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Deepening Representative Democracy through Fiscal Decentralisation: Is Ghana Ready for Composite Budgeting?

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Abstract

The ideas behind composite budgeting for effective fiscal decentralisation are noble, but the implementation is constrained by organisational, coordination, structural and technical factors. The key unanswered question is whether the failure to deliver the goods of fiscal decentralisation is fettered by misnomer

implementation of the composite budgeting system. This paper therefore explores how composite budgeting and fiscal decentralisation has led to the strengthening of local democratic processes in Ghana. Using secondary data, the study reviews the legal frameworks for democracy and financial decentralisation. While Ghana has achieved some level of political and administrative decentralisation as well as decentralised planning, fiscal decentralisation has been the unyielding component of the process. For the realization of the inherent symbiotic output between fiscal devolution and democratic governance and the avoidance of vertical fiscal imbalances, social capital building and networking as well as the removal of barriers to local flexibility must be ensured. Further gains in this area must also be supported by greater levels of fiscal autonomy and fiscal accountability at the local government level.

Key words Democracy, Ghana, Regulatory provisions, Fiscal Autonomy, Participatory Budgeting

Introduction

Public involvement in decentralised planning and budgeting is a vital component of development in both developed and developing countries. This perspective became more prominent in the vogue of public sector reform paradigm and the subsequent enjoyment of incontrovertible consensus on decentralisation as the innovative approach to government (Heeks, 1999a). In Latin America and Africa, it was populists' pressure for democratic governance and the agenda for national harmony that were the compelling factors for decentralisation. These varied-interest spurring factors for decentralisation are not only critical for the institutional context of public financing across the globe, but also important for the analysis of fiscal decentralisation (Bird et al., 1995).

Fiscally decentralised system has the potential of maximising efficiency especially when budgetary decisions are made by local officials and local non-state actors. In realising fiscal accountability and cost minimisation of public services, the fiscal federalism theorem posits a higher platform for fiscal decentralisation (Oates, 1977). Ebel and Yilmaz (2001) observe that proximity of sub-national governments to the clients of public goods provides an efficient match between public expenditure and private needs. But for the realisation of the benefits of composite budgeting within a fiscally decentralised management system is premised on the quality of citizens'

participation in the political decision making process and the allocation of resources.

In order to operationalise the local government system in Ghana, successive governments have developed impressive legal and regulatory frameworks, acts of Parliament, and legislative instruments with the overall objective of closing the decision making and resource allocation gaps between the centre and the local levels. One of such fundamental legal backings to the course of decentralisation is the 1992 Constitution. The guiding framework of decentralisation within the principle of subsidiarity is the 1992 Republican Constitution of Ghana (Tettey, 2006). Looking forward, one issue that loom largest on democratic representation and fiscal decentralisation horizon is the implementation of composite budgeting, informed by district and national priorities and also reflect the three-year rolling period of Medium Term Expenditure Framework [MTEF] (GTZ/MoFEP, 2010).

Unfortunately, the local government institutions in Ghana that have been instituted did not create the opportunity for equal and reciprocal partnerships between sub-national government and its citizens in the preparation of plans and budgets. There exist a substantial divergence between the constitutional, legislative arrangements and decentralisation policy and actual implementation level of fiscal decentralisation. Also, while planning laws confer a strong jurisdiction to Metropolitan, Municipal and District Assemblies (MMDAs), budgeting arrangements and funding flows continue to limit the authority and autonomy of the MMDAs to enforce harmonisation and prioritisation in line with the local realities, capabilities and needs.

The question that requires further investigation is whether the democratic institutions of Ghana have the inherent characteristics of decentralising the fiscal realm of sub-national governments. This paper examines how the decentralised fiscal regime has helped to strengthen democratic dispensation in Ghana. It reviews the legal frameworks for representative democracy and financial decentralisation. It critically explores whether composite budgeting and fiscal decentralisation has led to the strengthening of local democratic processes. This paper relies on secondary data from the relevant literature, Acts of Parliament, the 1992 Constitution of Ghana and official sources such as Ministry of Local Government and Rural Development. The desktop survey was also undertaken to gather information through mail shots and archival documentary sources.

