additional 1. *(Financial Memoranda 2004, Part XII Section 64)*		

8 Procurement; **Total score (7)**	8.1 Meetings of Procurement Entities ***Sub-total Score - 1***	From the DCD obtain information on minutes of meetings of the Tender Committee. If the Tender Committee met as required by law (at least once in every quarter) and have duly recorded and signed minutes, score 1, else score 0. *(Section 17-20 of Public Procurement Act, Act 663)*	1	
	8.2 Record on procurement proceedings ***Sub-total Score - 2***	From the DCD obtain information on the record of procurement proceedings If the procurement proceedings were followed according to the Act, score 2, else score 0. *(Section 28 of Public Procurement Act, Act 663).*	2	
	8.3 Contract Mobilisation ***Sub-total Score - 2***	From the DCD obtain information on all contract mobilisation paid in 2013. If mobilisation payments are within 15% of the contract sum (where legible) and appropriate and redeemable bonds have been secured score 2, else score 0 (*Part IX Section 69 and 70 of the Financial Memoranda)*	2	
	8.4 Contract Retention ***Sub-total Score - 2***	From the DCD obtain information on contracts completed in 2013. If the minimum of 10% retention was withheld on EACH and fully released after the defect liability period (normally not less the six months after completion and handing over) on all contracts score 2, else score 0. *(Part IX Section 72 of the Financial Memoranda)*	2	
9 Environmental Sanitation Management **Total Score (6)**	9.1 Development of Environmental Sanitation Sub-Sector Strategy and Action Plan (DESSAP) ***Sub-total Score = 3***	From the DCD obtain a copy of the DESSAP and Annual Action Plan If provision was made for DESSAP activities in the Assembly's 2013 Annual. Action Plan and approved Composite Budget for implementation, score 1; If 75% of the DESSAP activities in the Action Plan were implemented, score an additional 2.	3	
PMs	**Indicators**	**Information source, Assessment basis and Scoring**	**Max Score**	**Scoring**

		(National Environmental Sanitation Policy 1999)		
	9.2 Functioning and condition of DA Toilet facility ***Sub-total Score = 0 or -6***	In the DA block, inspect the condition of toilet facility: If the DA toilet is functioning, has a functioning hand washing facility; no anal cleaning material or faecal matter around the toilet or its premises; and disability friendly score 0 If the DA toilet is not functioning, has no functioning hand washing facility; has anal cleaning material or faecal matter around the toilet or its premises score Negative 4 or(-4) If the DA toilet facility is not disability friendly score additional Negative 2 or (2)	0 or -6	
	9.3 Public Health Education and Promotion ***Sub-total Score - 3***	From the DCD, obtain report on Quarterly Public Health Education and Promotion activities undertaken by the Assembly (Community Durbars, Inter School Quiz Competitions and Debates on Environmental Sanitation, Market Fora etc.) If any two of the activities are organised quarterly, score 3, else score 0	3	

PM No.	Thematic Area	No. of Indicators	Total Score	%
1	Management and Organisation	4	10	10%
2	Transparency, Openness and Accountability	5	11	11%
3	Planning System	9	18	18%
4	Human Resource	2	5	5%
5	Relationship with Sub-Structures	1	3	3%
6	Financial Management and Auditing	6	20	20%
7	Fiscal Capacity	6	20	20%
8	Procurement	4	7	7%
9	Environmental Sanitation Mgt.	3	6	6%
	TOTAL PMs	**40**	**100**	**100%**

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