

**ENHANCING CAPACITY FOR PRO-POOR  
DECENTRALIZATION PROJECT**



CLAYDORD CONSULT

**FINAL REPORT**

**Poverty and Social Impact Analysis (PSIA) Study on:**

Resource Allocation, Mobilization, Management and  
Capacity Building at District Level in Ghana

**Submitted to:**

**NATIONAL DEVELOPMENT PLANNING COMMISSION (NDPC), &  
MINISTRY OF LOCAL GOVERNMENT AND RURAL DEVELOPMENT (MLGRD)**

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**14 February 2005**

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>AAP</b>	Annual Action Plan (District)
<b>BPEMS</b>	Budget and Public Expenditure Management Systems
<b>CBO</b>	Community Based Organisation
<b>CDF</b>	Comprehensive Development Framework
<b>CIDA</b>	Canadian International Development Agency
<b>CMAs</b>	Change Management Agencies
<b>CSO</b>	Civil Society Organisation
<b>CSPG</b>	Cross-Sectoral Planning Groups
<b>CWIQ</b>	Core Welfare Indicators Questionnaire
<b>DA</b>	District Assembly
<b>DACF</b>	District Assemblies Common Fund
<b>DANIDA</b>	Danish International Development Agency
<b>DDF Facility</b>	District Development Funding Facility
<b>DP</b>	Development Partners
<b>DS</b>	Decentralisation Secretariat
<b>GLSS</b>	Ghana Living Standards Survey
<b>GoG</b>	Government of Ghana
<b>GPRS</b>	Ghana Poverty Reduction Strategy
<b>GTZ</b>	Gesellschaft für Technische Zusammenarbeit (Germany)
<b>HIPC</b>	Highly Indebted Poor Countries
<b>HRD</b>	Human Resource Development
<b>IFES</b>	International Foundation for Election Systems
<b>IGR</b>	Internally Generated Revenue
<b>ILGS</b>	Institute of Local Government Studies
<b>ISP</b>	Infrastructure and Service Provisions
<b>IT</b>	Information Technology
<b>IWGD</b>	Inter Sectoral Working Group on Decentralization
<b>KfW</b>	Kreditanstalt für Wiederaufbau (Germany)
<b>LGA</b>	Local Government Act (462)
<b>LGS (Act)</b>	Local Government Service (Act)
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MA</b>	Municipal Assembly
<b>MDAs</b>	Ministries, Department and Agencies
<b>MDBS</b>	Multi-Donor Budget Support
<b>MFEP</b>	Ministry of Finance and Economic Planning
<b>MLGRD</b>	Ministry of Local Government and Rural Development
<b>MMDAs</b>	Metropolitan/Municipal/District Assemblies
<b>MOFA</b>	Ministry of Food and Agriculture
<b>MOFEP</b>	Ministry of Finance and Economic Planning
<b>MTDP</b>	Medium Term Development Plan (District)
<b>NALAG</b>	National Association of Local Authorities of Ghana
<b>NDAP</b>	National Decentralisation Action Plan
<b>NDPC</b>	National Development Planning Commission
<b>NGO</b>	Non-Governmental Organisation
<b>OSM</b>	Office of the Senior Minister
<b>PAC</b>	Presidential Advisory Committee
<b>PCM/LFA</b>	Project Cycle Management / Logical Framework Approach
<b>PM</b>	Presiding Member (District Assembly)
<b>PNDC</b>	Provisional National Defence Council
<b>PPA</b>	Participatory Poverty Assessment
<b>PRA</b>	Participatory Rural Appraisal

<b>PRSF</b>	Poverty Reduction Support Facility
<b>PSIA</b>	Poverty and Social Impact Analysis
<b>PSO</b>	Private Sector Organisation
<b>PUFMARP</b>	Public Financial Management Reform Programme
<b>RCC</b>	Regional Coordinating Council
<b>RPCU</b>	Regional Planning and Coordination Unit
<b>SIM</b>	Strategic Implementation Matrix (for the NDAP)
<b>SOCAT</b>	Social Capital Assessment Tool
<b>SOE</b>	State owned enterprises
<b>SSA</b>	Sub Saharan Africa
<b>SWOT</b>	Strengths, Weaknesses, Opportunities, Threats (PRA Tool)
<b>TA/L</b>	Traditional Authorities/Leaders

## ACKNOWLEDGEMENTS

We are extremely grateful to the Government of Ghana (the National Development Planning Commission (NDPC) and the Ministry of Local Government and Rural Development (MLGRD)) and Government of Germany through KfW and GTZ who provided the funding for the study. The study also benefited from the valuable comments of GTZ and KfW staff and all the members of the Technical Committee. Special thanks go to Prof. George Gyang-Baffour, the Director-General of NDPC, the Chairman of the Technical Committee for the leadership role he played in directing and encouraging the study in a manner most suitable for continuation of the Project despite all odds, and Mr. Jerry Odotei, NDPC Project Coordinator. We are grateful to other members of the NDPC and MLGRD whose administrative support facilitated the conduct of this study despite the numerous hurdles that have to be cleared.

We also acknowledge the role played by the four Consultants on the project and the ten research/field assistants, namely: Mr. Samuel Chekpeche, Mr. D.A. Nii-Noi Adumuah, Mr. Daniel Amposah, Mr. Emmanuel Badu, Mr. Ezekiel Bennah, Mr. Benjamin Koomson, Ms Vivian Duodu, Mr. Dodzie Degbe, Mr. Abdulai Jabir, and Mr. David Witol, who played a key role in the collection of primary data in the ten districts covered by the study (namely: Ketu (Volta), AMA (Greater Accra), Birim North (Eastern), Adansi West (Ashanti), Komenda Ebirem Aguafo (Central), Nzima East (Western), Techiman (Brong Ahafo), Tamale (Northern Region), Wa (Upper West), and Bongo (Upper East)), and to Mr. Alex Tetteh for collection of secondary data. Mr. W. Ofei-Quartey played a very significant role in supervising data collection, administration of questionnaire and interviewing in both Wa (Upper West), and Bongo (Upper East) in place of Dr. A.K. Ahiawodzi. Our many thanks also go to Mrs Georgina Disu and Ms. Elizabeth Nkum who provided valuable administrative support and secretarial services respectively.

Finally, we wish to express our appreciation to Dr. Walter Salzer, Ms Mary Anne, two other unknown commentators whose comments (at times very critical, and at times contradicted each other) as well as the World Bank particularly Ms Beatrix Allan-Mensah and the UNDP for their helpful role in the preparation of the study. At the *final stages* when the project was going through its last lap for completeness, Messrs Alabi Egberongbe and Alex Tetteh assisted in the regrouping and prioritisation of the policy recommendations and sequencing. Dr. A.K. Ahiawodzi assisted in the editing of the whole document to improve upon the flow of thought and language.

The study was undertaken by the following Associate Consultants of the ClayDord Consult under the team leadership of Prof. Cletus K. Dordunoo: Dr. T.B. Wereko, Dr. W. Aschmoneit (our international associate) Mr. J.Y. Amankrah, Mrs. A.M. Nelson-Cofie, and Dr. A.K. Ahiawodzi. We take full responsibility for all errors and omissions detected in the course of reading this material.

**TRANSMITTAL LETTER**



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**Our Ref** CD/NDPC PSIA 100205/09

**Date** 10th February 2005

**The Director-General  
National Development Planning Commission  
Flagstaff House  
Accra**

Dear Sir/Madam,

**Submission of Final Report: Poverty and Social Impact Analysis (PSIA) Study**  
**(Resource Allocation, Mobilization, Management and Capacity Building at District Level in Ghana)**

In accordance with the reporting arrangements of the Contract for the Consultancy Services dated 1<sup>st</sup> December 2003 between the NDPC and the ClayDord Consult, we hereby submit the Final Report.

We have incorporated all the written and the verbal responses as well as the analysis of the returned Questionnaires from the field. An additional difference between this and the earlier draft reports is the incorporation of the quantitative model analysis of poverty reduction with special focus on the Transmission Mechanism and Impact Analysis as well as the Appendices on the PSIA Models and Focus areas. Thus we have undertaken econometric modelling to analyse the effect of selected variables on poverty reduction at the national and district levels and to report forecasts of poverty rates for the period 2005-2025. Following our presentation to the members of the technical committee and the co-ordinating secretariat some concerns came up calling for additional editing to improve the flow of thought and language, further simplification of the technical content to make the report more user friendly, as well as regrouping and prioritisation of the policy recommendations. We addressed all of these concerns raised.

Certainly, and from the foregoing, this report claims the completeness of the consultancy assignment in line with terms of reference (TOR).

We thank you for giving us the opportunity to serve you and for calling for a formal presentation of the report to both the technical committee and the co-ordinating secretariat. It helped the consultants and our clients to appreciate what actually constitute the basis of technical components of the study (such as the survey and questionnaire design, the quantitative modelling of the poverty model which we integrated into the macroeconomic model for policy simulation, among others).

Thank you very much for your cooperation.

Yours truly,

---

**Prof. Cletus K. Dordunoo**  
**Chief Executive Officer**

## EXECUTIVE SUMMARY

### Introductory Background

Since 1988 the Government of Ghana has been implementing a comprehensive decentralization reform process. This is aimed at promoting local participation and ownership of the development process at the district level. Achievements so far made to institutionalise decentralization include the enactment of the Local Government Law, Act 462 in 1993 to give more financial leverage to the District Assemblies and the subsequent ceding of 5% of the District Assembly Common Fund (DACF) to finance development programmes and projects. Notwithstanding these modest achievements so far made the decentralization process has not fully reached the poor. This is partially due to significant deficits in the capacity of Ministries, Departments and Agencies (MDAs) reflected in resource mobilization, allocation and management.

It is against this background that the Ministry of Local Government and Rural Development (MLGRD) launched the National Development Action Plan (NDAP) and re-echoed in the Ghana Poverty Reduction Strategy (GPRS) to promote convergence of the decentralization process and the building of capacities for poverty-targeted development and governance at the local level.

### Core Problem Analysis

This study: “*Enhancing Capacity For Pro-Poor Decentralization*”, was conceived out of the need to link the gap between decentralization and poverty reduction with the view to promoting responsive and accountable governance at the local levels. This is to allow effective participation, equity in resource allocation as well as effective delivery of services that benefits the poor. Within the context of the four focus areas of the decentralization process (power/mandate, resources, capacity, and partnership /participation) which coincidentally are the four programme areas of the NDAP, the study examines the core questions: (i) *How can decentralization measures be best designed to promote the strategies of poverty reduction at the local level?* (ii) *What are the policy messages?*

### PSIA Conceptual Framework

Arguably, for an effective pro-poor decentralization, enough emphasis should be given to *participation in decision making* in order to guarantee higher

responsiveness to the needs of the citizens especially the poor. Also, for a more responsive District Assembly (DA), there must be an effective control over *local statutory structures/institutions* as well as higher levels of local resource mobilization. Quite expectedly, the influence of citizens and major institutions of state must harmonize their inputs in order to exert the appropriate pressure. Effective coalition of all civil society organizations (CSOs) with the poor population groups at the local level is critical for making the right impact on local administration.

Logically, it is expected that *improved provision (supply) of public goods and services* by DAs will be enhanced by a corresponding increase in demand for and access to public goods and services. This calls for strategies that will alleviate, in the short and medium-term and in the long-term, eradicate common causes of poverty, namely: illness, decrepit economic infrastructure and illiteracy. Besides, the provisions of education, water, sanitation, health, etc., become key developmental issues. The live wires for effectiveness and sustainability critically hinge on demand (requests) from citizens and supply (responses) of DAs.

As part of the above conceptual framework, the study uses the tools of PSIA study, namely, (i) stakeholder analysis, (ii) scenario analysis, (iii) transmission channels and impact analysis, and (iv) risk analysis and links poverty rates to resource availability and various strategic variables that will enable the decentralization process benefit the poor.

*Stakeholders* may be defined as organizations, groups or individuals who have interests, something at stake in the outcome of a given project, programme or policy. They also have opinions, some degree of influence over the project and are present where the particular project is on-going. Stakeholders thus include both those who affect and those who are affected by the project. Stakeholder analysis is essential for the design, implementation and monitoring of projects and operations requiring the participation of individuals, groups and organizations that have an interest in these projects.

The *stakeholder analysis* from the PSIA study on pro-poor decentralisation identified the key stakeholders of the reform programme, i.e., those who will be affected by the reforms (intended beneficiaries and possible adversely affected persons) as well as those who may primarily determine the outcome (policy-makers, interest groups, implementers, etc.). For this study

stakeholders in the decentralization process include MDAs, local and regional institutions, CSOs, the poor population groups, and international development partners. Crucial in the decentralization process is the group of governmental institutions at all levels and the nature of interactions between them. Their ways of interactions or behaviour patterns serve as criteria to categorize the stakeholders into groups: winners, losers and neutral ones. The winners are clearly the elected institutions at the local level; the losers are undoubtedly the departments and organizations among the MDAs who may cease to exist as a result of the reform process. Neutral ones can be called those MDAs, which do not have a regional and local extension and thus are not affected by the decentralization process.

There are two sets of *scenario analyses*, namely, those relating to: (a) classical prerequisites of policy cycle for poverty reduction, and (b) transmission mechanism and impact analysis.

*At the first level, the scenario analysis* is undertaken within the classical prerequisites of any effective cycle of poverty reduction (mandate, resources and capacity). The study adds a fourth category, partnership and participation. Within this framework the study links the scenario analysis to time dimensions: (a) short, (b) medium, (c) long term; and behaviour patterns as (i) stabilizing (short term), (ii) pushing (medium term and long term) and (iii) rolling back (an additional worst “case scenario”). *The second level of scenarios* is undertaken under transmission mechanisms and impact analysis.

*Transmission mechanisms* may be described as the various channels through which various policy reform measures affect the welfare of the poor district population and the respective stakeholders at the district level. These policy measures may go directly to the DAs or through the Regional level and down to the districts. The districts are then in a position to administer these policies which would then have effect on the local poor. For example, if DAs are able to allocate adequate financial resources efficiently and build more feeder roads, clinics and even engage in some direct productive investments, the people may benefit through increased employment and incomes, basic services, assets and reasonable level of prices for their produce. Indeed, if the people at the local level experience significantly higher employment level, basic amenities, etc. their poverty level will fall.

*Risk analysis* constitutes a crucial element of the PSIA study. It essentially involves an assessment of

assumptions underlying the reforms, and also emanating from the reforms, which are more likely to put the reforms outcomes at risk. Thus, we are concerned with those risks that are crucial and may affect the pro-poor decentralisation process in registering the desired positive impact on the poor local population. Four main risks have been identified in this study: (i) institutional risk, (ii) country risk, (iii) political economy risk, and (iv) exogenous risk.

## **Methodological Framework**

Both *secondary and primary data* collection techniques were employed in gathering data and information. The secondary data collection involved a literature review of available documents on pro-poor decentralisation complemented with field mission reports. Trends and quantitative analysis were developed using Econometric Regression, Social Accounting Matrix, General Equilibrium and other statistical techniques to quantitatively provide the link between policy reform measures and the transmission channels with emphasis on employment, access to basic services and transfers.

A variety of approaches were employed to collect primary data for the study. These include personal interviews, focus group discussions, direct observation and fieldwork. A stratified purposive-sample of 10 districts have been constructed based on the 2000 Population and Housing Census, Core Welfare Indicator Questionnaire (CWIQ), the 4<sup>th</sup> Ghana Living Standards Survey (GLSS 4), and the preliminary Poverty Map of Ghana.

The focus of the *sample design* was to capture the poor and the very poor as well as the rich from both urban and rural areas in metropolitan, municipal and district assemblies across ecological zones in all the ten political and administrative regions of Ghana. For the poor districts with urban-rural characteristics, the Komenda Ebirem Aguafo District in the Central Region was sampled because of its coastal location while the Birim North District in the Eastern Region was sampled because of its forest location. Two other poor districts were also selected: the Ketu District in the Volta Region lies in a semi deciduous forest zone in the south while in the savannah zone in the northern sector of the country, Wa in the Upper East Region was selected. The Nzema East District was selected from the Western Region because of its coastal and ecological characteristics and also to demonstrate a District with a non-Member of Parliament of the ruling government. The Adansi West District was selected to represent the Ashanti Region because of its rich mineral resources. The Accra Metropolitan Assembly in the Greater Accra Region was one metropolitan

district selected from the south while Tamale in the Northern Region represents a municipal assembly in the northern sector. Techiman District in Brong Ahafo Region was included in the sample because of its demonstrable character of the existence of Town/Urban/Area Councils and Unit Committees, both active and inactive while Bongo District in the Upper East Region was also sampled to demonstrate a district with best-case poverty alleviation initiative.

Both *(un-) structured questionnaires* to respond to the TOR demands of the study were developed to solicit information from relevant stakeholders. Given the importance of traditional authorities in governance at the local level and the pro-poor focus of the decentralization process, sub-sets of the questionnaires focused on traditional authorities and poor population groups.

In all a total of 250 sets of questionnaires were used to collect data from the various cohorts of stakeholders sampled for the study. Besides, information was also solicited from a total of 33 respondents from MDAs including MLGRD, MOFEP, the Electoral Commission, NDPC, Bank of Ghana and Social Investment Fund. Additionally, a total of 35 participants in a stakeholders' workshop some of which were neither in the cohorts nor respondents from MDAs and MMDAs contributed their quotas.

### **State of Decentralisation and Poverty in Ghana**

Available literature on decentralization in Ghana point out two major policy concepts on the reform process: the pre-GPRS and the post-GPRS periods. The pre-GPRS era perceived decentralization as a means and channel for transferring powers and functions to manage development at the local level. On the other hand, the post-GPRS concept of decentralization is perceived as a more effective instrument for eradicating poverty at the point of incidence by specifically focusing development projects and resources and actively involving the poor at that level including HIPC projects. Thus, the new concept can be seen as an expanded mandate embracing the paradigm shift as well as pro-poor targeting.

Indeed historical evidence of decentralisation in Ghana indicate attempts to relate the different layers of the administrative structure to achieve a bottom up approach in decision making that reflects the aspirations and the will of the people. Notwithstanding the renewed efforts in the decentralisation process in the post-GPRS era, fiscal

decentralisation is still not devolved from administrative authorities. *Fiscal authority continues to be largely centralized, while resources transferred through the DACF are often earmarked for specific uses, and are not fully at the disposal of the elected bodies. Administrative authority in the sectors such as health, education, and agriculture is de-concentrated. The key ministries have operational activities at the local levels that are not accountable to the District Assemblies.*

In the midst of all these plethora of problems bedevilling the decentralization process, available evidence indicate that poverty is still pervasive in Ghana manifesting in various forms and intensities through low income base, low productivity, poor health, personal incapacities, low level/lack of education, inadequate infrastructure, etc. In terms of incidence, poverty is high in the three northern regions and among food crop farmers. If poverty is not addressed, its results may be devastating resulting in hunger, drudgery, low esteem, a feeling of insecurity, vulnerability, powerlessness, etc. Most development practitioners now agree that poverty is not about income alone, but it is multidimensional such as reducing malnutrition, expanding literacy and increasing life expectancy. The missing links are genuine action plans with explicit targets, adequate budgets and effective organizations that can best be achieved through effective governance at the local level.

### **Conclusions: Strategic Policy Directions**

#### Stakeholder Analysis

Empirical evidence available from the *stakeholder analysis* is quite mixed on the extent of *involvement* of the key stakeholders in the pro-poor decentralization activities. This calls for the need to deepen the involvement of most of the stakeholders to enable decentralization benefit the poor population groups. Ironically, the study found out that the majority of poor population groups are rather *not familiar with the work of the DAs* thereby making the decentralisation process still far from the poor people and some members of the unit committees who should benefit from the reform process most.

The majority of the poor group members perceived that the decentralization process is benefiting only the educated. These call for more education of the poor groups to understand and appreciate the objectives of decentralisation. There is also the need to strengthen corporate elements in the structure of representation by increasing the representation of the poor in the work of the assemblies. The poor in rural Ghana constitute

more than one third of the population and they can also be an “organised productive grouping.”

Scenario Analysis

For the first set of analysis, *five different scenarios* came to light: (i) status quo, (ii) small reform, (iii) medium reform (iv) full decentralization, and (iv) rolling back (“worst case scenario”) in making the decentralization process more pro-poor. But each policy option available has its own strengths, weaknesses, opportunities and threats. In considering each option, therefore, there is the need to take into account whether the measures proposed are sufficiently pro-poor, whether they constitute balanced packages and the reasonableness of the sequencing of measures.

The *short-term scenario* which in terms of institutional behaviour and can be described as stabilizing the status quo of the decentralization process involves using fully the already existing possible institutional arrangements (mandate) make better use of disposable finances (resources) and take better advantage of existing or immediately available competencies as well as partnerships. The required measures within the short-term scenario, which involve generally maintaining the status quo is *up to one year*. Within this scenario is the proposed increase of the DACF from 5% to 7.5%, which has been voted in early 2004, and the mechanism for working partnerships with NGOs and private business sector.

The *second scenario* presents a small reform adding composite planning and budgeting between all departments, those extension officers on the regional and district level so far under the authority of the line ministries and committees of the district assemblies.

The *third scenario* focuses on a medium term, which involves implementing a medium sized reform of *up to three years*. This seeks to advance the decentralization process with capacity building in composite planning and budgeting and improvement in the identification, design and management of pro-poor projects and development plans.

The *fourth scenario* involves implementing a comprehensive reform in all the four programme areas. The measures required include achieving *composite planning and budgeting* by merging all departments at district and regional levels, resolving the issue about the election of District Chief Executives and all District Assembly members, the election of traditional authorities by their own

constituencies, the participation of the poor as economic groups and increase in internally generated revenue.

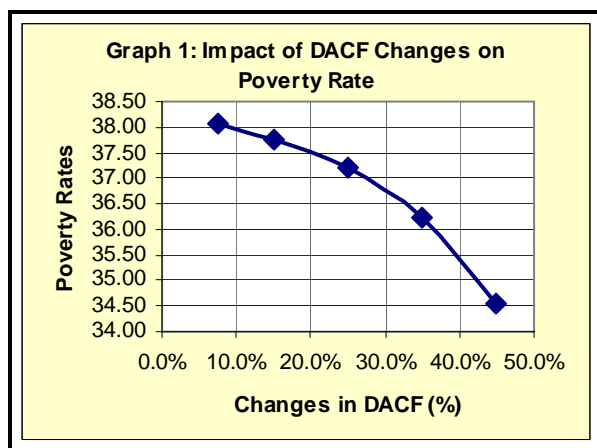
The *fifth scenario* that is a worst-case scenario means that the hitherto achieved status is dismantled in favour of rigorous centralization.

Transmission Mechanisms and Impact Analysis

Quantitative analyses using *simple and multiple regressions* capture impacts of related transmission variables. The empirical evidence suggests that a rise in the size of households contribute strongly to an increase in the incidence of poverty while increase in wage and agriculture income, transfer and household income contribute to poverty reduction. Increases in the DACF and employment of the poor in productive jobs have the strongest impact. This is reinforced by the results from *multiple regressions*. Specifically, in terms of the size of the coefficients, the multiple regression results indicate that the household income (with the parameter of -1.80) reveals the strongest negative effect on the reduction of the incidence of poverty. This is closely followed by employment income with -1.77. The effect from HIPC benefits takes the third position with -1.66, followed by DACF with the parameter -0.85.

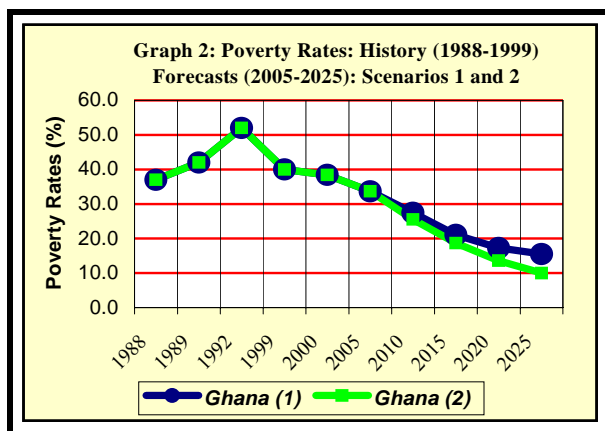
The policy implication is that in order to reduce the incidence of poverty there is need to focus on these variables with emphasis on how to increase household income especially of the rural poor, generation of employment, a possible increase in the HIPC funds (mainly for pro-poor projects) to locations where poor household abound as well as increase in DACF.

We have also undertaken model simulations of alternative scenarios that relate to increases in the DACF to 7.5%, 15%, 25%, 35% and 45% of total revenue collected which by implication is an increase in the available funds to the DAs. Refer to Graph 1.



7.5% increase in the DACF leads to 4.85% reduction in poverty while doubling the rate of increase to 15% leads to only 5.85% decline in the incidence of poverty. The policy implication is that increases in DACF (or funds in general) do not necessarily imply a linear or a proportionate reduction in poverty. An increase in funds of a DA will elicit one or all of the following: an increase in pro-poor projects and programme activities, and reduction in the incidence of poverty, assuming that all the increases will be utilized for the purposes for which they were allocated and that the rate of wastage (for example through corruption) is very low or if possible nil, the availability of capacity of citizens to make demands and the DAs to respond to the requests of the poor population groups, etc.

We have also constructed two *ex ante* conditional forecasts (2005 – 2025). Data available from GLSS 4 reveal that the incidence of poverty declined by 23.08% from 51.7% in 1992 to 39.5% in 1999. At the regional level, poverty declined in seven out of the ten regions in Ghana over the period 1992 to 1999 with the Greater Accra recording the highest rates of decline by 80.77%. Guided by such a historical evidence of registering a decline in the incidence of poverty, and with the help of a *Poverty Model and a ClayDord Macroeconomic Model of Ghana ex ante* conditional forecasts of poverty incidence for 2005–2025 have been conducted. The exogenous factors, which condition or determine the forecasts are employment, DACF, HIPC benefits and the budget of DAs, etc. Refer to Graph 2.



In the *first scenario*, given that job opportunities increase at the rate of 7.4% per annum, real DACF increases by 7.72% p.a. while real DA budget increases by 6.25% and HIPC benefits rise by about 7.6% p.a. over the period 2015-2025, it is possible for the Government to half the poverty incidence from 40% in 1999 to about 21% by 2015. These are

in line with the GPRS and the Ghana Millennium Development Goals and the NEPAD goals for African countries.

The *second scenario* indicates a poverty reduction of 18.7% by 2015. The policy morale is that the probability of reducing poverty incidence is very high. It should be possible to reduce poverty at a faster rate than in the first scenario provided policies that are adopted will enhance the poverty reducing factors and attenuate the poverty inducing factors. Among the key policies are matching wage with productivity, regular maintenance of capital, increase in job opportunities, removing all bottlenecks that will induce an increase in both government and private capital, payment of more realistic prices for agricultural products, increase in agricultural products, increase value addition to primary products, engender competition among the banks that will induce narrowing of the spread between the lending rates and deposit rates.

Besides, available evidence further reveals that there are other hidden variables including population growth, retrenchment, inflation and terms of trade that have significant effects on the incidence of poverty apart from the eight related variables in the Poverty Model.

Thus, the increases in funds must be accompanied by fulfilling various assumptions such as availability of capacity to implement pro-poor projects and programmes, risks are kept to the minimum, and that monitoring and evaluation are effective. Other assumptions include continuation of market based economic policies, intensification of fight against crime on all fronts, continued implementation and further decentralization of the GPRS, exploiting and taking advantage of international initiatives such as AGOA and NEPAD.

#### Risk Analysis

It became evident from the risk analysis that *institutional conflicts and interests* are seriously affecting the decentralization process being pro-poor. Whilst the technical professional may want to excel in technical performance and effectiveness, the administrators may naturally want to maintain the status quo. The politicians also have their divergent views or agenda. All these lead to an institutional conflict of interests, and hence an institutional risk which may adversely affect the pro-poor decentralisation process and therefore needs to be addressed.

Besides, there are institutions such as the Ministries of Finance, Health, and Education who have influence but are not interested in the decentralization process

(especially fiscal decentralisation) while institutions such as the District Assemblies, NGOs, CBOs, and some of the poor groups who have little or no influence but are rather interested in decentralization. Another dimension of the institutional conflict derives from the losers and winners dimension in the decentralization process. There is, therefore, the need to address the various forms of institutional conflicts and interests that are seriously affecting the decentralization process from being pro-poor.

*Chieftaincy disputes, land litigations, ethnic conflicts and bush fires* constitute part of the internal elements of exogenous risks affecting the implementation of district level projects and these need to be addressed to make the decentralization process succeed. These internal exogenous risks adversely affect the implementation of district level projects. In Ghana our traditional system gives an important value to chieftaincy, and we need to use it as a powerful instrument of development.

There is the need to make the *monitoring and evaluation* (M&E) team more effective and efficient. The M&E team at the District level is compared to a toothless bulldog beset with lack of technical expertise and inappropriate composition. Again, the participation of opinion leaders and communities as beneficiaries in selection and monitoring of projects is vital. There is also the need to transfer accounting personnel every two years. Then there is the need to de-politicise the decentralisation process to reduce the *risk concerning implementation capacity of stakeholders*.

#### Legal Framework/Mandate

The DAs need power and mandate to discharge their poverty alleviation interventions effectively and efficiently. The Local Government Service Act passed on December 23<sup>rd</sup> 2003 (Act 656) is expected to ensure smooth implementation. Furthermore, the DAs are supposed to be autonomous bodies with the power to plan and implement projects, yet one can say that they are still the appendages of the central government and dance to the tune of the MDAs.

There is the concern to have all *DCEs elected and not nominated by Government* in the medium-term. Two out of every three respondents interviewed would like the DCEs elected because they believe that this would make the DCEs more accountable and responsible to the people and would also prevent the DCEs from having double allegiance. It is also felt that the DCEs would enjoy the full cooperation and total allegiance of the people unlike

the current situation where there is a partisan assembly where the DCE has to belong to one. Another option is to abolish the position and to attribute his function to the Presiding Member of the District Assembly.

The cost of the District Assembly Elections in 2002 was €47.125 billion which was 0.31% of National Budget and 0.10% of GDP. In order to have full election additional costs would come only from marginal expenses on allowances for personnel, printing of ballot papers and stationery, as well as recruitment and training. The cost of full local level elections in 2006 is projected at €85.47 billion. This is expected to be about 0.30% of Budget and 0.09% of GDP.

Given the importance attached to the full implementation of decentralisation in the long-term, it is recommended that elections be carried out at the district level if the concern is financial just as in the case of the Presidential and Parliamentary Elections.

There is also the need to maintain the present practice of *election of District Assembly members*. The majority of respondents interviewed would not like to have all DA members elected. Their preference for the retention of the present system stems from the value derived by the District Assemblies from the professional expertise of the appointed members and the representation of traditional leaders and civic groups in the DAs.

*Institutional linkages* between chieftaincies and local assemblies should be improved. The presence of traditional leaders (who are appointed by the DCE) is highly valued. The presence of traditional leaders can be assured also by democratic means: They are elected among their own constituency (the chiefs in the district) and confirmed by the PM of the DA.

It is inferred that the decentralization process has brought in its wake an *institutional dilemma resulting in rivalry* among institutions at the district level, which is not in the best interest of pro-poor decentralization. Participants at the stakeholders' workshop in Accra were very apprehensive of the apparent *emergence of dual allegiance of regional and district branches* of sector MDAs as well as other elected local institutions which is threatening the existence of the extension offices functioning under centralized authority of the line ministries at the District level. This is seriously affecting the pro-poor decentralization process. Consequently, there is the urgent need to tackle the institutional dilemma at the District and Regional levels to address counter-productive rivalry among institutions to ensure smooth implementation of the decentralization process.

Resources: Mobilisation, Allocation and Management

Additional evidence from the *risk analysis* points to the need to initiate mechanisms to remove *financial constraints* on DAs ability to access timely and/or adequate resources to reduce the risks associated with the implementation of vital projects including poverty reduction projects. Besides, the DAs need to increase their efforts to mobilise enough revenue from their internally generated revenue (IGR). Collection of local tolls, levies and fines need to be efficiently tackled in order to rope in as many people as possible. Another way is for the DAs to engage in some direct productive investment activities such as farming (wood-lot farms such as the *tungya* system, food crop farms, cash crop farms) poultry, animal rearing such as cattle, etc. Furthermore, the DAs need to actively involve local institutions such as Traditional Authorities, Local Communities, Civil Societies, and Assembly Members, etc. in the mobilisation of revenue for the District Assemblies.

Furthermore, the DAs should very much actively involve traditional leaders, local institutions and the private sector in their revenue mobilisation efforts, in order to significantly increase their internally generated funds. The Ghana Private Road Transport Union (GPRTU) is doing some good work for the Internal Revenue Service (IRS) and must be adopted by the DAs.

There is empirical evidence that payment of taxes and levies is reported to have witnessed substantial improvement since the implementation of the decentralisation plan between 2002 and 2004 leading to a modest rise in IGR. (Refer to Table 1).

<b>Table 1: Sources of Funding DAs' Development</b>		
<b>Source</b>	<b>%*</b>	<b>%+</b>
GOG Consolidated Fund	34	32
DA Internally Generated Revenue	3	11
Development Partners' contribution	40	36
HIPC Relief Fund	8	7
District Assemblies Common Fund	15	14
<b>Total</b>	<b>100</b>	<b>100</b>
Sources: * GPRS Annual Report (2002) + Field Reports/Survey, 2004		

Despite the modest structural change, resource mobilisation at the district level in Ghana is still very weak. This has made the DAs still highly dependent on the central government revenue. The survey results have also indicated that the involvement of traditional authorities, local communities, civil societies, assembly members and

the private sector in the revenue mobilisation activities of the DAs is not much - just about average. This also calls for concern.

Resources (especially financial) channelled to the District Assemblies are supposed to be efficiently managed so as to derive their optimal utilisation. DA expenditure details are first supposed to be audited by the internal audit unit. These were found out not to be the case. There is the need to intensify regular auditing (internal and external) of the District Assemblies accounts. There should also be periodic unannounced auditing and reports submitted to the Controller and Accountant General, Ministry of Finance or published on bill boards in the communities.

It is inferred that the *funds released from the Central Government (including DACF) often fall short of the financial requirements of the DAs plans and operations*. However, the funds that the DAs actually got have fallen short of the amount budgeted for. This is evidenced from the persistent deficits that have come about as a result. On the whole, the deficits have averaged between 20% and 30% of the amount budgeted for. This adversely affects the execution of many poverty reduction projects in the districts in the form of delays, uncompleted projects and diversion of resources to other ends that have not initially been budgeted for.

The *increase in the DACF from 5% to 7.5%* would bring additional basic social facilities (for example: water, health, sanitation and education) to be provided. However, the present allocation formula for the disbursement of the DACF was found to be inadequate in view of the prevailing regional differences in the poverty levels in the country.

To ensure that the poor are the main beneficiaries of the 2.5% increase in the DACF, there is the need to *refine the DACF allocation formula* to facilitate the increase for pro-poor activities. The refined formula need to take into consideration the regional and district disparities as well as equity into consideration to enable those poverty-endemic districts get more allocation of the DACF. As an incentive, there is the need to include in the formula the indicator that those Assemblies with more IGR will be allocated more DACF.

Capacity for Pro-poor Decentralisation

The most fundamental driving force behind decentralisation is capacity. Capacity includes *training, national resource development (NRD) including human resource development (HRD), organisation and institutional development, availability of logistics, financial resources and*

*change management.* The absence of these can incapacitate pro-poor decentralisation. For the sake of this study, capacity refers to the requisite and adequate resources of DAs (both human and material which in turn depends financial resources), technical competences and institutions to be able to plan, manage and execute poverty-reduction projects among others.

If the DAs are deficient in capacity they cannot carry out or champion pro-poor decentralisation issues as best as may be expected of them. The NDAP continues to state that seventeen out of a total of twenty-three projects in support of decentralisation may be classified as "capacity building" or local government activities, as reflected in the new programming proposed under the GPRS and the Government Decentralisation Action Plan. Despite these, there are still high levels of capacity deficit.

