LOCAL GOVERNMENT FINANCES AND FISCAL DECENTRALISATION IN GHANA

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Presentation Outline

- Conceptual and Legal framework for LG in Ghana;
- The Local Government System and Policy;
- Corporate character, Functions and Funding LGs in Ghana;
- Contextualizing Fiscal Decentralization
- Revenue Assignments to LG
- Expenditure Assignment to LGs
- The DACF – Allocation, Formula, guidelines and Disbursement
- The FOAT and DDF;
- The Urban Development Grant;
- PPPs as an alternative sources of funding MMDAs;
- Conclusions, Recommendations and way forward.
**Conceptual Framework**

- LGs has been with us for some time now
- Given legal backing in 1988 under PNDCL 207
- It was given true meaning in 1988 but Constitutionalized in 1992.
- Passage of LGA 462 in 1993 Operationalised the Constitutional provision
- Sub-national Governments were created in the form of Metropolitans, Municipalities and District Assemblies (MMDAs).
- Provisions for adequate resources including Human, Financial, Physical, infrastructure, natural and other logistics were made to such MMDAs.
The new system

- Ghana’s decentralization process seeks to devolve political, administrative and financial authority from the centre to the local assemblies.
- However, after 20 years (1988-2008) of implementation the envisaged ends have only been partially achieved.
- Article 34 Section 5 (d) of the 1992 Constitution required the state to “make democracy a reality by decentralizing the administrative and financial machinery of government to the regions and districts and by affording all possible opportunities to the people to participate in decision-making at every level in national life and in government”.

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The New National Decentralization Policy

A new policy is Premised on the “Ghana Shared Growth and Development Agenda” (GSGDA) and focuses on 10 areas:

- Political Decentralization and legal issues
- Administrative Decentralization
- Decentralized development planning
- Spatial planning
- Local Economic development
- Fiscal Decentralization
- Popular participation and Accountability
- The social Agenda
- Involvement of non-state actors in local governance
- Institutional mechanism for policy coordination
Guiding principles

• The principle of:
  o the right of all persons to be afforded opportunities to participate in decision making at every level of government;
  o central government transferring relevant functions, powers, responsibilities and resources to local government units in a coordinated manner; and in turn, local governments transferring required resources to sub-structures;
  o enhancing capacity of local government authorities to plan, initiate, coordinate, manage and execute policies in respect of all matters affecting the people in their areas;
  o ensuring local government accountability through on effective citizen participation;
  o ensuring effective control of persons in the service of local government by local authorities.
Specific legal framework on funding

- 1992 Constitution-Chapter 20(Articles 240-256)
- Local Government Act 462 of 1993( Part VII on financial matters),
- Financial Memorandum by the Minister for Local Government under powers conferred on him/her under Sect.91 of Act 462
- District Assemblies Common Fund Act 455 of 1993
- Guidelines ,Practice Notes and instructions on fund management
- Financial Administration Act of 2003, Act 654  and the FAR
- Internal Audit Agency Act of 2003, Act 658
- Public Procurement Act of 2003, Act, 663
- Audit Service Act 462
Institutional framework

- The good people of Ghana
- Presidency and the Inter-Ministerial Coordinating Committee (IMCC)
- Parliament of Ghana
- MLGRD
- LGSS
- RCCs
- MMDAs and substructures
- Electoral Commission of Ghana
- NDPC
- Office of the Administrator, DACF
- The ILGS
- The Controller and Accountant General Department
- The Ghana Audit Service
- The Internal Audit Agency
- The Public Procurement Authority
- All allied ministries (Finance, Education, Health, Agric, security Agencies, etc.)
Corporate character of MMDAs

- They are created (declared and assigned a name) by President under E.I – Sect. 1(1) of Act 462. After satisfying
  - Minimum population of 75,000 for districts
  - Minimum population of 95,000 for Municipals (Until 2012 there was an additional geographical requirement of “a single compact settlement“ for such a municipality). This aspect of Act 462 has since been amended (S.1(4)a ii of Act 462)
  - Minimum population of 250,000 for Metropolitan Assemblies

- In addition to all the above, the element of geographical contiguity and economic must be met by all.