Conceptual Framework

The heart of the conceptual framework has to do with interconnected dynamic interaction of fiscal capacity, fiscal devolution, and fiscal autonomy on composite budgeting. But this dynamic is shaped by two other factors: namely, the enabling legal environment and representative democracy. A participatory budgeting system is influenced by capacity (functional and technical capacities) to plan, mobilise/raise and manage inter-jurisdictional transfers and 'own-generated' revenues. Whereas the legislative provisions delimit the participatory domain of state and non-state actors, representative democracy address the unequal distribution of power and resources. Fiscal decentralisation of a sub-national government is a manifestation of a sustainable outcome of the operation of a formidable composite budgeting system (Figure 1). But the capacity to engage in composite budgeting is reinforced by both a collective and individual capabilities. Representative democracy and fiscal decentralisation require constitutional or legislative reforms. This logic informed Ghana's efforts at deepening her political and financial decentralisation agenda.

The framework below highlights an aspect of Tiebout's model (Tiebout, 1956) of linking decentralisation of political decision making authority to the fiscal performance of the lower tier of government. By extension this suggest that the greater the number of decentralised political units, the greater the gains from fiscal decentralisation. Although the existence of institutions of accountability and participation cannot be a proxy for fiscally decentralized government, they constraint behaviour of actors and create revenue maximization avenues (Oates, 2004). For Bahl (1999), fiscal decentralisation should reflect the existence of elected local government members, locally approved budget, and the capacity of local governments to collect taxes.

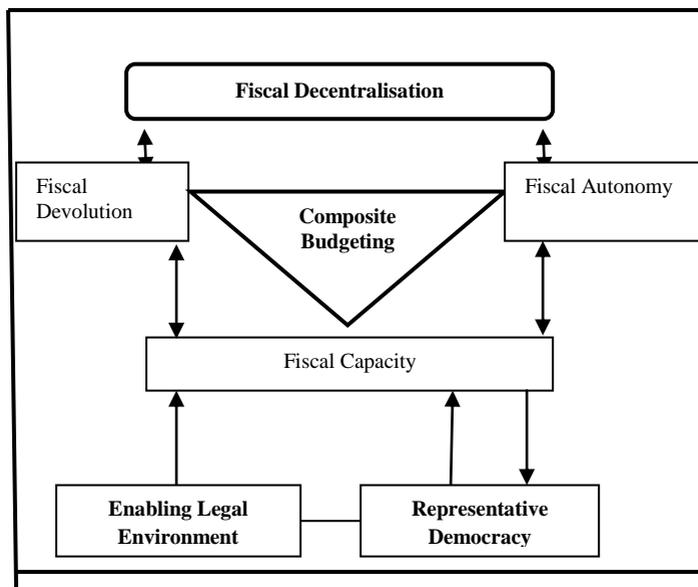


Figure 1 Framework for analyzing fiscal decentralisation and composite budgeting

Requirement for Composite Budgeting

Democratic political dispensation, demystification of budgets, public information strategies and effective participation process are some of the prerequisites for effective inclusive budgeting processes (ECA 2005a). In the Brazilian city of Porto Alegre, participatory budgeting has created innovative relations between and among the governor, local politics and the population. This has sacrificed passivity on the part of local population for effective participation (Mancuso, 2005). Whereas democracy in its modern form is practiced representatively, participatory budgeting is the aggregation of direct and representative models anchoring on the effective functioning of institutions (Schugurensky, 2004; Novy & Leubolt, 2005). The effectiveness of participatory budgeting is located in an environment where active citizenship is seasoned and civil engagement is revitalised in an inclusive venue to correct participatory deficit. Like many other social mechanisms,

participatory budgeting can truly deepens democratic participation when the key condition of political will is guaranteed (Schugurensky, 2004).

Shah (2007) observes that the operational success of a participatory budgeting programme in delivering the goods of empowerment, accountability and decentralisation are influenced, to a large extent, by the prevailing socio-political and economic environment. Thus, the level of local government autonomy, the nature of local economy, and the development of partisanship as well as citizens' interest are critical for the operation of participatory budgeting. The processes involve in composite budgeting is normally affected by power dimensions as outlined by the formal institutional structures or informal incorporation of dominant values. The empirical manifestation of unbalanced power relations in the budgeting process affects the level of inclusion or otherwise (Norton & Elson, 2002). This may give different levels of motivation for 'sub-national-community' interface. Whereas political support is the motivating factor for local governments, citizens' participation is guided by the improvement in access and/or quality of services delivered (Wampler, 2000).