The personnel who work at lower level in the system of local government faces an attitudinal problem. To some of them working at the lower level is more or less a punishment or demotion. It is also related to the value system in general. Indeed, essential logistics are also lacking at the districts. The DAs are deficient in basic logistics such as filing cabinet, telephone, computers, motor vehicles, etc. If the DAs were to function effectively and efficiently, these basic logistics would have to be put in place as soon as possible. It must be mentioned here that during the stakeholders' workshop on the preliminary findings of the Pro-poor Decentralisation programme held on 30<sup>th</sup> March, 2004 in Accra, some of the participants emphasised lack of essential logistics at the district level, as an important factor making working at the district level uninteresting and unattractive.

Weak capacity in both the public and private sectors has been identified as the core of Ghana's intractable development crisis. Indeed, in the most fundamental sense, development at the decentralized or any level depends on the availability of capacity to implement, sustain and accommodate change. The observed and documented reality is that capacity at the district level is much weaker than at the national level. This reality poses the major impediment to the development of the districts, contrary to the aspirations enshrined in the Constitution and the GPRS as concerted attempts to achieve equitable national development through decentralization. To reverse this reality, an urgent programme to resolve the institutional, professional/skills, equipment and logistical capacity limitations is imperative.

Evidence available from past planning initiatives confirms that capacity building has received some policy support over the past two decades, but the expected results remain unsatisfactory. Integration of institutions at the district level was assessed at 70% per region in 1999, but the reality in 2004 is that there is rather "a growing concentration of power and resources in the key MDAs at the Centre." Inadequate human/professional/skills availability at the district level persists in spite of planned training and retraining schemes, the urban series of capacity building programmes and other skills training efforts were aimed at resolving the problem. The persistence of equipment and logistical constraints underlines the inadequacy of budgetary allocations to district level development generally. These realities, among others, constitute the challenges, which must be confronted in any meaningful attempt to build adequate capacities for pro-poor decentralization.

As long as Ghana continues to pursue the policy of pro-poor decentralisation in the context of the GPRS, the requirements of the policy itself and the demands by the implementers of the policy will continue to highlight the prevailing deficiencies in capacity and demand that capacity building in the areas of institutional capacity, human resource/skills capacity and equipment and logistics capacity needs are addressed. In that regard, the Government, NDPC, MLGRD and others should consider taking the following actions:

- Resolve the institutional dilemmas, redefine institutional mandates and enforce full integration, at the district level, of those institutions needed to implement a successful pro-poor decentralization policy.
- Provide the necessary incentives and conditions of service that will attract qualified staff to accept employment at the district level in order to meet the one-third current deficit in staffing at those levels.
- Assess the various human resource development initiatives currently under implementation, i.e.
  - Training of senior administrators and DA operatives.
  - Special skills training for planning and budgeting offices.
  - The Urban V training for 23 beneficiary district capitals.
  - Other training/capacity building for other groups at the district level.
- The impact of each capacity building course should be subjected to periodic assessments and only those recording positive impacts should be retained. New programmes added must meet the

same positive impact criteria. The rationale is to achieve holistic improvements in human resource capacity at the local level.

- Provide adequate financial support to make the needed equipment and logistics available at the district level for the effective implementation of the pro-poor decentralization policy.
- Assess the overall capacity situation at the district level, add new capacity building efforts in areas like composite budgeting, poverty mapping and planning, urban planning, strengthen existing areas of human resource capacity building to achieve enhanced capacity at those levels.

The caveat to our main study hypothesis is that both resources and capacity are needed to achieve a higher level of effectiveness and sustainability and these should meet *supply* (sustained responses) of DAs in meeting the demand (requests) from the citizens.

On the *demand side* there is need for capacity/empowerment of the citizens to make requests. This can be enhanced through:

- Participation and partnership training,
- Monitoring and evaluation capacity,
- Transparency, accountability and probity,
- Lobbying and advocacy skills, and
- General education on functions of DAs.

#### Partnership and Participation

Partnership and participation are essential pre-requisites for pro-poor decentralisation. There is the need to build on the potential of the people the value of solidarity by fostering the African value of solidarity and inclusion as *best practice* and introduce “Solidarity Medals” at all levels from unit level upwards to the national level (as an example) and instituting Certificates of Honour and Award Nights. For a more effective performance, the Unit Committees must be well resourced. Many of the Unit Committees do not function due to lack of funding.

Partnerships and participation in pro-poor decentralization should also be improved by drawing upon the *traditional experiences* in solidarity that exist at the community level and strengthen them to achieve higher level of civil society participation in the decentralization process as well as act as being a safety net for the very poor.

Varied experiences and examples in solidarity that exist in Ghana can be adapted and adopted including the following: (i) *Widows Clubs/Societies* which were found to be common in some districts in the Western Region, specifically Princess Town in Akitakyi in the Ahanta West District. (ii) *Funeral Societies*, which exist in the Akatsi District in the Volta Region; (iii) *Ndobia Societies/Fidodo Groups* in such communities where we administered the questionnaires and conducted the interviews, the poor population form Fidodo Groups where they gather as groups to weed each others farms in turns (self-held); and (iv) *Village Societies which are led by the chief*. As a group the villagers identify projects such as electricity and roads needed for development. Levies were collected and projects implemented with utmost transparency.

#### Sequencing of Policies

A decentralisation process is not a matter of years: it will take generations and appropriate sequencing for the desired impact on poverty reduction. It is not only important to gear up measures in each available scenario but what is equally important is to proceed in phases and to sequence well the steps in the direction of full decentralization for eventual impact on poverty reduction. These should include the following policy options:

- Full planning and composite budgeting can only follow after the necessary capacities have been developed.
- Effective participation depends largely on the mobilization and education (capacity building) of the poor to make demands and call for transparency and accountability.
- Election of DCEs can be effective when decentralization is in full gear or even earlier.

# 1. INTRODUCTION AND BACKGROUND

## 1.1 Introductory Background

It is instructive to state that the Government of Ghana (GOG) has, since 1988, been implementing a comprehensive decentralisation programme, the thrust of which is to promote local participation and ownership of the development process at the district level. Further to this, the Local Government Law, Act 462, was enacted in 1993 to give more financial leverage to the District Assemblies in order to enhance the Districts' ability to conceive, formulate and implement their own development plans. The above Act also enjoined the Metropolitan, Municipal and District Assemblies (MMDAs) to prepare and implement annual development plans and budgets for the overall development of the local people. Each MMDA receives a share of the District Assembly Common Fund (DACF) (which represents at least 5% of total government tax revenue) annually in addition to mobilising and allocating internally generated funds (IGF), to finance developmental programmes and projects. Thus, the District Assemblies, which are responsible for the overall development of the districts, are required to have in place problem-solving budgetary systems and processes that match their development needs. However, there are significant deficits in the MMDAs' capacity for resource mobilisation, allocation and management, planning and budgeting at the districts in this respect. Also, there has been slow progress in the participation of civil society and unit communities in the MMDAs activities.

The GOG seeks to reverse the trend of policy thrusts, which seems to have had little impact on poverty reduction by focusing the Ghana Poverty Reduction Strategy (GPRS) on the alternative strategy of wealth creation to promote economic growth. Available evidence suggests that many development partners like the World Bank/IMF, UNDP and bilaterals like DFID and GTZ/KFW support that approach.

The GPRS recognizes the need to make the management of decentralized structures and programmes more pro-poor in order to reach the rural poor.<sup>1</sup> This is due to the fact that so far initiatives to institutionalise decentralisation have not been systematically implemented, and implementation of poverty programmes has not fully benefited the poor. In that direction the Ministry of Local Government and Rural Development (MLGRD) has launched the National Decentralization Action Plan (NDAP) 2003-2005, with eight point strategic objectives. The NDAP is to promote convergence of the decentralization efforts, consolidation of the process of resource allocation and management, building capacities of poverty-targeted development and governance at the local level and promotion of partnership and participation between local government, civil society, the private sector and traditional authorities.<sup>2</sup>

Poverty in Ghana has been described as both rural and agricultural. This is because 60% of Ghanaians live in rural agricultural households and 85% of those households live in extreme poverty<sup>3</sup>. The fact that most rural areas and agricultural lands are within the decentralized domain and service areas establishes the linkage between decentralization and poverty reduction strategies.

The objectives and strategies of Government's decentralization policy have focused on five main areas:

- (i) Political decentralisation, empowerment of local government structures, clear boundaries and participation at the various levels of decision making.
- (ii) Administrative decentralisation – integration of decentralization departments at the Regional and District levels into single administrative units to coordinate development programmes.
- (iii) Fiscal decentralisation – ensure the transfer of adequate financial resources from Central Government to local governments for utilization through composite budgeting.
- (iv) Decentralised development planning to promote participatory development planning and the bottom up participatory development.

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<sup>1</sup> GOG: *Ghana Poverty Reduction Strategy 2002-2005*, Feb. 2003

<sup>2</sup> MLGRD: *National Decentralization Action Plan, 2003-2005*, Sept. 2003

<sup>3</sup> Ghana Statistical Service, GLSS, Various Issues and CWIQ, Various Issues.

- (v) Decentralized management of public-private partnership in investments, provision of services and development programmes of the districts.<sup>4</sup>

While these objectives have all been partly implemented over the recent years, the GPRS requires a new focus of making decentralization pro-poor. The UNDP Poverty Report recommends three pertinent ways of focusing resources on the poor in a pro-poor decentralization framework.

- (i) Adjusting macro-economic policies to make growth more pro-poor
- (ii) Directing resources to sectors where the poor are employed – like agriculture, rural off farm enterprises, urban micro-enterprises
- (iii) Allocating resources to poor areas or communities. This requires poverty mapping based on a reliable set of human poverty indicators<sup>5</sup>

There is obviously a distinct convergence of this UNDP recommendation on pro-poor decentralization and the GOG's PSIA study on Enhancing Pro-poor Decentralization in Ghana. Specifically, with the Ghana Poverty Reduction Strategy (GPRS) the government has embraced poverty reduction as the overarching objective of national policies. Pursuing this objective in a way more in proximity to the poor the government is drafting (September 2003) a National Decentralization Action Plan (NDAP). *"The Government of Ghana aims to create wealth by transforming the nature of the economy to achieve growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment."*<sup>6</sup>

## 1.2 Objectives of the Study

The terms of reference<sup>7</sup> of the current study: *"Enhancing Capacity for Pro-Poor Decentralization: Resource Allocation, Mobilization, Management and Capacity Building at District Level in Ghana"* state as objective of the PSIA study:

To provide in-depth empirical understanding of the impact on the poor emanating from policy reforms and public actions for enhancing pro-poor decentralisation with emphasis on resource mobilisation, management and allocation as well as the capacity constraints in delivering pro-poor services at the district level; and to provide a basis for considering policy action alternatives as well as an appropriate sequencing of policies; to identify risks to the policy reform and help to integrate appropriate mitigation measures and risk management systems into the reform programme, if and when adverse impacts and risks are encountered.

In view of the foregoing, the study provides answers to the following issues:

- Examine the impacts of increased resource availability at district level on the local economic and social development, how alternative policy measures and reforms, which aim at improving resource mobilization, management and allocation at district level, impact the target groups,
- Assess the extent which capacity constraints influence the decentralized local government system in delivering services that support the implementation of essential elements of the GPRS, and the extent to which the proposed and implemented schemes for building capacity within local government appropriate and adequate in terms of content and quantity to resolve the capacity weaknesses, and
- Draw the relevant conclusions and make the necessary policy recommendations with regard to the implementation of the planned reforms.

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<sup>4</sup> NDAP ibid p.3

<sup>5</sup> UNDP Overcoming Human Poverty – UNDP Poverty Report 2000

<sup>6</sup> Government of Ghana, Ghana Poverty Reduction Strategy 2003-2005: An Agenda for Growth and Prosperity, Volume I: Analysis And Policy Statement, Accra February 19, 2003, p.

<sup>7</sup> Complete Terms of Reference, see Appendix 3

### 1.3 Limitations to the Study

This study is very complex, which ideally span a period of not less than two years, but had to be accomplished within a time period of four months: December 2003 to March 2004. Specifically, the study has been limited in the following areas:

- Out of the 110 districts (at the commencement of the study but now 138) in Ghana, only ten districts are covered in the sample. This is partly because KfW and GTZ who provided the funding for the study, prefer (and rightly so) a smaller sample of ten MMDAs (as against 33 MMDAs suggested by the Consultants). The findings and conclusions of the study should, therefore, be visualised in the context of this coverage,
- The environment existing at the Tamale (Northern Region) District at the time of study was not conducive for data collection and interviewing. Apart from the effects of the latest conflict, which resulted in massive relocation of relevant stakeholders, it was difficult to have full access to Assembly members and other stakeholders. Despite this problem there was a high level of co-operation from the officers and other stakeholders on the ground, and
- The collection of secondary data from the MDAs and MMDAs was very difficult. For example, the break down of sources and uses of funds to MMDAs including DAFC, HIPC, IGF, etc. Even the budget numbers suffer a lot of inconsistencies. The election effect also made it difficult for some of the MDAs to have time to prepare secondary data required for analysis. Additionally, even from the same DA, there were situations when three data sets in terms of the budgets and actual inflows were available.

### 1.4 Structure of Study Report

The current chapter is the *introduction*, which provides an introductory overview, objectives, and the limitations of the study as well as the structure of Study Report. Chapter two discusses the *core problem analysis and conceptual framework* spanning the logical framework, the PSIA framework as well as the analytical framework for the focus areas. The third chapter undertakes a situational analysis of the status of *decentralisation and poverty reduction* (with emphasis on decentralisation, poverty profile in Ghana and pro-poor decentralisation). The *methodological framework: data collection and analysis* employed in the study is covered under chapter four. Chapter five presents the *poverty and social impact analysis (PSIA) results* embracing (overview of survey results, stakeholder analysis, poor population, scenario analysis, transmission mechanism and impact/beneficial analysis, and risk analysis) and the results of *focus areas of prop-poor decentralisation analysis*, namely: legal framework (mandate), resource (mobilization, allocation and management), capacity building, and partnership and participation. The major findings and conclusions of the study and recommendations for policy reform are presented in the last chapter followed by appendices.

Appendix 1 presents technical results of the *quantitative analyses of the PSIA and Focus Areas* followed by a Technical Annex on the *Pooled Panel Data Analytical Framework* for the construction of Poverty and Macroeconometric and Spreadsheet Models, and *Parameterisation of Demery and Squire Framework*. The detailed empirical analyses of *Field Survey* spanning the PSIA and *Focus Areas* are in Appendix 2.

## 2. CORE PROBLEM ANALYSIS AND CONCEPTUAL FRAMEWORK

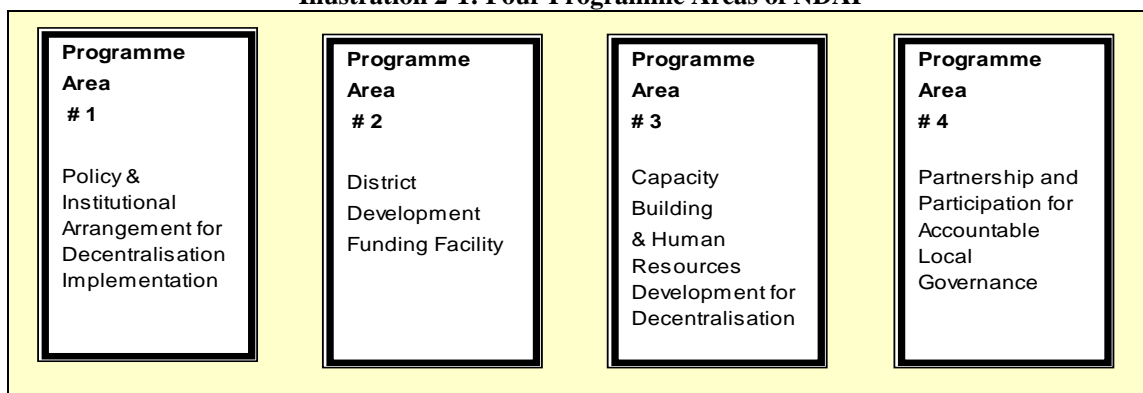
### 2.1 Core Problem and Conceptual Framework

#### 2.1.1 The Core Problem: Linkage Between Decentralisation and Poverty Reduction

The core problem, based on the TOR, for this PSIA study is identified as the following formulation in a question form: *How can decentralisation measures be best designed to promote the strategies of poverty reduction at the local level?* This understanding is underlined by the objective stated in the NDAP and reproduced from the GPRS: “*Promote responsive and accountable governance at the local levels that allows effective participation, equity in resource allocation, and effective delivery of services, especially for the poor*”.<sup>8</sup>

The above core problem formulation is to combine decentralisation and poverty reduction to explore the question and propose the optimum strategies for the attainment of pro-poor decentralisation. On the basis of detailed literature review, and distilling the various threads of thought, the schematic proposals are developed. On the basis of graph and adopting the approach of NDAP with four programme areas the linkages between decentralization and poverty reduction can be presented in the following modified Illustrations (2-1 and 2-2).

**Illustration 2-1: Four Programme Areas of NDAP**



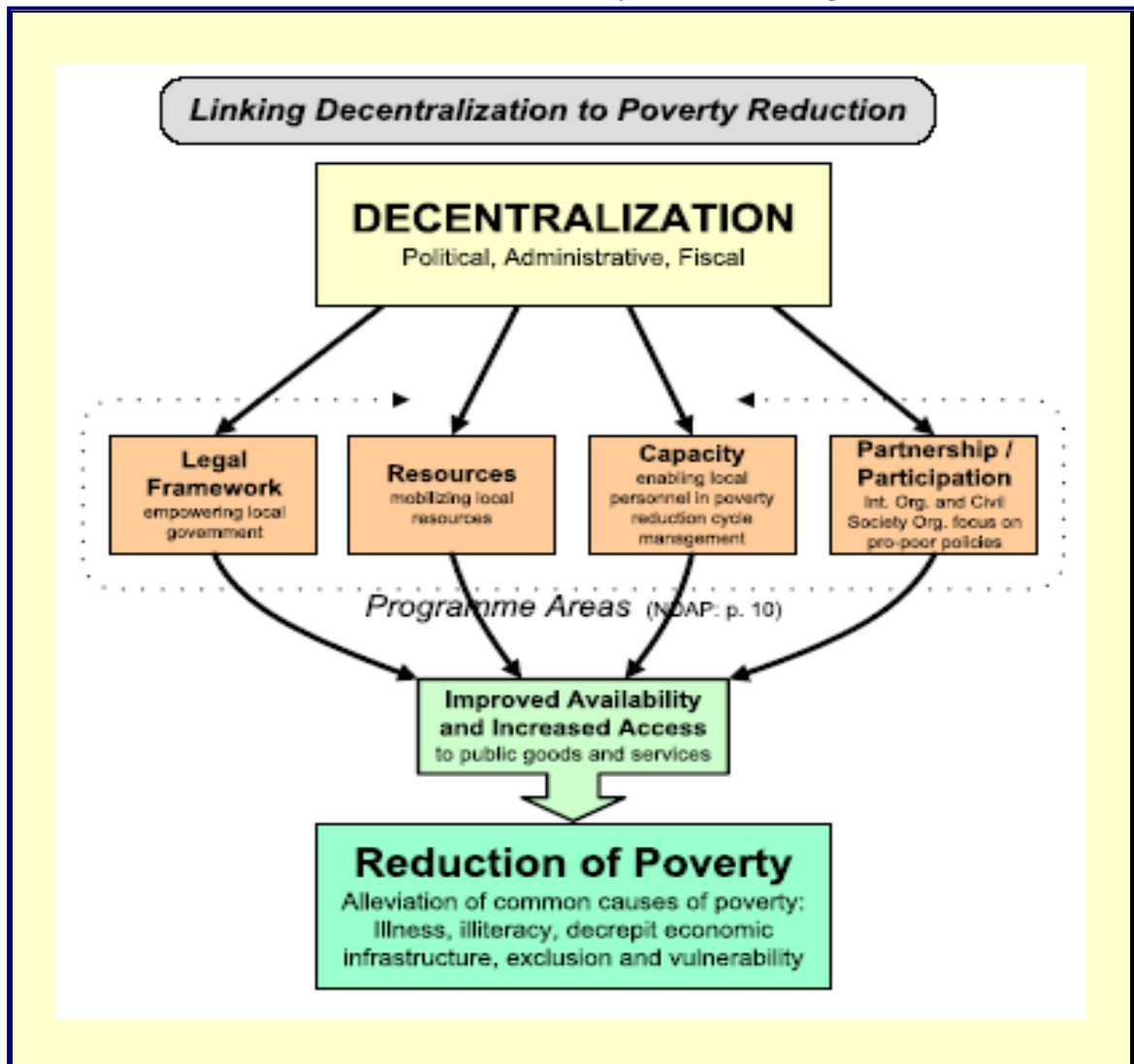
The four programme areas designated by NDAP correspond to the requisites for the management of any project or programme cycle: Mandate, resources, capacity and participation/partnership that are of particular emphasis in respect to decentralization. The core problems under each of the four programme areas of NDAP are briefly summarized as follows:

1. Policy and Institutional Arrangement for Decentralization Implementation: Adequate legal mandate has been provided for decentralization in the 1992 Constitution, the Local Government Act 1993 and National Development Planning Commission Act 1994. The MLGRD has since 1996 compiled data on the degree of integration of various departments into the local government system. In spite of these and other efforts institutional provisions to support decentralization are not adequate and concluded. The NDAP, 2003 provides the reason why the problem of full decentralization has not been resolved. The reality on the ground in 2003 is that there is rather a growing concentration of power and resources in key sector Ministries, Departments and Agencies (MDAs) that plan, implement, monitor and evaluate essential services to communities. The core problem with institutional arrangements for decentralization implementation therefore remains the unwillingness of central MDAs to relinquish power to the districts.

<sup>8</sup> Ministry of Local Government & Rural Development/Decentralisation Secretariat: *National Decentralisation Action Plan (NDAP): towards a sector-wide approach for decentralisation implementation in GHANA (2003 – 2005)*, Draft, Accra, September 2003, p. 8.

2. District Development Funding Facilities: These remain inadequate both in terms of size of allocations from all sources, DACF, HIPC, IGR and from Development Partners. The related problem is inadequately developed local channels and sources of revenue generation and mobilization to make the DA's reasonably self-sufficient to pursue pro-poor development programmes at the DA level.
3. Capacity Building and Human Resources Development for Decentralization: Inadequate capacity at the DA level has been documented in many sources to include logistics, equipment, institutional and human. The human resources capacity problem is both quantitative and qualitative. Inadequate numbers of staff to man critical positions remains a problem, so do inadequate qualifications and the right mix of skills and know-how at the DA level. These inadequacies make the goal of decentralization difficult to attain.
4. Partnership and Participation for Accountable Local Governance: These practices of forging partnerships with local, social groups and harnessing their full participation in local governance is dependent on well established local institutions well equipped, resourced and manned by professional staff. Since these conditions remain inadequate, they cannot sustain the level of partnership and participation deemed necessary to maintain good local governance.

**Illustration 2-2: Decentralization and Poverty Reduction: 4 Programme Areas**



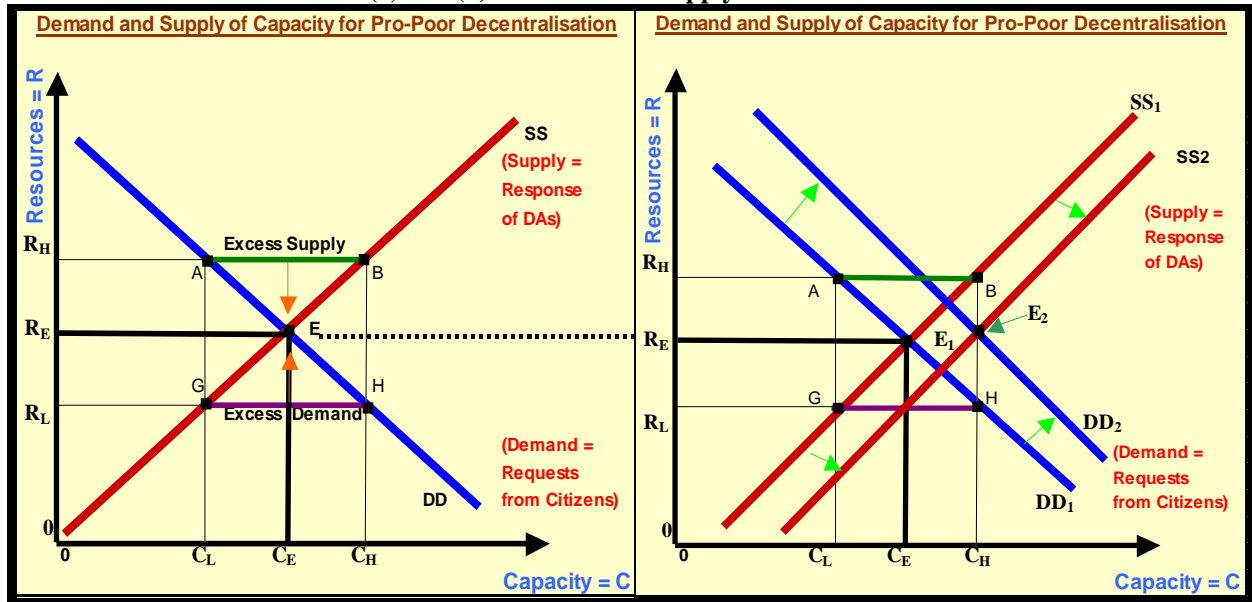
As in Illustration 2-2, there are four layers, namely: (1) decentralization, (2) four programme areas, (3) availability and access, and (4) poverty reduction. Indeed there is still a critical intermediate stage (or a missing link). Even without full articulation of the missing link, it is, however, important to put forward an interim hypothesis for the study.

The working “null” hypothesis ( $H_0$ ) is as follows: An effective political, administration and fiscal decentralization through the four programme areas of mandate, resources, capacity as well as participation will lead to an improved availability and increased access to public goods and services which in turn will lead to poverty reduction. The “alternative” hypothesis ( $H_a$ ) will be the rebuttal/negative to the null/affirmative.

### 2.1.2 Demand and Supply of Pro-Poor Decentralization

The above working hypothesis seems very innocent in terms of the need for dual focus on the **DAs** on the one hand and the **citizens** on the other. In order to highlight its relevance and to give equal importance to both, we postulate the **demand side** (the capacity of all citizens at the district-level to take part in and make demands on district-level institutions), and the **supply-side** (i.e., capacity of district-level institutions to respond) to pro-poor decentralization. In other words, this ties in the levels of resources (mobilization, allocation and management) with the capacity on the demand side, namely, requests from citizens, and on the supply side, namely, responses from the DAs to fulfil these requests.

**Illustration 2-3 (a) and (b): Demand and Supply of Pro-Poor Decentralization**



In Illustration 2-3 (a) we postulate in a two axis-panel, a relationship between demand and supply or requests and responses. The *demand* curve, which slopes negatively, captures the demand side. It is the sum of requests from citizens on the DAs. The critical factor is capacity or the empowerment of the citizens to make such demands. When capacity (awareness and the ability to participate) increases the citizens can make further and realistic demands. The *supply* curve, on the other hand, slopes positively upwards and captures the response of the DAs to fulfill the requests from citizens. As resources increase the capacity to deliver also rises.

In equilibrium at E, the demand and supply curves intersect (are equal). Below E for example at GH there is a state of dis-equilibrium, i.e., demand exceeds supply and pressure is brought to bear on the system to respond. Quantity demanded tends to fall from  $C_H$  towards  $C_E$  while quantity supplied also tends to increase from  $C_L$  towards  $C_E$ . In the dynamics of the system, as political and civil society pressures mount via call for transparency, accountability, and participation, the system rests at E for the time being. Similarly, for any position above E for example AB, a theoretical situation arises where there is excess

supply, i.e., supply exceeds demand. Through a series of dynamics, the system also tends to move towards E until equilibrium is restored again.

In Illustration 2-3 (b) we postulate that as citizens demand higher level of transparency and accountability and provision of more public goods and services through higher level of empowerment, lobbying and negotiation skills, it is possible for the demand curve to move outward from  $DD_1$  to  $DD_2$  given the same level of resources at each point. Pressure is then brought to bear on the DAs to respond by providing higher level of responses in the form of increased public goods and services. This process through intermediate impacts then leads to an increase in the supply curve from  $SS_1$  to  $SS_2$ . Given higher level of accountability and probity, a fall in corruption, and other forms of waste, the equilibrium position can move to a higher level (albeit small), namely from  $E_1$  to  $E_2$ .

### Summary

In summary, the caveat to the hypothesis is that both resources and capacity are needed to achieve a higher level of effectiveness and sustainability and these should be driven by demand (requests) and supply (responses).

On the *demand side* there is need for capacity/empowerment of the citizens to make **requests**. This can be enhanced through:

- Participation and partnership
- Monitoring and evaluation
- Transparency, accountability and probity

On the *supply side* there is need for resources for the DAs to respond to the demands of citizens (including civil society organisations). But the DAs must be capacitated with the right skills, tools and techniques in:

- Programme and project planning and management
- Total resource mobilization, allocation, and management (including budgeting)
- Administration and management

## **2.2 The Framework for Analysing Pro-Poor Decentralization**

In order to crystallize further the demand and supply dynamics, it is critical to present a simple framework for analysis (an improved version of the one in Illustration 2-2), which will tie in the importance of layer 2 (spanning mandate, resources, capacity and participation) and introduce an intermediate layer between layers 2 and 3).

Reference to Illustration 2-4 (adapted from Parker, 1995 in Asante, 2003, p.12 and 85) it is postulated as follows: For an effective decentralization, enough empowerment should be given to **participation in decision making** in order to guarantee higher responsiveness to the needs of the citizens especially the poor. Also, for a more responsive DA, there must be an effective control over **local statutory structures/institutions** as well as higher level of local resource mobilization. In this framework, the influence of citizens and major institutions of state must harmonize their inputs in order to exert the appropriate pressure. Effective coalition of all CSOs<sup>9</sup> with the poor population groups at the local level is critical for making the right impact on local administration.

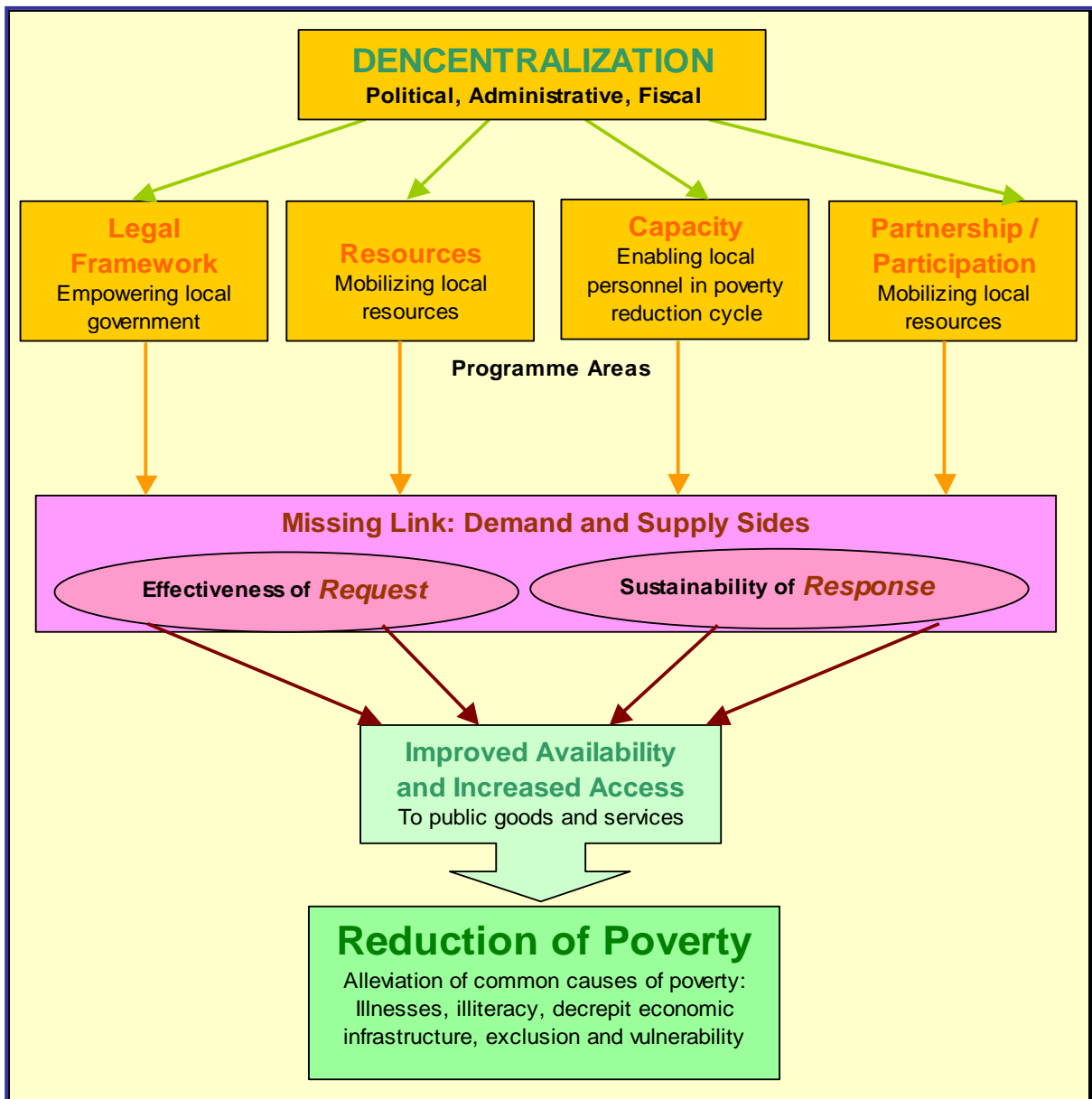
It is critical to note that **improved provision (supply) of public goods and services** by DAs cannot be achieved by accident or by wish. It has to be demanded. It is only then that an increased access to public goods and services can become a reality. (Refer to Illustration 2-4 for the “Missing Link”). The focus should be on strategies that will alleviate (in the short and medium-term) and in the long-term to eradicate

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<sup>9</sup> Civil Society Organisations (CSOs) here includes associations of professionals, workers, women, students, employers, journalists and consumers, religious organisations, recreational and cultural clubs, and human rights groups.

common causes of poverty, namely, illness, decrepit economic infrastructure and illiteracy for the **reduction of poverty**. The key items of concern include education, water, sanitation, health, etc. The live wires for effectiveness and sustainability critically hinge on demand (requests) from citizens and supply (responses) of DAs.

**Illustration 2-4: Framework for Analysing Pro-Poor Decentralization**



From the forgoing, therefore, this study is researching into the institutional web, the complex and often conflictual relations between MDAs and extension offices of line ministries at the national/regional level on the one hand and the local level on the other. It will examine the resources of the decentralized institutions particularly the sources, the volumes and the utilization of the finances. The study will include an analysis of the situation as regards human capacity building in terms of functional excellence and attitudinal aspects concerning the unwillingness of a certain number of officials to serve at lower levels of the administration and to participate in poverty assessments at the grass roots level. Thus participation and partnership will be examined since it is well known that decentralization without the active support of the population will not work and without the involvement of the poor it will not be pro-poor.

## 2.3 PSIA Analytical Framework

The key aspects of the Poverty and Social Impact Analysis (PSIA) for this study embraces (i) stakeholder analysis, (ii) scenario analysis, (iii) transmission mechanism and impact analysis, and (iv) risk analysis.

### 2.3.1 Stakeholders Analysis

Stakeholders may be defined as organizations, groups or individuals who have interests, something at stake in the outcome of a given project or programme. They also have opinions, some degree of influence over the project and are present where the particular project is working. Stakeholders thus include both those who affect and those who are affected by the project. Stakeholder analysis is essential for the design implementation and monitoring of projects and operations requiring the participation of individuals, groups and organizations that have an interest in these projects.

The stakeholder analysis from the PSIA study on Pro-poor decentralisation identified the key stakeholders of the reform programme, i.e., those who will be affected by the reforms (intended beneficiaries and possible adversely affected persons) as well as those who may primarily determine the outcome (policy-makers, interest groups, implementers, etc.). For this study, stakeholders in the decentralization programme include Ministries, Departments and Agencies (MDAs), local and regional institutions, civil society organizations, the poor population groups, and international development partners. Crucial in the decentralization process is the group of governmental institutions at all levels and the way they interact. Their way of interaction or behaviour pattern serves as criteria to categorize the stakeholders into groups: winners, losers and neutral ones. The winners are clearly the elected institutions at the local level; the losers are undoubtedly the departments and organizations among the MDAs called “ceasing to exist”. Neutral ones can be called those MDAs, which do not have a regional and local extension and thus are not affected by the decentralization process.