- Nb: The above are under major review and consolidation with the proposed amendments under Act 462
Corporate character of Assembly

- Aside creation which is general, each MMDA is also required to be properly established by a specific Legislative Instrument (L.I) as the highest political authority;
- The L.I is expected under Sect. 3(2) of Act 462 to indicate:
  - Actual name of an MMDA;
  - Number of persons each to be elected and those to be appointed;
  - Jurisdiction, functions, powers and responsibilities of the MMDA
  - The place where the principal offices of the Assembly are to be situated (capital)

MMDAs are also required to be incorporated to make their corporate character complete under Section 4 of
Functions of LGs in Ghana

- Exercise political and administrative authority in the district
- Constitutes the planning authority for the district –
  - Formulate and execute plans, programmes and strategies for the overall development of the district.
- Have deliberative, legislative and executive functions.
- Responsible for the overall development in the district.
- Maintenance of security and public safety in the district
- Formulation and approval of budget of the district.
Contextualizing Fiscal Decentralization

- **Fiscal decentralization defines how and in what way expenditures and revenues are organized between and across different levels of government in the national polity.**

- It is also about the extent to which local governments are empowered, about how much authority and control they exercise over the use and management of devolved financial resources, measured in terms of their control over:
  - the provision of local services for which they are mandated to perform;
  - the level of local taxes and revenues (rates, fees, fines and other collections); and
  - the nature of Government financial support.
Criterion for success in fiscal decentralization

Full complimentary support of other aspects of decentralization is required for success such as;

- MMDAs need total administrative control over the services they are supposed to deliver.
- The creation of an enabling environment for MMDAs-including support for capacity development, for the strengthening of inclusive systems for local public expenditure management, and for robust accountability mechanisms.
- Meaningful dialogue between local, regional and central governments, an appropriate set of legal and institutional arrangements for local government management, and a system of incentives.
Principle guiding effective fiscal decentralization

- The assignment of expenditure responsibilities must comply with the “subsidiarity principle”: what are the functions and expenditure responsibilities of each level of government?

- The assignment of tax and revenue sources to execute assigned expenditure responsibilities

- Intergovernmental fiscal transfers must be streamlined.

- Sub-national borrowing must be developed and appropriately managed to finance revenue shortfalls.
Which sources should be allocated to LGs

- The key question is: what revenue sources are assigned to sub-national governments?
- Important determinant of the assignment of revenue sources to MMDAs is the assignment of expenditure responsibilities, giving rise to the adage that finance should follow function.
- In Ghana, LGs are not practically assigned revenue sources matching their expenditure assignments. (DACF is 7.5%, is the division of functions between centre and local 7.5% to 92.5% in favour of the centre? What about the RCCs? What about Donor support, loans and grants obtained by the centre since 7.5% is only on national revenue? How about IGFs?
- Certain revenues sources can just be collected by and are better suited for LGs while others are better if left for national governments.
Consequences of revenue assignment

- Central governments often seem unwilling to provide a significant degree of real revenue autonomy to sub-national governments.

- Revenue decentralization often causes increased sub-national fiscal inequality – with wealthier regions being able to collect more revenues than poorer ones.

- In these cases, equalization support or other intergovernmental fiscal transfer schemes become necessary to ensure that sub-national governments have adequate revenues to fulfill their expenditure responsibilities.
Sources of funding LGs in Ghana

LG function = CGT + IGF + BORROWING + DPS

- CGT - Central Government transfer
- IGF - Internally Generated Funds
- DPS - Development partner support

- Irregularity, unpredictability and strings attached to CGT.
- CGT is also available for development only.
- IGF Mobilization is low and irregular
- Borrowing by LGs is limited to GHC 2,000
- DPS transfer are irregular and now almost ceasing with the advent of FOAT/DDF
Framework for LG financing

- Article 245 (a&b) of the 1992 Constitution imposes a fund mobilisation responsibility on the LGs as follows:
  
  "the formulation and execution of plans, programmes and strategies for effective mobilisation of resources necessary for overall development of the district"

- The FAA regulate the activities of all persons in this capacity by "regulating and prescribing the responsibilities of persons entrusted with FM in Government; ensure effective and efficient management of State revenue; and to provide for..."
Sources of LG finance

Internally Generated Funds:
1. Rates
2. Fees, fines
3. Licences
4. Investment

Other potential IGF Sources
1. Hire of chairs, operating day-care centres, hire of Assembly Halls, operating slaughter houses, operating market malls, funeral fees, servicing of residential plots, hiring of Assembly's' equipments and other vehicles to third parties, joint financing of investment projects etc

Externally Generated Funds (EGF):
1. Allocations from the DACF
2. Special transfers and Grants(DDF, UDG etc)
3. Loans with a limitation of up to (GHC 2,000)
4. Salaries of certain categories of staff in the RCCs and MMDAs
5. Allocations for MMDA projects-Road fund, Get Fund, GUMPP etc