Regulatory Implications of Fiscal Decentralisation on Composite Budgeting in Ghana

Any fiscal strategy that is conceptualised within the framework of bottom-up and participatory budgeting should be pursued by using realistic indicative planning figures. Therefore, fiscal decentralisation needs to be anchored on decentralisation of governance that will increase participation of both state and non-state actors. The 1992 Republican Constitution of Ghana, particularly Article 240 (2), (c) and (e) reflected on the fiscal autonomy and effective participation of all stakeholders at the sub-national level. In support of this perspective, several legal instruments have been enacted to ensure transparency and accountability in the use of financial resources at the local level (See Figure 2).

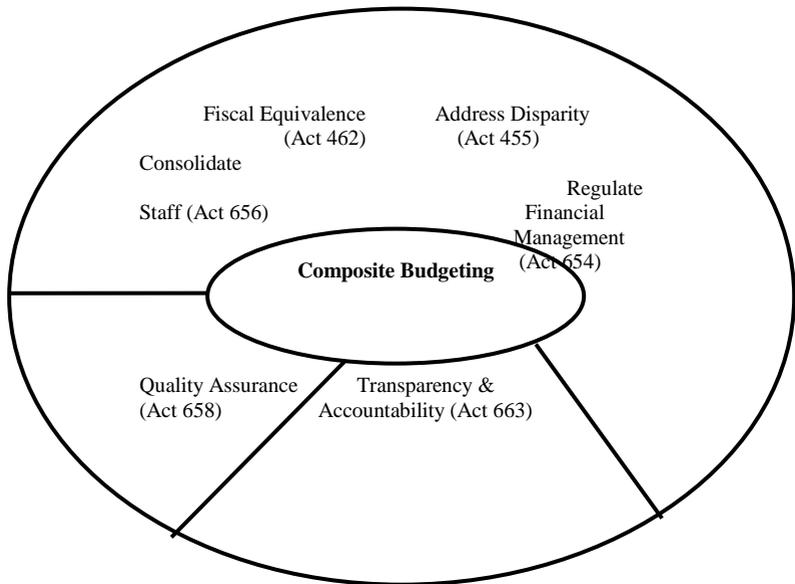


Figure 2 Legislative Frameworks and Composite Budgeting

The long lists of legislative enactments are to create an enabling legal framework for effective implementation of participatory approaches to planning and budgeting (Figure 2). Act 462 of 1993 set the basis for the preparation of District budgets to enhance the delivery of demand driven development. Espousing the fiscal equivalence principle, decisions on expenditures should be made by the same level of government responsible for financing these expenditures. Since the centre has higher revenue yielding sources, higher fiscal policy mandate and more competent staff than the sub-national unit, Act 455 is to ensure regular and periodic transfer of tax revenue to finance the aggregated district budgets. Also, the fact that some sub-national governments are naturally endowed than others requires legislative support to address inter-regional and inter-district disparities. As Act 462 has transferred some expenditure and revenue decisions to the local level, Act 654 ensure the effective and efficient management of public expenditure, revenue, assets and liabilities for prudent financial governance.

To ensure judicious, economic and efficient procurement of the goods and works that have been compositely budgeted, Act 663 of 2003 was enacted to give practical meaning to transparency, accountability and value for money. The Internal Audit Agency Act (Act 658) was passed to provide quality assurance for procured goods, works and services as well as coordination and facilitation of audit activities of MMDAs. For effective functioning of District Assemblies, Act 656 was promulgated to provide technical assistance to Regional Coordinating Councils (RCCs) and District Assemblies. To consolidate fiscal decentralisation and composite budgeting, Act 656 was to integrate into the management structure of DAs the staff of all decentralised departments. In short, the legal frameworks of fiscal responsibility, jurisdictional equalisation, financial accountability, internal audit functions, and integrated system of local human resource management provide the impetus for the preparation of composite budgets (See Figure 2).

The Regulatory Framework for Fiscal Decentralisation

Local Government Act, 1993 (Act 462)

The Act 462 of 1993 reaffirmed the legal commitment to the establishment of financial decentralisation in Ghana. To be faithful to the principle of fiscal decentralization, section 10 (3) a (i) and (ii) of the Act provides the basis for preparation of District budgets while section 92 (1) of Act 462 recognized the basis for preparation and submission of a District budget for the ensuing year. Composite budgeting system was instituted by section 92 (3). It stipulates that:

[...] the budget for a district shall include the aggregate revenue and expenditure of the departments and organisations under the District Assembly and the district coordinating directorate, including the annual development plans and programmes of the departments and organisations under the Assembly.