The GPRS presented a list of stakeholders in the poverty reduction strategy and decentralisation process. That list based on the World Bank’s “*Social Analysis Source Book*” (2002) has been modified and analysed in Table 2.3.1 to show the role of each stakeholder in policy formulation, implementation and monitoring and evaluation. The main characteristics of each stakeholder, its social situation, location, size and organisational capacity are captured.

The *National Decentralisation Action Plan (NDAP) 2003-2005 (2003)*, which seeks to develop the processes and mechanisms to start the implementation of decentralisation in earnest by 2005 confirms that all key stakeholders had agreed to the plan’s goals. The *Ghana Fiscal Decentralisation Road Map Report (2002)* further identifies all stakeholders whose responsibilities in fiscal decentralisation and formally allocates implementing responsibilities to each level of government (stakeholder) with the authority for local government to source and generate the funds needed for development. The Report further identifies stakeholders into: (i) Institutions involved in Fiscal decentralisation; these include the Presidential Oversight Committee, the programme team, the MDAs with RCCs and MLGRD, MOFEP and NDPC; and (ii) Passive institutions which include the Auditor General, Attorney General, Donors, the beneficiaries comprising the poor, women and children, households, committees etc.

The role of the MOFEP involves the transfer of funds to the decentralised institutions and ensuring that the tools for fiscal controls, principles and policies are adhered to by all concerned. The role of line ministries/sector ministries is to ensure that responsibilities are clearly defined in the field, decentralised and integrated into the ministries at the local level and adhere to fiscal decentralisation principles.

**Table 2.3.1: Potential Stakeholders for Pro-Poor Decentralisation**

Potential Stakeholders	Stakeholder Groups	
<b>National Authorities</b>	1. National Government 2. Political figures 3. Political party organisations	4. Military 5. Parliament 6. Central Ministry Officials
<b>Regional Authority/ Organisation</b>	1. Regional Ministry Officials 2. Mayors and City Councils 3. Local party officials	4. Local Union representatives 5. Regional law enforcement agencies
<b>District or Local Organisations</b>	1. Community-based organisations 2. Agricultural extension services 3. District integrated ministry officials 4. District Assembly members	5. Labour craft unions 6. Peasant unions 7. Rural Cooperates 8. Water use groups 9. Mass organisations
<b>Non-Governmental Organisations</b>	1. Advocacy NGOs 2. Operational NGOs 3. Life agency representatives 4. Local Non-profit organisations	5. International Non-profit Organisations 6. Women's advocacy groups 7. Environmental groups
<b>Religious Organisations</b>	1. Priests, clerics, imams 2. Lay organisations	3. Church-based charities 4. Religious institutions
<b>Traditional Groups</b>	1. Tribal Leaders 2. Indigenous leaders or organisations	3. Traditional healers (health Projects) 4. Ethnic group organisations
<b>Commercial and Business Groups</b>	1. Local credit co-operatives 2. Bank officials/Rural banks 3. International bank representatives	4. Business organisations 5. Chambers of commerce 6. Trade Organisations
<b>Groups Defined By Beneficiary Status, Social Analysis, Rural Appraisals, Or Gender Analysis</b>	1. The poor 2. The landless 3. The displaced 4. Women/men	5. The elderly 6. Youth 7. Agricultural workers/ subsistent 8. Tender's groups
<b>The Media/Press</b>	1. Local press/radio 2. National press	3. International press 4. Other communication agencies
<b>Other Governments</b>	1. Governments of other interested countries	2. ECOWAS Countries 3. 2 <sup>nd</sup> Monetary Zone Countries
<b>Development Partners</b>	1. The world Bank/IMF 2. DFID 3. GTZ, KfW	4. DANIDA 5. USAID 6. CIDA, etc.

Source: Adapted to Ghana's Situation from Sherrie A. Kossoudji "Strategies of Stakeholder Analysis to improve Participation and Project Performance: Concepts and field techniques" in *Social Development papers*, No. 35, June 2001, p. 20

### Beneficiary Assessment: Household/Poor Population Groups

The poor household groups are also one of the stakeholders. From human development perspective improvements in the standard of living of poor population groups is positively correlated with access to income and other productive resources, quality health and education and other public utilities. This is expected to be derived from the pursuit of macroeconomic policies to encourage growth coupled with proper allocation of funds and good governance to trigger improvements in the standard of living and quality of life of poor population groups in the communities. Consequently, pro-poor decentralization is therefore expected to be a process by which central and local governments can improve upon the welfare of the poorest section of the population (UNDP, 1998 p.49). This study therefore attempts to link the decentralization process to the envisaged policy changes and expected effects on the welfare of poor population groups by an assessment of access of poor population groups to employment, basic services, assets and transfers.

### **2.3.2 Scenario Analysis**

In building the scenarios for pro-poor decentralisation it is obvious that the classical prerequisites of any effective cycle of poverty reduction<sup>10</sup> (mandate, resources, and competency) must be considered. A fourth category has been added by NDAP: Participation and Partnership, which is of particular importance in the

<sup>10</sup> As adapted from the "Project Cycle Management/Logical Framework Approach"

context of decentralization. From the inventory of the GPRS and NDAP the most pertinent measures are being selected (one to two per programme area):

The basic programme areas are linked to the scenario analysis by relating time dimensions (short, medium, long term) to behavioural patterns of stabilizing (short term), pushing (medium and long term) and rolling back (an additional “worst case scenario”).

Short-term measures can be defined as those which are using fully already existing possibilities in terms of institutional arrangements (mandate), make better use of disposable finances (resources) and take better advantage of existing or immediately available competencies as well as partnerships: In short they use all the possibilities of the system (generally up to one year). The short-term scenario in terms of institutional behaviour can be termed: *Stabilizing the status quo of the decentralization process.*

**Table 2.3.1: Framework for Pro-Poor Decentralisation: Scenario matrix<sup>11</sup>**

<b>Prerequisites/Programme Area</b> <i>Time frame</i>	<i>Short term</i>	<i>Medium term</i>	<i>Long term</i>	<i>Worst Scenario</i>
Legal framework				
Resources				
Capacity				
Partnership and participation				
<b>Explanation:</b> - Legal framework refers to the mandate, power, and authority. - Resources are the financial means. - Capacity refers to competency and qualification. - Partnership and participation refers to the relationship of the DAs with the civil society organisations and the population in general				

The medium-term measures are those that specify the rules or add to the rules of the system (like decrees of ministers, generally up to three years), and the medium term scenario in terms of institutional behaviour can be termed: *Advancing substantially in the decentralization process.*

The long-term measures are those which need a change in the framework or the structure of the system, i.e. laws or constitutional amendments (beyond three years). The long-term scenario in terms of institutional behaviour can be termed: *The decentralization process is virtually completed.* The completion of the process is essentially referring to the structures; they are in place now. The performance within this structures will of course need steady improvements.

Worst-case scenario: The three scenarios above are of operational value whereas the worst-case scenario of course is not. It should however be considered in order to capture all possible behaviour patterns of the stakeholders and of course particularly of those who consider themselves as losers in the decentralization process. In terms of behaviour this can be called a rolling back attitude and strategy, rolling back the achievements so far reached in the decentralization process.

Legal Framework (power): The rolling back strategy will be particularly virulent in the areas of overlapping functions, functions traditionally attributed to the line ministries and their regional and local extension offices and attributed at the same time to the duties of the District Assemblies. Refusal of cooperation, information sharing will be the visible signs of such a behaviour pattern.

Resources: In terms of resources there is the possibility of rivalry of competition for the scarce resources, either internal resources or funds provided by external donors.

<sup>11</sup> The cells of this matrix will be filled with a few essential and exemplary measures and are not meant to be complete; they indicate however clearly the methodology and are developed in Tables 2.3.2 and 2.3.3.

Capacity: In terms of capacity and capacity building there will be competition and efforts to minimize the achievements of the other.

Participation and Partnership: Participation and partnership are traditionally assets of grass root institutions and of course also (but not necessarily) of local government. The “roll back” argument can be that participation is reducing the quality of professional work whereas the other side will put foreword that sustainability can only be achieved by wide participation and good partnerships.

From the above framework the 5 scenarios can be articulated as follows as in Tables 2.3.2 and 2.3.3.

**Table 2.3.2: Scenario components**

Programme Area	Scenario components
Legal framework	1. All departments at district and regional level are merged (composite planning and budgeting is routine) 2. All DA members and DCEs are elected
Resources	3. DACF increased from 5% to 7.5% 4. Internally Generated Revenues (IRG) increased considerably
Capacity	5. Identification, design and management of pro-poor projects and development plans improved 6. Capacity building in composite planning and budgeting
Partnership and participation	7. Mechanism for working partnerships with NGOs and private business sector established 8. Participation of the poor at all local levels is improved

**Table 2.3.3: Selected Scenarios and Measures**

Scenarios	Qualification	Measures
Scenario 1	Maintaining the status quo	3. DACF increased from 5% to 7.5% 7. Mechanism for working partnerships with NGOs and private business sector established
Scenario 2	Implementing a small reform	3. DACF increased from 5% to 7.5% 6. Capacity building in composite planning and budgeting 7. Mechanism for working partnerships with NGOs and private business sector established
Scenario 3	Implementing a medium sized reform	1. All departments at district and regional level are merged 3. DACF increased from 5% to 7.5% 5. Identification, design and management of pro-poor projects and development plans improved 6. Capacity building in composite planning and budgeting 7. Mechanism for working partnerships with NGOs and private business sector established
Scenario 3	Implementing a comprehensive reform	1. All departments at district and regional level are merged (composite planning and budgeting is routine) 2. All DA members and DCEs are elected 3. DACF increased from 5% to 7.5% 4. Internally Generated Revenues (IRG) increased considerably 5. Identification, design and management of pro-poor projects and development plans improved 6. Capacity building in composite planning and budgeting 7. Mechanism for working partnerships with NGOs and private business sector established 8. Participation of the poor at all local levels is improved
Scenario 5	Status quo is rolled back	0. Already achieved successes (see Scenario 1) are dismantled.

Scenario 1 is describes the actual state of affairs: For example, the increase of DACF to 7.5 % has been voted in early 2004 and partnerships with NGOs and the private sector have begun, but are not generalized.

*Scenario 2* focuses on a small reform adding composite planning and budgeting between all departments, those extension offices on the regional and district levels so far under the authority of the line ministries and the committees of the DAs which have been instituted legally in 1993.

*Scenario 3* describes a medium reform. The same law foresees the merging of these departments however the complete implementation is yet to come. This institutional change will ratify the practice of composite planning and budgeting. However, the change of authority and command line is nevertheless a substantial change to the previous situation.

*Scenario 4* concentrates on the full achievement with the most significant reform measures in all four-programme areas implemented. The new elements are election of all members (DCE, and DA members) as well as participation of the poor. The election mode of the DCE can be the same as the modality for other DA members, or it can be a modified formula. The election of the hitherto appointed DA members (traditional leaders and economic groups) can and should be the election of traditional leaders by their own constituency and of economic representatives again by their own constituency. The idea to retain the element of traditional authorities is dear to many persons. The participation of the poor can enter into the group of so far appointed DA members coming from economic groups. The poor – when organized – are an important part of society.

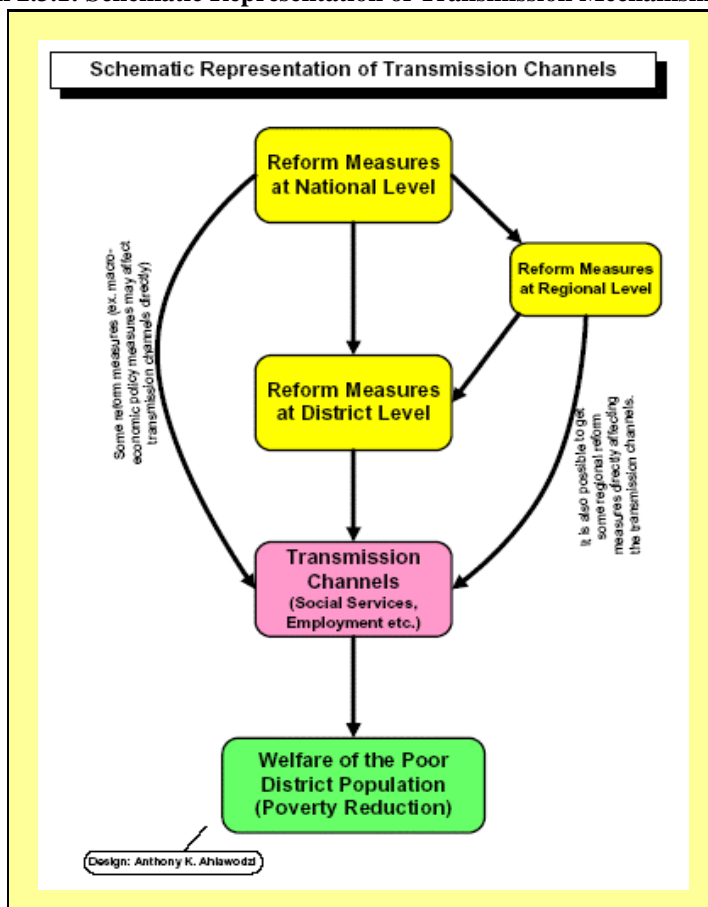
*Scenario 5* is the “worst case scenario” and means that the hitherto achieved status is being dismantled in favour of rigorous centralization. The scenarios 1 to 4 above are of operational value whereas the worst-case scenario of course is not.

### 2.3.3 Transmission Mechanism and Impact Analysis

**Illustration 2.3.1: Schematic Representation of Transmission Mechanism**

Transmission mechanisms may be described as the various channels or media through which various policy reform measures affect the welfare of the poor district population and the respective stakeholders at the district level.

Essentially and logically, the reform measures of decentralisation such as increased resource availability and strengthened capacity to DAs emanate from the national level. These policy measures may go direct to the DAs or through the Regional level and down to the districts. The districts are then in position to administer these policy measures (resources) to have effect on the local poor. For example, if DAs are able to allocate adequate financial resources efficiently and build more feeder roads, clinics and even engage upon some direct productive investments, the people may benefit through higher level of employment, basic services/amenities, assets and reasonable level of prices for their produce. Indeed, if the people at the local level experience significantly higher employment level



(higher incomes), basic services/amenities etc. their poverty level will fall. The overall structure of the transmission process from the national level may be captured in Illustration 2.3.1.

The figure indicates the main lines through which reform policies affect the set of transmission channels. It shows that not all reform measures emanating from the national level necessarily go through the DAs to affect the set of transmission channels, and finally impact on the welfare of the district population. It is possible for some of the reform measures to go through the regional level, and to the DAs before affecting the transmission channels. Again, the reform measures may go directly from the regional level to influence the transmission channels, before affecting the welfare of the poor. Similarly, the reform measures may affect directly the set of transmission channels from the national level. For example, macroeconomic policies changes (monetary, exchange rates etc.) may affect these basic channels. If the Bank of Ghana prime rate is increased and for that matter all interest rates go up, it will have the effect on prices at the district level too (borrowing rates and prices of some items may go up), and vice-versa. Again, if the price of petroleum products are increased, the increase also affects their prices at the local level not through the DAs.

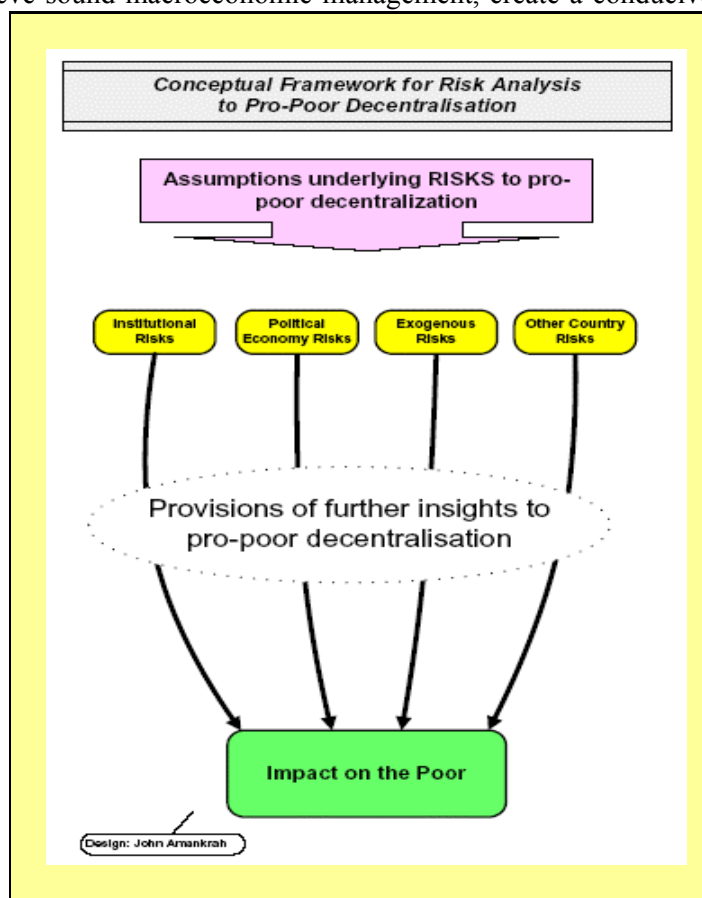
The implications are that the decentralisation process itself does not hold the ultimate key for poverty reduction in the district. What ever happens at the national level is still important in improving the welfare of the poor in the districts. We need to achieve sound macroeconomic management, create a conducive atmosphere for investment to be stepped in order for the economy to grow as well. Empirically there is a negative correlation between economic growth to poverty reduction.

**Illustration 2.3.2: Analytical Framework for risk analysis**



**2.3.4. Risk Analysis**

Risk analysis constitutes a crucial element of PSIA as mentioned under log-frame analysis. This essentially involves an assessment of assumptions underlying the reforms, and also emanating from the reforms, which are more likely to put the reforms outcomes at risk. Thus, we are concerned with those risks that are crucial and may affect the pro-poor decentralisation process in registering the desired positive impact on the poor local population. Four main risks may be identified in this study. They are: institutional risk, country risk, political economy risk and exogenous risk.<sup>12</sup>



The institutional risk deals with the role of agents and institutions that are connected to the decentralisation process. These institutions range from the national (Ministry of Finance) through regional level to the local level (civil society organisations etc.). Donors, like investors are highly risk averse. Country risk may refer to the general economic environment within which the reform process is taking place. We are thus concerned with the developments in the country that facilitate or jeopardize the reform

<sup>12</sup> Risk analysis helps to identify risks that could undermine reform objectives, provides alternatives to policy design and develop risk management strategies for identified risks to the policy reform. The type of risks identified guides the recommendations for policy reform and the corresponding corrective measures.

process. We need inflow of resources (especially donor resources to support the reform process, and so the donor community must be convinced that the risk factor is indeed reduced or conducive. Some of these risks include the crime level, corruption level or level of transparency, etc.

Next is the political economy risk. This may include powerful interest groups that may undermine attainment of the reform objectives, by blocking implementation, capturing benefits or reversing reform actions. Thus, it deals with the general political environment as it affects the reform process (decentralisation process). We are interested in whether there is political consensus to some extent to enhance success of the decentralisation programme. For example in Ghana, the historical evidence has shown that generally almost all governments are in favour of poverty reduction and a successful decentralisation process.

Finally, exogenous risks relate to shocks both within and outside the country that put the successful implementation of the pro-poor decentralisation process to danger. Some of these internal risks are natural disasters or regional economic crisis, ethnic conflicts, chieftaincy disputes etc. Those that are external to the country include global economic crisis (oil crisis), political crisis in the neighbouring countries such as Cote d'Ivoire, Liberia (with the attendant refuge problems) and the recent increase in terrorism in the world (remember the September 11, 2000 raid on the U.S Trade Centre)<sup>13</sup>. Our framework for risk analysis of the pro-poor decentralisation plan is represented in Table 2.3.5.

**Table 2.3.5: Key issues on risks**

Key Issues	Type	Focus	Elements
1. What are the risks with regard to inappropriate allocation of funds at the district level?	Country risks	Fungibility risks	Risk identification
2. What additional requirements are required to ensure transparency and accountability of resource management?	Institutional risks	Fiduciary risks	Risk assessment
3. What risks are linked to the implementation capacity of the involved stakeholders?	Political economy risks	Implementation risks	Risk identification, Risk assessment
4. What kind of compensation measures is required to minimize these risks?	Exogenous risks	Risks of under- or non-achievement	Risk management

Source: Derived from the Terms of Reference and Literature

Available literature on risks on pro-poor decentralisation in Ghana is very scanty. On implementation or political economy risks, it is identified that weak co-ordination and linkages between actors as one of the key problems that account for delays in district level planning and implementing development programmes. With regard to fiduciary risks or institutional risks it may be argued that institutional problems are created when a partisan central government is superimposed on a non-partisan local government system. It is important to point out, that conflicts between Local Members of Parliaments, presiding members of DAs and the DCE have been known to hold back programmes for local development. Roles of the Members of Parliament as ex-officer members of the DAs and the presiding members on audited accounts need specification in the Local Government Act. In terms of implementation risks or political economy risks, the DAs face serious shortage of qualified personnel to perform critical functions transferred to that level. Transfer to the districts is hampered by poor utilities availability and lack of economic opportunities for accompanying spouses of staff at these levels.

<sup>13</sup> The four risks discussed may also be respectively identified as follows; fiduciary risk, fungibility risk, implementation risk and risks of under- or non-achievement.

## 4. METHODOLOGICAL FRAMEWORK AND SUMMARY STATISTICS OF SURVEY RESULTS

This section outlines the methodology and organisation of secondary and primary data collection with emphasis on the latter. It should be noted that in this ex-ante study the empirical enquiries could not survey actual impacts – because the events have not occurred (increase of 5% to 7.5% of DACF, election of DCE, etc). The field research focuses, therefore, on the perceptions and the expectations of the people supplemented with secondary data analysis.

### 3.1 Method of Secondary Data Collection and Analysis

#### 3.1.1 Terms of Reference-Determined Technique

Both secondary and primary data collection techniques were employed in gathering data and information. The secondary data collection involved a desk review of available documents, studies and prior field mission reports as well as discussions with experts to capture the existing knowledge with regard to pro-poor decentralisation, in particular the issues of resource allocation and mobilisation as well as capacity deficits at district level. The issues examined during the desk review included the analysis of:

- Decentralisation process in Ghana, and the constraints for fiscal decentralisation, resource allocation, management and mobilisation at district level,
- Constraints in relation to the organisational behaviour and performance, and
- Capacity constraints within local government with regard to promoting pro-poor development by adequate and strategic service provision.

The literature review was complemented by fact finding in the field to gain a thorough understanding of the context in which decentralisation in Ghana aids poverty reduction and of the stakeholders involved in fiscal decentralisation, in resource management as well as in economic and social development at district level. Issues examined were:

- Availability of financial resources and financial needs at district level,
- Access to and utilisation of basic services by the poor, particularly health, education, water and sanitation, and
- Existing capacities or potentials in decentralisation that specifically promote poverty reduction, within local government structures and other relevant institutions.

#### 3.1.2 Secondary Data Requirements

In order to cast the net very wide for secondary information gathering as well as data collection an exhaustive list was prepared under the respective PSIA study requirements, which we summarise in Table 3.1.1.

**Table 3.1.1: Broad list of Secondary Data Gathering**

<p><b>1. General and Legal Documents for District Assembly Business</b></p> <p><b>2. Scenario Analysis and General Stakeholder Information</b></p> <p>1. <i>Capacity Building</i></p> <p>2. <i>Resource mobilisation, allocation and management</i></p> <p>3. <i>DAs Establishment</i></p> <p><b>3. Stakeholder (and Beneficiary) Analysis</b></p> <p><b>4. Analysis of Key Transmission Mechanisms and Impact Assessment</b></p> <p><b>5. Risk Analysis and Recommendations for Policy Reform</b></p> <p><b>6. Data on GPRS Pilot study districts</b></p> <p>i. Chorkor of Accra (Coastal, metropolitan)</p> <p>ii. Dodowa of Dangbe West (Coastal)</p>	<p>iii. Juaboso Bia of Western Region (Forest)</p> <p>iv. Bongo of Upper East (Savanna)</p> <p><b>7. Basic Policy Documents/Frameworks and Research Reports</b></p> <p>i. Core Welfare Indicator Questionnaire (CWIQ) Report</p> <p>ii. The 4th Ghana Living Standards Survey (GLSS 4)</p> <p>iii. Poverty Map of Ghana (PMG) of GSS</p> <p>iv. Ghana Poverty Reduction Strategy (GPRS)</p> <p>v. National Decentralisation Action Plan (NDAP)</p> <p>vi. Multi-Donor Budget Support (MDBS) Programme and Policy Matrix</p> <p>vii. Poverty Reduction Support Credit (PRSC)</p> <p>viii. Poverty Reduction Grant and Facility (PRGF)</p> <p>ix. 2000 Population and Housing Census</p>
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### ***3.1.3 Secondary Data: Trend and Quantitative Analysis***

The secondary data threw up a lot of information, but for purposes of focus we analysed the following critical issues. (i) What is the effect of increase in resource allocation on poverty reduction? (ii) Which of the channels of transmission (employment, prices, access to basic services, assets, and transfers) have the greatest impact on poverty reduction? (iii) What is the financial implication of election of all officers/DCEs to the DAs?

We used an Econometric, Social Accounting Matrix, Computable General Equilibrium, and/or Spreadsheet Models of Ghana to quantitatively provide the link between policy “reform measures” and the transmission channels with emphasis on employment, access to basic services and transfers. We will begin with updating of an existing model. After careful identification of the reform measures, we will input each of the exogenous variables as they affect the welfare of the poor. The proxy for welfare improvement is the reduction in poverty indicated by poverty line. We will then simulate the model to track the transmission channels. We will quantify the impact and rank them as to whether employment creates faster reduction in poverty than transfers, etc.

## **3.2 Method of Data Collection: Sample and Questionnaire Design**

### ***3.2.1 Sample Design of Districts in Ghana***

With regard to the primary data collection, an extensive fieldwork in the districts was undertaken to obtain data through Personal Interviews, Focus Group Discussions and Personal Observation. We analysed the sample design of districts in Ghana and prepared Written Questionnaires used for primary information gathering and data collection.

Given the time constraint for the study we developed a stratified sample of districts to capture the main characteristics using a small size sample size. We used “2000 Population and Housing Census” of the Ghana Statistical Service (2002, March) to establish the sizes of all the districts in Ghana using population as the criterion for categorisation into various groups taking into consideration: (i) locality of rural, (ii) locality of urban, and (iii) district share of total population, and (iv) sex ratios. Additional document of interest was the most recent Core Welfare Indicator Questionnaire (CWIQ) Report and the 4th Ghana Living Standards Survey (GLSS 4), as well as the preliminary Poverty Map of Ghana under construction at GSS.

We adopted a fair mix of the districts classified as follows: (1) very rural, (2) rural, (3) urban and (4) very urban taking into consideration the main ecological zones. We limited to ten the number of districts in Ghana of the various categories in the administration of the survey questionnaire, and for detailed secondary data gathering in addition to those already available at NDPC, MLGRD, and the various MDAs. An additional requirement is to ensure that we meet the political sensitivity dimension by including a DA from each of the geo-political/administrative region of Ghana.<sup>14</sup>

Specifically, many factors determined the sample. Basically it adopted a stratified approach with focus on the diagrammed structure of decentralisation in Ghana, with a major purpose of covering metro-municipal-district mix. The main factors used in the determination of the sample in order to capture the various features include:

1. Metropolitan-Municipal-District characterisation;
2. Town/Urban/Area Councils and unit committees– active and inactive
3. District with a best-case poverty alleviation initiative (not necessarily governmental)
4. GPRS Pilot study districts, as they have numerous data available, namely:
  - a. Chorkor of Accra (coastal, metropolitan),
  - b. Dodowa of Dangbe West (coastal),

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<sup>14</sup> Initially the sample size was 33 DAs but GTZ and KfW felt the sample should not exceed 10 DAs.

- c. Juaboso Bia of Western Region (forest), and
- d. Bongo of Upper East (savanna);
5. Geo-political administrative regions (at least one district of each region);
6. Rural-urban dichotomy;
7. Poor-rich dichotomy;
8. Ecological regions

Tables 3.2.1 (a) and (b) shows the criteria used for the selection of sample Districts. For completeness of the sample method adopted we report the results of the sampled Districts in Table 3.2.1 (b). These are: Komenda Ebirem/Aguafo (Central), Birim North (Eastern), Ketu (Volta), Wa (Upper West), Tamale (Northern Region), AMA (Greater Accra), Nzima East (Western), Adansi West (Ashanti), Techiman (Brong Ahafo), and Bongo (Upper East).

**Table 3.2.1 (a): Criteria For Selection of Districts**

Districts	Poor	Rich	District with active U/T/A and active Unit Committees	District with best case poverty alleviation initiatives (GO, NGO, DP)
Coastal	1	1	At least 1	At least 1
Forest	1	1		
Semi-deciduous	1			
Savanna	1			
Municipality		1		
Metropolitan		1		

**Notes:** U=Urban Council, T=Town Council and A=Area Council; GO=Governmental organisation; NGO=Non-Governmental organisation, DP=Development partners.

**Table 3.2.1 (b): The Selected Districts for Study**

Districts	Poor	Rich	District with active U/T/A & active Ucs	District with best case poverty alleviation initiatives (GO/NGO/DP)
Coastal	Komenda Ebirem/Aguafo (Central)	Nzima East (Western)	Techiman (Brong Ahafo)	Bongo (Upper East)
Forest	Birim North (Eastern)	Adansi West (Ashanti)		
Semi-deciduous	Ketu (Volta)			
Savanna	Wa (Upper West)			
Municipality	Tamale (Northern Region)			
Metropolitan	AMA (Greater Accra)			

### 3.2.2 Questionnaire Design

To obtain primary data, structured questionnaire(s) had been designed to encompass all the information required in the conceptual framework in order to achieve the objectives in the TOR. The questionnaire(s), prior to being administered, could not be pre-tested owing principally to time constraints. But they were re-grouped, re-edited, re-coded and re-verified for consistency after receiving comments from stakeholders.

The questionnaires were broken into various/appropriate groups determined by the various sources of information and the key layers of relevant stakeholders. Given the importance of traditional authorities in local governance and the pro-poor nature of decentralisation, sub-sets of the questionnaires included traditional rulers and households (focusing on the poor population groups).

The key cohorts for primary data collection and for the sub-questionnaires focused on the institutions and/or individuals in Table 3.2.2.

The administration of the questionnaires was accompanied by interviews and focus group discussions guided by the structured (coded and open-ended) as well as unstructured questionnaires. Five consultants and ten research assistants administered the questionnaires and carried out the interviews.

**Table 3.2.2: Cohorts for Primary Data Collection**

1. National Development Planning Commission (NDPC);
2. Ministry of Local Government and Rural Development (MLGRD);
3. Ministry of Finance and Economic Planning (MOFEP);
4. Other Ministries, Departments, Agencies (MDAs),
5. Regional Coordinating Councils;
6. District, Metropolitan and Municipal Assemblies (Management and Non-Management):
i. District Chief Executives (DCEs),
ii. Presiding Members (PMs),
iii. District Coordinating Directors,
iv. Other members of DAs, and
v. Leaders of Workers in DAs:
7. Development Partners (Canada, Denmark, EU, Germany, Netherlands, Switzerland, UK, AfDB, World Bank);
8. Non-Governmental Organisations (NGOs), etc.;
9. Urban/Town/Area/Zonal Councils;
10. Unit Committees;
11. Community Based Organisations (CBOs);
12. Civil Society Organisations (CSOs) (Religious Groups, Women Groups, Youth Organisations, Media);
13. Traditional leaders and other representatives of communities; and Households (Poor population individuals and groups)

### 3.3 Method of Data Analysis and Summary Statistics

For the appreciation of the empirical results we present the summary statistics here. Primary data collected was analysed from the responses of the administered questionnaires, as well as personal interviews and the focus group discussions using frequency tabulation among others.

#### 3.3.1 Overview of Field/Survey Results

The Consultants used the following format and criteria in order to select the sample of Districts to be studied in Survey 2004. This added up to ten districts: One from each region of Ghana. The resultant sample indicates region, district and capital and the number of Questionnaires administered during the field survey. Refer to Tables 3.3.1 (a) and (b) for the summary statistics.

**Table 3.3.1 (a): The Resultant Sample on Questionnaire Administered**

Region	District	Capital	Questionnaire Administered
Volta	Ketu North	Denu	23
Greater Accra	AMA	Accra	18
Eastern	Birim North	New Abirem	22
Ashanti	Adansi West	Obuasi	32
Brong Ahafo	Techiman	Techiman	34
Northern	Tamale Municipality	Tamale	21
Upper West	Wa	Wa	26
Upper East	Bongo	Bongo	25
Central	Komenda, Ebirem, Edina Aguafo	Elimina	24
Western	Nzima East	Axim	25
<b>Total</b>			<b>250</b>

Source: Field Research Returns 2004

Table 3.3.1 (b) depicts the ten (10) districts surveyed and the breakdown of stakeholders interviewed with totals for each district and for each group of cohorts (stakeholders): A, B, C, D, E and K.

**Table 3.3.1 (b): Questionnaire Statistics – Districts and Cohort Responses**

District	A	B	C	D	E	K	Total
Ketu North	6	3	2	6	4	2	23
Accra Metro Authority (GAR)	4	3	3	3	3	2	18
Birim North (ER)	5	1	1	6	4	5	22
Adansi West (AR)	5	6	6	7	5	3	32
Techiman (BAR)	5	6	5	9	5	4	34
Tamale Municipality (NR)	4	4	4	4	3	2	21
Wa (UWR)	4	5	6	4	4	3	26
Bong (UER)	4	5	6	4	4	2	25
KEEA (CR)	4	3	2	7	3	5	24
Nzima East (WR)	4	2	2	8	4	5	25
<b>Total</b>	<b>45</b>	<b>39</b>	<b>37</b>	<b>58</b>	<b>39</b>	<b>32</b>	<b>250</b>

**Key to Cohorts:**  
A: District/Metropolitan and Municipal Assemblies (Both management and other staff)  
B: Development Partners and NGOs  
C: Urban/Town/Zonal Councils in the District  
D: Unit Committees, Communities, Community Based Organisations and Traditional Authorities  
E: Civil Society Organizations (CSOs) (Religious Groups, Women Groups & Youth, the Media)  
K: Households (the very poor groups).  
P: Central Policy Officials  
S: Stakeholder Workshop Participants (excluding those in A to K and P)

The first group of stakeholders, the central level policy actors participated in conversation and response to open-ended unstructured questionnaires, and submission of data on pro-poor decentralization. The level of participation of the stakeholders is presented in Table 3.3.2, which must be read jointly with Tables 3.3.1. Tables 3.3.1 (a) and (b), depict the 10 districts surveyed and the breakdown of stakeholders interviewed with totals for each district and for each group of stakeholders: A, B, C, D, E and K.

From Table 3.3.2 it is to be noted that each of the cohorts have a common set of questions on the first page followed by questions that are relevant to the questionnaires completed by respondents who are potential direct beneficiaries of pro-poor programmes (represent 250 individuals' intervention focus groups). Apart from these 250 beneficiaries, 33 Central Policy Officials have been interviewed and/or data obtained from them, e.g. MOFEP, Electoral Commission, NDPC, BOG, DACF Administrator, MLGRD, Social Investment. This brings the total number to 315 people have been contacted.