Other financial arrangements-Praising funds from the financial markets(Municipal Bonds)
Getting everybody on board
Allocating expenditure responsibilities to LGs

- It defines who does what – which functions are assigned to different levels in the overall system of government;

- “Subsidiarity principle” must influence this - functions should be assigned to the lowest level of government that is capable of efficiently undertaking the task (Value for money);

- So that the area where the benefits of government services are felt must coincides with the government boundaries at each level of government.
Consequence of all the above

- Intergovernmental transfers are often necessary to assure revenue adequacy.
- Vertical fiscal balance (providing additional resources to the local level, so that there is a balance between the fiscal needs and resources available to different levels of government);
- Horizontal fiscal balance (ensuring fiscal balance in resource allocations between government units at the same level of government); the funding of specific national priorities; or
- To compensate sub-national governments for complying with central government mandates or implementing central government programmes that are delegated to the sub-national level. (FOAT)

Most of these transfers are also often used simply to
Sources of Revenues to LGs

Internal (IGFs):
- Rates (Sections 94-119 of Act 462) Sect. 95(1) is clear that “A District Assembly shall make and levy sufficient rates to provide for that part of total estimated expenditure to be incurred by it during the period in respect of which the rate is levied and which is to be met out of money raised by rates”
- Licenses (Sect. 76-78);
  - Fees,
  - Fines,
  - Investment funds (Sect. 89),
  - Borrowing (S.88) etc

External: - (DACF, DDF, UDG, Central Government direct support, HIPC, MCA, Donor support, and all other funds from the external sources)

- Others arrangements in the form of Public Private Partnership (PPPs)
Mobilizing trade licenses

**Constraints:**
- Lack of relevant information on business establishments
- None maintenance of business register
- None registration of businesses by business owners
- Pocketing of funds by Assembly officials

**Remedies:**
- Door to door collection
- Use of Computerized registers
- Privatization of collection
- Direct Deposit of payments
- Pre-printed licenses
Property Rate Mobilization

- Eligibility- all properties except exempted by S.99 of the LGA 462
- Valuation and revaluation of properties

**Constraints:**
1. Lack of adequate knowledge about property law
2. Lack of up to date valuation rolls or list
3. Non inclusion of new properties
4. The issue of valuation and revaluation of properties.

**Remedies:**
1. Sensitization
2. Contracting out the collection and billing process
3. Computerization of the process
4. Direct payment to MMDAs
5. Capacity building and engaging full time workers on the property tax collection
6. Maintaining up dated valuation list and rolls.
Other sources

Market revenue
- Especially informal markets
- Unregistered traders
- Market malls
- Special markets

What to do:
1. Fence off these market areas;
2. Privatize the collections in these markets;
3. Where possible encourage the use of Performance bonds to ameliorate any anticipated default rate.
Contracting out revenue collection and practices

- Use competitive tendering system based on reserve prices;
- Carry out periodic market surveys before setting reserve prices;
- Periodic consultative meetings between the MMDA and the contractor to appraise performance and exchange ideas is relevant;
- Background checks for contracting firms is relevant;
- Depositing performance bond to eliminate the risk of non payment on behalf of the contractor;
- Receipts for resources mobilized by the contractor should be printed by the Assembly or the CAGD.
Contracting revenue collection

Definition (delegating the MMDA power to perform an activity to another entity)

Benefits:
1. Increased in the quantum of revenue collection and Lower costs;
2. Provision of better services and Release of essential staff to other services
3. More realistic and practicable cash flows

Constraints
1. Lack of capacity to supervise the contractors and the Perceived dishonesty among certain contractors
2. Political interference
3. Perceived corruption among staff of the MMDAs tasked to supervise the contractors
4. Unreliable database for setting reserve prices for contractors

Types
1. Mark-up contract (The contractor bids to pay a specified amount to the Assembly)
2. Defined fee contract (Resources are mobilized in return for a percentage commission)
Inadequacy of IGF

- High cost of valuing properties for property rate purposes
- Non payment of property rates by certain state institutions (Though some are divested and others have been converted to limited liability companies under the statutory conversion Act)
- Inaccurate database for planning, budgeting and Accounting
- Difficult and often cumbersome bye-law gazetting procedures
- Fines imposed on offenders paid into consolidated fund without remitting part to the MMDAs
- Obsolete and uneconomical nature of Basic rates
Reasons for low level of IGF