The sub-national government and the non-state actors are therefore given the legal conduit for participatory engagement in achieving fiscal autonomy. The expenditure and revenue assignments are in line with the principles of subsidiarity, where tasks are transferred to the lowest possible level closest to the people. This requires the capacity not only to manage the participatory planning and budgeting processes but also the fiscal capacity to generate the revenue and expenditure envelopes of the MMDAs. However, a study by

DEGE and NCG (2007) gave a contrasting performance in revenue capacity between the rural and urban MMDAs. Whereas the urban MMDAs have a high degree of own source funding and a much higher per capita expenditure and revenue level, the rural MMDAs virtually dependent on the central government transfers.

The District Assemblies' Common Fund Act, 1993 (Act 455)

In line with the constitutional provision of Article 252 (2), the District Assembly Common Fund Act, 1993 (Act 455) was enacted to transfer central government revenue to MMDAs. Section (1), subsection (2) of the Act established that The Common Fund would be made up of all monies allocated by the Parliament of Ghana while section (2) gave the proportion of total national revenue that should be annually allocated to District Assemblies for development. Conventionally, the District Assembly Common Fund (DACF) which constitutes 5% and now 7.5% of total revenue of central government is available to MMDAs only for investment expenditure. The allocation and/or disbursement are against the submission of Annual Action Plans (AAP) and budgets to the Administrator of the District Assembly Common Fund.

This has set the intergovernmental grant-transfers system, which is only one of the ways for achieving fiscal decentralisation – that is, the decentralisation of planning, expenditure, governance and revenue mobilisation. The grant-transfer system is not a panacea in local government financing but a complement to internally generated revenue, ceded revenue and borrowing. Despite the advocacy against expenditure-revenue mismatch, certain proportion of the DACF is being spent by central government on behalf of the MMDAs. This initiative mars the principle of accountability that surrounds the entire DACF.

Financial Administration Act, 2003 (Act 654)

The Financial Administration Act, 2003 (Act 654) was passed to regulate the financial management of the public sector as well as prescribe the responsibilities of persons entrusted with financial administration and management in Ghana. In furtherance of fiscal capability of the lower tier of government, section (1), (3) (a), of the Financial Administration Act, 2003 (Act 654) specifically states that:

[.....] the Minister (herein refers to the minister of finance and economic planning) shall ensure that;

Systems are established throughout the public sector (i) to budget for the use of resources; and (ii) to approve requests for the issue of public money prior to inclusion in estimates of expenditure for submission to parliament in accordance with this Act.

Networks of institutional structures are not only to be established for planning but also transacting the various interests groups for self-mobilisation in budgeting. Therefore, local economic activities are to be integrated into the mainstream economic activities to reflect the macro agenda of the country. This integration therefore calls for the creation of sound local financial governance for adequate financial resource mobilisation and management within the concepts of transparency and accountability.

Public Procurement Act, 2003 (Act 663)

The Act provides the framework to Ministries, Departments and Agencies (MDAs), governance institutions and all parastatal establishments to contract services in the implementation of their Annual Action Plans. It is a key legislation to guide and institutionalise transparency and accountability of public funds. An assessment, carried out by the World Bank (2003) identifies five basic pillars of the Public Procurement Act, (Act 633) in the area of: (i) comprehensive, transparent, legal and institutional framework; (ii) clear and standardised procurement procedures and standard documents; (iii) independent control system; (iv) proficient procurement staff; and (v) anti-corruption measures. Section 21, subsection (1) (a) to (d) stipulates that:

[.....] a procurement entity shall prepare a procurement plan to support its approved programme and the plan shall indicate: contract packages; estimated cost for each package; the procurement method; and processing steps and times.

It is not only the planning and/or budgetary processes that have to be participatory but also the decision to procure goods, works or a service. The Act provides the framework for MMDAs to contract goods, works and services in a bid to implement their Annual Action Plans. Section 15, subsection (3) of the Public Procurement Act, (Act 633) states that:

[....] procurement decisions of an entity (including Metropolitan, Municipal and District Assemblies) shall be taken in a corporate manner and any internal units concerned shall contribute to the decision making process.