**Table 3.3.2: Participation in Field Survey 2004 and Secondary Data Gathering Responses**

Stakeholders		No. of Respondents	% of Total
Development Partners and NGOs	B	38	15.3%
Implementing Agency Staff (DAs/Unit	A+C	82	32.9%
Direct Beneficiaries D+K A+C	D+K	90	36.1%
Others (CBOs, Religious bodies, etc.)	E	39	15.7%
<b>Total</b>		<b>250</b>	<b>100.0%</b>
Central Policy Officials	P	33	
Workshop Participants (excluding those in A to K and P)	S	32	
<b>Grand Total</b>		<b>315</b>	

Source: Table 3.3.1 above and the Classification of Stakeholders

## 4. DECENTRALISATION AND POVERTY: SITUATIONAL ANALYSIS

### 4.1 Decentralisation in Ghana

*The Concept of Decentralisation:* Decentralisation has been the focus of at least two major policy thrusts in Ghana spread over two periods, namely, the pre-GPRS and the post-2003 period of pro-poor decentralisation advanced by the GPRS. Decentralisation as a pre-GPRS concept envisioned the transfer of functions, powers, means and competencies to the DAs from the central government ministries and departments. This concept perceived decentralisation as means and channel for transferring powers and functions to manage development at the local level. The GPRS concept of pro-poor decentralisation, on the other hand, is perceived as a more effective instrument for eradicating poverty at the point of incidence by specifically focusing development projects and resources and actively involving the poor at that level. Thus the new concept can be seen as an expanded mandate embracing the paradigm shift as well as pro-poor targeting. The administrative layers as at April 2004 are in Illustration 4.1.1.

In this context, decentralisation means to relate the different layers of the administrative structure with each other in a way that a bottom up approach in decision-making reflects the aspirations and the will of the people. In order to put the study in the right perspective, the summary of the history of decentralisation is presented.

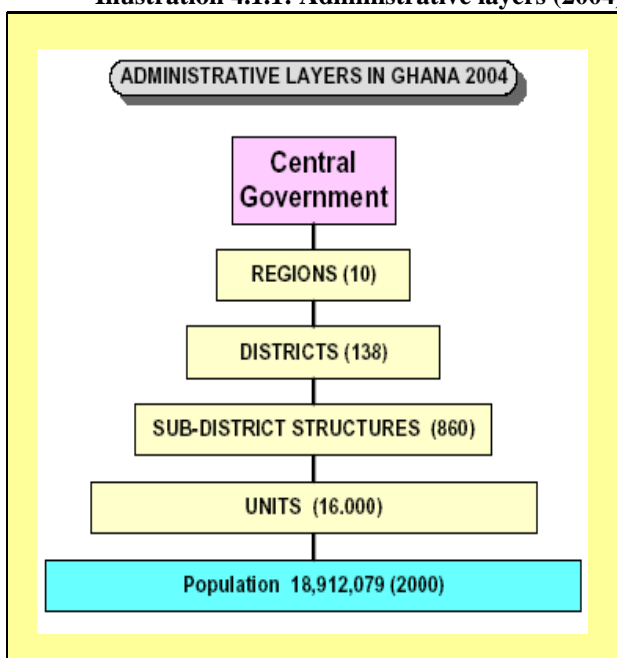
#### 4.1.1 History of Decentralization

The earliest attempts at local administration during the colonial era were with the native authorities, which centred on a chief or some unit of local royalty, which was not very defined. The native authorities were not democratic but were mere representatives (as they were hand-picked). Their main interests were to help the British colonial government, with limited involvement in local administration to administer law and order.

The Municipal Ordinance of 1859 established municipalities in the coastal towns of the Gold Coast. In 1943, a new Ordinance set up elected town councils for Accra, Kumasi, Sekondi-Takoradi and Cape Coast. In 1953, the Municipal Councils Ordinance was passed. The Local Government Act, 1961, Act 54, followed this, after independence. In all of these pieces of legislation, the distinction between central and local government institutions was maintained. In terms of this distinction, there have always been two different machineries for the administration of Ghana: one based in the capital with branches at the local (district) level and the other separate and distinct based in well-defined localities and referred to as Local Government.

The central government bodies at the local level dealt with national matters. They also attracted to themselves the better-qualified personnel in terms of management skills and professional expertise. These central government agencies had less clearly defined powers in terms of local responsibilities, but had a much better presence by reason of their *de facto* position as bodies of central Government. Decision-making took an unduly long time because these bodies had to refer decisions on most matters of any meaningful significance to a Ministry in Accra, which, bogged down with matters of national significance, was unable to react quickly enough to problems referred from the local level, thus causing the tempo of activity to be slow.

Illustration 4.1.1: Administrative layers (2004)



The local government bodies had been set up and vested with authority specifically for local matters, and grown up side by side with central government agencies that operated at the local level. They were required to provide municipal services and amenities in their localities without regard to whether or not they had the resources to deliver. These bodies lacked personnel with the requisite skills and professional expertise. Unable to raise funds to meet their obligations and attract able and competent officers, the local government bodies only succeeded in creating for themselves an unpleasant image, in most cases, of ineptitude and incompetence.

Since the 1992 Constitution mandated the allocation of 5% of the total tax revenues of Ghana to the district assemblies for development activities, the desired impact of those allocations has not materialised. The review was to assess the effectiveness of the utilization of Local Government resources and to make recommendations for improving development and governance objectives<sup>15</sup>.

The mandate of the MLGRD is to promote the establishment and development of a vibrant and well resourced decentralised system of local government for the people of Ghana to ensure good governance and balanced development. To enable it to accomplish this mission the Ministry is structured into six directorates, six administrative units, the Projects Implementation Unit and three departments.

The MLGRD has supervisory responsibility over Metropolitan, Municipal and District Assemblies (MMDA's). The MMDAs have legislative, deliberative and executive functions which are performed through the Executive Committee and five statutory Sub-Committees, namely, Development Planning, Social Services, Works Finance and Administration Justice and Security. The core functions of the Assemblies are:

- Implementation of policies and decisions of Central Government
- Formulation and execution of plans, programmes and strategies for the overall development of the district.
- Promotion and support of productive activity and social development in the district and the removal of any obstacles to initiative and development
- Responsibility for the development, improvement and management of human settlements and the environment in the district, and
- Initiation, execution, monitoring and evaluation of development projects and programmes.

#### ***4.1.2 Renewed Decentralization Process***

The post-GPRS period witnessed intensified efforts at pro-poor decentralisation. In terms of political decentralization Ghana has established 138 District Assemblies<sup>16</sup> (DAs) and 10 Regional Coordinating Councils. These institutions are however weak by the failure to devolve fiscal and administrative authority to these bodies. Fiscal authority continues to be centralized. Resources transferred through the "District Assembly Common Fund" (DACF), are often earmarked for specific uses, and are not fully at the disposal of the elected bodies. Administrative authority in the sectors such as health, education and agriculture is deconcentrated. The key ministries have operational units at the local level that are not accountable to the District Assemblies. Decentralization is also weakened by the fact that local governments lack the capacity to plan, budget, finance (i.e. raise revenue), implement and monitor programmes in a participatory manner. In spite of all these deficiencies, decentralization is the basis of Ghana's poverty reduction strategy and, as such, is fully supported by Ghana's development donor partners and HIPC creditors.

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<sup>15</sup> Republic of Ghana / Ministry of Finance: *Public Expenditure Review 2000 – Managing Local Government Resources to Facilitate Poverty Reduction and Good Governance*, Accra, Nov. 2001.

<sup>16</sup> Prior to 2004, there were 110 districts. Some of the newly 28 established districts are not yet operational.

### 4.1.3 Structure of Decentralization

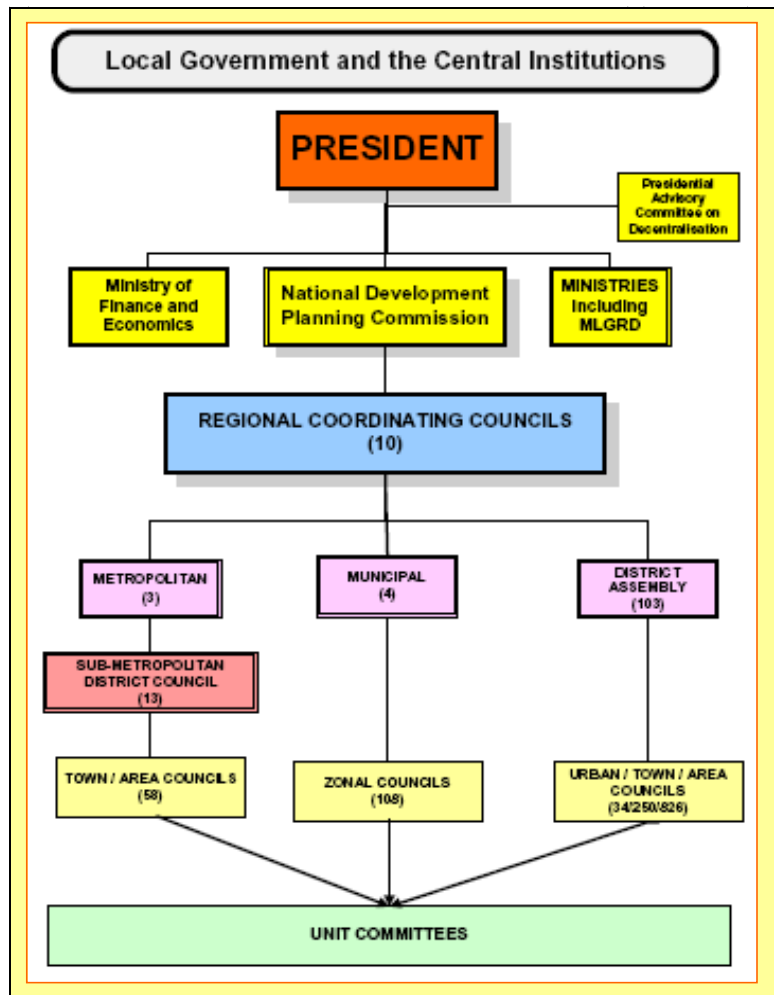
The Local Government Act (1993) prescribed a three-tiered system for Ghana, namely, regional, district and unit layer. The metropolitan areas have a fourth layer: i.e., the sub-metropolitan district council. The graphical illustration 4.2.1 is based on the respective legal texts and government publications.<sup>17</sup>

Illustration 4.2.1 Local Government and Central Institutions

At the regional level the Regional Coordinating Council is composed of (a) all the presiding members of the district assemblies (elected), (b) all District Chief Executives (appointed and approved by 2/3 majority of DAs), (c) all heads of regional MDAs (appointed), and (d) two members of the Regional House of Chiefs (elected by the House of Chiefs).

The *Unit Council* and the *District Assembly* are the most democratic institutions in the system of local government in Ghana. The other bodies are constituted by indirect suffrage that is composed of members who are not elected by the population directly but are elected by other bodies on different levels or are appointed by the DCE.

It should, however, be noted that the appointed members include traditional authorities and economic interest groups. Concerning the chiefdoms it can be said that they are the oldest type of local government in Ghana – and they are stable. Some observations reveal that extreme poverty in chiefdoms is much less to be found than in other areas of Ghana. Demanding “full democratic elections” for all decentralized institutions is not necessarily at the same time a pro-poor orientation. Introducing participatory practices in structures of traditional authorities (focusing on democratic and transparent procedures, and on gender equity) is often more effective.



During the fight for independence and in the early years of the Nkrumah period Town / Village Development Committee (T/VDC) have been formed which were more or less extensions of the Convention People’s Party (CPP). At the end of 1960 there were 3,960 committees in the whole country<sup>18</sup>. The functions of these committees were to identify local voluntary leaders and to promote self-

<sup>17</sup> Republic of Ghana / Ministry of Local Government and Rural Development: *Local Government (Urban, Zonal and Town Councils and Unit Committees) (Establishment) Instrument, 1994. L.I. 1589*, Accra, 18.01.1994; Republic of Ghana / Ministry of Local Government and Rural Development: *GHANA – The New Local Government System*, Accra, November 1996 (2nd edition); Republic of Ghana: *Local Government Act*, 1993. Act 462, Accra, 24.12.21993

<sup>18</sup> Ayee, Joseph R.A.: *Sub-District Structures and Popular Participation: A Preliminary Assessment*, in: Thomi, Walter / Yankson, P.W. K. / Zanu, S. Y. (ed.): *A Decade of Decentralization and Local Government Reform in Ghana: Retrospect and Prospects* published jointly by EPAD Research Project and Ministry of Local Government

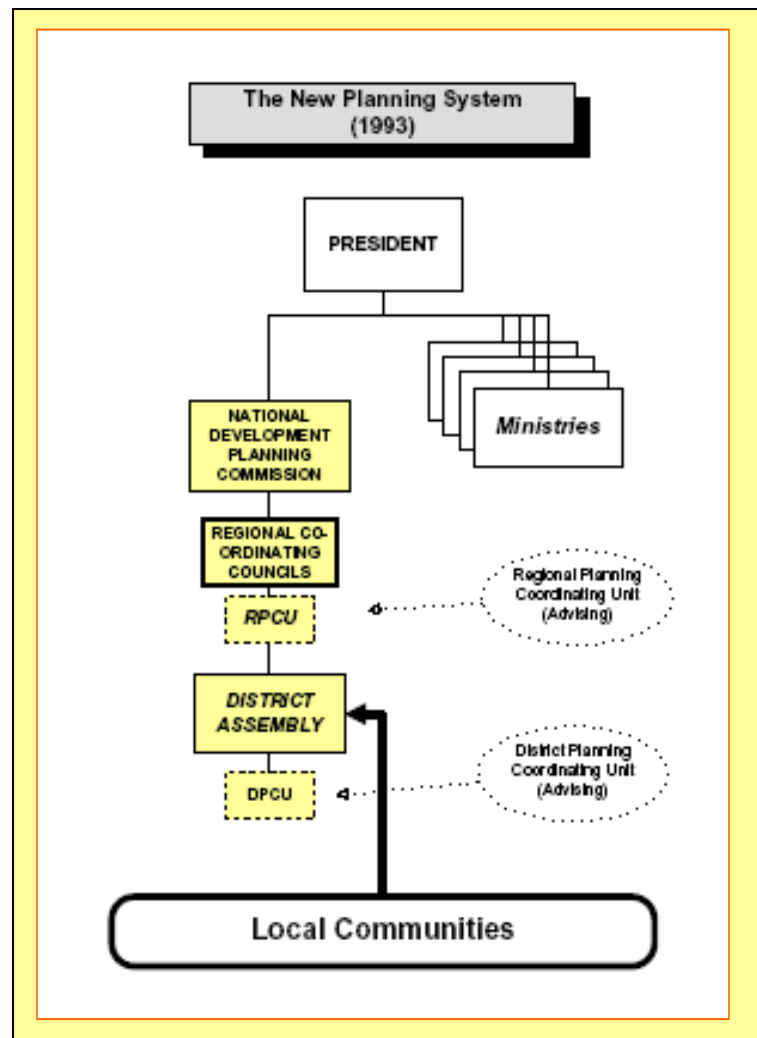
help programme. Conflicts between these committees on the one side and state structures overlooking the activities or organizing overlapping activities on the other side arose. During the years 1967-1969 proposals of a four-tiered structure and a three-tiered structure of local government were discussed. In 1988 the Provisional National Defence Council (PNDC) Law introduced a four-tiered structure. Finally the Local Government Instrument 1589 fixed the present day structures below district level. The fact that at district level and below, partisan politics are prohibited is due to these historical circumstances.

The performance of sub-district structures encounters a number of difficulties: The staff is voluntary and is not paid neither sitting nor transport allowances. In a number of cases disputes have arisen between chiefs and local leaders on these levels.

#### 4.1.4 New Planning System 1993

The new planning system introduced in 1993 describes a situation where the initiatives from below are consolidated on each level of administration: On the district level by the District Planning and Coordination Unit (DPCU), on the regional level by the RPCU and nationally by the NDPC.

**Illustration 4.2.3: The New Planning System** →



The new planning process has the following as the *essential features*<sup>19</sup>:

- (a) Planning at the District level starts with the communities' problems, goals and objectives from Unit Committee level through the Town/Area/Urban/Zonal Councils to the District Assemblies;
- (b) The sub-committees of the Executive Committee of the District Assembly considers the problems and opportunities, define and prioritise and submit these to the executive committee;
- (c) The departments of the District/Municipal/Metropolitan Assembly, sectoral specialists, non-governmental organizations and other functional agencies confer and collaborate with one another to hammer out the ingredients of the district plans; and
- (d) The District Planning Co-ordination Unit integrates and co-ordinates the district sectoral plans into long term, medium term and short-term plans and annual plans/budget for consideration of the executive committee and debate by the District Assembly. The approved plan is then sent to the Regional Co-ordinating Council for co-ordination and harmonization with the plans of the other District Assemblies in the region.

and Rural Development, July 2000, p. 135

<sup>19</sup> Republic of Ghana / Ministry of Local Government and Rural Development: *GHANA – The New Local Government System*, Accra, November 1996 (2nd edition)

In the new planning process the DPCU are the nerve centres of planning. However, they are understaffed and ill equipped.<sup>20</sup> They also do not get the necessary cooperation from the departments under the authority of the line ministries.

## 4.2 Poverty Reduction In Ghana

### 4.2.1 Poverty Incidence and Regional Profile

*Definition and Dimensions of Poverty:* “Poverty” defined as a state of deprivation that presents itself in various forms with regard to its extent, nature and persistence, is multi-dimensional in nature and caused by varied factors. In the context of Ghana, the specific causes of poverty identified include: (i) a low income base; (ii) low productivity; (iii) poor health; (iv) personal in-capabilities; (v) negative cultural practices; (vi) social attitudes; (vii) low level/lack of education; (viii) behaviour/attitudes; (ix) dependency culture; (x) inadequate infrastructure, etc. Apart from these general causes of poverty, different communities may have specific causes of poverty in those communities. Additionally, lack of good governance as well as general public policy failures also perpetuates poverty in Ghana. The primary rationale behind the GPRS is the reduction of poverty because of the devastating effects of poverty on the poor and the nation at large. If not addressed, the poverty cycle becomes self-perpetuating, and unless the Government employs sustained policies, poverty may be difficult to reduce, let alone eradicate. The major consequences include: (i) hunger, (ii) drudgery, (iii) low esteem, (iv) a feeling of insecurity/ vulnerability, (v) powerlessness, (vi) isolation, (vii) sense of helplessness, (viii) inability to honour social obligations, (ix) weak capacity to educate children, (x) under-utilization of potentials, (xi) environmental degradation, and (xii) spread of HIV/AIDS.

**Table 4.2.2: Poverty Trends in Ghana by Location 1991/1992 and 1998/1999 (%) [Source: GSS]**

Sources	Poverty line = ₵900,000		Poverty line = ₵700,000	
	Poverty Incidence (Rate)	Contribution to Poverty	Poverty Incidence (Rate)	Contribution to Poverty
<b>GLSS 3 1991/1992</b>				
Accra	23.1	3.7	11.3	2.5
Urban Coastal	28.3	4.7	14.2	3.4
Urban Forest	25.8	5.5	12.9	3.9
Urban Savanna	37.8	3.9	27	3.9
Rural Coastal	52.5	14.4	32.8	12.7
Rural Forest	61.6	35.3	45.9	37.3
Rural Savanna	73	32.6	57.5	36.3
Urban	27.7	17.8	15.1	13.7
Rural	63.6	82.2	47.2	86.3
<b>Ghana</b>	<b>51.7</b>	<b>100</b>	<b>36.5</b>	<b>100</b>
<b>GLSS 4 1998/1999</b>				
Accra	3.8	0.8	1.7	0.6
Urban Coastal	24.2	4.8	14.3	4.2
Urban Forest	18.2	5.4	10.9	4.8
Urban Savanna	43	5.2	27.1	4.9
Rural Coastal	45.2	16.7	28.2	15.3
Rural Forest	38	30.4	21.1	24.8
Rural Savanna	70	36.6	59.3	45.5
Urban	19.4	16.3	11.6	14.4
Rural	49.5	83.7	34.4	85.6
<b>Ghana</b>	<b>39.5</b>	<b>100</b>	<b>26.8</b>	<b>100</b>

*General/National Trends in Poverty:* The Ghana Living Standards Surveys (GLSS) 1, 2 & 3 indicate a general improvement in the welfare of all Ghanaians. The surveys were in 1987/88, 1988/89 and 1991/92. The incidence of poverty fell from 36.9% in 1988 to 31.5% in 1992. Poverty was concentrated among food crop farmers and self-employed workers. Together they accounted for 77% of the total population of the poor in 1992. The overall trend in poverty during the 1990s has been favorable in Ghana. With an upper poverty line of ₵900,000, the percentage of the Ghanaian population defined as poor fell from 52% in 1991/92 to about 40 percent in 1998/99 (GLSS 4). Using the lower poverty line of ₵700,000 poverty fell from 37% to 27% during the same period. This decline was, however, not evenly distributed geographically.

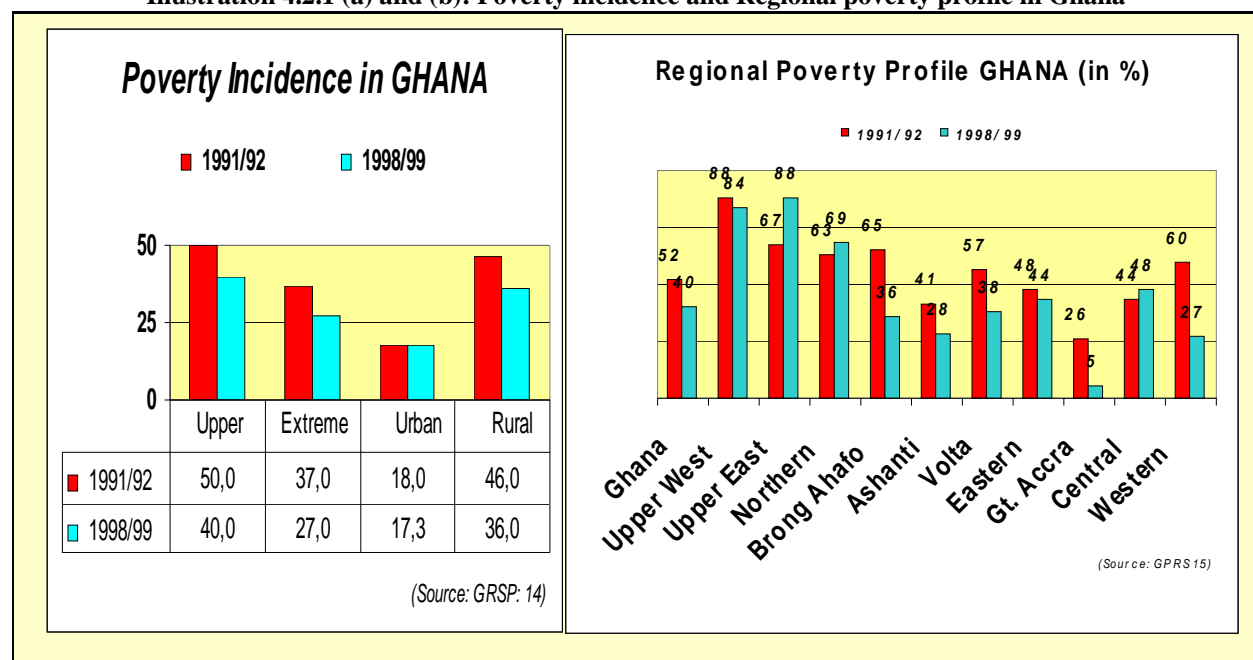
*Regional Disparities and Trends:* Poverty reduction was concentrated in Accra and in rural forest localities. In the urban savannah,

<sup>20</sup> Yankson, Paul W.K.: *The Problem of Building up Capacity for Decentralized Planning at the District Assemblies in Ghana*, in: Thomi, Walter / Yankson, P.W.K. / Zanu, S.Y. (ed.): *A Decade of Decentralization and Local Government Reform in Ghana: Retrospect and Prospects* published jointly by EPAD Research Project and Ministry of Local Government and Rural Development, July 2000, p. 221

however, the proportion of the poor increased during the period. Poverty has remained substantially higher in rural areas than in urban communities over the 1991/92 – 1998/99 period. The savannah region has benefited very little from the overall poverty reduction that has occurred in the country. The regional variation is more evident when one considers extreme poverty of  $\text{¢}700,000$ ; more than half of the population in the rural savannah was classified as extremely poor in both 1991/92 and 1998/99.

Poverty is lowest in the Greater Accra region and highest in the north of the country i.e., (Northern, Upper West and Upper East regions). The remaining regions lie between these extremes. (Refer to Illustration 4.2.1) In 1998/99, however, the Central and Eastern regions in the south of the country registered a high incidence of poverty. Current estimates from the GLSS using the upper poverty line indicate that between 1992 and 1999, overall poverty in Ghana declined from 52% to 40%, while extreme poverty declined from 36.5% to 26.8% over the same period. The decline was largely due to relatively high rates of economic growth, which averaged about 5% per annum in the 1990s, and success of some of the reform programs. However, the reduction was uneven, and was mainly in the urban and forest areas in the South, while in the northern (Savanna) and central regions poverty actually increased. In the Northern region 70% of the population are poor and in the Upper West and Upper East regions, this figure rises to 90 percent, while in the Accra region this figure falls to 10%.

**Illustration 4.2.1 (a) and (b): Poverty incidence and Regional poverty profile in Ghana**



**Table 4.2.3: Decomposition of Change in Poverty, 1991/92 and 1998/99**

Area	Total Change	Share of Percentage Change Due to:		
		Growth Effect	Redistribution Effect	Residual
Accra	-19.6	-12.6	-10.3	3.3
Urban Coast	-3.0	-11.8	8.0	0.8
Urban Forest	-8.7	-11.2	0.0	2.5
Urban Savannah	5.5	6.5	-1.7	0.7
Rural Coastal	-7.0	-9.8	1.8	1.0
Rural Forest	-25.2	-23.3	1.6	-3.5
Rural Savannah	-2.0	-5.0	1.6	1.4
All Ghana	-12.1	-13.8	0.1	1.6

Source: Ghana Statistical Service. Calculations were done by ClayDord Consult

*HIV/AIDS/Gender and Poverty:* Ghana has a low HIV/AIDS adult infection rate (3-4%), though it is estimated that about 200 people are infected daily, and women constitute 63% of the cases reported. However, the high migrant population and resistance to attitudinal change point to an increasing prevalence rate over time. Also, the incidence of malaria remains the highest single source of morbidity and mortality in Ghana, with improved case management receiving priority but little attention is given to prevention measures such as the use of bed-nets.

*Social Dimensions of Poverty:* The improved economic growth recorded since the mid-1980s brought about some improvement in a number of social indicators, such as health and education, leading to a moderate improvement of the country's HDI ranking from 132 in 1992 to 129 in 2000. In *education*, net primary school enrolment increased from 75% to 79% between 1992 and 2000 while secondary school enrolment increased from 30% to 36% over the same period. At the primary level, the gender gap is narrowing, but remains large at the secondary level, and the rural-urban enrolment divide is large. Adult literacy increased from 66% to 71.5%, although the gap between the male and female rates remained fairly high (males - 8.3%, and females – 62.9%). One of the main constraints emerging in education is related to the bottlenecks created by the tremendous increase of graduates from junior secondary school seeking admission into senior secondary schools in rural and small urban centres.

In *health*, life expectancy is quite low at 57 years, with female life expectancy at 58.3 years in 2001 and that of males at 57.5 years. Although the infant mortality rate fell from 85 to 63.4 per 1,000 live births over the period 1992-2001, progress has been slow with respect to access to resources and services. It is estimated that Ghana has respectively 6 and 72 physicians and nurses per 100,000 people while trained health personnel attend to only 44 percent of the births. Only 63% of the population has access to sanitation and, though good progress has been made in increasing the provision of potable water, about 1 out of 3 persons do not have access to safe water. The nutritional status in the country also requires improvement, especially for young children, pregnant women and lactating mothers.

#### **4.2.2 Axes of the Poverty Reduction Strategy**

The UNDP-Report<sup>21</sup> makes the point that more than three-quarters of countries have poverty estimates, and more than two-thirds have plans for reducing poverty, but fewer than a third have set targets for eradicating extreme poverty. Moreover, where poverty targets are set they tend to be based on monetary measures, whereas most development practitioners are now agreed that poverty is not about income alone, but is multidimensional such as reducing malnutrition, expanding literacy and increasing life expectancy. What is missing in most countries are genuine action plans – with explicit targets, adequate budgets and effective organisations (p. 8).

Campaigns against poverty have often by passed and ignored local government. Thus the effectiveness of poverty programmes in reaching the poor continues to be hampered. In the long run building stronger and more accountable local government is the only way to make decentralization pro-poor. But pro-poor decentralization requires time, resources and capacity building (p.12).

The foundation for poverty reduction is self-organization of the poor at the community level. Such self-organization is the best antidote to powerlessness, a central source of poverty. What the poor most need, therefore, is not resources for safety nets but resources to build their own organizational capacity.

The focus of the GPRS is wealth creation by transforming the economy to achieve growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment<sup>22</sup>. This goal is achieved by among other means:

- Direct support for human development and the provision of basic services.
- Providing special programmes in support of the vulnerable and excluded.
- Ensuring good governance and increased capacity in the public sector.

In the context of governance in the GPRS, decentralisation is presented as one of the four key issues and policy areas. The GPRS agenda for growth and prosperity focuses on decentralisation as the main channel for poverty reduction. In order to propel the attainment of the GPRS objectives, Government declared its medium term priorities for 2003 – 2005 to be the following five thematic areas:

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<sup>21</sup> UNDP: *Overcoming Human Poverty –Poverty Report*, New York, 2000.

<sup>22</sup> Government of Ghana: *Ghana Poverty Reduction Strategy 2003-2005. An Agenda for Growth and Prosperity. Volume I: Analysis And Policy Statement*, Accra February 19, 2003

- Infrastructural development to open up the country, introduce competition and create an enabling environment for private sector growth.
- Modernized agriculture based on rural development to develop the country into an agro-industrial economy by 2010.
- Provision of enhanced social services to ensure locational equity and quality, particularly with regard to education and health services.
- Good governance to ensure the rule of law, respect for human rights and the attainment of social justice and equity.
- Private sector development to strengthen the private sector in an active way to ensure that it is capable of acting effectively as the engine of growth and poverty reduction.

The foregoing priorities are expected to enable the country to grow by more than 7% annually with a long-term strategy for the growth to reach an average of 8% by 2010 to achieve a real poverty reduction states. *In the short-term poverty incidence is expected to reduce from 39% in 2000 to 32% in 2005.* The GDP growth rate needed to achieve that target is 5.0% and per capita growth from 1.4% in 2001 to 2.4% in 2005. Similarly the incidence of poverty among food crop farmers is expected to decrease by 13% the mortality rate for under five to drop by 15/1000, growth JSS enrolment of 4% and primary school enrolment to increase by 4%. A GPRS monitoring and evaluation system has been instituted to achieve the desired objectives.

### **4.3 Decentralisation and Poverty Reduction**

On theoretical front the linkage between decentralisation and poverty reduction is the issue of effective resource flow and its use in sectors in which the transmission will generate GDP growth, especially in the agricultural sector. The process and mechanisms for decentralization implementations is to reduce poverty to 32% in 2005. What does this take? The study will present an in-depth understanding of the transmission mechanisms that link the “reform measures” under consideration to the welfare of the poor district population and respective stakeholders. The analyses of empirical results are in Chapter 5.

## 5. RESULTS OF PSIA AND FOCUS AREAS ANALYSIS

This **chapter summarises** the results of the following: (i) the quantitative model analyses of the impact of the transmission channels on poverty reduction, and (ii) the field survey of the PSIA and focus areas. The full quantitative model analyses are in Appendix 1 while the full empirical analysis of the survey results are in Appendix 2.

### 5.1 Analysis of the Impact of Transmission Channels on Poverty Reduction

Available data from the Ghana Living Standards Surveys (1999) proved to be the main data source for capturing the channels of transmission (employment, prices, access to basic services, assets and transfers etc.) and their impact on poverty variables. Since no GLSS has been conducted after GLSS4 in 1999, the impact analysis was however supplemented with data from other sources including the DACF, HIPC benefits and Budgets of the sampled districts.

Arguably, the degree of poverty in Ghana depends on the incidence, intensity and severity of poverty. Data available from GLSS4 reveal that the incidence of poverty declined by 23.08% from 51.7% in 1992 to 39.5% in 1999. At the regional level data available indicate that poverty declined in seven out of the ten regions in Ghana over the period 1992 to 1999 with the Greater Accra region recording the highest rates of decline by 80.77%.

Guided by such a historical evidence of a decline in the incidence of poverty, and with the help of a Poverty Model and a ClayDord Macroeconomic Model of Ghana, ex ante forecasting of poverty incidence for 2005–2025 was conducted for two scenarios: (1) a fairly realistic scenario and (2) a more optimistic scenario. Available evidence from the two scenarios reveals that the probability of reducing poverty incidence in Ghana is high.

Given that in the first scenario job opportunities increase at the rate of 7.4% per annum, real DACF increases by 7.72% p.a. while real DA budget increases by 6.25% and HIPC benefits rise by about 7.6% p.a. over the period 2015-2025, it is possible for the Government to half the poverty incidence from 40% in 1999 to 21% by 2015. These are in line with the GPRS and the Millennium Goals for Ghana and the NEPAD goals for African countries.

The second scenario indicates a poverty reduction of 18.7% by 2015. It should be possible to reduce poverty at a faster rate than in the first scenario provided policies that are adopted will enhance the poverty reducing factors and attenuate the poverty inducing factors. Among the key policies are matching wage with productivity, regular maintenance of capital, increase in job opportunities, removing all bottlenecks that will induce an increase in both government and private capital, payment of more realistic prices for agricultural products, increase in agricultural products, increase value addition to primary products, and engender competition among the banks that will induce narrowing of the spread between the lending rates and deposit rates. Besides, available evidence further reveals that there are other hidden variables including population growth, retrenchment, inflation and terms of trade that have significant effects on the incidence of poverty apart from the eight related variables in the Poverty Model.

Having established that prospects for poverty reduction in Ghana are high using the two scenarios, the study further adopted the technique of pooled panel data analysis to demonstrate the linkage between poverty rates and some key macroeconomic policy variables recognizing the fact that economic policies pursued do impact on economic growth, employment and the incidence of poverty among others. Indeed, for many households the behaviour of the labour force and productive employment of the poor provides a strong linkage to the responsiveness of the poor to general macro-economic policy variables. The net effects of these policy variables on the incidence of poverty are traced using a Development-Oriented Macroeconomic Model of Ghana to identify the direction of change of impact on related variables as we seek to pursue poverty reduction interventions. The variables considered were household size, wage and agriculture income, transfer income, household income, and employment income.

Empirical evidence available from simple regression to capture individual effects of the related variables suggests that a rise in the size of households contributes strongly to an increase in the incidence of poverty while increase in wage and agriculture income, transfer and household income contribute to poverty reduction. Increases in the DACF and employment of the poor in productive jobs had the strongest impact on the reduction in the incidence of poverty in the DAs. This was reinforced by multiple regressions to emphasize the need to increase household income especially of the rural poor, increase employment income as well as increase the DACF and HIPC funds for pro-poor projects in locations where poor households abound.

In terms of regional distribution, multiple regression techniques were used to capture channels that had the strongest impacts on regional poverty reduction. The implication is that the attack on poverty in the regions should be sensitive to the transmission channels that register strongest impacts on poverty reduction. For the nation as a whole household income, employment income and HIPC funds were found again to reinforce the transmission channels that registered the highest impact favourable for poverty reduction as was in the case of the simple regression model.

Regions with the highest impact from transmission channels were found to be Northern Region for household size, Western Region for wage and agriculture income, Ashanti for transfers, Upper East for household income, employment and DACF, Volta for HIPC benefits and Greater Accra for budget.

Variables that have the highest transmission impacts for the regions were found to be DACF for Western and Central Regions, household income for Greater Accra and Upper East regions, HIPC benefit for Volta, Eastern and Ashanti regions and employment income for Brong Ahafo, Northern and Upper West regions.

Model simulations of alternative scenarios for changes in DACF reveal that 7.5% increase in the DACF leads to 4.85% reduction in overall incidence of poverty in Ghana while doubling the rate of increase to 15% leads to 5.85% decline in the incidence of poverty. The policy implication is that increases in DACF or funds in general do not necessarily imply a linear or a proportionate reduction in poverty. An increase in funds of a District Assembly will elicit one or all of the following: an increase in pro-poor projects and programme activities, and reduction in the incidence of poverty, assuming that all the increases will be utilized for the purposes for which they were allocated and that the rate of wastage (for example through corruption) is very low or if possibly nil, the availability of capacity of citizens to make demands and the DAs to respond to the requests of the poor population groups etc. Thus, the increases in funds must be accompanied by fulfilling various assumptions such as availability of capacity to implement pro-poor projects and programmes, risks are kept to the minimum, and that monitoring and evaluation are effective. Other assumptions include continuation of market based economic policies, intensification of fight against crime on all fronts, continued implementation and further decentralization of the GPRS, exploiting and taking advantage of international initiatives such as AGOA and NEPAD.