- Political interferences at all levels, Inadequate and unreliable data;
- Ineffective and inefficient methods of mobilizing resources
- Inadequate consultation, collaboration and recognition of key stakeholders (especially rate payers and traditional authorities)
- Perceived mistrust between the key stakeholders and the Assemblies
- Inadequate human and logistical capacity
- Inadequate and cumbersome procedure for gazeting bye laws which affects enforcement
Reasons for low local revenue

- Inconsistency in the numbering of structures;
- Inadequate system to monitor thickets printed by commissioned collectors;
- Ceding easy areas to commissioned collectors and reserving difficult areas for Assembly staff;
- Inadequate public education, sensitization and misapplication of donor support;
- Perceived inadequate transparency and accountability in the utilization of resource to key stakeholders;
- No linkage between resource mobilized and service delivery.
Improving local revenues

- **Effectiveness** of street naming and housing numbering systems
- None of the Systems presents a complete coverage of requirements for the fulfillment of MMDA mandates
- Some seek to assign responsibilities outside the mandates of MMDAs (mixed with postal requirements)
- Use systems that will build the capacities and sustainability of your Assembly;

No standardization of the
Improving local revenue

- Existing Systems have not been extended to new ones.
- Inadequate identification systems have created a worrisome predicament for services.
- In many Assemblies many streets have no names and buildings are numbered anyhow.
- Absence of spatial reference to facilitate location identification for
Improving local revenue

- How do you:
  - find your way around a constantly growing Assembly?
  - dispatch ambulances, firemen, or law enforcement personnel quickly?
  - send mail and messages to private homes?
  - Provide Local services?
  - Identify breakdowns in water, electricity, and
Where do we go from here

- Help your assemblies to start or improve upon existing systems
- **Step 1**: Training, Assessment and resource needs
- **Step 2**: Procurement, Updating and Public Education on revenue improvement strategies
- **Step 3**: Coding, Street Naming, Building Numbering and Data Collection
- **Step 4**: Production and installation of street signs and building numbers
- **Step 5**: Effective Data Processing
- **Step 6**: Effective Database Management with minimal manipulation
Action required

- Sensitization, Awareness raising, Compilation and updating database;
- Overhauling the techniques for collection, accessing, utilizing and accounting for local level resources;
- Building capacities of functionaries and prompt prosecution of rate defaulters;
- Formation, equipping and encouraging the functionality of revenue mobilization teams;
- Comprehensive street naming and house numbering of structures;
- Publication of performance reports and accountability to key stakeholders;
- Using the Area Councils as points of revenue mobilization.
LG borrowing and fiscal Decentralization

- A local government’s fiscal balance can be defined as the difference between its expenditure responsibilities, on one hand and its IGFs and transfers on the other hand.
- If any local government expenditure needs are not properly balanced with the resources available to it, this could result in sub-national deficits and the incurrence of debt.
- Local borrowing might be appropriate for long-term capital development projects, but generally not for recurrent expenditure as has been the practice in certain MMDAs in Ghana.

Local borrowing is also frequently constrained by the lack of local government creditworthiness especially
Related matters to LG borrowing

- The presence of a well-defined LG framework for borrowing and issuing bonds is crucial in order to assure a hard budget constraint for LG.
- Local borrowing require appropriate regulation else they might end up overextending themselves financially and end up in arrears.
- Since LG are part of the public sector, it is often presumed that the central government will fund local deficits or guarantee LG arrears.
- As long as the central government is presumed to financially bail out LG, perverse incentives exist for LG to run budget deficits.
- Excessive sub-national borrowing or the risk of major defaults can have important ramifications for macroeconomic conditions (e.g. in driving up interest rates) and the ability of the central
National attempts at funding LGs

Various attempts have been made at providing a credible source for funding crisis

1. 1979 Constitutional provided for Local Government Grants Commission

2. May 1982 policy guidelines on decentralization published by the PNDC – transfer of power, competence and means also attempted

Article 252 of 1992 Constitution finally made the DACF a potential and viable to complement IGFs and other sources.
The DACF and Allocations into the Fund

Article 252 of 1992 Constitution provided for the establishment of the fund:

1. Allocation of not less than 5% of total national tax revenue into the fund currently 7.5%);

2. Distribution to be made to MMDAs quarterly for development on the basis of a formula approved by Parliament (Subject to receiving a supplementary budget approved by the General Assembly that aligns itself with the MTDP of the MMDA)