Even though the legislative frameworks for planning and budgeting are different from the Public Procurement Act, (Act 633), they are interrelated by the fact that, the physical reality of financial estimates of plans is the procurement of goods and works. For instance, the act requires all procurement entities to submit an updated procurement plan after their budget approval on a quarterly basis.

Internal Audit Agency Act, 2003 (Act 658)

The Internal Audit Agency Act was passed to establish a body to coordinate facilitate and provide quality assurance for internal audit activities within the MDAs and MMDAs. Section 3, subsection (1) and (4) enjoined the agency to set standards and procedures for the conduct of internal audit activities as well as monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs. By way of decentralising internal auditing, section 16 (1) gave powers to establish in each MDA and MMDA, an internal audit unit as an integral part of the MDA or MMDA.

The crucial point of concern is that, the Act intends to strengthen the entire process - from planning, budgeting, procurement, budget execution, monitoring, control internal audit, to external audit and follow-up (sanctions and incentives) - to ensure better financial management and strong downward, upward and horizontal accountability. This equally ensures value for money and consequently promotes economy, effectiveness and efficiency of government programmes and operations.

Local Government Service Act, 2003 (Act 656)

The Local Government Service Act was passed to establish the Local Government Service and provides for the objects, functions, administration of the Service and related concerns. The Service Council is to provide technical assistance to the District Assemblies and Regional Coordinating Councils to enable them to effectively perform their functions and discharge their duties; conduct organisational and job analysis; design and coordinate

management systems and processes. The transitional provision of Act 656, section 34 states that:

[...] on the coming into force of this Act, the members of staff of the branches, divisions or units of the departments specified in the Schedule shall be deemed to have been transferred to a department of a District Assembly as determined by the Minister and shall form part of the Service from the date of transfer.

By implication, units and departments plans, budgets and goods, works and services to be procured need to be consolidated into the development framework of the local government structure. The performance of these composite functions expound the participatory manner in which planning, budgeting and procurement should be done. In the performance of these functions and the discharge of associated duties must be carried out in accordance with the 1992 Constitution and the Local Government Act, 1993 (Act 462). In aggregate, the passing of the Act is to fuse governmental agencies at the regional and district levels into one administrative unit, through the processes of institutional integration, manpower absorption, composite budgeting for decentralised services.

Reality of Composite Budgeting as a Dimension of Fiscal Decentralisation in Ghana

The concept of fiscal devolution that seems to have attended Ghana's decentralisation programme is, being, compromised when it comes to the practice of local government. This is, to a large extent, the result of the continuing existence of certain centralising tendencies which hold back legislative provisions for autonomy, participation, and downward accountability (Tettey, 2006). The fiscal efficiency of the MMDAs as observed by Aye (2008) is being characterised, largely by authoritarian approach to decision making as a result of political influence of the District Chief Executives over the activities of the District Assemblies. This therefore undermine the "power to people" concept as the inclusion and consultation process fall short of the participatory planning and budgeting agenda expounded by Act 462. Fiscal decentralisation, involving the transfer of means – initially the DACF – and eventually a composite budget system as a way of giving the DAs control over their budgets and finances continue to remain a vision.

Whereas the guidelines for the preparation of District Medium Term Development Plans (DMTDPs), Annual Action Plans (AAPs) and composite budgets are given by the National Development Planning Commission (NDPC), supplementary budgets for the utilisation of the DACF is submitted to the Common Fund Administrator. A mechanism has neither been instituted to align supplementary budget estimates of the MMDAs to their Annual Action Plans nor an avenue created for the input of NDPC into the preparation of guidelines for the utilisation of fund from DACF. This has often created monitoring and evaluation problem for both the Common Fund Administrator and the NDPC. Also, instead of preventing what is referred to as “vertical imbalances”, Tettey (2006) observes that the fiscal survival of the DAs is dictated by the disbursement and allocation from the national revenue purse through the DACF. The ability of DAs to translate the popular wishes - as stipulated in the various legal provision - into the development of responsive initiatives as well as supply of public goods to situation-specific demands at the lower tier of government are largely constrained.