## **5.2 Trend Analysis of Cost of DA and Parliamentary Elections.**

For the details of the full Empirical Results refer to Appendix 1 of this Report.

Currently the practice of election of the DCEs is for the President to appoint the DCE to be confirmed by the Assembly by two-thirds majority (or 50% for a second chance in 10 days time). Within 10 days another voting is held to be confirmed by two-thirds majority. The opportunity is lost if it is less than that two-thirds majority. In view of the high cost of time lost it is necessary to undertake election in line with how the parliamentary elections are done.

The study sought to address the call for the election of the DCEs to be done, as is the case in the Presidential and Parliamentary elections by considering the financial implications of the Presidential and Parliamentary Elections in 2004 with projections in 2008. The cost of the District Assemblies in 2002 was ₵47.125 billion, which was 0.51% of National Budget, and 0.10% of GDP. In order to have full election

additional costs will come only from additional expenses on allowances to personnel, printing of ballot papers and stationery and recruitment and training. The full cost for local level elections in 2006 is projected at ø85.47 billion. This is expected to be about 0.30% of budget and 0.09% of GDP. In view of the importance attached to the full implementation of decentralisation in the long-term it is recommended that elections be carried out at the district level if the concern is financial just as in the case of the Presidential and Parliamentary elections.

### 5.3 Summary of Macroeconomic Outlook

It is possible to consider pro-poor decentralization under two macro-economic scenarios: a high growth module of “*Accelerated Growth*” and a slow growth scenario of “*Business as Usual*.” Be it as it may the macroeconomic outlook seemed bright for Ghana with real GDP growth expected to remain at 5.2% in 2004 to reach 6% by 2008 mainly propelled by the services and agricultural sectors.

**High Growth Scenario:** “Accelerated Growth”: If the growth in real GDP is to reach double digit in five years what does it mean and take? By implication it means removing constraints in the way of production and allowing the economy to release all its potentials that will raise the per capita income from \$432 to \$609 by end-2006. The investment implications include capital formation rising from the current 23.5% of GDP to 39% by 2008. The ICOR shows that there must be efficient use of investment resources that will reduce ICOR from 5.2 to 3.7.

**Low Growth Scenario:** “Business as Usual”: If the old policy regime persists, growth rates may not exceed 5.5%, maybe for exceptional outliers due to extra-ordinary performance of the rain-dependent agricultural sector. The major elements in the old regime are as follows: low level of financial intermediation resulting from high lending rates and low deposit rates, low domestic savings rates and investment, inadequate infrastructure, no term savings, high reserve ratio, rates of inflation in double digit, and over-valuation of the Cedi.

Corresponding to the above low scenario, the overall reduction in poverty may be by about 10-percentage points for the period 1999-2008. This implies a change in the incidence of poverty by about -1.1% per annum for the low scenario, while the high scenario can reduce poverty by about 1.9% per annum (i.e. a change of about -1.9% per annum)

### 5.4 Field Survey Empirical Analysis: The PSIA Results

Stakeholder analysis was undertaken whereby the study sought to link the *roles of the 12 identified stakeholders* to three important areas of the project/programme cycle: (i) policy strategy formulation, (ii) implementation, and (iii) monitoring and evaluation.

Regarding their *characteristics*, four parameters come to the fore: (i) policy formulation, (ii) location and capacity, (iii) interests and commitment to status, and (iv) influence. The analysis focuses on the relationship between stakeholders’ *influence* and *interest/commitment* to decentralisation. By applying the criteria of (a) level of administration, and (b) government as well as non-government institutions, the following 6 *groups of stakeholders* can be identified: (1) Government policy makers at central level, (2) implementing agencies, (3) private sector and interest groups, (4) CSO and NGOs, (5) beneficiaries and (6) government development partners.

Data available indicate that different social groups exist in the districts. The dominant groups comprise subsistent farmers, followed by those recognized as the poor or very poor and religious groups. Women and children form the next largest groups, followed by micro-enterprise workers and the disabled group. The rich are seen as the smallest groups at the district level. With the exclusion of the rich (14%) the districts portray poverty levels consistent with the rural nature of poverty at 85.6% in the country.

The field results indicate that the districts have the largest stakeholders/beneficiaries of pro-poor programmes and projects in the country (over 93%). Of particular interest are the vulnerable and the excluded (7.25%) and women and children (16.13%) of beneficiaries. It is no wonder that the majority of the respondents, 88% believe that increased resource allocation will benefit the ordinary persons and all those resident in the DA area rather than some few privileged or middle class. Only about 2% of respondents believe that increased resource allocation will benefit the rich and privileged. Nobody thought that only management of the DAs stood to benefit from increased resource allocation to the DAs.

It is therefore the expectations and interests of both DA officials and local rural residents that the development of the area through the performance of the district assembly would lead to poverty reduction and increased prosperity of the people.

For Scenario analysis, the issues addressed include election of DCEs and District Assembly Members. Under the scenario “full implementation of decentralization” were the following essential measures:

1. The election of District Chief Executives (DCEs)
2. The election of all Assembly Members.

The results of survey indicate that the majority of respondents (63%) would like to have the DCE elected. They are generally of this view for the following reasons:

- The DCEs would be accountable and responsible to the people.
- The people would have the option of choosing the right person.
- It would prevent the DCEs from having double allegiance.

On the impact that the election of the DCEs would have on the District, the respondents generally indicated the following: The DCEs would enjoy the full co-operation and total allegiance of the people (unlike the current situation where there is a partisan assembly). The fear of being voted out of office would make them perform better. A substantial minority (36%) however feared that the work in the DAs might be overshadowed by partisan or personal politics. Our econometric results have also indicated that the financial implications of the election of the DCEs are not that serious, hence it is highly feasible.

The issue of the election of all the Assembly Members refers to the one third of DA members appointed: traditional leaders and economic groups. The majority of the respondents (50%) indicated that they would not like to have them elected. However, a sizable percentage, (48%) answered in the positive.

The respondents who preferred to retain the present situation did value (a) the professional expertise of the appointed members, and (b) the representation of traditional leaders and civic groups in the DA. This result clearly indicates that decentralisation and democratisation in itself is not per se seen as a positive measure. It has to serve a purpose: The political measures should be in the service of the people. And another consideration is important: The presence of traditional leaders (who are appointed by the DCE) is highly valued. However, it must be added that the presence of traditional leaders can be maintained if the elected Presiding Member (PM) of the District Assembly is given the functions, which are currently exercised by the DCE.

Since the decentralisation process involves transmission and impact assessment dimensions, the study sought to collect information on how the decentralisation process has affected some economic activities of the people, made up of mainly the poor in the districts. Our survey results have indicated that the decentralisation plan has so far registered just *little improvement in the employment level* of the people in the district. The story is even worse with respect to manufacturing. Next is the general price level. It is reported to have registered little improvement.

Similarly, available data have indicated that acquisition of assets such as buildings, etc, has seen little improvement so far. The story is the same for production of basic commodities. Payment of taxes and levies is reported to have witnessed substantial improvement (really mean an increase) since the implementation of the decentralisation plan. The Implication is that so far the channels of transmission

have had weak effect on the local people. Perhaps, it is because the decentralisation/GPRS processes are yet to be fully implemented.

No doubt, the econometric results on the transmission mechanisms and impact analysis have strongly suggested that the improvement in transmission channels such as household income, employment income etc. will lead to significant reduction in poverty level.

One important trigger to make pro-poor decentralization impact more positively on poor population groups is the degree of familiarity of the members of poor population groups who are the major beneficiaries with the work of the District Assemblies. *Our assessment indicates that majority of the poor population groups (77%) are not familiar with the work of the District Assemblies.* Only about one out of 10 people reported some degree of familiarity with the work of the District Assemblies. Thus the interest and influence of the major beneficiaries are not taken into account in the decentralization process. The high degree of non-familiarity of poor population groups with the work of the District Assemblies implies that the decentralization process is still far from the poor people and that the projects are far from being pro-poor since the poor people who are supposed to be the major beneficiaries really are not familiar with what is being done at the DAs.

With respect to access to and adequacy of income, it must be noted that well-targeted interventions lead to increased access to income and consequently improved standard of living. Our assessment reveals that majority of the poor population groups do not have a decent income and that majority do not have a secured income. About a third (33.76%) of the poor population groups derive their main income from the things they sell on a daily basis which constitutes the main source of income for a further one out of every five (22.65%) of poor population groups who work in the informal sector. Even though more than half of the poor population groups are engaged in agriculture only about 20.94% derive their main source of income from produce from farmlands. Data available further indicate only one out of every ten who are on monthly income was found to be poor.

Data available also indicate that about four out of every five (78.4%) of poor population groups reported that income from main work is insufficient to cover education, clothing, health care, transport and food. In effect more than a third earn below the prevailing minimum wage of ₵11,200.00 which is in itself below the dollar at the prevailing exchange rate of ₵9,000.00=US\$1. The implication of this is that the decentralization process has not translated into making the poor have adequate incomes to cover even the basic necessities in life as education, healthcare transport and food.

## **5.5 Field Survey Empirical Analysis: Results of Focus Areas**

There is legal aspect of the decentralisation process. The DAs need the power, authority and the mandate to discharge their poverty alleviation duties effectively and efficiently. This means that the legal backing for policies spelt out in the NADP and re-echoed in the GPRS be implemented to the letter. As noted earlier the DAs have a constitutional backing and are supposed to be autonomous bodies with the power to plan and implement projects, yet this study confirmed that they are still the appendages of the Central government and dance to the tune of the MDAs.

Concerning the institutional set up of local government there are two aspects: (i) the internal aspect concerning the modus of election and appointment of the assembly members at different levels, and (ii) the external aspect concerning the relationship between the elected institutions of local government and the extension offices of the line ministries. As has been noted under scenario analysis the majority of the people would want the DCE be elected.

On the issue of election of 'one third' of Assemblies, it has been noted that 50% of the interviewees opposed this motion. The reasons given are the high respect the people have towards their traditional leaders and also their concern for all members of the community including the poor. This point has been strongly emphasized during the stakeholder workshop in Accra (30.03.2004). The presence of traditional

leaders, however, can be assured also by democratic means: They may be elected among their own constituency (the chiefs in the district) and nominated by the Presiding Member of the DA.

The study has revealed the problem of institutional rivalry or institutional dilemma among the relevant stakeholders. This has been of much concern to the stakeholders. The emergence of elected local institutions is threatening the mode of existence (not the existence itself!) of the extension offices functioning under centralized authority of the line ministries. Indeed the present rivalry is not the best way of synergetic service delivery to the people. A mode of dual allegiance has not found the approval of most participants at the stakeholder workshop (*Accra 30.03.2004*). The policy option is clearly for a fully decentralized single line system as discussed. Intermediate steps are possible and already practiced: integrated, multi-sectoral programme implementation as a first phase and composite planning and budgeting as a second phase. The orientation for the second phase has been confirmed in the GPRS.

The stakeholder analysis has unearthed that there are both “losers” and “winners” in the decentralisation process. The winners are clearly the elected institutions at the local level; the losers are undoubtedly the departments and organizations among the MDAs called “ceasing to exist”. Neutral ones can be called those MDAs, which do not have a regional and local extension and thus are not affected by the decentralization process. The local extension offices of all the important line ministries are supposed to be merged with the structures under the authority of the District Assemblies.

These departments, which are provided for in the Local Government Act, overlap considerably with the responsibilities of those departments “ceasing to exist”. These departments should coordinate all activities in the district territory. Nominally, they are the “winners”. In reality, they have not won: they coexist side by side with the very strong presence of the “losers”.

Effective resource mobilisation is essential for a successful pro-poor decentralisation. The field survey has revealed that the main sources of revenue for the DAs in Ghana are: GOG Consolidated Fund (32%), DA Internally Generated Revenue (IGR) (11%), Development Partners' contribution (36%), HIPC Relief fund (7%) and District Assemblies Common Fund (DACF) (14%). Despite the modest structural change, resource mobilisation at the district level in Ghana is still very weak. This has made the DAs still highly dependent on the central government revenue.

What is clear from these sources of revenue is that individually, Development Partners contribute the highest percentage (36%) to the financing of DA's projects. But when we put together the receipts from the Government of Ghana consolidated Fund (32%) and the DACF (14%), under Central Government Revenue to the DAs, we get a total of 46%. Thus, it is logical to say that the main source of revenue for the DAs in Ghana is the central government revenue. This revelation has made the DAs very much financially dependent on the central government. Therefore, any slack in the flow of revenue from the Central government to the DAs is injurious to them. Our survey results have also ranked the Central government regular revenue to the DAs as the first source of their revenues.

It must be pointed out that an important component of the Central Government revenue is the DACF, which is of recent origin, and has the potential of affecting the finances of the DAs poverty-reduction wise. As a result, it demands some focal analysis in this pro-poor study. Against this background, and recalling the fact that there are great regional differences in the poverty level (especially, the three Northern regions) one questions the adequacy of the current formula in the disbursement of the DACF. The formula has to take into consideration the regional and for that matter district disparities as well as equity into consideration to enable those poverty-endemic districts get more allocation of the DACF.

The DAs are financially constrained because they do not get adequate annual revenue to enable them execute their vital projects, including poverty-reduction projects. Essentially, there are two dimensions for a permanent solution of this financial inadequacy problem. First, the Central government must try to allocate a substantial amount of revenue to the DAs.

Second, the DAs themselves must increase their efforts to derive enough revenue from their internally generated revenue (IGR). In fact, evidence exists that the IGR is a very good potential source of revenue mobilisation for the DAs. Collection of local tolls, levies and fines need to be efficiently mobilised in order to rope in as many people as possible. Another way is for the DAs to engage in some direct productive investment activities such as farming (wood-lots farms, food crop farms, cash crop farms) poultry, animal rearing such as cattle etc.

The survey results have also indicated that the involvement of traditional authorities, local communities, civil societies, assembly members and the private sector in the revenue mobilisation activities of the DAs is not much - just about average.

There is also the problem of the timely release of resources to DAs (resource allocation). On paper, the DACF is to be released quarterly. Our interview of the DCEs, and budget/planning officers indicates that the allocation of resources are not only irregular, they are also inadequate and usually falls short of the planned budget. Available data from the field survey indicate that the DACF is not released quarterly as documented. About 60% of the 40 respondents (24) confirmed this. Not only is the DACF delayed, but also the DAs cannot really predict when it will come and if it will be the full amount. Undeniably, some DAs are often in arrears. Projects may as a result partially be completed, as revealed by the majority of the respondents.

Similarly, the funds released from the Central Government (including DACF) often fall short of the financial requirements of the DAs plans and operations. These budgetary details indicate that the pattern of resource allocation (actual amount) has generally been on the increase over the last four years (2000 - 2003). This is a good trend of allocation, it may be noted. However, the funds that the DAs actually received have persistently fallen short of the amount budgeted for. On the whole, the deficits have averaged between 20 and 30% of the amount budgeted for. This may adversely affect the execution of many poverty reduction projects in the districts. We may recall again that our econometric results have emphasised the importance of budgetary allocations, DACF, HIPC relief funds etc. in poverty reduction in Ghana

Furthermore, the study has revealed that the inflation factor is also telling on the value of the DACF. Even though the actual nominal figures of DACF to the districts have been on the increase between 1999 and 2003, the real values are generally lower, and have been fluctuating for the ten sampled districts.

Resources (especially financial resources) channelled to the DAs are supposed to be efficiently managed so as to derive optimal utilisation from them. By fiscal decentralisation, all DAs are supposed to be financially independent from the Ministry of Finance and Economic planning. This in a way is a big risk, and the only way out is for the DAs to manage their resources prudently and efficiently for the desired developmental impact (especially, poverty-reduction). One wonders the extent to which *transparency prevails in management* of District Assembly resources (especially financial).

Our assessment on the *transparency in the management and use of resources* allocated to the DAs reveals that there is a lot still to be done in this direction. The DA accounts that are audited quarterly in line with the statutes is just 33.33%. This percentage is too low, and hence something should be done to arrest this situation.

It is gratifying to note that the DAs reported of having a *monitoring and evaluation (M&E)* team. Even though it appears they are doing fairly well in resource management, yet much more is required of them.

The survey has also revealed that there is an *attitudinal problem* of personnel to work at lower levels in the system of local government. To some of them working at the lower level is like a punishment or demotion. It is also related to the value system in general (solidarity being just the last resort when other means fail), working conditions (equipment, housing etc.). This phenomenon creates a capacity problem for the DAs.

Similarly, essential logistics are also lacking at the districts. The DAs are deficient in basic logistics such as filing cabinet, telephone, computers, motor vehicles etc. If the DAs are to function effectively and efficiently, these basic logistics would have to be put in place as soon as possible. It must be mentioned here that during the stakeholders' workshop on the preliminary findings of the Pro-poor Decentralisation programme held on 30<sup>th</sup> March, 2004 in Accra, some of the participants emphasised lack of essential logistics at the district level, as an important factor making working at the district level uninteresting.

In view of the capacity problem the DAs have indicated that they still have the need for enhanced capacity building to enable them develop and implement pro-poor plans. As high as 93.33% of respondents stated this view. Some areas they indicated as needing attention are: (i) administration, (ii) financial management: budget preparation and execution, (iii) project management, (iv) training in ICT, (v) monitoring and evaluation, (vi) planning, programming and policy analysis, and (vii) conflict resolution.

The caveat to our main study hypothesis is that both resources and capacity are needed to achieve a higher level of effectiveness and sustainability and these should meet supply expectations (sustained responses) of DAs to enable them meet the demand (requests) from the citizens.

On the demand side there is need for capacity/ empowerment of the citizens to make requests. Thus training must be extended to the citizens through CSOs, CBOs, etc. so that they will be able to make the right requests/demands on the DAs. This can be enhanced through: (i) participation and partnership training, (ii) monitoring and evaluation capacity, (iii) transparency, accountability and probity, (iv) lobbying and advocacy skills, and (v) general education on functions of DAs.

The issue of participation and partnership is also crucial for a successful decentralisation process. Both secondary data and survey results strongly suggest that participation and partnership are at very low ebb at the district level contrary to the expectations of the decentralisation policy. Evidence is quite mixed at the extent to which the community/village participate in decision-making concerning provision of services and amenities that affect them. More efforts at their involvement are needed.

Similarly, the poor are not very much involved in decision making. In fact, our focus group discussion revealed that the poor are actually marginalised in the main decision making that affect them. While 13.86% claimed involvement to a large extent, about 34% of the poor group respondents are found out to participate to some extent. The remaining 51.49% of the respondents are involved only on average, at the margin, or not at all.

In order to make the pro-poor decentralisation plan effective, the majority of the interviewees (74.45%) have indicated that they have some suggestions as to how to make the DAs more beneficial or more pro-poor. Among some of their suggestions are: (i) the poor should be properly identified by survey (poverty mapping) and duly attended to, (ii) that needs assessment must be properly done, (iii) interventions must be specifically designed to reduce poverty, (iv) the district sub-structures must be made more functional, and (v) policies must be explained very well at the grassroots, among others.

A few of the people also mentioned some harmful effects of decentralisation as follows: (i) some DCEs are biased in the allocation of social amenities; (ii) late release of funds from the Central Government; (iii) no salary for Area Council workers; (iv) the local people are mostly left out in decision making; (v) only the rich benefit; and (vi) there is a lot of favouritism and nepotism. It is important that the complaints of the minority are also taken seriously for a successful pro-poor decentralisation programme in Ghana.

The decentralisation process has some risk elements and this was also addressed at the survey level. The main risks identified were: (a) institutional risk, (b) risks with regard to inappropriate allocation of funds at the district level (c) exogenous risk and (d) risk concerning implementation capacity. The presence of these risks has been observed as adversely affecting the pro-poor decentralisation process. For example, it has been found out that there are many internal elements of exogenous risk in Ghana, which may affect the implementation of district level projects. The main ones among them are chieftaincy disputes, land

litigation and political groups. The traditional system gives an important value to chieftaincy, and it should be used rather as a powerful instrument of development, and not an affront to development.<sup>23</sup>

In order to minimise the recurrence of the numerous chieftaincy disputes most of the interviewees (all the cohorts except the house hold group) made some critical suggestions for solving these problems. The key measures suggested include: (i) committee to be formed to settle all chieftaincy disputes quickly; (ii) District Council of Chiefs should be formed; (iii) only the right person should be enstooled after proper screening; (iv) history must be set straight to know the rightful heirs to the throne, (v) adherence to the land title; (vi) need for political tolerance among the people as well as the district assembly; and (vii) proper education of the people.

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<sup>23</sup> Risk analysis constitutes a crucial element of PSIA as observed earlier. This essentially involves an **assessment** of assumptions underlying the reforms, and also emanating from the reforms, which are more likely to put the reform outcomes at risk.

## 6. CONCLUSIONS AND POLICY RECOMMENDATIONS

### 6.0 Pro-poor PSIA Study: Summary of Conclusions and Policy Messages

This Study addressed the core problem of the PSIA study: *How can decentralization measures be designed to strengthen poverty reduction at the local level?* This has been done against the background of classical prerequisites of poverty reduction cycles (power/mandate, resources, capacity, partnership and participation), which coincidentally are at the same time the four programme areas of the National Development Action Plan. (NDAP). Within this conceptual framework an attempt has been made by this study to link decentralization to poverty reduction and examines the resources available to enable the decentralization process benefit the poor.

Analytically, the report further uses the results of the tools of the PSIA study (stakeholder and poor population groups analysis, scenario analysis, transmission and beneficial analysis and risk analysis) to examine the core problem within the context of the four focus areas of the decentralization process (power/mandate, resources, capacity, partnership and participation). Following from this the following conclusions and policy messages are identified to make the decentralization process more pro-poor.

### PSIA Policy Messages

#### 6.1 Stakeholder Analysis

##### 1. Deepen the involvement of stakeholders in the reform process

Pro-poor decentralization process is essentially a shared responsibility of the Government and the relevant stakeholders to achieve the desired impact. In the Ghanaian case these stakeholders include among others: MDAs, Development Partners, District Assemblies, Civil Society Organisations, Private sector and the communities. At the district level, the relevant groups that need to be very actively involved in designing and implementing the pro-poor decentralisation programmes are Civil Society Organisations, Assembly Members, Unit Committees, Traditional Leaders, the Communities (the poor) and women. The various stakeholders or groups of people (especially the poor) are directly affected by the programmes, projects and policies, and hence their participation at all stages of the projects cannot be over-emphasised.

However, evidence available from the study is quite mixed as to the extent to which these key stakeholders are involved in the pro-poor decentralization activities in Ghana. One can say that the level of involvement is at best modest. For example, community/village participate in decision-making concerning provision of services and amenities that affect them are a little above 50%. With respect to the poor, 35 out of 101 respondents (34.65%) have indicated that the poor are involved to some extent. Evidence is also mixed regarding involvement of gender in the pro-poor decision-making. There is, therefore, the need to deepen the involvement of stakeholders to enable the decentralization benefit the poor.

##### 2. Make the decentralization process benefit more poor population groups

Poor population groups are arguably the key stakeholders in the reform process. Ironically, the majority of poor population groups are rather not familiar with the work of the District Assemblies thereby making the decentralisation process still far from the poor people who should benefit from the reform process most. To them the decentralization process is benefiting only the educated.

The study indicated that funeral costs, medical costs, children's education and crop failure are the major crises affecting poor population groups. In times of crises no help comes from the District Assembly. Churches and societies were found to be the most important avenues for providing security to most population groups at the local level. There is the need to make the work of District Assemblies more familiar to poor population groups. There is also the need to strengthen corporate element in the structure of representation by increasing the representation of the poor in the work of the assemblies. The poor in rural Ghana constitute more than one third of the population and they can be also an "organised

productive grouping.” The type of grouping may be informal and not as visible as commercial or industrial enterprises.

## 6.2. Scenario Analysis

### 1. Create awareness of the five policy scenarios that lend themselves to making the decentralization process more pro-poor

Five different scenarios (namely, *status quo*, *small reform*, *medium reform*, *full decentralization and rolling back*) are available in making the decentralization process more pro-poor but each policy option available has its own strengths, weaknesses, opportunities and threats. These are:

- (i) First scenario: to maintain what has been achieved so far: The increase of the DACF to 7.5% has been voted in early 2004 and partnership with NGOs and the private sector have begun, but not generalized.
- (ii) Second scenario: to go in for a small reform by adding composite planning and budgeting between all departments as well as extension offices on the regional and district level so far under the authority of line ministries and committees of the District Assemblies, which have been instituted legally in early 1993.
- (iii) Third scenario: to go in for a medium reform, which will involve ratifying the practice of composite planning and budgeting by merging all departments as foreseen under the law. This policy option that involves a substantial change of authority and command will improve the identification, design, and management of pro-poor projects and development plans.
- (iv) Fourth scenario: to go in for a comprehensive reform process in all four programme areas with the election of all District Assembly members and the DCE, improved participation of the poor at all local levels and internally generated revenue considerably increased.
- (v) Fifth scenario: a *worst-case scenario* involving doing away with decentralisation in favour of rigorous centralisation.

### 2. Redirect increases in the DACF, DA budgetary allocations, and HIPC disbursements, etc. to affect the necessary transmissions

Historical evidence indicates that the incidence of poverty in Ghana has been on the decline since 1992. Given that the targets set under the GPRSP, MDG and NEPAD goals are achieved, it is possible to reduce the incidence of poverty in Ghana under two scenarios: a fairly realistic scenario and a more optimistic scenario. Under the *first scenario* poverty can be halved from 40% in 1999 to about 21% by 2015 while under the *second scenario* it is possible to achieve poverty reduction of 18.7% by 2015. Under each of the two scenarios the transmission and impact to achieve poverty reduction are through increase in employment opportunities, increase in household/transfer income, and increase in wage and agricultural income. *The priority is to create employment opportunities for the poor in productive jobs.*

### 3. Keep the steering wheel of the decentralization process more in the pro-poor direction

Improved provision and proximity of government services, does not automatically make decentralisation measure pro-poor. Unless the steering wheel of decentralisation process is kept in the pro-poor direction, the decentralisation measures will become rather pro-rich. Increased access to basic services in the areas of health, water, sanitation, and education benefits the poor. But they can be affordable if income-earning activities of the poor population groups rise. Special cash transfers under HIPC funds must be only short-term. In the long-term the poor needs employment (own job or working for another).

## 6.3. Transmission mechanisms and Impact Analysis

### 1. Enhance productivity of the poor in agriculture and raise incomes/purchasing power of the informal, micro and small-scale enterprises

Pro-poor decentralization is expected to be a process by which central and local governments can improve upon the welfare of the poorest section of the population. The study linked the decentralization process to the envisaged policy changes and expected effects on the welfare of poor population groups by an

assessment of access of poor population groups to employment, basic services, assets and transfers. Some of transmission channels are weak in the districts and that the decentralisation plan has so far registered just little improvement in the employment level of the people in the districts. Even though agriculture and non-farm activities constitute the major source of livelihood for the majority (88.5%) of poor population groups, inadequate incomes hamper the ability of poor population groups to meet basic needs and to acquire other productive resources. Most of the poor population groups depend on daily wage and incomes from non-farm enterprise but incomes derived are insufficient to meet basic household needs - food, clothing, healthcare, education and clothing. About three out of four of the poor population groups earn just a little over the equivalent of the daily minimum wage with the result that majority of poor population groups have to borrow money or sell assets for normal living and to meet other expenses.

Indeed raising the incomes and purchasing power of the informal as well micro and small-scale enterprises is central to the improving the well being of the poor population groups. The provision of adequate earnings and productive work should constitute an important means of the decentralization process to bring about improvements in the standard of living and the material well being of poor population groups and their dependants

## 2. Translate decentralization into increased access to social services by the poor

Decentralization process has not been sufficiently translated into access to basic social services by poor population groups. About a third of poor population groups have no access to toilet facilities and resort to the bush, beach or free range as places of convenience. Bore hole is still the main source of water for about 23% of poor population groups while a further 13% depend on unprotected well as the main source of water. Even though nearly one half of poor population groups live within one kilometre to the nearest available clinic or hospital about a third cannot afford the cost of health care. Again, even though about 70% of poor population groups live within a kilometre from the nearest available primary school about 84% cannot get places due to lack of space and about half of them cannot get placement elsewhere either.

The non-availability of adequate social amenities at the local level calls for a shift in development policy and the recognition of access to adequate earnings and livelihoods, basic social services, health and education as pillars of the decentralization process. The decentralization process requires a combination of efforts and synergies that need to be nurtured and developed to ensure that the decentralisation process benefits more the poor and poor population groups through increased access to assets and basic social services by poor population groups. The radio, cassette player and bicycle were found to be the most important assets for poor population groups.

## **6.4 Risk Analysis**

### 1. Address institutional conflicts and interests that negatively affect pro-poor decentralization

The scenario and stakeholder analysis revealed that pro-poor decentralisation involves some institutional changes and movement of staff or personnel which involves different groups working in central as well as decentralised institutions such as administrators, technical personnel and politicians. The issue here is even if an institution may have the “institutional interest” of opposing decentralisation as some MDAs, the groups of persons working in this institution might have different interests. Whilst the technical professional may want to excel in technical performance and effectiveness, the administrators may naturally want to maintain status quo. The politicians also have their divergent views or agenda. All these lead to an institutional conflict of interests, and hence an institutional risk which may adversely affect the pro-poor decentralisation process and therefore needs to be addressed.

Besides, there are institutions such as the Ministries of Finance, Health, and Education who have influence but are not that interested in the decentralization process while institutions such as the District Assemblies, NGOs, CBOs, and the poor who have little or no influence but are rather interested in decentralization. Another dimension of the institutional conflict derives from the “losers” and “winners” dimension in the decentralization process. All these institutional conflicts and interests that are seriously affecting the decentralization process from being pro-poor have to be minimized to the barest minimum.

## 2. Reduce the risks associated with the implementation of vital projects owing to financial constraints

- (i) *Adopt policy measures to minimise risks associated with the lack of timely and/or adequacy of release of funds:* This may involve increasing the allocation of revenue by Central Government to the District Assemblies. The main sources of revenue for the District Assemblies is the Central Government of Ghana consolidated Fund (34%), and District Assemblies Common Fund (DACF), (15%). Therefore, any slack in the flow of revenue from the Central Government to the District Assemblies poses great risks to the implementation of poverty reduction programmes. The DACF is not released quarterly as documented but also the District Assemblies cannot really predict when it will come and if it comes the full amount is not released and that some district assemblies are often in arrears. On the whole, the deficits have averaged between 20 and 30% of the amount budgeted for. This may adversely affect the execution of many poverty reduction projects in the districts. The main risk we run is shoddy execution of district level projects. This is confirmed by 57 out of 115 respondents (49.6%). It is followed by the risk of partial completion of some vital pro-poor projects in the district to the detriment of the vulnerable and suffering poor.
- (ii) *DAs must increase their internally generated revenue (IGR).* Collection of local tolls, levies and fines need to be efficiently tackled in order to rope in as many people as possible. Another way is for the District Assemblies to engage in some direct productive investment activities such as wood-lot farming (the *tungya* system), food crop farms, cash crop farms, poultry and animal rearing. Furthermore District Assemblies need to actively involve local institutions such as Traditional Authorities, Local Communities, Civil Societies, and Assembly Members etc in the mobilisation of revenue for the District Assemblies.

## 3. Address chieftaincy disputes, land disputes, ethnic conflicts and bush fires that threaten pro-poor decentralization

Chieftaincy disputes, land litigations, ethnic conflicts and bush fires constitute part of the internal elements of exogenous risks affecting the implementation of district level projects and these need to be addressed to make the decentralization process succeed. These internal exogenous risks adversely affect the implementation of district level projects. The main one among them is chieftaincy disputes as confirmed by 111 out of 336 respondents interviewed (33.04%).

In Ghana, our traditional system gives an important value to chieftaincy, and we need to use it rather as a powerful instrument of development, and not an affront to development. The following are some suggested measures that could be adopted:

- (i) Committees be formed to settle all chieftaincy disputes quickly;
- (ii) District Council of Chiefs be formed for regular consultations;
- (iii) Only the right person should be enstooled;
- (iv) History must be set straight to know the rightful heirs to the throne;
- (v) Confiscation of all litigated lands to the throne and/or extra punishment for wrongful litigation;
- (vi) There is the need for political tolerance among the people; and
- (vii) Proper education of the people on all relevant local and national issues.

## 4. Ensure transparency and accountability in resource management through regular auditing, etc.

Resources (especially financial resources) channelled to the District Assemblies are supposed to be efficiently managed so as to derive optimal utilisation from them. District assembly expenditure details are first supposed to be audited by the internal audit unit. There is the need to ensure that regular auditing (internal and external) of the District Assemblies accounts is intensified. To ensure transparency and accountability the following specific recommendations are advanced:

- (i) Periodic unannounced auditing and reporting
- (ii) Post/Publish audited reports on bill boards in the communities and/or submit the reports to the Controller and Accountant General and Ministry of Finance
- (iii) Adopt fiscal decentralization in the long run to enable District Assemblies to be financially independent from the Ministry of Finance, which is opposed to fiscal decentralization.

- (iv) Make the Monitoring and Evaluation (M&E) team more effective and efficient. M&E team at the District level is perceived as a toothless bulldog beset with lack of technical expertise and inappropriate composition.
- (v) Increase the participation of opinion leaders and communities in the selection and monitoring of projects.
- (vi) There is also the need to transfer accounting personnel every two years.

## **FOCAL AREAS Policy Messages**

### **6.5. Mandate/Legal Framework**

#### 1. Give DAs the mandate to discharge poverty alleviation interventions effectively and efficiently

Efficient and effective implementation of pro-poor policies and programmes depend upon power and mandate to the DAs. This means that the legal framework or backing spelt out in the NADP be implemented to the letter. The DAs do not have enough constitutional backing. Fortunately, the Local Government Service Bill has been passed on 23<sup>rd</sup> December 2003 (Act 656). The tenets of the Act should be made operational and not a mere paperwork. Currently, only about 17-20% of funds administered by the districts are at the discretion of the DAs. Furthermore, the DAs are supposed to be autonomous bodies with the power to plan and implement projects, yet one can say that they are still the appendages of the Central government and dance to the tune of the MDAs.

#### 2. Tackle the institutional dilemma at the District and Regional levels to address counter-productive rivalry among institutions

The decentralization process has brought about an institutional dilemma resulting in rivalry among institutions at the district level. Participants at the stakeholders' workshop in Accra were very apprehensive of the apparent emergence of dual allegiance of regional and district branches of sector ministries, departments and agencies (MDAs) as well as other elected local institutions which is threatening the existence of the extension offices functioning under centralized authority of the line ministries at the District level. This is seriously affecting the pro-poor decentralization process. Consequently, there is the urgent need to tackle the institutional dilemma at the District and Regional levels to address counter-productive rivalry among institutions to ensure smooth implementation of the decentralization process.

#### 3. Rationalise the linkages between the sub-committees at the DAs and the departments

It is necessary to merge institutions at the District and Regional levels for a fully decentralized single line system to address counter-productive rivalry among institutions. There is also the urgent need to ensure that the sector ministry departmental head at the District level works to promote the achievement of the District's objectives. This would mean making all district operatives report to the District Assembly by refocusing the reporting relationship at the District level from the vertical structure to the lateral or horizontal structure that would recognize the district structure.

#### 4. Implement multi-sectoral integrated programmes with composite planning and budgeting focused on "pockets of poverty" on a pilot basis

We do not call for full composite planning and budgeting for all the DAs at a go. But we recommend strongly that this is started on pilot basis in the short-run especially in selected Metropolitan/Municipal Assemblies and fully adopted in the long run. To achieve full decentralization in the long-term, all activities must be planned, budgeted and implemented under the sole authority of the District Assembly and at the Regional level of the Regional Coordinating Council.

#### 5. Resolve the issue about the election of DCEs and DA members

There is the need to have all DCEs elected and not nominated by Government. About two out of three respondents would like the DCEs elected because they believe that this would make the DCEs more accountable and responsible to the people and would also prevent the DCEs from having double allegiance. It is also felt that the DCEs would enjoy the full cooperation and total allegiance of the people

unlike the current situation where there is a partisan assembly where the DCE has to belong to one. Another option is to abolish the position and to attribute his function to the Presiding Member of the DA. Additionally, the budgetary implications of the elections are fairly moderate and can be accommodated without much pressure on the national budget.