3. MMDAs are to spend it in accordance with approved guidelines received from the Administrator (this has since ceased effective 2011)
<table>
<thead>
<tr>
<th>Heading</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expected transfer</td>
<td>821,664,806.00</td>
<td>530,738,000.00</td>
</tr>
<tr>
<td>1. PIPs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• School feeding</td>
<td>60,000,000</td>
<td></td>
</tr>
<tr>
<td>• Sanitation</td>
<td>60,000,000</td>
<td></td>
</tr>
<tr>
<td>• San. Guards</td>
<td>27,360,000</td>
<td></td>
</tr>
<tr>
<td>• Seed Capital</td>
<td>42,000,000</td>
<td></td>
</tr>
<tr>
<td>• LESDEP</td>
<td>84,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>273,360,000.00</strong></td>
<td><strong>159,221,000.00</strong></td>
</tr>
<tr>
<td>2. RESERVE</td>
<td>90,383,128.66</td>
<td>62,627,084.00</td>
</tr>
<tr>
<td>3. AMOUNT DUE MMDAS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Indirect transfer</td>
<td>236,639,464.13</td>
<td>123,131,216.00</td>
</tr>
<tr>
<td>• Direct Transfers</td>
<td>221,282,213.21</td>
<td>185,758,300.00</td>
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<tr>
<td></td>
<td><strong>457,921,677.34</strong></td>
<td><strong>308,889,516.00</strong></td>
</tr>
</tbody>
</table>
Principles considered in developing the formula

Article 252(3) indicates the distribution of the DACF to MMDAs according to a formula approved by a committee of the whole house (Parliament). From the document submitted to Parliament by the Administrator in 2012, the factors influencing the formula are indicated below:

- Equality- 50%
- Need- 45%
  - Health- 16%
  - Education- 17%
  - Road- 12%
  - Responsiveness (revenue improvement) - 3%
  - Services Pressure (on the basis of population density) - 2%
The Need factor

THE NEED FACTOR - In developing the formula, the “basic needs” approach to development is adopted with the following indicators:

- Health Services - level of health services in an MMDA;
- Education Services - No. of basic education in an MMDA;
- Water Coverage - % of population having access to clean and portable water;
- Tarred Road Coverage - total road network in relation to tarred roads in each MMDA;
DACF Utilization by LGs in 2010

The utilization of the fund by the LGs for the year 2010 is summarized as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Ventures</td>
<td>15.18</td>
</tr>
<tr>
<td>Social Services</td>
<td>27.43</td>
</tr>
<tr>
<td>Administration</td>
<td>42.80</td>
</tr>
<tr>
<td>Environment</td>
<td>9.86</td>
</tr>
<tr>
<td>Labour/MPs</td>
<td>4.73</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
</tr>
</tbody>
</table>
Areas of allocation for Utilization

CF Act 455 requires the Administrator in consultation with the Ministers of LGRD and Finance to develop guidelines on the expenditure headings under which the funds can be spent.

• In 2012 the allocations were approved for the various categories of expenditure as follows:
  o 64.1% - was set aside for national programmes and PIPs;
  o 11% - was set aside as reserve fund
  o Remaining 24.9% - represents the Direct transfers to the MMDAs on which the formula was based.
Disallowable items

- Utility Bills
- Repairs and maintenance of vehicles, office equipment etc
- Payment of salaries and wages to staff
- Stationery
- Other recurrent Expenses
- Sitting Allowances of Assembly members
The District Development Facility (DDF) - Rationale

- Mobilize **additional financial resources** for MMDAs;

- Provides incentive for performance for complying with GoG legal and regulatory framework;

- Establish a **link** between performance assessments and capacity building support;

- Ensure **harmonized systems** for investment funding and capacity building support to MMDAs.
Objectives

- Promote compliance with national policies, and the legal and regulatory framework;

- Strengthen institutional performance of the MMDAs;

- Harmonization of disjointed approaches to MMDA Support;

- Ensure an efficient provision of basic community infrastructure and service delivery through judicious use of resources.
Components of the DDF

DDF has 3 major components:

- **Performance Assessment** using the FOAT
- **Funding** - Provision of Additional Financial Resources to MMDAs
- **Capacity Building support** to MMDAs
The Functional Organizational Assessment Tool (FOAT)

The FOAT is a tool and process for the annual assessment of MMDAs to ensure compliance with existing legal, regulatory and policy frameworks in four broad areas:

- Planning and Budgeting;
- Financial Management and Administration;
- Management and Organization;
Main features of the FOAT

