

# FISCAL DECENTRALIZATION

## Position Paper: Addressing Ineffectiveness in Local Government Due to Inadequate Funding

### 1. Introduction

Fiscal decentralization, a critical component of Ghana's decentralization agenda, seeks to empower local government authorities with adequate resources and autonomy to deliver public services effectively. However, its success is heavily contingent on the availability and management of funds at the district level. Despite the constitutional and legislative frameworks in place, there remains a major bottleneck: the inability of most departments and units under the Local Government Service to perform their duties effectively due to inadequate funding. This has dire implications for service delivery, accountability, and the overall development of local communities.

### 2. Key Problem: Ineffectiveness of Local Government Units Due to Funding Constraints

A primary impediment to effective decentralization is the **ineffective functioning of departments and units at the district level**, stemming largely from the **current financial arrangement** in local governance. These issues are characterized by:

- **Centralized decision-making** over fund allocation, predominantly by the District Chief Executive (DCE), aided by the District Coordinating Director and Finance Officer, sidelining sector departments.
- **Skewed prioritization** of resources, where funds are disproportionately directed to service debts and cater to the DCE's interests, at the expense of departments responsible for essential services.
- **Limited funding sources**, with a heavy reliance on the District Assemblies Common Fund (DACF) and minimal effort toward improving Internally Generated Funds (IGFs).
- **Poor accountability**, as evidenced in the latest District Performance Assessment Tool (DPAT) evaluation, where report forgery was widespread due to non-performance of core functions.
- **Service delivery gaps**, leading to the neglect of communities' basic needs, resulting from the departments' inability to function without adequate financial backing.

### 3. Consequences of Current Fiscal Practices

- **Loss of public trust** in local governance due to visible service delivery failures.
- **Demotivation among district staff**, who are either underutilized or pressured to falsify documentation to meet performance benchmarks.
- **Stifled development**, especially in rural communities, due to the absence of critical public services like health, sanitation, and education.
- **Low revenue mobilization**, as local assemblies lack the capacity or motivation to collect IGFs, relying heavily on central transfers.

#### 4. Proposed Solution: Establishment of Dedicated Accounts for Sector Departments

To address the identified challenge, a **practical and immediate solution** is the **creation of dedicated accounts for sector departments and units** within the assemblies. This involves:

- **Ring-fencing funds** allocated for specific departmental activities, separate from the general assembly account, to ensure departments have direct access to funds meant for their operations.
- **Legislative backing** and administrative guidelines for the operation of these accounts to prevent misuse and interference.
- **Quarterly direct transfers** from both DACF and IGF portions to these accounts, with mandatory reporting and monitoring mechanisms.
- **Performance-based disbursement**, tied to the annual departmental plans and approved budgets, aligned with the Medium-Term Development Plan of the Assembly.
- **Capacity-building** for department heads in financial management, budgeting, and reporting to foster accountability and transparency.

#### 5. Expected Outcomes

- Improved efficiency and autonomy of local departments to deliver services.
- Reduced incidents of report forgery.
- Increased community satisfaction through improved service delivery.
- Enhanced local revenue mobilization as departments actively engage with communities.
- Strengthened decentralization through more equitable and accountable fiscal governance.

#### 6. Conclusion

The inefficiencies in local government service delivery are largely a result of flawed financial management practices at the district level. By institutionalizing **dedicated accounts for departments**, Ghana can strengthen its fiscal decentralization framework, empower local units, and restore public trust in decentralized governance.

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