#### 6. Maintain the present practice of election of DA members and improve institutional linkages between chieftaincies and local assemblies.

Majority of respondents interviewed would not like to have all DA members elected. Their preference for the retention of the present system stems from the value derived by the District Assemblies from the professional expertise of the appointed members and the representation of traditional leaders and civic groups in the district assemblies. There is also the need to improve institutional linkages between chieftaincies and local assemblies. The presence of traditional leaders (who are appointed by the DCE) is highly valued. The presence of traditional leaders can be assured also by democratic means: They are elected among their own constituency (the chiefs in the district) and confirmed by the Presiding Member of the District Assembly.

### **6.6. Resources: Mobilization, Allocation and Management**

#### 1. Increase resource allocation and logistics to district assemblies

The DAs need adequate resources (especially financial resources) in order to plan and implement their poverty reduction projects. Both secondary and survey results have revealed that the main source of revenue for the DAs is the Central Government revenue (comprising DACF). This was also confirmed by 38 out of 43 (88.4%) of the respondents. However, the funds released from the Central Government (including DACF) often fall short of the financial requirements of the DAs plans and operations (confirmed by 79.50%). This phenomenon has led to persistent budget deficits for the DAs. On the whole, the deficits have averaged between 20% and 30% of the sampled districts from 2000 to 2003. (It must however be noted that the pattern of resource allocation - actual amount - has commendably been on the increase from 2000 to 2004 generally). This may adversely affect the execution of many poverty reduction projects in the districts.

The DACF in particular is not only inadequate (confirmed by 79.5%) but also its release is beset with problems - it is not released quarterly as documented (confirmed by 60% of the respondents), the DAs cannot really predict when it will come, and at times they are in arrears. It is therefore recommended that adequate financial resources be released to the DAs for their pro-poor activities. The funds (including the DACF) should be released early to avoid delays.

Furthermore, resources in terms of essential logistics are also lacking at the districts. The DAs are deficient in basic logistics such as filling cabinet, telephone, computers, motor vehicles etc. It is proposed that the Ministry of Finance and its allied departments should endeavour to provide the essential basic logistics to the district assemblies to enable them function much more efficiently and effectively.

#### 2. Facilitate the increase of DACF by 2.5% to be used for pro-poor activities

The DACF is still an important component of the Central Government revenue with potentials for affecting the finances of the District Assemblies for poverty-reduction interventions. The study further found out that an increase in the DACF from 5% to 7.5% would bring additional basic social facilities (for example; water, health, sanitation and education) to be provided. However the present allocation formula for the disbursement of the DACF was found to be inadequate in view of the prevailing regional differences in the poverty levels in the country.

It is argued that a project is pro-poor if:

- (a) it is implemented in areas called “pockets of poverty” (substantially higher percentage of poor people than the average of the district or region) and
- (b) if the poor themselves are actively participating in designing, planning and implementing the project.

In order to ensure that the proposed increase in the DACF by 2.5% benefits more the poor there is the need to refine the DACF allocation formula to facilitate the increase of 2.5% to be used for pro-poor activities. The refined formula need to take into consideration the regional and district disparities as well as equity into consideration to enable those poverty-endemic districts get more allocation of the DACF. Include in the formula an indicator that makes it possible for those Assemblies with more internally generated revenue to be allocated more DACF. Besides, there is the need to link participatory poverty mapping with qualitative monitoring of all funds including HIPIC Funds. Again, District Assemblies need to adopt a multi-sectoral integrated approach in pro-poor policy and project design.

### 3. DAs must boost resource mobilization especially IGR

Resource mobilisation at the district level in Ghana is also very weak. This has made the DAs highly dependent on the Central government revenue. The other sources of development revenue to the DAs noted are: *internally generated revenue* (IGR), HIPC funds and Grants from Development Partners (Donors and NGOs). However, not much is realised from these other sources (the receipts from the Development Partners is fairly high, but cannot be sustained) to supplement the central government revenue. For example, the internally generated revenue constitutes only 3% for all the DAs but 11% for sampled DAs of their total annual development funding. This is woefully inadequate.

It is proposed that the DAs should boost their receipts from those other sources of revenue identified (especially the IGR) to supplement the Central government revenue. Even though the districts' IGR is the lowest (3% or 11% for the sample) among the sources of revenue for the DAs in Ghana, its importance is very high to the DAs. It has also been rising up very fast. For example, in 2000 the total for the 110 district assemblies was 70.4 billion Cedis, increased to 95.7 billion Cedis in 2001 and jumped to 155.2 billion Cedis in 2002 (an increase of 120% between 2000 and 2002). The highest IGR increase over the period was 389% recorded in the Northern Region, followed by 384% in the Volta Region and 205% in the Upper East Region (GPRS Annual Report, 2002). It is thus observable from this revelation that the IGR of the DAs is a very good and reliable potential source of revenue that must be tapped fully to aid their pro-poor activities. The IGR potential remarkably appears very strong in the regions that have very high incidence of poverty (example, the Savanna regions and the Volta).

### 4. DAs to actively involve Traditional Leaders, local institutions and the private sector in their revenue mobilisation efforts

The involvement of Traditional Authorities, Local Communities, Civil Societies, Assembly members and the private sector in the revenue mobilisation activities of the DAs is not much. It is therefore imperative for the DAs to actively involve Traditional Leaders, local institutions and the private sector in their revenue mobilisation efforts, in order to significantly increase their internally generated funds. The Ghana Private Road Transport Union (GPRTU) is doing some good work for the Internal Revenue Service (IRS) and must be adopted by the DAs.

### 5. The DAs should promote effective monitoring and evaluation of use of resources at the local level

Since we need our scarce resources especially financial resources to be appropriately utilised at the district level also, there is the need for an effective monitoring and evaluation of the resources channelled to DAs for their projects. It is no wonder the field reports revealed the monitoring and evaluation team is facing serious difficulties. The main one is lack of technical expertise, as confirmed by 60 out of 127 respondents (47.24%). Surely we need to address this critical area too if we want our pro-poor decentralisation plan to be effective.

## **6.7 Capacity Building**

### 1. Through induction courses and special incentives, the DAs must solve attitudinal problem of personnel at the local level

According to NDAP (2003), seventeen out of a total of twenty-three projects in support of decentralisation may be classified as "capacity building" or local government activities, as reflected in the

new programming proposed under the GPRS and the Government Decentralisation Action Plan. This implies that the level of capacity at the districts is very important.

It is logical to state that since the DAs have been in operation, they have some level of capacity on the ground. However, there is an attitudinal problem of personnel to work at lower levels in the system of local government. To some of them working at the lower level is like a punishment or demotion. It is also related to the value system in general (solidarity being just the last resort when other means fail), working conditions (equipment, housing etc.).

#### 2. Embark upon a programme of actions to strengthen the capacity level of District Assemblies

The DAs are just averagely equipped (that is averagely capacitated) in terms of personnel, equipment etc. for implementation of pro-poor decentralisation plans. This is not encouraging at all. The story is even worse for other district essential organs such as Area Councils, Town Councils and Unit Committees. Some of them do not even have salaries.

Against this background there is the need to adequately strengthen the capacity level of the districts in order to enhance the performance of their pro-poor activities effectively. 42 out of 45 respondents (93.33%) of the staff of the DAs have indicated that there is need for capacity strengthening at the districts in the following areas: (i) administration, (ii) financial management, (iii) project management, (iv) training in ICT, (v) monitoring and evaluation, (vi) planning, and (vii) conflict resolution.

### **6.8. Partnership and Participation**

#### 1. DAs must endeavour to involve the poor and other stakeholders actively in the design and implementation of pro-poor projects

The degree of involvement of the poor in local units has been empirically established to be very disappointing. To ensure that the vast majority of the poor owns the projects, and for the whole decentralisation process to be made more pro-poor there is the critical need to actively involve them in the decision process. Another way of ensuring that the local people are involved in the decentralisation process is to use as much as possible the expertise of local stakeholders (who are at the same time the main beneficiaries) where they exist in the implementation of projects instead of bringing them from Accra. These stakeholders were found to include traditional leaders, assembly members, women groups, youth groups, unit committees, religious leaders, the community etc. Technical and other qualified personnel can supplement lack of their expertise in project implementation.

#### 2. Foster the African value of solidarity and inclusion

It is necessary to build on the potential of the people the value of solidarity. This must be done by fostering the African value of solidarity and inclusion as *best practice*, and introduce “Solidarity Medals” at all levels; from unit level upwards to the national level (as an example). Furthermore, Certificates of Honour and Award Nights must be instituted.

### **6.9 Sequencing of Policies**

#### A decentralisation process is not a matter of years: it will take generations and appropriate sequencing for the desired impact on poverty reduction

It is not only important to gear up measures in each available scenario but what is equally important is to proceed in phases and to sequence well the steps in the direction of full decentralization for eventual impact on poverty reduction. These should include the following policy options:

- (i) Full Planning and Composite budgeting can only follow after the necessary capacities have been developed.
- (ii) Effective participation depends largely on the mobilization and education (capacity building) of the poor to make demands and call for transparency and accountability.
- (iii) Election of DCEs can be effective when decentralization is in full gear or even earlier.

## APPENDIX 1

### A5. RESULTS OF PSIA AND FOCUS AREAS ANALYSES: QUANTITATIVE ANALYSIS

In this Appendix we present the following: (i) the findings that relate to channels of transmission (employment, prices, access to basic services, assets, and transfers, etc.) and their impact on poverty reduction, and (ii) the financial implication of election of all officers/DCEs to the DAs. The full empirical analyses of the PSIA and focus areas based on fieldwork/field study are in Appendix 2.

#### **A5.1 Quantitative Analysis of Poverty Reduction: Transmission Mechanism and Impact Analysis [Scenarios]**

##### *A5.1.1 Data Situation: Sources, Reliability/Authenticity*

The secondary data for this analysis is obtained from both national and international sources. On poverty variables the main data source is the Ghana Statistical Service's Ghana Living Standards Surveys (GLSSs). As far as these poverty variables or indicators are concerned, the cut-off point for data availability is 1999. Virtually no living standard survey has been conducted in the country since that time. Therefore, data on poverty variables or indicators post 1999 is non-existent. However, as regards other macroeconomic indicators such as per capita income, GDP and sectoral contributions to GDP, there is data for the period 1970-2000 and these have been used in the trend analysis on the performance of the Ghanaian economy. Such data have been obtained from the Ghana Statistical Service's Quarterly Digest of Statistics, Bank of Ghana's Annual Reports and Quarterly Economic Bulletins, and World Bank's World Tables, World Development Reports, and Social Indicators of Development.

Regarding the reliability of data in general and on poverty indicators in particular these could be said to be very reliable. The GLSS, which is the sole source of poverty data on the Ghanaian economy, is a multi-topic survey designed to provide thorough information on the socio-economic position of households in Ghana. The GLSS data sets, which consistently span a period of 5 years, provide a very rich source of data on living conditions in Ghana. In terms of coverage, each of the four rounds of the GLSS spans all the regions in the country. However, the 1991/92 and 1998/9 data are the most useful ones as they consistently cover the regional distribution of both the poverty rates and related variables useful for capturing the transmission mechanism and impact analysis. Each survey covers a nationally representative sample of households spread over a full 12-month period. Besides, the GLSS programme was conceived as an integral part of the World Bank/Government of Ghana project on the Social Dimensions of Adjustment, and has been carried out under Ghana's recovery programme. These surveys have been carefully monitored to ensure that data obtained are of the finest quality. Thus data provided are credible, authentic and reliable and have been used as the empirical bedrock of all poverty studies on the Ghanaian economy by both national and international institutions.

Besides, the methodology used to determine the poverty line in Ghana, an absolute poverty line was adopted by virtue of the fact that it permitted poverty comparison of the two periods for which household survey data were available. Such a line sought to identify the lowest value of the welfare measure, which permitted an individual to obtain a minimum subsistence standard of living. But it must be noted that these two surveys (1992 and 1999) used real per capita household expenditure as the measure of welfare or standard of living by virtue of the consensus that household expenditure indicators were generally more accurate and reliable than household income. The Report on the Third and Fourth Rounds of the GLSS established two poverty lines based on a given fraction of the mean value of the standard of living measure in the base year. From this methodology, therefore, a higher poverty line at two-thirds of the mean 1988 per capita household expenditure, and a lower poverty line at one-half or 50% of the mean 1988 per capita expenditure were chosen. In monetary terms, these translate respectively into a higher poverty line of ₵132,230 (i.e., \$302.59) measured in terms of per capita expenditure at May 1992 prices, and a lower poverty line of ₵99,173 (i.e.,

\$226.94) per annum. The same analytical framework was adopted for GLSS 4. Those below the higher poverty line are labelled as "poor", while those below the lower poverty line are "very or extremely poor".

Having established the poverty line itself, which invariably facilitates the identification of individuals to be considered as poor, it is necessary to aggregate the information into a single index of poverty. The degree of poverty in Ghana like elsewhere depends on three factors: the incidence of poverty, the intensity of poverty, and the severity of poverty.<sup>24</sup> In an attempt to measure poverty in Ghana, which should ideally reflect poverty incidence, intensity and severity, the Foster, Greer and Thorbecke (FGT) class of poverty indices was utilised.<sup>25</sup>

**Table A5.1 Poverty Rates for 1992 and 1999**

Summary of Poverty Rates (1991/92 and 1998/99)				
Regions	1992	1999	Period % Change	Annual % Change
Ghana	52	40	-23.08%	-3.30%
Western	60	27	-55.00%	-7.86%
Central	44	48	9.09%	1.30%
Gt. Accra	26	5	-80.77%	-11.54%
Volta	57	38	-33.33%	-4.76%
Eastern	48	44	-8.33%	-1.19%
Ashanti	41	28	-31.71%	-4.53%
Brong Ahafo	65	36	-44.62%	-6.37%
Northern	63	69	9.52%	1.36%
Upper West	88	84	-4.55%	-0.65%
Upper East	67	88	31.34%	4.48%

Source: GLSS 4. Calculations by the ClayDord Consult

Nationally, the incidence of poverty is rather high. Using the head count index or incidence of poverty ( $P_0$ ) to show the share of the population below the predetermined poverty line, it is clear that the percentage of Ghanaians defined as poor relative to the higher poverty line was 37% in 1988, 42% in 1989 and 31% in 1992. The revised poverty rates for 1992 and 1999 in GLSS 4 were 51.7% and 39.5% respectively. Refer to Table A5.1 for the round figures.

Over these two periods there was an overall decline in the incidence of poverty by over 23% (and annualised over the six inter-survey periods comes to -3.30% per annum). In terms of the regional comparison, seven of the 10 regions registered a decrease in poverty rate, while three regions (namely, Upper East, Northern,

and Central whose poverty rates increased by 31.34% (or 4.48% per annum), 9.52% (or 1.36% per annum) and 9.09% (or 1.30% per annum) respectively). Of the seven regions whose poverty rates declined, the Greater Accra Region recorded the highest rate by -80.77% (or -11.54% per annum) over the period, while Upper West recorded the minimum rate of decline in the incidence of poverty.

<sup>24</sup> The incidence of poverty measures the numbers in the total population living below the poverty line; the intensity of poverty is reflected in the extent to which the incomes of the poor lie below the poverty line; and the severity of poverty reflects the degree of inequality among the poor, in that transferring income from the better-off poor should lower the poverty index. See Demery, 1993.

<sup>25</sup> The FGT class of poverty index takes the form of:

$$P_{\alpha} = (1/n) \sum_{i=1}^q [(Y_p - Y_i)/Y_p]^{\alpha}$$

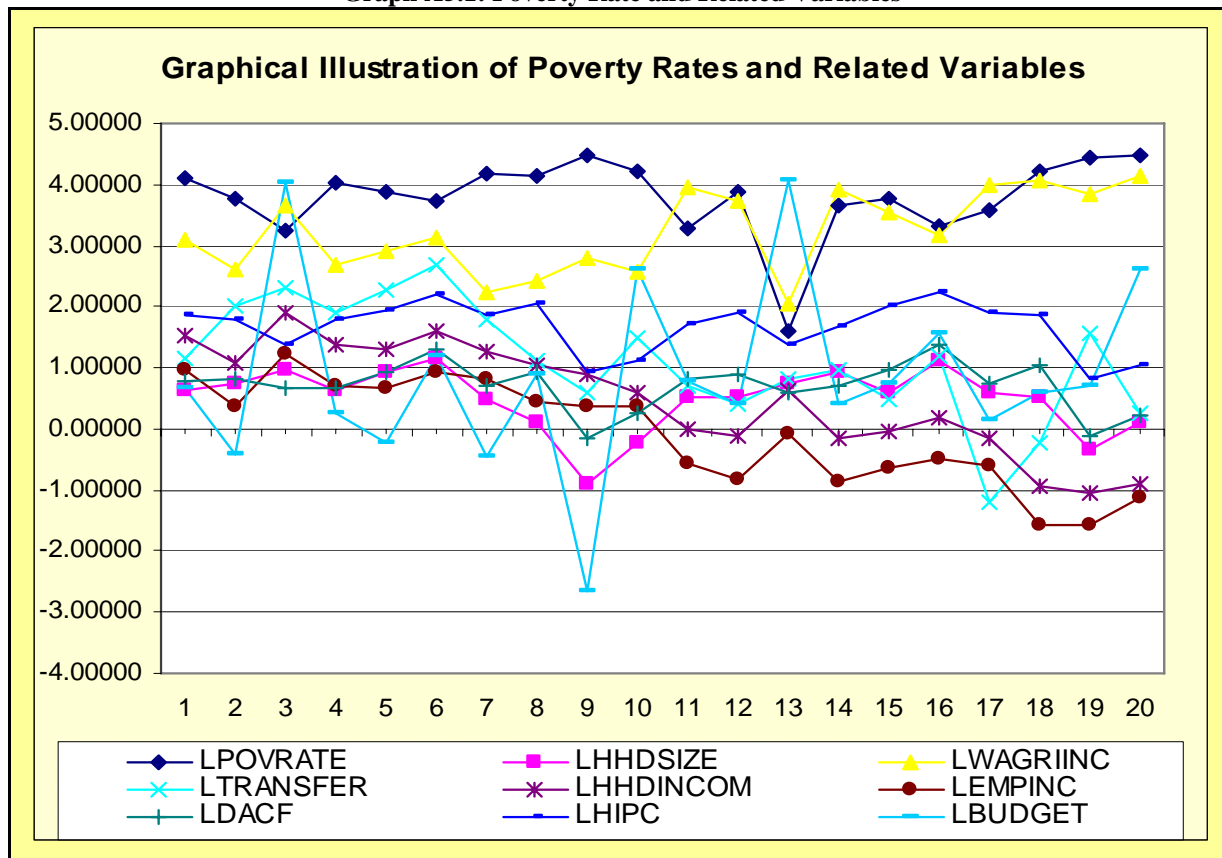
Where

$Y_p$  denotes the poverty line,  $Y_i$  the expenditure of the  $i$ th poor person,  $n$  the total population, and  $q$  the number of income earners below the poverty line. Essentially, the index takes the poverty gap of each person as a fraction of the poverty line  $(Y_p - Y_i)/Y_p$ , raises it to a power,  $\alpha$ , and sums over poor units. The FGT index measures different dimensions of poverty depending on the value of  $\alpha$  selected. For  $\alpha = 0$ ,  $P_{\alpha}$  becomes the headcount index; for  $\alpha = 1$ ,  $P_{\alpha}$  becomes the poverty gap index; and for  $\alpha > 1$ , the measure gives greater weight to the poorest of the poor, thereby indicating also the severity of poverty. See World Bank, 1995 and Demery, 1996.

**Table A5.2: Data for Poverty Transmission Channels and Impact Analysis**

Basic Pooled Panel Data for Analysis of Transmission and Impact on Poverty Reduction									
OBS	POVRATE	HHDSIZE	WAGRIINC	TRANSFER	HHDINCOM	EMPINC	DACF	HIPC	BUDGET
1	60.00	1.90	22.10	3.20	4.68	2.67	2.19	6.49	1.95
2	44.00	2.10	13.70	7.60	2.98	1.46	2.29	5.97	0.66
3	26.00	2.60	38.90	10.10	6.78	3.36	1.97	4.03	55.24
4	57.00	1.90	14.90	6.80	4.00	2.06	1.98	5.96	1.28
5	48.00	2.50	18.00	9.60	3.74	1.95	2.52	6.86	0.80
6	41.00	3.20	22.80	14.80	5.01	2.55	3.68	9.09	3.28
7	65.00	1.60	9.30	6.00	3.54	2.30	2.04	6.55	0.64
8	63.00	1.10	11.40	3.00	2.84	1.55	2.52	7.63	2.47
9	88.00	0.40	16.50	1.80	2.46	1.44	0.85	2.56	0.07
10	67.00	0.80	12.90	4.40	1.79	1.45	1.28	3.06	13.57
11	27.00	1.70	51.60	2.00	1.00	0.57	2.29	5.54	2.20
12	48.00	1.70	41.10	1.50	0.90	0.44	2.43	6.60	1.49
13	5.00	2.10	7.80	2.30	1.88	0.93	1.81	4.03	57.44
14	38.00	2.50	50.70	2.60	0.85	0.42	2.05	5.28	1.49
15	44.00	1.80	34.80	1.60	0.96	0.53	2.60	7.54	2.11
16	28.00	3.10	23.60	3.30	1.22	0.62	3.98	9.48	4.70
17	36.00	1.80	55.10	0.30	0.84	0.55	2.14	6.57	1.14
18	69.00	1.70	58.60	0.80	0.39	0.21	2.79	6.56	1.80
19	84.00	0.70	46.40	4.80	0.35	0.21	0.90	2.29	2.02
20	88.00	1.10	63.60	1.30	0.40	0.32	1.26	2.87	13.46
Napierian Logarithmic Transformation									
OBS	LPOVRATE	LHHDSIZE	LWAGRIINC	LTRANSFER	LHHDINCOM	LEMPINC	LDACF	LHIPC	LBUDGET
1	4.09	0.64	3.10	1.16	1.54	0.98	0.78	1.87	0.67
2	3.78	0.74	2.62	2.03	1.09	0.38	0.83	1.79	-0.41
3	3.26	0.96	3.66	2.31	1.91	1.21	0.68	1.39	4.01
4	4.04	0.64	2.70	1.92	1.39	0.72	0.68	1.78	0.25
5	3.87	0.92	2.89	2.26	1.32	0.67	0.92	1.93	-0.23
6	3.71	1.16	3.13	2.69	1.61	0.94	1.30	2.21	1.19
7	4.17	0.47	2.23	1.79	1.27	0.83	0.72	1.88	-0.45
8	4.14	0.10	2.43	1.10	1.04	0.44	0.92	2.03	0.91
9	4.48	-0.92	2.80	0.59	0.90	0.37	-0.16	0.94	-2.66
10	4.20	-0.22	2.56	1.48	0.58	0.37	0.25	1.12	2.61
11	3.30	0.53	3.94	0.69	-0.01	-0.57	0.83	1.71	0.79
12	3.87	0.53	3.72	0.41	-0.10	-0.81	0.89	1.89	0.40
13	1.61	0.74	2.05	0.83	0.63	-0.07	0.60	1.39	4.05
14	3.64	0.92	3.93	0.96	-0.16	-0.88	0.72	1.66	0.40
15	3.78	0.59	3.55	0.47	-0.04	-0.64	0.96	2.02	0.75
16	3.33	1.13	3.16	1.19	0.20	-0.47	1.38	2.25	1.55
17	3.58	0.59	4.01	-1.20	-0.17	-0.60	0.76	1.88	0.13
18	4.23	0.53	4.07	-0.22	-0.95	-1.56	1.02	1.88	0.59
19	4.43	-0.36	3.84	1.57	-1.04	-1.58	-0.11	0.83	0.70
20	4.48	0.10	4.15	0.26	-0.92	-1.14	0.23	1.06	2.60
<b>Source and Note:</b> Ghana Statistical Service Files, DACF Administrator, etc. The ClayDord Consult did the Pooling of data and their transformation.									
<b>Definition of Variables:</b>									
POVRATE	= Poverty rate % (focusing on the incidence of poverty)				HHDINCOM	= Household income excluding employment income (€' million)			
HHDSIZE	= Household Size (persons)				EMPINC	= Employment Income (€' million)			
WAGRIINC	= Wage and Agric. Income (€)				DACF	= District Assembly Common Fund (€' billion)			
TRANSFER	= Transfer Income (€' million)				HIPC	= Highly Indebted Poor Country (€' billion)			
					BUDGET	= Budget of Sampled DAs (€' billion)			

Graph A5.1: Poverty Rate and Related Variables



### A5.1.2 Pooled Panel Data Analysis

The Basic Pooled Panel Data is in Table A5.2 and illustrated in Graph A5.1 For the related variables, the GLSS 3 and 4 provide information on the same format in terms of time and regions related to the following: household size, wage and agriculture income, transfer income, household Income, employment income.

Additionally, we obtained information on relevant indicators from other sources on District Assembly Common Fund (DACF), Highly Indebted Poor Country (HIPC) benefits, and Budget for the sampled DAs. With the relevant transformation technique and given the need to undertake quantitative analysis of the impact of the variables on poverty rate, we adopted the technique of pooled panel data analysis. (Refer to Annex 1 for the technical method of the “Pooled Panel Data Analysis” utilised).

### A5.1.3 Econometric Modelling of Transmission Mechanism and Impact Analysis

It is noted that economic policies pursued, in principle, can have either positive, negative or zero impact(s) on economic growth, employment and the incidence of poverty, among others. The key focus of any social dimensions of growth and development is the earnings vis-a-vis productivity of all factors of production in general and labour of the typical household in particular. For the vast majority of the households, labour is usually the main factor owned. It is vital to point out that the structure and behaviour of labour force and productive employment of the poor provides a strong linkage to how the poor responds to general macroeconomic policies.

In order to trace the economic policy impacts on the poverty situation and given dearth of good statistics and number of observation of the key variables on poverty in Ghana, there is the need to adopt a methodology that will lend itself much easily for model simulation and the key economic policy variables of interest. For

our purposes we adopt the pragmatists approach (to measuring the degree of poverty) using the incidence definition. This will enable us to establish a linkage between poverty and some key macroeconomic policy variables such as interest rate, producer price or farm gate price of agricultural products, fiscal deficit as a proportion of real GDP, inflation rate, changes in money supply, exchange rate depreciation, changes in wage and unemployment rates, real GDP and population growth rate as well as real investment as a proportion of real GDP. However, this is only possible if the poverty sector of the model is constructed in such a way that it can communicate with the other economic variables that do not lend themselves to the immediately related focus variables in the primary level of impact.

On the total economic frontier, it is not easy to trace the net effects of these other policy variables on poverty without putting the analysis in a general equilibrium framework. For this purpose we use "A *Development Oriented Macroeconometric Model of Ghana: Dynamic Simulation, Policy Analysis and Forecasting*".<sup>26</sup> We shall present the results of the general equilibrium analysis on the direction of change of the impact of the economic variables on the incidence of poverty at four separate levels, namely, overall poverty, as well incidence of poverty in agricultural, industrial and services sector of the economy. After that we shall highlight and compare with the analysis by Demery and Squire (1996). (The details are in Annex 1).

After careful identification of the channels of transmission, we input each of the exogenous variables as they affect the welfare of the poor. We could not use prices and "assets" as we have not obtained data on these by regional distribution. The proxy for welfare improvement is the reduction in poverty indicated by higher poverty line. We quantified the impact and the key variables as to whether transfers, employment, or household incomes, etc. create fastest rates of poverty reduction.

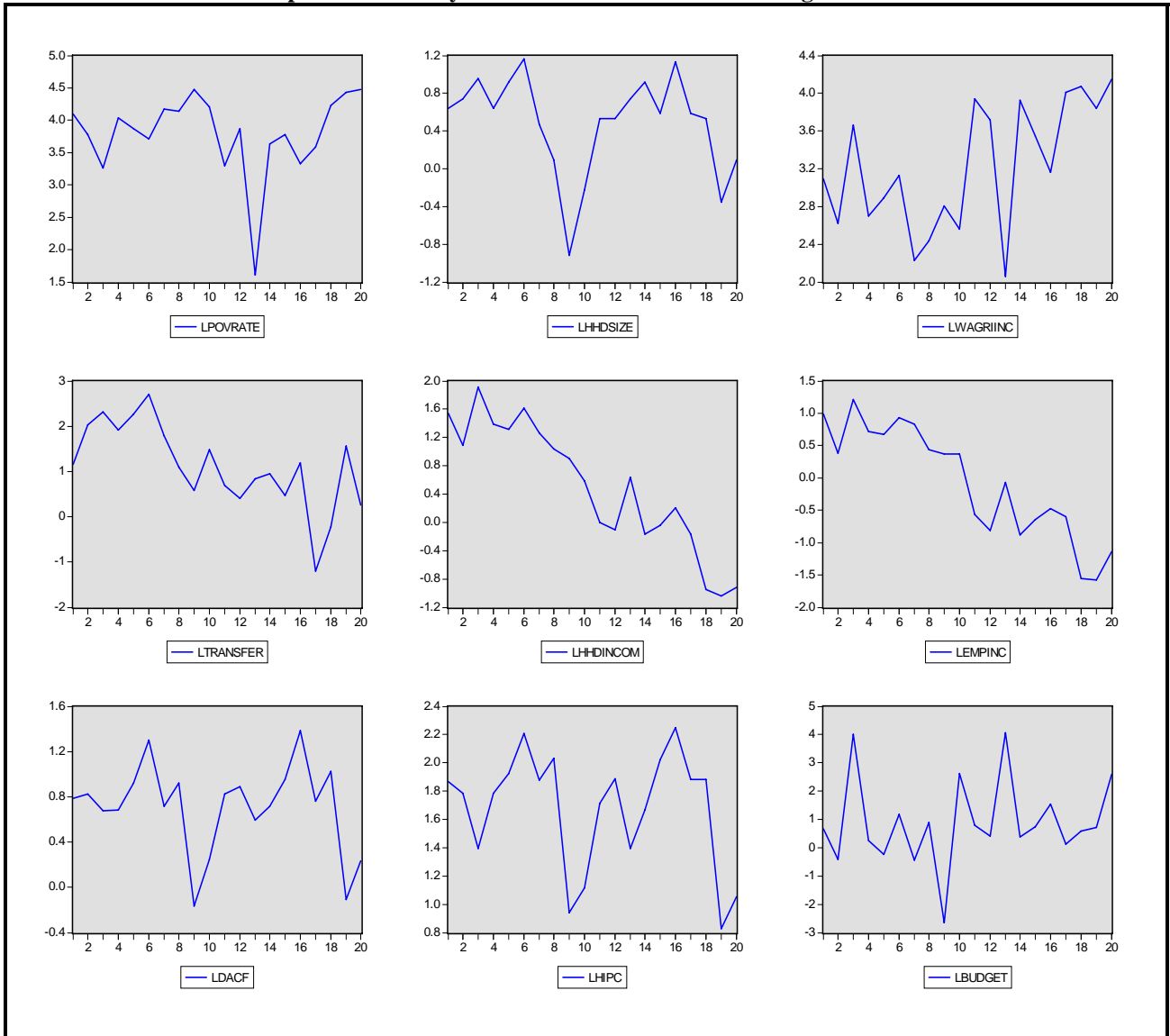
The lack of adequate time series data led us to pool the panel data for poverty rates and the related factors. We then undertook logarithmic transformation of the variables for the estimation of the equations. We also undertook calibration to obtain the needed coefficients to crosscheck those of the equations for analysis. We undertook detailed statistical analysis in order to establish the characteristics of the variables. We also plotted the logarithmic transformation of the variables as well as the first differences to check for stationarity. Refer to Table A5.3 and Graphs A5.2 and A5.3 for the details

**Table A5.3: Statistical Description of the Key Variables**

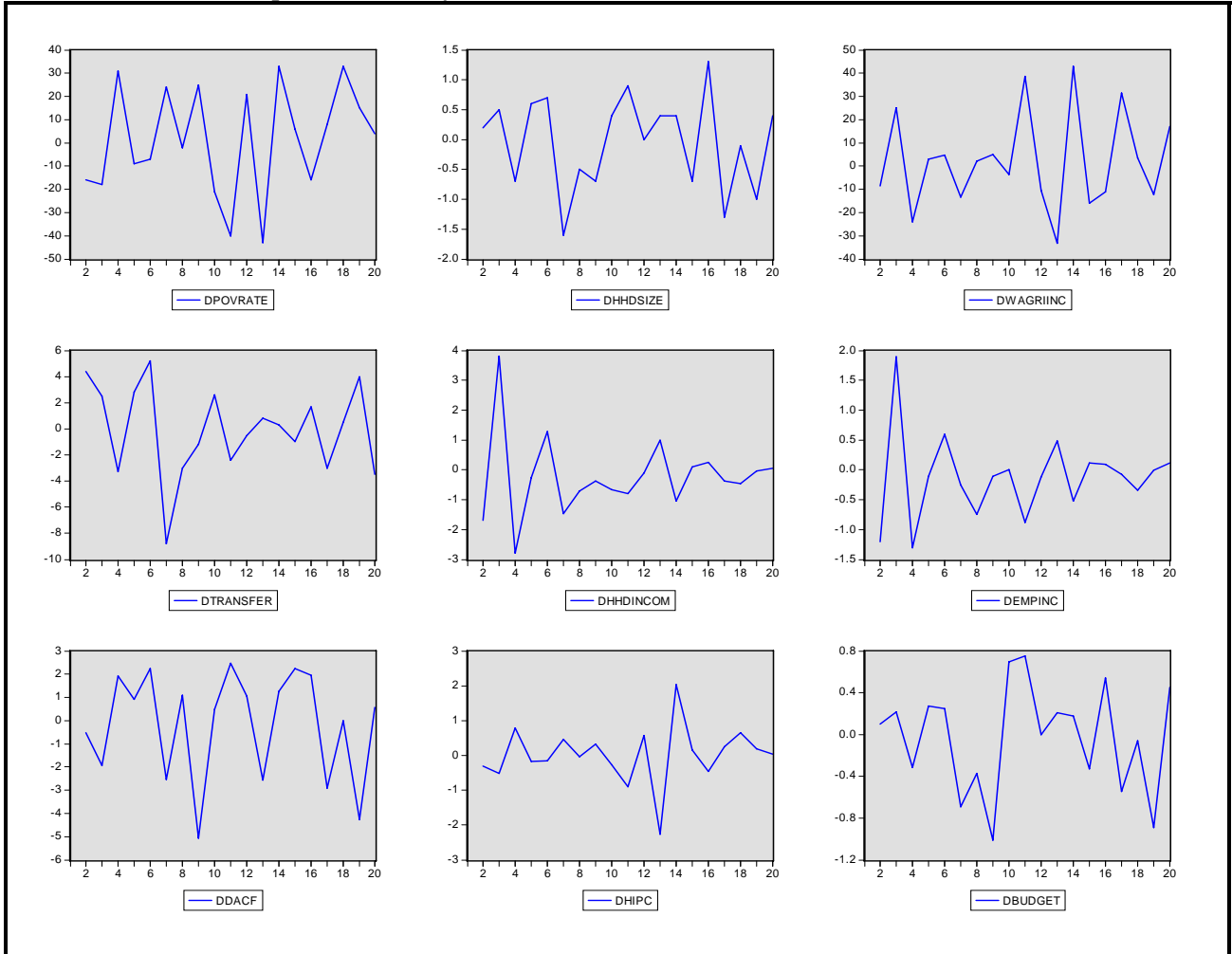
Statistical Description									
Variables	LPOVRATE	LHHSIZE	LWAGRIINC	LTRANSFER	LHHDINCOM	LEMPINC	LDACF	LHIPC	LBUDGET
Mean	3.801012	0.489110	3.226846	1.114587	0.504551	-0.070721	0.709852	1.675636	0.891136
Median	3.871201	0.587787	3.144004	1.130882	0.608378	0.147804	0.771420	1.827855	0.686205
Maximum	4.477337	1.163151	4.152613	2.694627	1.913535	1.210750	1.381432	2.249606	4.050758
Minimum	1.609438	-0.916291	2.054124	-1.203973	-1.044124	-1.579879	-0.162625	0.828333	-2.659260
Std. Dev.	0.637756	0.520973	0.669106	0.943228	0.905643	0.872197	0.397761	0.414498	1.541553
Skewness	-2.037102	-1.143468	-0.153015	-0.478877	-0.253079	-0.251343	-0.714810	-0.738242	0.302201
Kurtosis	8.021908	3.924625	1.685154	3.119952	1.916239	1.809518	3.254329	2.428418	3.719100
Probability	0.000000	0.079228	0.467964	0.678276	0.550935	0.498671	0.415389	0.351881	0.692346
Sum	76.020240	9.782201	64.536920	22.291730	10.091020	-1.414426	14.197040	33.512720	17.822720
Observation	20	20	20	20	20	20	20	20	20

<sup>26</sup> The model used for the forecasting simulation exercises is the revised version DORDMOD (Dordunoo Model) or Development-Oriented Macroeconometric Model of Ghana. Prof. C.K. Dordunoo constructed it in 1989 with the assistance of the Nobel Laureate, Professor Emeritus L.R. Klein of the University of Pennsylvania, Philadelphia, USA. It is used to prepare forecasts of the Ghanaian Economy for the Project LINK Meetings of UN Group of Experts on World Economy. The DORDMOD is being used at the ClayDord's Policy and Strategy Division for economic policy analysis and forecasting. The revised version was updated as part of the UNDESA supported Project at the University of Pretoria, South Africa.