Two main Features

Minimum Conditions (MCs)
• Are indicators that have to be met to qualify for any Investment Grant.
• Assemblies that meet all the MCs qualify for Basic Grant of the DDF

Performance Measures (PMs)
• Determine the top-up to the Basic Grant
• Allocation for performance is the Performance Grant
FOAT minimum Conditions

In Seven Areas

- Functional DPCU
- Annual Action Plans formulated
- Annual Statement of Accounts prepared
- Audits: “No adverse audit comments bordering on dishonesty”
- Procurement plan prepared
- General Assembly fulfilling minimum meeting requirements
- Progress Reports submitted on implementation of AAP

All MCs must be met to qualify for DDF Investment
FOAT Performance measures

In Nine Thematic Areas
1. Management and Organization
2. Transparency, Openness and Accountability
3. Planning
5. Relation with Sub-District Structures
6. Financial Management and Auditing
7. Fiscal Capacity
8. Procurement
9. Environmental Sanitation Management
Funding Component

Consists of:

- Basic Grant (20%) - To MMDAs that meet all MCs

- Performance Grant (68%) – As top-up to Basic Grant.

- Capacity Building Grant (12%) – To all MMDAs to address capacity building needs.
Allowable Expenditure

- Admin (minor maintenance of Furniture and Fixtures, Machinery, Plant and Equipment, and Buildings) but should be backed by a maintenance plan and budget;
- Services (HR capacity building – Training/Workshops/conferences) and
- Goods-Investment (Construction works and major rehabilitation expenses on Plants and Buildings).

NB: under the new chart of accounts, goods and services are found under both Admin and Service.
Disallowable expenditure

- investments outside of the MTDPs and Annual Plans;
- investments of a private nature;
- purchase of vehicles;
- purchase of plants and equipment; furniture; motor bikes; computers and accessories, other capital expenditure, NOT JUSTIFIED by the FOAT exercise;
- Construction and furnishing of District Administration offices and residential accommodations.
Utilization of the DDF by MMDAs

- Education: 50%
- Health: 12%
- Sanitation: 18%
- Water: 3%
- Roads: 4%
- Governance: 6%
- Economic: 4%
- Energy: 3%

5 December 2012
The Urban Development grant

- Support to 46 Metropolitan and Municipalities.

- Objectives of UDG- 3 main objectives:
  - Strengthen the inter-governmental fiscal framework
  - Strengthen the local public financial management and accountability
  - Improve citizens’ engagement with assemblies and their perception of urban management
UDG Process

- Will follow DDF principles, rules and procedures

- Will follow - and use - the standard FOAT assessment but with extra 15 UDG performance indicators on public financial management and accountability issues as:
  - Budgeting
  - Reporting and Auditing
  - Asset Management
  - Revenue Management
  - Social Accountability
Eligibility for UDG

- An MMA must meet DDF minimum conditions and score at least the national average FOAT assessment score for the assessment year.

- UDG allocation amount will be determined based on a transparent formula that takes into account the performance score of UDG performance indicators.
UDG Allocation formula

MMA’s share of UDG = \( \frac{P_1 \times Ws}{P_2} \times TG \)

Where:

\( P_1 \) = Population of MMA

\( Ws \) = Weighted MMA’s score (calculated from its most recent FOAT assessment)

\( TG \) = Total UDG available for distribution in the year of Assessment

\( P_2 \) = Total Population of all the MMAs
Funding LG activity through PPP

- A PPP is a contractual arrangement between a LG and a private sector party, with clear agreement on shared objectives for the provision of public infrastructure and public services traditionally provided by the LG.

- Areas of PPP includes: sanitation, solid and liquid waste management, management of Assemblies markets, Revenue collection etc.

- Benefits:
  - Accelerated delivery of needed infrastructure and services on time and within budget.
  - Encouraging the private sector to provide innovative design, technology and financing structures.
  - Risk sharing by LG with private sector partners.
  - Ensuring good quality public services and their wider availability.
Types of PPPs

- Operations and Maintenance
- Design- Build
- Turn Key Operation (LG provides the financing while private sector designs constructs and operates the facility for a specified period of time. The LG retains ownership of the facility)
- Wrap Around Addition (here the private contractor finances and constructs an addition to an existing public facility. The private partner may then operate the addition to the facility for a specified period of time until after the agreed return on investment has been recouped)
Types of PPP

- Lease-Develop-Operate or Buy-Develop-Operate
- Build Transfer-Operate
- Lease Purchase
- Temporary Privatisation
- Build-Own-Operate-Transfer
- Build-Own-Operate
Donor fund mobilization