The mechanisms for ensuring transparency and accountability in the use of financial resources have been instituted by Act 654, Act 656 and Act 663. These legal instruments have made some progress in terms of financial administration and management and more transparent procurement regime. However, some of the MMDAs are yet to receive internal audit staff while a good number of them have neither created an Audit Report Implementation Committees nor prepared and submitted quarterly internal audit reports as required by law (Osae, 2009). Also, the concept of value for money as expounded by the Public Procurement Act, 2003 (Act 663) is being eroded by weak contract monitoring and supervision. This emanate from the fact that, local government staff in most cases are not knowledgeable about the awards of procurement contracts by the central government (Government of Ghana, 2008).

The introduction of the Local Government Service Act 656 of 2003 brought mixed blessings in the legal landscape of decentralisation in Ghana. It has introduced for the first time, a separation between the Civil Service (representing personnel of central planning agencies) and the Local Government Service (designated to represent personnel rendering services at the level of decentralized institutions). It offered the promise of realigning the departments designated to be decentralised under the jurisdiction of MMADs. Real fusion, which will involve the complete separation of

budgeting, and funding of district-level staff from their “parent” MDAs into the District Assembly jurisdiction is not only an uphill task but administratively daunting. Whereas The Local Government Service Act (Act 656) was unequivocal about the fusion of governmental agencies in any given region, district, and locality into one administrative unit, the Local Government Service Council has the potential tendency of centralising funding, hiring and firing as well as the remuneration of staff of the decentralised units.

Policy Recommendations

First, the “Reserve” component of the DACF, particularly the proportion set aside for member(s) of Parliament (MP) is an affront on fiscal accountability and efficient financial management reform therefore, there is the need to undertake a policy review to catalogue the MPs’ development projects into the Annual Action Plans of the MMDAs as well as their implementation, reflecting the “need-based” approach to ensure prudence financial management, economy and value for money. This will prevent the use of the fund as a tool for political patronage and the principle of “the winners take all”.

Again, to correct the divergence between fiscal devolution by legal provision and the implemented fiscal deconcentration, a substantive re-organisation of the local government structure away from the “politico-technical” domain is required to leverage coordination inertia. This require a strong policy direction to situate fiscal decentralisation by devolution within the overall decentralisation framework that will reduce the dominance of the political unit of the DAs over the preparation of composite budgets and their oversight role in monitoring expenditure of the decentralised departments of the MMDAs.

More so, to properly integrate the core staff of the decentralised departments, a policy framework that consolidates Act 656 of 2003 and encompasses decentralisation of the power to hire, fire, promote and discipline to the MMDAs is recommended. This requires local input into the recruitment and appointment process not only of the most junior staff cadres but also the civil category of staff. Measures for performance management should be clarified to reinforce staff accountability within a strategic decentralised framework.

Providing a legal provision that will promote scrutiny of the budgets of MMDAs by the Administrator of the DACF should be championed. This framework should legally task the MMDAs to submit their District Medium Term Development Plans (DMTDPs) and Annual Action Plans (AAPs) to the Administrator to ensure that proposed projects of the supplementary budget for the utilisation of DACF are selected from the DMTDPs or Annual Action Plans. This will strengthen fiscal discipline and the enhancement of accountable use of the sub-national government's purse.

To harness fiscal decentralisation for the promotion of representative democracy of MMDAs requires streamlining the system for appointing "technical" and "traditional" representatives to satisfy the 30% of the MMDAs to ensure that this process does not compromise the democratic principle of local representation and ownership of local government decision making. To legitimize the outcome of participatory budgeting, the composition of the lower tier must fall within the principle of democratic representation in line with the fourth Republican Constitution.

Conclusion

The decentralisation programme in Ghana still enjoys goodwill among the population as a potentially viable mechanism of local governance and the delivery of public goods. However, fiscal decentralisation and its associated benefits of active engagement of the citizenry, local autonomy, empowerment, responsiveness of local government to local needs and self-mobilisation are idealized conditions which are really difficult to achieve in their totality. Despite the comprehensive legal and regulatory frameworks of the government towards fiscal decentralisation, Ghana is still buried in a highly centralised "top-down" political and administrative system (Ayee, 2008). If the participative practices are to deliver on the desired promises of improving the quality of democratic governance, then the enabling environment must transcend the legal and legislative frameworks for planning and budgeting into creating incentives for citizens' participation, and filling the knowledge gap between technical and experiential learning. The infusion of the principle of subsidiarity without recourse to commensurate financial and human resources will enervate rather than elevate democratic participation dimension of local government. The fundamental step is to reconfigure the organisation and capacity of the public sector.

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