**Graph A5.2: Poverty Rates and Related Variables: Log Levels**



**Graph A5.3: Poverty Rates and Related Variables: First Differences**



The first differences showed that many of the variables are stationary (or are I(0) series). As part of the econometric model simulation we tried the stability of the coefficients from regressions for the first differences with the logarithmic transformation. The results show that all the signs preceding the two versions of the equations were consistent. We undertake both simple and multiple regressions to ascertain these characteristics. Below are the various formulations starting with simple regressions.

***Poverty Model Formulation and Results***

In terms of poverty model specifications, we undertook three levels of constructions: (i) simple regression to capture individual effects of related variables, (ii) multiple regression analysis to capture simultaneous effects of the key variables, and (iii) multiple regression analysis to capture the various transmission channels and impacts on regional basis.

***Simple Regression Formulation and Results***

In order to quantify the impact of the eight related variables on poverty we postulated that poverty rate depends on each of the variables. The simple regression, to which we apply the Maximum Likelihood Censored Normal **Tobit** Regression technique for the estimation, is postulated as follows:

$$\ln Y = \alpha + \beta \ln X_i + \varepsilon_i$$

Where: ln = Napierian log; Y = Poverty rate; X = individual variables; i = 1, 2, 3, ..., 8 for the eight exogenous variables;  $\alpha$  = intercept; and  $\beta$  = parameter of exogenous variable.

**Table A5.4: Effects Based on Simple Tobit Regression Results**

<b>Independent Effect of Selected Variables on Poverty Reduction (Elasticity Analysis of Transmission Mechanism and Impact Analysis)</b>				
<b>Variable</b>	<b>Elasticity</b>	<b>Intercept</b>	<b>MAPE (%)</b>	<b>Strength of Transmission</b>
1. HHDSIZE	0.646087	4.117020	12.01674	Strongly positive
2. WAGRIINC	-0.026823	3.945557	14.76221	Weakly negative
3. TRANSFER	-0.003617	3.805043	14.71626	Weakly negative
4. HHDINCOM	-0.112677	3.857863	14.79167	Fairly strongly negative
5. EMPINC	-0.464101	3.796479	14.76867	Strongly negative
6. DACF	-0.511344	4.163991	13.69084	Very strongly negative
7. HIPC	-0.271609	4.256130	14.43991	Fairly strongly negative
8. BUDGET	-0.227187	4.003467	12.12538	Fairly strongly negative

**Source:** Model driven results by ClayDord using the ClayDord Macroeconometric and Spreadsheet models  
The parameters  $\beta_s$  are from the simple Maximum Likelihood Tobit Regression Equation  $\ln Y = \alpha + \beta \ln X_i + \varepsilon_i$

As noted in Table A5.4, the results reveal that the mean absolute percentage error (MAPE) ranges from about 12% to 14.79% indicating that the errors are within the acceptable error range of 0% to 20% for a high level of confidence to be placed on the parameters.

The empirical evidence suggests that a rise in the size of households contributes strongly to an increase in the incidence of poverty. Increases in Wage and Agriculture Income, Transfer and, Household Income contribute to poverty reduction. The strongest impacts come from increases in the DACF and employment of the poor in productive jobs to the reduction in the incidence of poverty in DAs. Refer Table A5.4 for the details.

#### Multiple Regression Formulation and Results

In order to cross check the results for the simple regression with those of the system wide poverty model parameters we also estimated the correspondent multiple regression, which has been formulated as follows:

$$\ln Y = \alpha + \beta_1 \ln X_1 + \beta_2 \ln X_2 \dots + \beta_8 \ln X_8 + \varepsilon_i$$

Where:  $\ln$  = Napierian log;  $Y$  = Poverty rate;  $X$  = individual variables;  $i = 1, 2, 3, \dots, 8$  for the eight exogenous variables;  $\alpha$  = intercept;  $\beta_i$  = parameter of exogenous variable 1, 2, 3, ..., etc.

For this formulation, we used the Maximum Likelihood Censored Normal **Tobit** Regression technique for the estimation of the equations as in the simple regression case. The Results are in Table A5.5.

The empirical results, in terms of signs preceding coefficients are the same as those of the single variable effects obtained using the simple regressions above. However, in terms of the size/impact of the coefficients, the multiple regression results indicate that the household income (with the parameter of -1.80) reveals the strongest negative effect on the reduction of the incidence of poverty. This is closely followed by employment income with -1.77. The effect from HIPC benefits takes the third position with -1.66, followed by DACF with the parameter -0.85. The policy implication is that in order to reduce the incidence of poverty there is need to focus on these variables with emphasis on how to increase household income especially of the rural poor, generation of employment, a possible increase in the HIPC funds (mainly for pro-poor projects) to locations where poor household abound as well as increase in DACF.

**Table A5.5: Effects Based Multiple Tobit Regression Results**

Simultaneous Effect of Selected Variables on Poverty Reduction				
Elasticity Analysis of Transmission Mechanism and Impact Analysis)				
Variable	Elasticity	Intercept	MAPE (%)	Strength of Transmission
1. HHDSIZE	0.936344	0.784764	5.358092	Strongly positive
2. WAGRIINC	-0.592621			Strongly negative
3. TRANSFER	-0.453003			Strongly negative
4. HHDINCOM	-1.804915			Very strongly negative
5. EMPINC	-1.773363			Very strongly negative
6. DACF	-0.846875			Strongly negative
7. HIPC	-1.660191			Very strongly negative
8. BUDGET	-0.098323			Fairly strongly negative

**Source:** The parameters are from the multiple Maximum Likelihood Tobit Regression Equation by ClayDord Consult using the formulation  $\ln Y = \alpha + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \dots + \beta_8 \ln X_8 + \varepsilon_i$

**Multiple Regression to Capture Channels and Impacts on Regional Poverty Reduction**

The above transmission channels and impact analyses have been done on national basis. The results apply the incidence of poverty index of Ghana as a whole. However, the impacts of the various related variables may differ across the ten regions of Ghana. The key question that comes to the fore is: “*What are the effects of the same variables on regional basis?*”

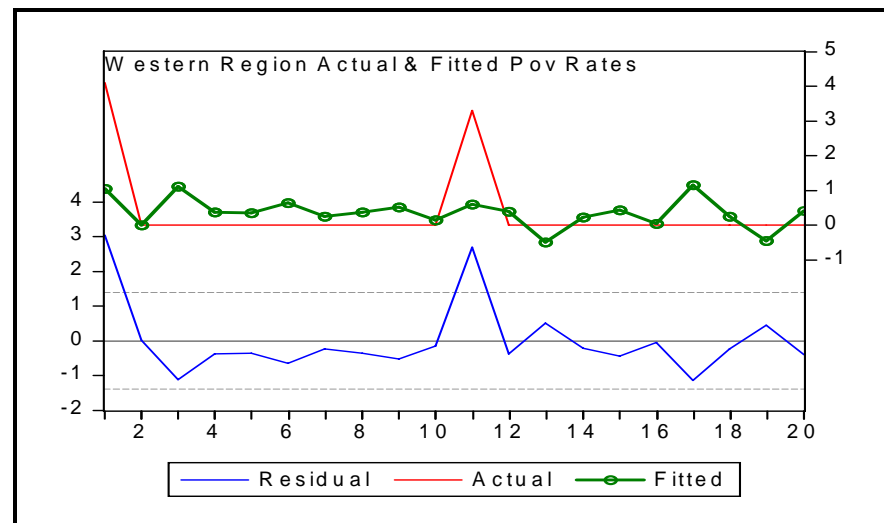
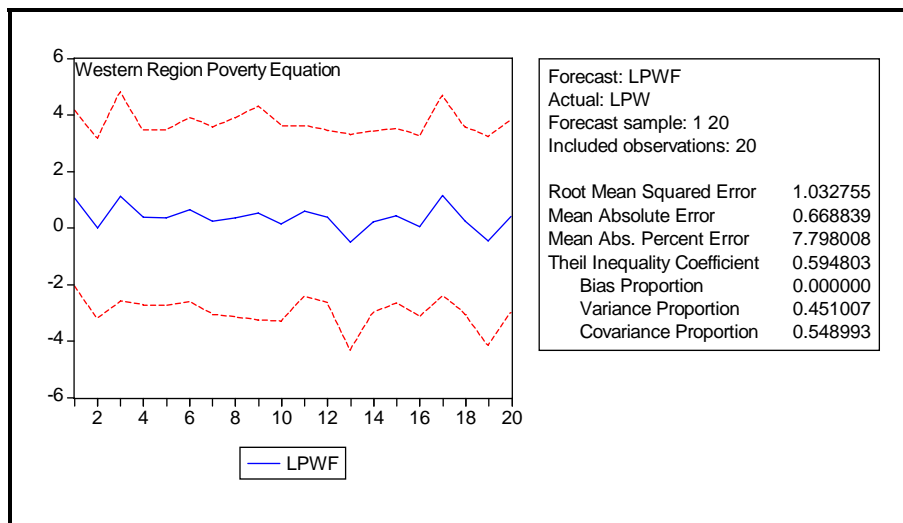
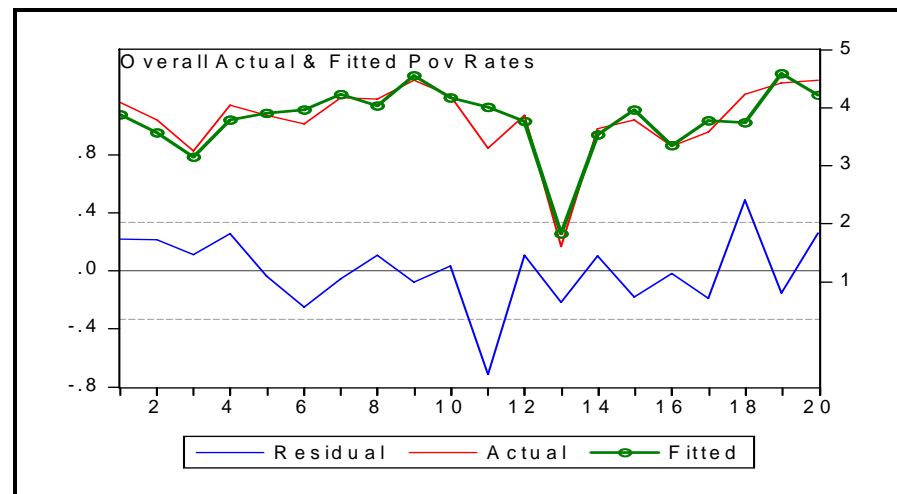
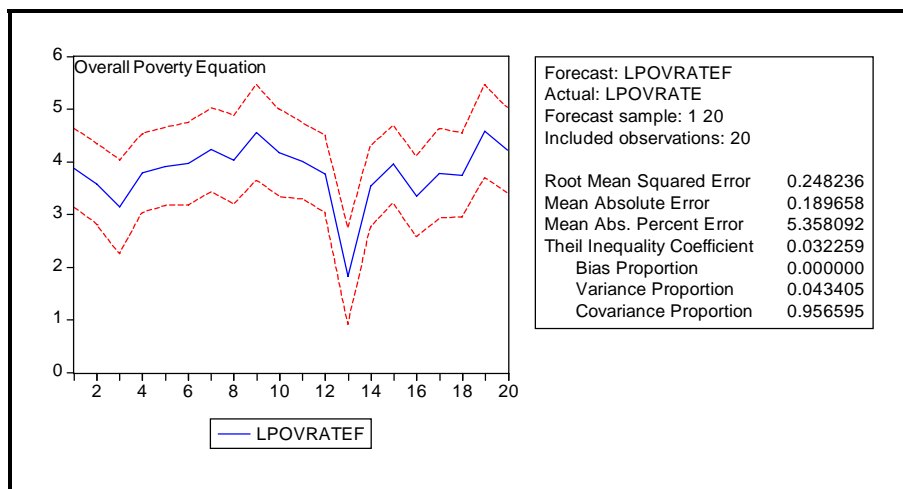
In order to answer this question we made use of dummy variables to track the effects on regional basis. We maintained the same panel for the various regions for purposes of consistency. The pooled panel dummies are in Table A5.6.

The same model formulation has been maintained in terms of the variables but this time for all the ten regions. The graphical illustrations of the estimated equations that allow the regional comparison are presented in Graph A5.4. The corresponding parameters are in Table A5.7.

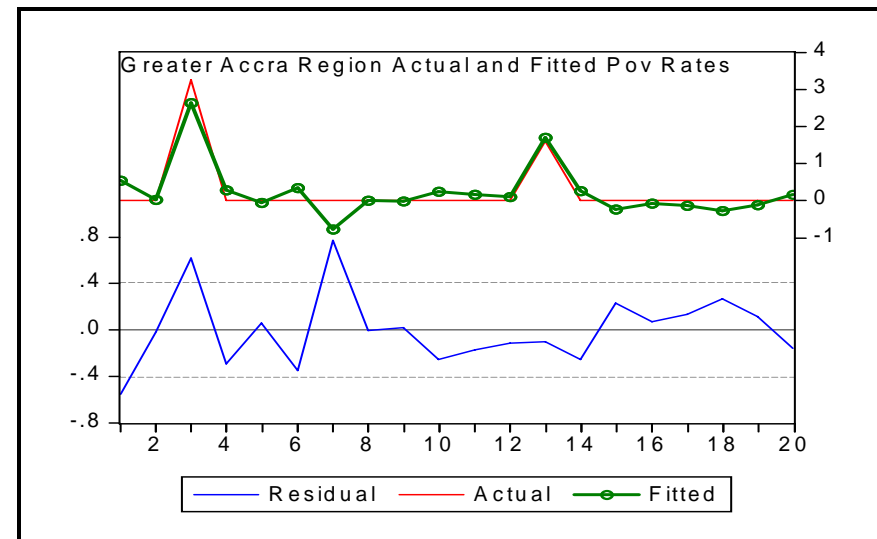
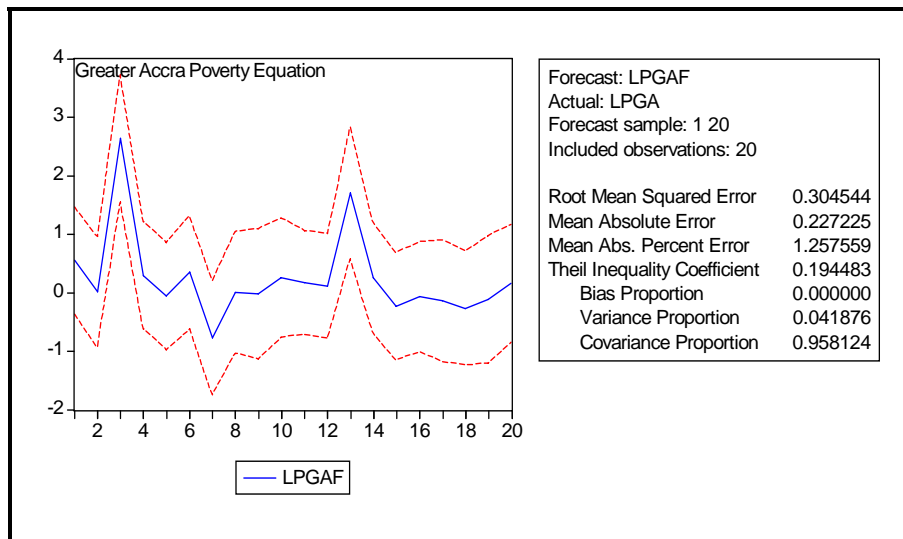
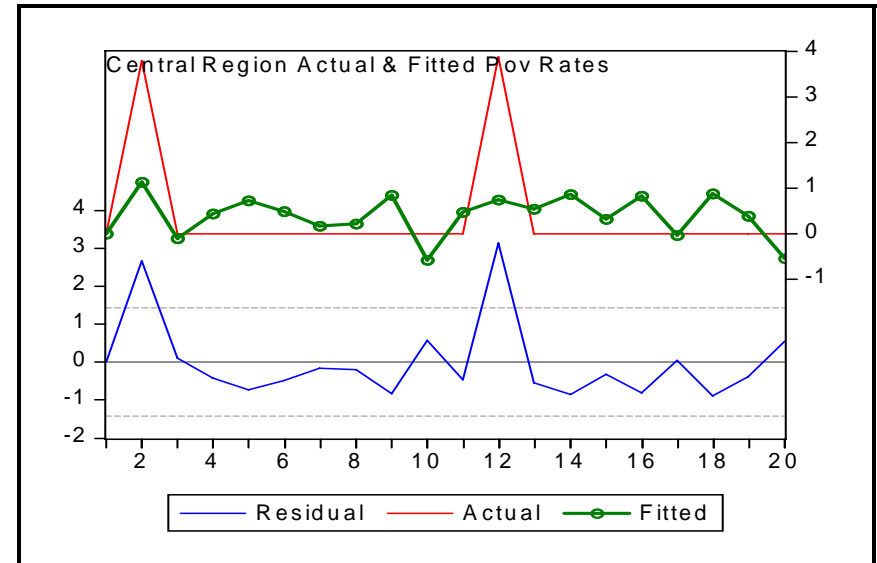
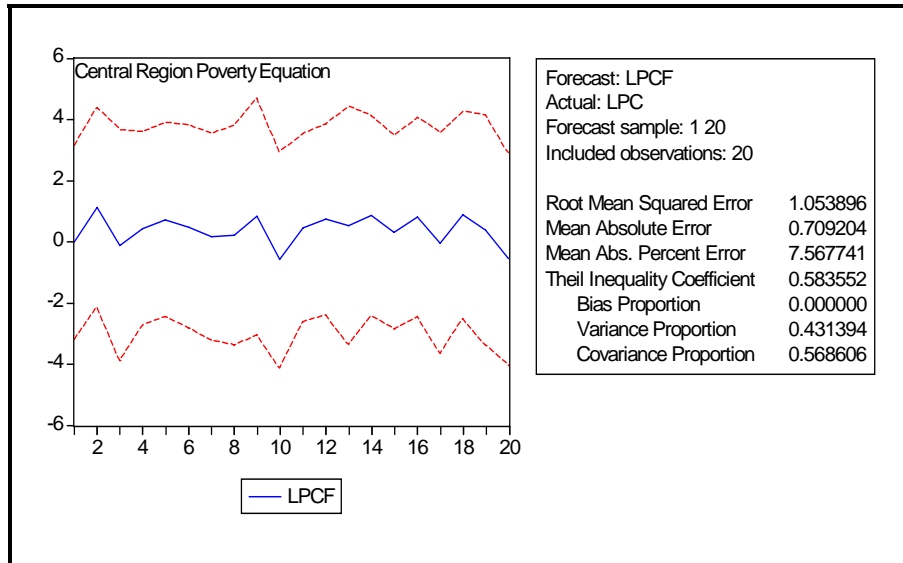
**Table A5.6: Regional Dummies For Tracking Variable Effects on Regional Basis**

<b>Regional Dummies for Capturing Regional Comparison of Impact and Transmission Analyses</b>										
<b>OBS</b>	<b>WEST</b>	<b>CENTRAL</b>	<b>GTACCRA</b>	<b>VOLTA</b>	<b>EASTERN</b>	<b>ASHANTI</b>	<b>BAHAFO</b>	<b>NORTHERN</b>	<b>UWEST</b>	<b>UEAST</b>
1	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
5	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
6	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
7	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00
9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00
10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00
11	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
15	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
16	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
17	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00
19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00
<b>OBS</b>	<b>LPW</b>	<b>LPC</b>	<b>LPGA</b>	<b>LPV</b>	<b>LPE</b>	<b>LPA</b>	<b>LPBA</b>	<b>LPN</b>	<b>LPUW</b>	<b>LPUE</b>
1	4.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2	0.00	3.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3	0.00	0.00	3.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	0.00	0.00	0.00	4.04	0.00	0.00	0.00	0.00	0.00	0.00
5	0.00	0.00	0.00	0.00	3.87	0.00	0.00	0.00	0.00	0.00
6	0.00	0.00	0.00	0.00	0.00	3.71	0.00	0.00	0.00	0.00
7	0.00	0.00	0.00	0.00	0.00	0.00	4.17	0.00	0.00	0.00
8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.14	0.00	0.00
9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.48	0.00
10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.20
11	3.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	0.00	3.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	0.00	0.00	1.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14	0.00	0.00	0.00	3.64	0.00	0.00	0.00	0.00	0.00	0.00
15	0.00	0.00	0.00	0.00	3.78	0.00	0.00	0.00	0.00	0.00
16	0.00	0.00	0.00	0.00	0.00	3.33	0.00	0.00	0.00	0.00
17	0.00	0.00	0.00	0.00	0.00	0.00	3.58	0.00	0.00	0.00
18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.23	0.00	0.00
19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.43	0.00
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.48
<b>Definition of Variables Generated</b>										
1.	LPW	=	LPOVRATE * WEST	6.	LPA	=	LPOVRATE * ASHANTI			
2.	LPC	=	LPOVRATE * CENTRAL	7.	LPBA	=	LPOVRATE * BAHAFO			
3.	LGA	=	LPOVRATE * GACCRA	8.	LPN	=	LPOVRATE * NORTHERN			
4.	LPV	=	LPOVRATE * VOLTA	9.	LPUW	=	LPOVRATE * UWEST			
5.	LPE	=	LPOVRATE * EASTERN	10.	LPUE	=	LPOVRATE * UEAST			

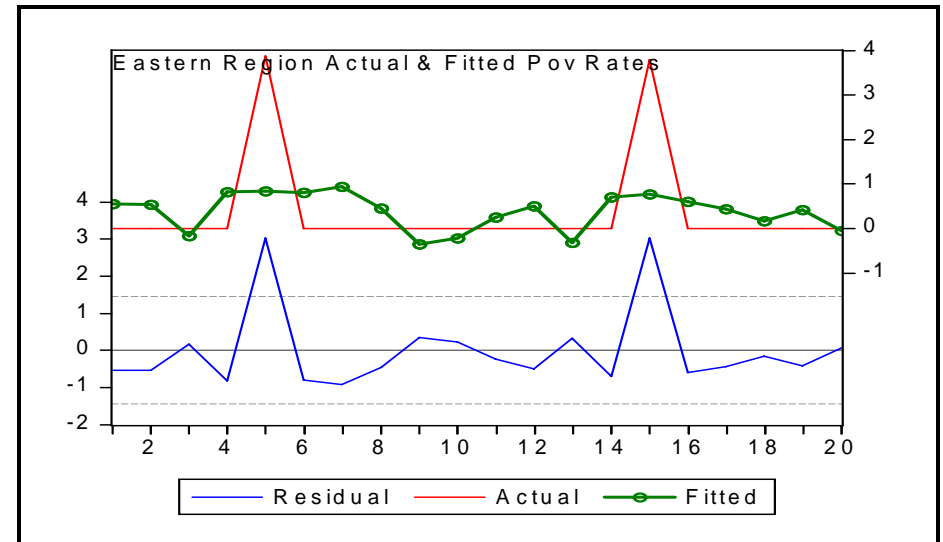
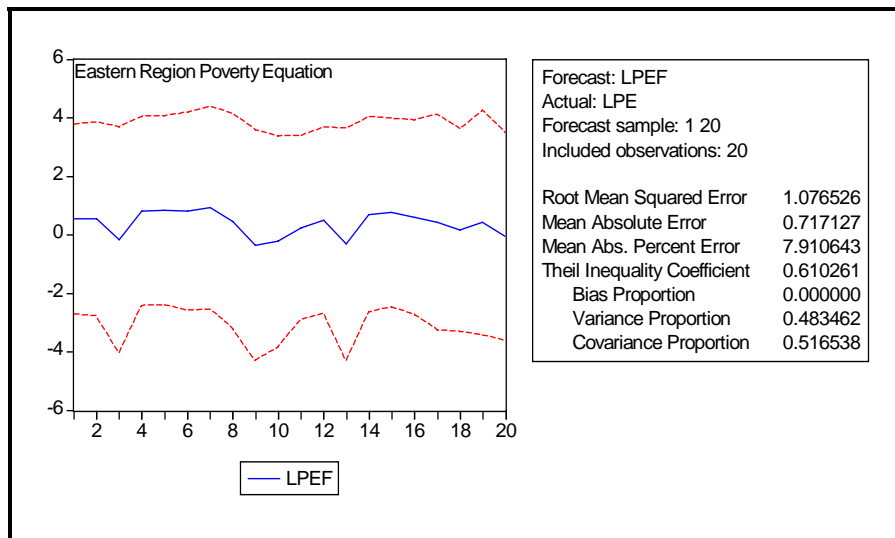
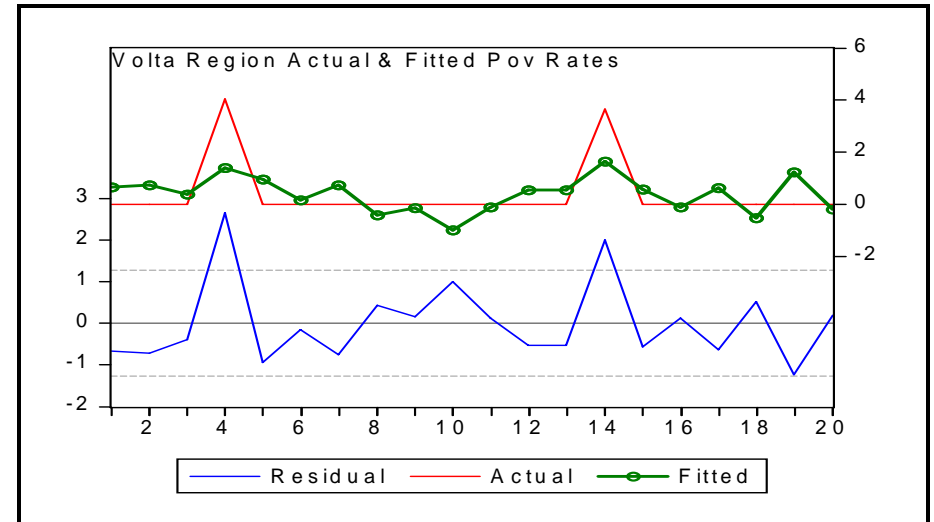
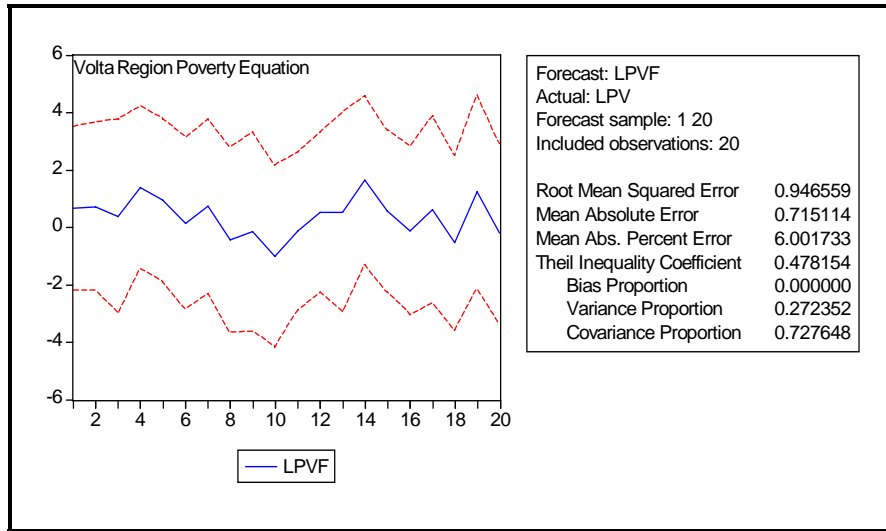
**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations**



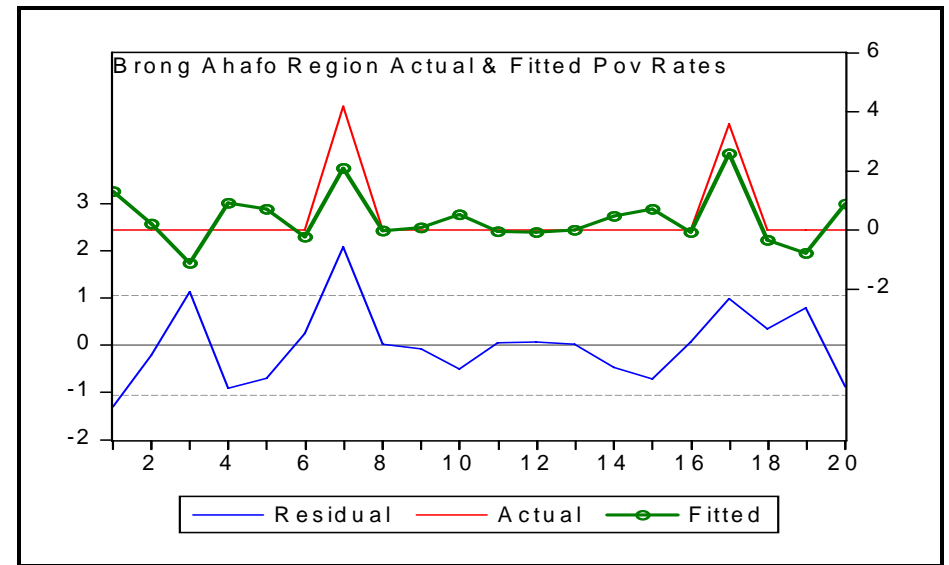
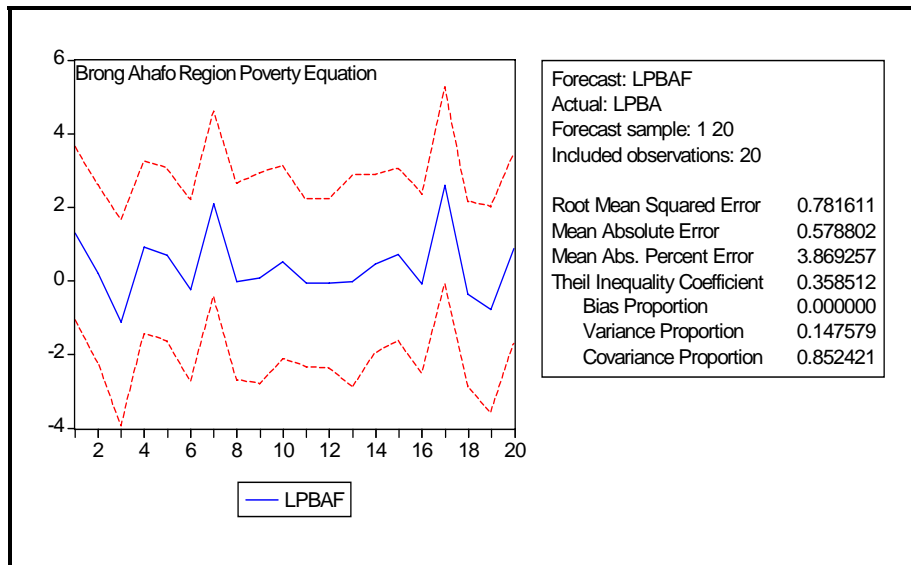
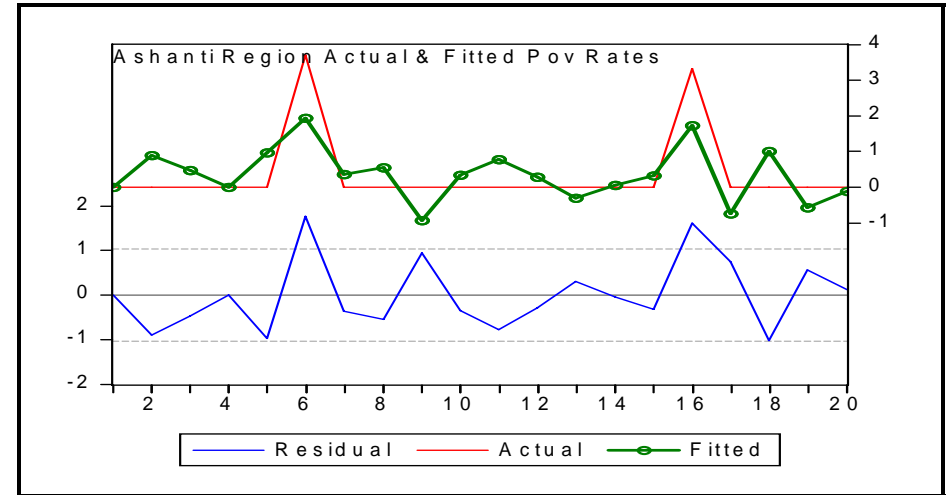
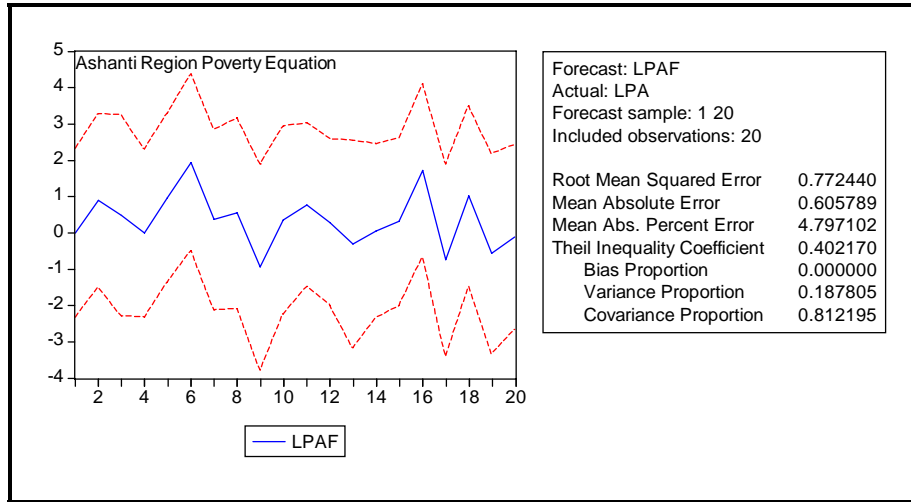
**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations (Cont'd)**