- Be aware of the Role of Donors in the development process
- Designing Proposals for donor funding
- Lobbying for donors to buy- into proposals
- Description of funding Need for projects and Proposals:
  - Pay attention to Basis of demand
  - Review and fair the Estimated total cost
  - Show how total cost is to be financed including counterpart funding
  - Anticipate likely Conditions to be associated with the funding
Cyclical management of LG finances

The cycle go through all the stages in the life of the Assembly per annum-

- Planning
- Budgeting –Composite Budgeting
- Procurement and contracting
- Accounting (Existence of a new chart of accounts and an accounting manual for local governments in Ghana)
- Auditing etc
Other relevant institutions

- National Parliament
- National Development Planning Commission
- Regional Coordinating Councils
- Ghana Audit Service
- The main Assembly as a House
- The Executive committee /Authority of the Assembly
- The Finance and Administration Committee of the Assembly
- The ARIC
Identified Systemic Challenges

- Ineffective coordination and Weak inter-sectorial collaboration hence the IMCC
- Lack of effective logistical support to the structures
- The non-partisan nature of the Assembly system under a partisan central government system.
- Inadequate managerial and technical capacity at the district level.
- Inability of the Assemblies to generate enough IGF.
- Ineffective Sub District Structures.
- General lack of knowledge and apathy of the public on LG issues.
On-going initiatives in the sector

- Deductions at source from the DACF DACF and MMDAs contribution to NALAG
- Composite budgeting
- Introduction of the Ghana Urban Management Project (GUMMP) - KMA, STMA, HMA and TaMA
- The District Development Facility (DDF) and the FOAT
- Introduction of the Urban Development Grant (UDG) for Metros and Municipals
- Introduction of LG Accounting Manual for MMDAs.
- Introduction of LG Internal Auditing Manual
Way forward

• Have enough time to establish **rapport** with the payers.
• Carry out **education** activities in the communities that they work.
• **Motivate** payers by attending to their needs and helping them solve some of their business problems;
• Regularly visit payers to **receive** revenue due before the monies are used for other purposes by the payers.
• Regular **inspection** exercises will make more people pay their taxes.
• Towards the close of the day, **mop-up** by going over areas they have already worked;
• Occasionally, mobilizers have to team up to “**saturate**” a section of the market in order to intensively, mobilize revenue to set standards in such areas.
The way forward

- **Teamwork** promotes revenue mobilization;

- **Networking** with other groups to achieve your objectives: Police, the courts, transport unions, traditional authorities, environmental health office, traders association, market queens, assembly member and faith based organizations.

- Effective **Supervision** of revenue mobilizes by superiors;

Improve infrastructure to promote business. For example a new market may be built of older one.
Way forward

- **Diversification** of revenue sources: Usually Assemblies have areas they have not got into yet. These areas can be exploited.

- **Training** of revenue staff: There is the need to update the knowledge, attitudes and mobilization skills of revenue personnel to improve their effectiveness and efficiency in the field.

- **Market planting and development**: Potential markets should be identified, established and developed to increase the revenue base of the Assembly.

- **Re-organization** of existing markets: Many markets are in disarray because effort has not been made over the years to re-organize them to improve activities, increase services and make revenue mobilization
Required field practices

- Adopting strategies to halt or **reduce revenue collection malpractices**: including- “induced gift”, issuing of half thickets, collecting back sold tickets already issued;

- Putting revenue staff in **uniform**: to earn the respect of payers, less payer-confrontation and also find it more difficult to carryout malpractices since the public easily identify them.

- Providing good **vehicles** for revenue education, campaigns and mobilization exercises;

- **Treating revenue staff fairly**-rotation, persistent posting to difficult areas, access to raincoats, money bags, etc.
Other required practices

**Publicity Promotion**
- Linking projects to local revenue.
- Commissioning of projects by the District Chief Executives.
- Satisfying immediate community needs in health, education, roads and other socio-economic infrastructure.
- Making revenue targets and related development plans known to the public.
- Public exposure and condemnation of defaulters.

**Payer Sensitization Activities**
- Payers need a lot of sensitization to remind them of their tax obligations and the need to pay on time. Through many ways such as follows:
  - Promotion of customer service strategies by listening to and attending to the needs of the payers.
  - Dissemination of Local revenue information by use of public address vans, billboards, posters, brochures, newsletters, etc.
Pre-conditions for successful local finance mobilization

- Political and social support is critical

- Leadership, team work (enthusiastic & energetic planning officers) and sharing of ideas and experiences

- Use of local consultant (SAGS)

- Combining computerized & manual systems

- Effective use of Internally Generated Funds to finance IGF initiatives for sustainability
Preconditions for success

- **Distinguish the revenues** collected at the district level from those collected by the sub-structures.
- **Mobilizing the community** through enhanced participatory budgeting and civic participation will also facilitate enhanced revenue collection.
- **Don’t rely on individual persuasion** to mobilize revenues—rather utilize the various enforcement mechanisms available through legal processes.
- Collection and enforcement can be affected by the issue of lack of apparent political will.
- **Improve Assembly credibility** in the eyes of tax payers.
Preconditions for success

- Ensure that the property tax and business registers are:
  - complete and kept up to date,
  - assessments are calculated properly,
  - tax demand notices are distributed,
  - taxpayers are made aware of their obligation and the procedures to pay,
  - and taxes and fees are collected systematically and fairly from all rate payers and businesses.

- Effective collection depends on:
  - well functioning administrative system and well-motivated staff.
    - Close supervision and improved management of revenue collection;
    - improve the revenue yield through monitoring the rating and business licensing system, transparency, tax collection to minimize leakages;

- Supervising and ensuring prompt collection and lodgment.
Effective management of field staff

• Collecting the percentage of revenue due to the assembly from other sub-structures;

• Remitting to the sub-structures the relevant percentage of revenue collected by the assembly on behalf of the sub-structures.

• Ensuring that the revenue collectors carry out their duties properly and that all revenue is collected in the approved manner and banked intact.
Useful tips - Physical control over collections

- **Be involved in educating** the community on the importance of taxes and the use of which taxes are put use during rallies at unit or urban council meetings.

- **Sensitization programmes** on radio, radio announcements and newspaper articles especially in the local language.

- Encouraging **taxpayers to form groups** and engage in income generating activities.

- Sensitization **workshops to share ideas**

- Dissemination of **tax information** to the community through brochures, public notices, plays.

- Megaphones and **newsletters outlining strategies and policies of the Assemblies**.
What to do

- Engaging friendlier approaches to tax collection.

- Opportunity for tax clarity at Assembly offices (Tax assessment appeals tribunal) this will also help to build confidence in the Assemblies.

- Publishing names of tax defaulters. This action should deter would-be defaulters and result in more revenue collection.
## Formulating a revenue improvement action plan

<table>
<thead>
<tr>
<th>Revenue heading</th>
<th>Revenue Heading</th>
<th>Targeted Amounts</th>
<th>Strategies</th>
<th>Officer responsible</th>
<th>Review Officer</th>
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<td>Rates</td>
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Forming a revenue task team

- Planning Officer
- DFO (District Finance Officer)
- DBO (District Budget Officer)
- Local Government Inspector
- The Internal Auditor
- The Chairperson of the F & A sub-committee of the Assembly or his representative
- Revenue superintendent
- Heads of Decentralized Department e.g. Land valuation Board, Town and Country Planning etc.

**NB** Where it is becoming difficult an expanded District Planning and Coordinating Unit (DPCU) could be used.
Revenue improvement resource budget

Name of Local Government: .................................................................
Required Resources for plan implementation

<table>
<thead>
<tr>
<th>Type of Resource</th>
<th>Activity</th>
<th>Who’s duty to Provide</th>
<th>Latest required Date</th>
<th>Amount (Value)</th>
<th>Contribution to IGF</th>
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The need for monitoring indicators

- **Monitor** funds generated per heading, per month and per officer;
- **Cost of achieving** those targets must be controlled within limits;
- **Challenges encountered must** be documented and resolved almost immediately;
- **Strategies to overcome** the ascertained challenges and any other anticipated one’s.
Other matters of relevance

- Revenue mobilization and expenditure
- GOG funds
- DACF programmes and projects
- Donor programmes and projects
- Compliance with audit recommendations
- Reports should be circulated and discussed with relevant officers
- Social Accountability that relies on engagement with citizens
  - Budget hearings
  - Public hearings
  - Town meetings etc
What are the expected roles of the LGs themselves

- Total management support is required and provide the required logistics.
- Periodically brief the F & A sub-committee and the LG as a house on progress made.
- Ensure that IGR indicated on the erected bill boards are accurate and valid.
- Reduce the use of the IGR on Recurrent expenditure increase spending on capital projects.

THAN YOU!

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