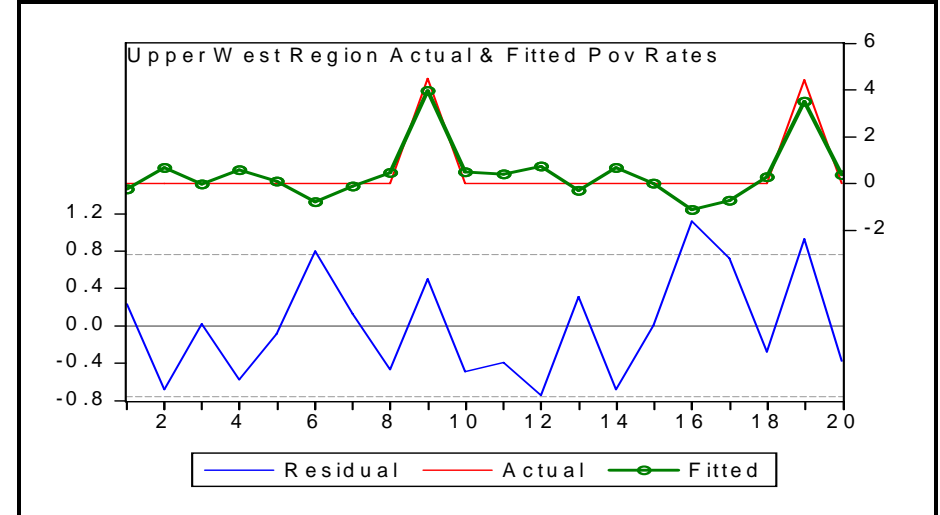
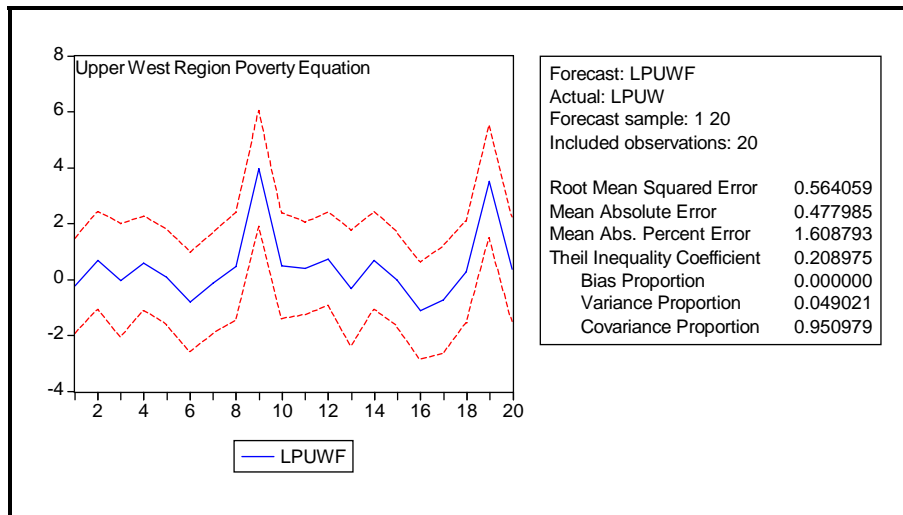
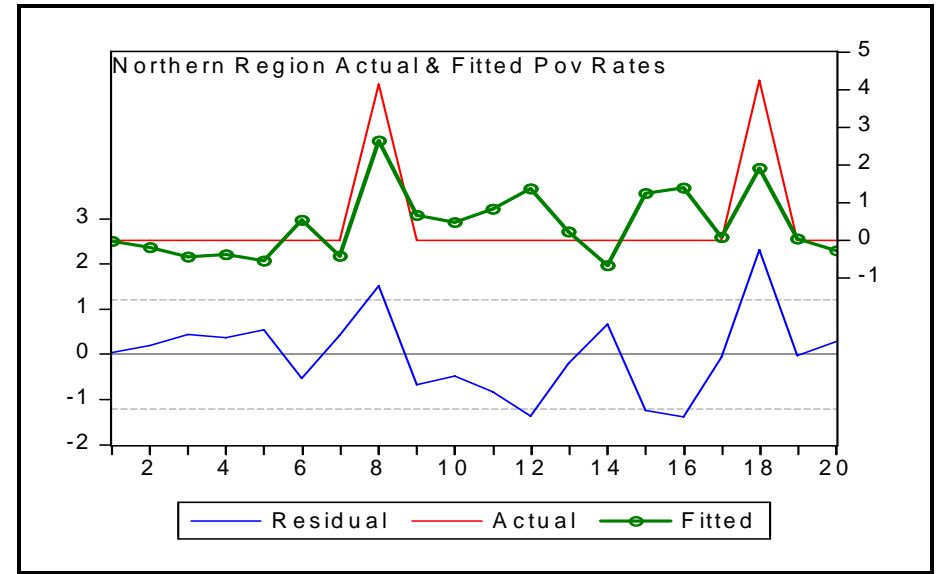
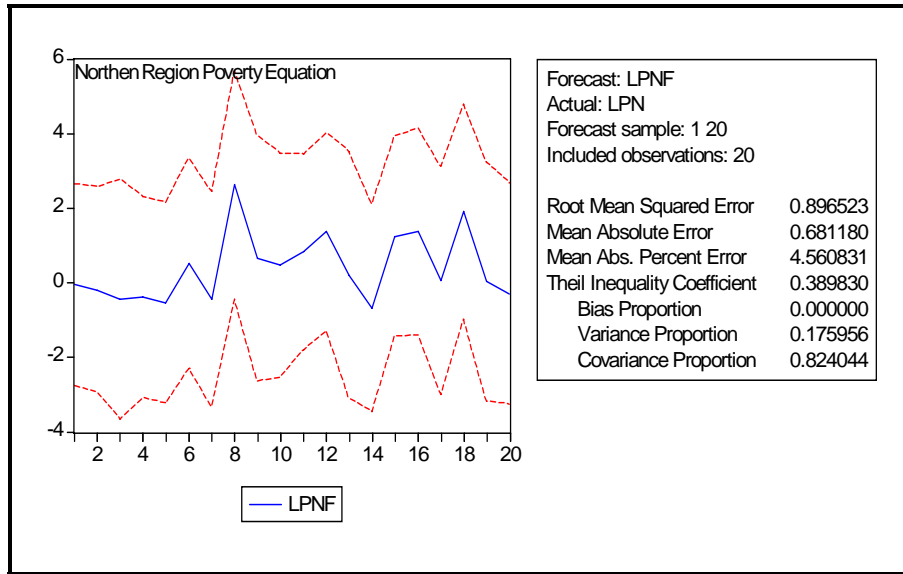
**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations (Cont'd)**



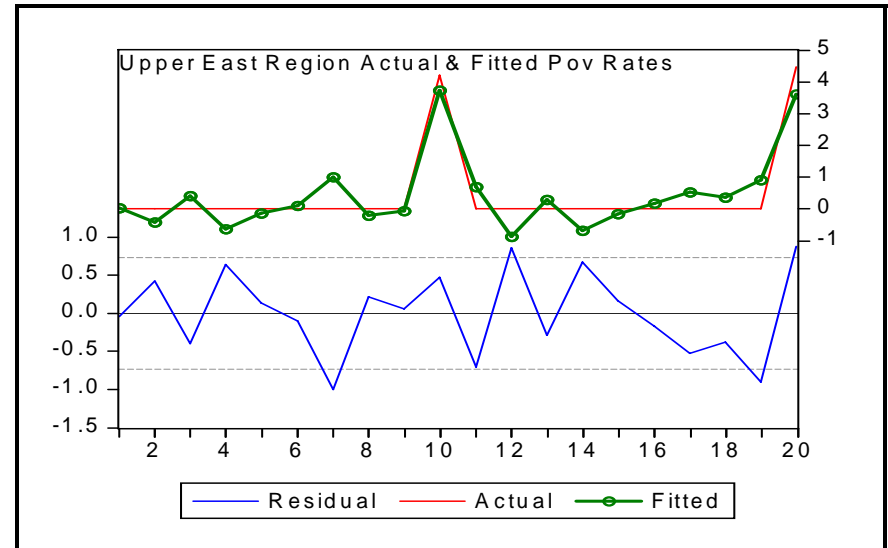
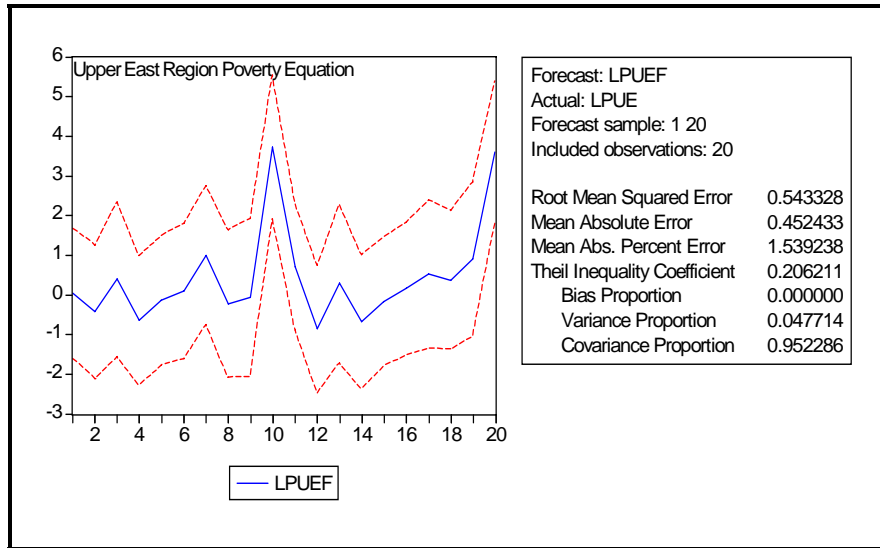
**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations (Cont'd)**



**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations (Cont'd)**



**Graph A5.4: Illustrations of Econometric Estimations: Historical Simulations (Cont'd)**



**Table A5.7: Effect of Selected Variable on Poverty Reduction: Regional Comparison**

<b>(Elasticity Analysis) Transmission Mechanism &amp; Impact Analysis</b>												<b>Average Total Effect</b>
<b>Region</b>	<b>Ghana</b>	<b>Western</b>	<b>Central</b>	<b>G Accra</b>	<b>Volta</b>	<b>Eastern</b>	<b>Ashanti</b>	<b>B Ahafo</b>	<b>Northern</b>	<b>U West</b>	<b>U East</b>	
1. HHDSIZE	0.936344	0.178397	0.164599	0.052871	1.972024	0.441416	0.611916	2.261980	3.473213	1.615577	0.049868	1.082186
2. WAGRIINC	-0.592621	-0.695915	-0.331283	0.285922	-0.087491	-0.103732	-0.033915	-0.367240	-0.050105	-0.279218	-0.177323	-0.184030
3. TRANSFER	-0.453003	-0.229580	-0.044342	-0.305639	-0.257652	-0.347597	-0.425457	-0.420886	-0.104566	-0.359304	-0.168004	-0.266303
4. HH DINCOM	-1.804915	-0.125255	-1.863236	-2.979292	-1.693519	-0.475678	-1.430936	-4.390654	-2.401388	-3.580018	-7.899846	-2.683982
5. EMPINC	-1.773363	-0.822273	-2.079750	-2.291865	-2.070596	-0.178433	-1.323220	-4.441235	-2.520611	-3.803528	-7.774553	-2.730606
6. DACF	-0.846875	-1.184244	-2.198075	-0.543921	-3.430716	-2.995062	-1.766711	-2.579656	-1.074245	-1.803869	-3.563721	-2.114022
7. HIPC	-1.660191	-0.462020	-2.188183	-1.542798	-4.974301	-3.209447	-3.371895	-4.159038	-0.007663	-0.550183	-3.499217	-2.396475
8. BUDGET	-0.098323	-0.015972	-0.282145	-0.299788	-0.053468	-0.008518	-0.169876	-0.133526	-0.270698	-0.198274	-0.037055	-0.146932
INTERCEPT	0.784764	-2.069233	2.691225	-0.097822	-5.258958	-3.562068	2.810312	0.575765	-2.463552	-0.471934	8.631029	
MAPE (%)	5.358092	7.798008	7.567741	1.257559	6.001733	7.910643	4.797102	3.869257	4.560831	1.608793	1.539238	
<b>Average Total Effect</b>	<b>-0.786618</b>	<b>-0.419608</b>	<b>-1.102802</b>	<b>-0.953064</b>	<b>-1.324465</b>	<b>-0.859631</b>	<b>-0.988762</b>	<b>-1.778782</b>	<b>-0.369508</b>	<b>-1.119852</b>	<b>-2.883731</b>	<b>-1.180020</b>
Column LB												-1.033088
Less Budget (LB)	-0.688295	-0.403636	-0.820657	-0.653276	-1.270997	-0.851113	-0.818886	-1.645256	-0.098810	-0.921578	-2.846676	-1.033088
<b>History of Poverty Rate</b>												
<b>Non-Log</b>												<b>Annual Avrg</b>
1992	52.0	60.0	44.0	26.0	57.0	48.0	41.0	65.0	63.0	88.0	67.0	
1999	40.0	27.0	48.0	5.0	38.0	44.0	28.0	36.0	69.0	84.0	88.0	
<b>Rate of Change</b>	<b>-23.08%</b>	<b>-55.00%</b>	<b>9.09%</b>	<b>-80.77%</b>	<b>-33.33%</b>	<b>-8.33%</b>	<b>-31.71%</b>	<b>-44.62%</b>	<b>9.52%</b>	<b>-4.55%</b>	<b>31.34%</b>	<b>-3.846154%</b>
<b>Log</b>												
1992	3.951	4.094	3.784	3.258	4.043	3.871	3.714	4.174	4.143	4.477	4.205	
1999	3.689	3.296	3.871	1.609	3.638	3.784	3.332	3.584	4.234	4.431	4.477	
<b>Rate of Change</b>	<b>-6.64%</b>	<b>-19.50%</b>	<b>2.30%</b>	<b>-50.60%</b>	<b>-10.03%</b>	<b>-2.25%</b>	<b>-10.27%</b>	<b>-14.15%</b>	<b>2.20%</b>	<b>-1.04%</b>	<b>6.48%</b>	
<b>Source:</b> Results from Poverty Model by ClayDord Consult												
<b>Meaning of Notation:</b>	Number	= Variable's (Row's) Highest Impact for Regions										
	Number	= Region's (Column's) Highest Impact of Variables										
	Number	= Both Row's and Column's Highest Impact for Regions and Variables respectively										

## ***Analysis of Regional Comparison of the Impacts of Variable on Poverty Reduction***

### ***Overview***

The analysis of the impacts on regional basis is based on illustrations in Graph A5.4 and the results in Table A5.7. In terms of simulation performance of the equations in the Poverty Model, the “Overall Poverty Equation” tracks the poverty path quite well. The MAPE is 5.36%. The actual and fitted rates trended quite closely with the residual being within the upper and lower bounds for 18 out of the 20 observations.

For the 10 regions, seven equations performed very well with Greater Accra replicating history very closely with a MAPE of 1.26% followed by Upper West (1.61%). The four remaining equations that performed well are for Brong Ahafo with a MAPE of 3.87%, Northern (4.56%), Ashanti (4.80%) and Volta (6.00%). The weakest historical simulation results for three regions come from equations for Eastern with MAPE of 7.91%, followed by Western (7.80%) then Central (7.57%). It must be noted, however, that they all fall within the acceptable MAPE range of 0% - 20% for high level of confidence to be placed on the transmission parameters.

Additionally, all the intercepts for the Overall and the 10 regional equations reveal that there are other exogenous variables that have significant effects on the incidence of poverty apart from the eight related variables in the Poverty Model. In order to track these, we intend to undertake full macroeconomic model simulation to identify the missing key policy variables. For now it is crucial to point out that of the 10 regions, six reveal that these variables have negative effect on the incidence of poverty. These intercepts are for Greater Accra (-0.10), Upper West (-0.47), Western (-2.07), Northern (-2.46), Eastern (-3.56) and Volta (-5.26). For the four regions, these other variables have positive impact on the incidence of poverty. These intercepts are for Upper East (8.63), Ashanti (2.81), Central (2.69) and Brong Ahafo (0.58).

### ***Variable's (or Row's) Highest Impact for Regions***

*Which Regions have the Highest Impact from the Transmission Channels?*

The impact analysis allows us to track the transmission channels that a region records from the Poverty Model. Reading along the *rows or horizontal dimension* of Table A5.7, the highest impact for household size is recorded by Northern Region. For wage and agriculture income it is Western Region. For transfers it is Ashanti. Household income, employment and DACF are for Upper East. HIPC benefit is for Volta and budget for Greater Accra. The policy morale is that despite the need to tackle the problem from all angles sequentially and simultaneously when needed, the attack on poverty in the regions should be sensitive to the transmission channels that register stronger impacts on poverty reduction.

### ***Region's (Column's) Highest Impact (of Variable)***

*Which Variable (s) have the Highest Transmission Impact for the Regions?*

From the overall equation, we note that household income is the transmission channel that registered the highest impact favourable for poverty reduction. The key concern is that in the absence of poverty map for all the regions in Ghana, we need to know the most favourable channel for poverty reduction for the various regions. Reading along the *columns or vertical dimension* of Table A5.7 for Western and Central Regions it is DACF. For Greater Accra and Upper East Regions it is household income. For Volta, Eastern and Ashanti Regions it is HIPC benefit. For Brong Ahafo, Northern and Upper West Regions it is employment income.

#### A5.1.4 Model Solution and Policy Simulation (Scenarios)

##### The Convergence and Confidence Interval Criteria

Before any model can be used for policy simulation and for forecasting, it is important to validate the system of equations. In the above sub-section we undertake historical simulation to obtain the MAPE, among other critical statistics for confirming that each of the equations converge and can therefore be used for policy simulation. We, therefore, solved the whole model. After having solved the poverty model, we noted that the system converged. We, therefore, can undertake policy simulations *since both the confidence interval and convergence criteria have been satisfied*. The specific policy experiments or simulation exercises we undertake are the following:

##### Simulations of Alternative Scenarios

Increases in the DACF to 7.5%, 15%, 25%, 35% and 45% of total revenue collected which by implication is an increase in the available funds to the DAs.

The Simulations are expected to throw light on the response or impact of increased funds on poverty reduction in Ghana and the respective regions. The results of the simulation exercises are in Tables A5.8 and A5.9 and Graphs A5.5 and A5.6.

**Table A5.8: PSIA Simulation Results**

<b>Poverty and Social Impact Simulation Results: Various Scenarios for DACF Changes</b>						
<b>Regions</b>	<b>DACF (0)</b>	<b>DACF (1)</b>	<b>DACF (2)</b>	<b>DACF (3)</b>	<b>DACF (4)</b>	<b>DACF (5)</b>
	<b>Baseline (1999)</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>	<b>Scenario 5</b>
		<b>7.5%</b>	<b>15.0%</b>	<b>25.0%</b>	<b>35.0%</b>	<b>45.0%</b>
<b>Ghana</b>	<b>2.13</b>	<b>2.29</b>	<b>2.64</b>	<b>3.29</b>	<b>4.45</b>	<b>6.45</b>
Western Region	2.19	2.36	2.71	3.39	4.57	6.63
Central Region	2.29	2.46	2.83	3.53	4.77	6.92
G Accra Region	1.97	2.12	2.43	3.04	4.11	5.96
Volta Region	1.98	2.13	2.45	3.06	4.14	6.00
Eastern Region	2.52	2.70	3.11	3.89	5.25	7.61
Ashanti Region	3.68	3.96	4.55	5.69	7.68	11.14
B Ahafo Region	2.04	2.20	2.53	3.16	4.26	6.18
Northern Region	2.52	2.71	3.11	3.89	5.25	7.62
U West Region	0.85	0.91	1.05	1.31	1.77	2.57
U East Region	1.28	1.37	1.58	1.98	2.67	3.87
<b>Corresponding Reduction in Poverty Rates</b>						
<b>Regions</b>	<b>Baseline (1999)</b>	<b>P Rate (1)</b>	<b>P Rate (2)</b>	<b>P Rate (2)</b>	<b>P Rate (3)</b>	<b>P Rate (4)</b>
<b>Ghana</b>	<b>40.00</b>	<b>-1.94</b>	<b>-2.23</b>	<b>-2.79</b>	<b>-3.77</b>	<b>-5.46</b>
Western Region	27.00	-2.79	-3.21	-4.01	-5.41	-7.85
Central Region	48.00	-5.40	-6.21	-7.77	-10.49	-15.21
G Accra Region	5.00	-1.15	-1.32	-1.66	-2.23	-3.24
Volta Region	38.00	-7.31	-8.41	-10.51	-14.19	-20.58
Eastern Region	44.00	-8.10	-9.31	-11.64	-15.72	-22.79
Ashanti Region	28.00	-6.99	-8.04	-10.05	-13.57	-19.67
B Ahafo Region	36.00	-5.67	-6.52	-8.15	-11.00	-15.95
Northern Region	69.00	-2.91	-3.34	-4.18	-5.64	-8.18
U West Region	84.00	-1.65	-1.90	-2.37	-3.20	-4.64
U East Region	88.00	-4.90	-5.63	-7.04	-9.51	-13.79

**Source:** Simulation Results using Poverty Model by ClayDord Consult

**Table A5.9: PSIA Simulation Results: Level and Percentage Changes**

<b>Poverty and Social Impact Simulation Results: Various Scenarios for DACF Changes</b>									
<b>Regions</b>	<b>Panel 1</b>		<b>Panel 2</b>	<b>Percent Rise (+)</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>	<b>Scenario 5</b>
	<b>Poverty Rates</b>				<b>7.50%</b>	<b>15.00%</b>	<b>25.00%</b>	<b>35.00%</b>	<b>45.00%</b>
	<b>1992</b>	<b>1999</b>	<b>Decline (-)</b>	<b>DACF (1)</b>	<b>DACF (2)</b>	<b>DACF (3)</b>	<b>DACF (4)</b>	<b>DACF (5)</b>	
<b>Ghana</b>	<b>52.00</b>	<b>40.00</b>	<b>-23.08%</b>	-4.85%	-5.58%	-6.97%	-9.42%	-13.65%	
Western Region	60.00	27.00	-55.00%	-10.33%	-11.88%	-14.85%	-20.05%	-29.07%	
Central Region	44.00	48.00	9.09%	-11.26%	-12.95%	-16.18%	-21.85%	-31.68%	
G Accra Region	26.00	5.00	-80.77%	-23.03%	-26.48%	-33.11%	-44.69%	-64.80%	
Volta Region	57.00	38.00	-33.33%	-19.24%	-22.13%	-27.66%	-37.34%	-54.15%	
Eastern Region	48.00	44.00	-8.33%	-18.41%	-21.17%	-26.46%	-35.72%	-51.80%	
Ashanti Region	41.00	28.00	-31.71%	-24.97%	-28.72%	-35.90%	-48.46%	-70.27%	
B Ahafo Region	65.00	36.00	-44.62%	-15.75%	-18.11%	-22.64%	-30.56%	-44.31%	
Northern Region	63.00	69.00	9.52%	-4.21%	-4.85%	-6.06%	-8.18%	-11.86%	
U West Region	88.00	84.00	-4.55%	-0.87%	-1.01%	-1.26%	-1.70%	-2.46%	
U East Region	67.00	88.00	31.34%	-5.57%	-6.40%	-8.00%	-10.81%	-15.67%	
<b>Simulated Poverty Rates Corresponding to Scenarios 1 - 5</b>									
	<b>1992</b>	<b>1999</b>		<b>P Rate 1</b>	<b>P Rate 2</b>	<b>P Rate 3</b>	<b>P Rate 4</b>	<b>P Rate 5</b>	
<b>Ghana</b>	<b>52.00</b>	<b>40.00</b>		38.06	37.77	37.21	36.23	34.54	
Western Region	60.00	27.00		24.21	23.79	22.99	21.59	19.15	
Central Region	44.00	48.00		42.60	41.79	40.23	37.51	32.79	
G Accra Region	26.00	5.00		3.85	3.68	3.34	2.77	1.76	
Volta Region	57.00	38.00		30.69	29.59	27.49	23.81	17.42	
Eastern Region	48.00	44.00		35.90	34.69	32.36	28.28	21.21	
Ashanti Region	41.00	28.00		21.01	19.96	17.95	14.43	8.33	
B Ahafo Region	65.00	36.00		30.33	29.48	27.85	25.00	20.05	
Northern Region	63.00	69.00		66.09	65.66	64.82	63.36	60.82	
U West Region	88.00	84.00		83.27	83.16	82.94	82.57	81.93	
U East Region	67.00	88.00		83.10	82.37	80.96	78.49	74.21	

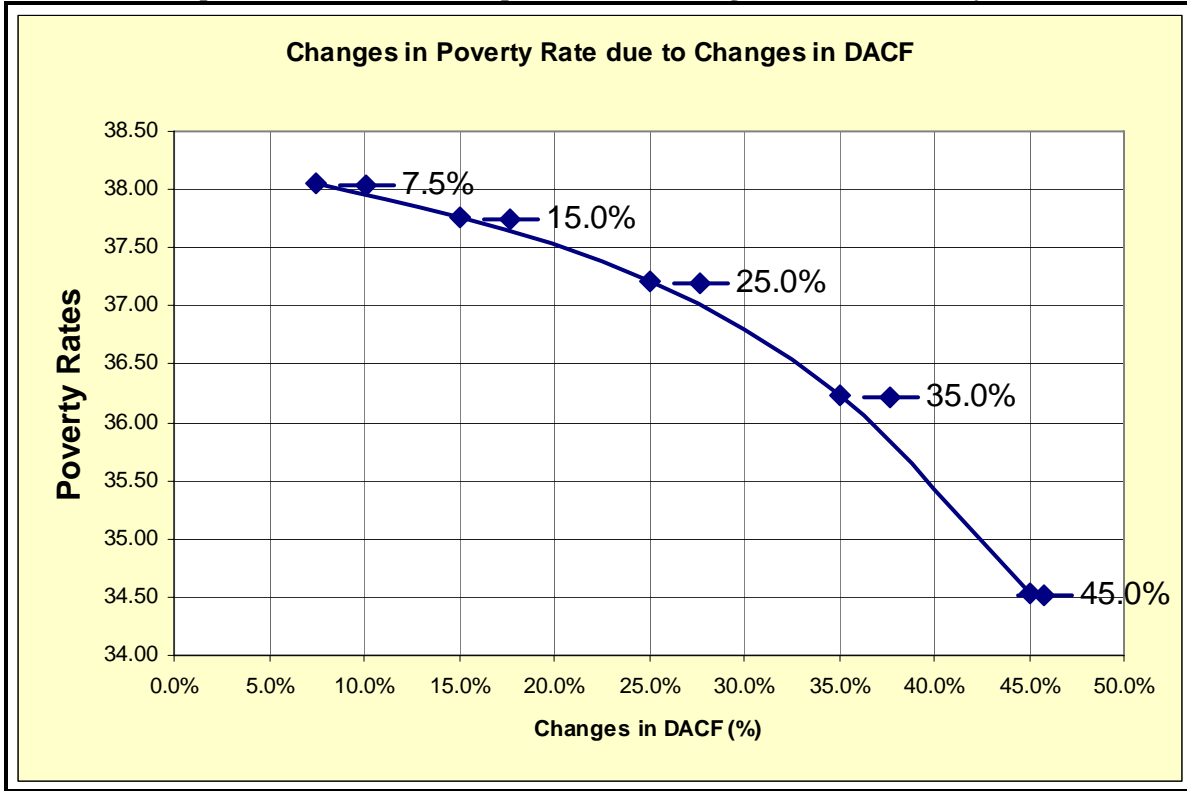
**Source:** Simulation Results used Poverty Model by ClayDord Consult

As may be expected from the first principles of economics, an increase in the funds of a DA will elicit one or all of the following: an increase in pro-poor projects and programme activities, and reduction in the incidence of poverty, assuming that all the increases will be utilized for the purposes for which they are allocated, and that the rate of wastage (for example through corruption) is very low or if possible nil, the availability of varied and valid capacity for citizens to make demands and the DAs to respond to the requests of the poor population groups, etc.

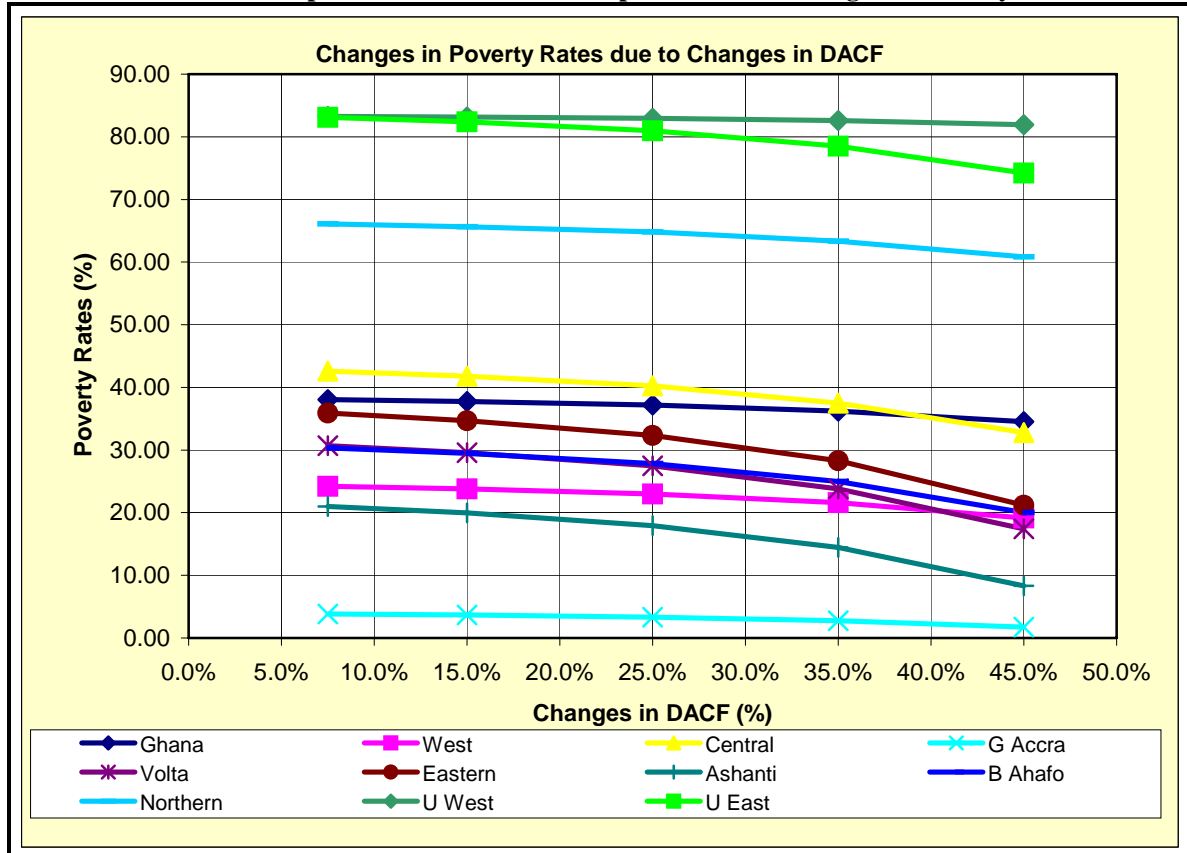
The 7.5% increase in the DACF leads to a 4.85% reduction in overall (Ghana) incidence of poverty. The impacts on the various regions differ from as high as -24.97% for Ashanti Region and to as low as -0.87% in Upper West Region. It is worthy to note that doubling the rate of increase to 15% of total revenue leads to only modest rise in the rate of poverty reduction. Thus, overall, the rate of decline of the incidence of poverty is only 5.85% with a 15% increase in DACF.

The policy morale is that the increases in DACF or funds in general do not necessarily imply a linear or a proportionate) reduction in poverty. The model itself is log-linear. The increases of funds must be accompanied by the various assumptions, such as availability of capacity to implement the pro-poor projects and programmes, risks are kept to the minimum, and that monitoring and evaluation are effective.

Graph A5.5: Illustration of Impact of DACF Changes on Overall Poverty Rate



Graph A5.6: Illustrations of Impact of DACF Changes on Poverty Rates



### A5.1.5 Model Solution, Intrapolation and Forecasting

#### Intrapolation from GLSS 4

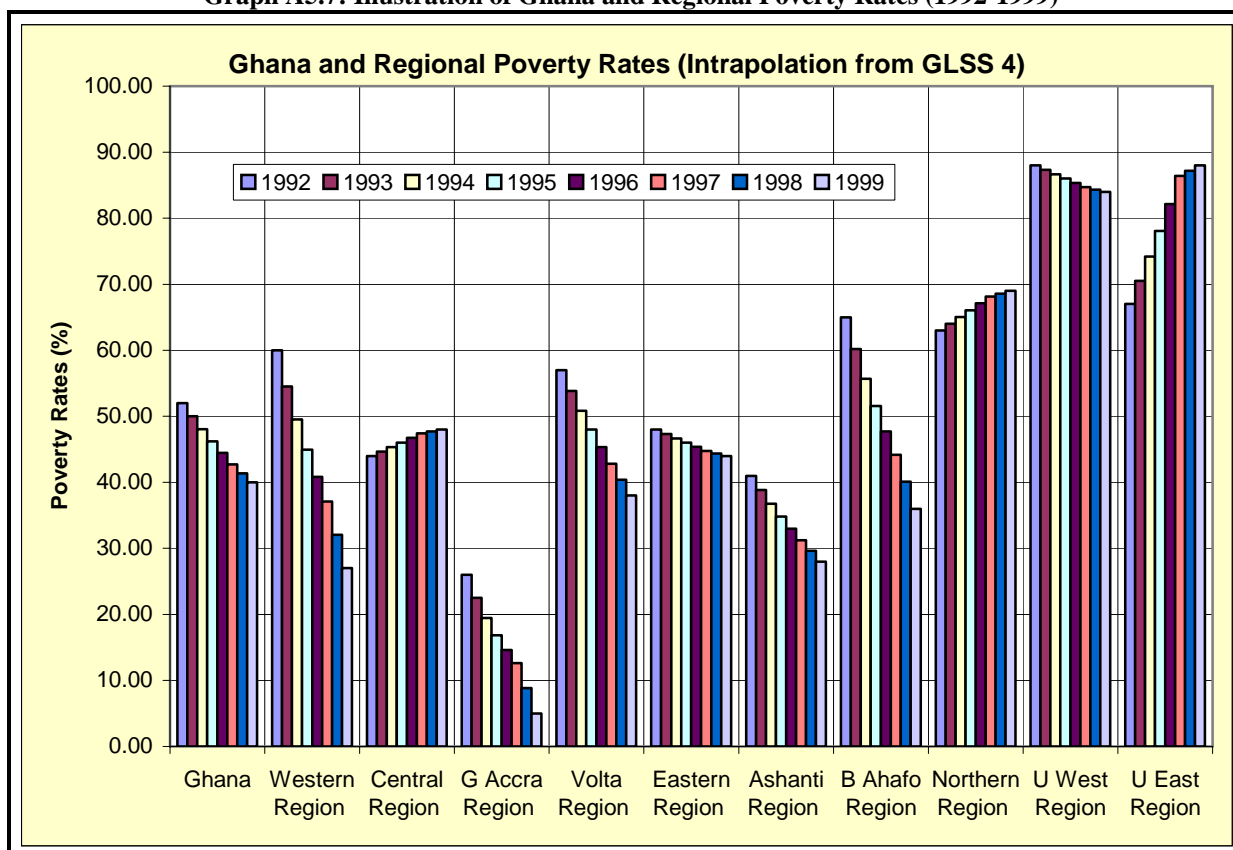
The Poverty Model enables us to undertake intrapolation of poverty rates by regions. The results are in Table A5.10 and Graph A5.7. As a group of poor regions, the Greater Accra Region has the lowest set of poverty rates. Besides, the population of Greater Accra Region is highest in terms of regional distribution. Since the overall or Ghana's poverty rates are weighted in the terms of population size and spans only 1992 and 1999 but excludes 1993-1998, it is important to interpolate the two panel data to throw light on inter-survey poverty developments.

**Table A5.10: Ghana and Regional Poverty Rates (Intrapolation from GLSS 4)**

Poverty Rates (1992 - 1999)								
Regions	1992	1993	1994	1995	1996	1997	1998	1999
<b>Ghana</b>	<b>52.00</b>	<b>50.00</b>	<b>48.08</b>	<b>46.23</b>	<b>44.45</b>	<b>42.74</b>	<b>41.37</b>	<b>40.00</b>
Western Region	60.00	54.50	49.50	44.97	40.84	37.10	32.05	27.00
Central Region	44.00	44.67	45.34	46.03	46.73	47.44	47.72	48.00
G Accra Region	26.00	22.50	19.47	16.85	14.58	12.62	8.81	5.00
Volta Region	57.00	53.83	50.84	48.02	45.35	42.83	40.42	38.00
Eastern Region	48.00	47.33	46.68	46.03	45.39	44.76	44.38	44.00
Ashanti Region	41.00	38.83	36.78	34.84	33.00	31.25	29.63	28.00
B Ahafo Region	65.00	60.17	55.69	51.55	47.72	44.17	40.08	36.00
Northern Region	63.00	64.00	65.02	66.05	67.10	68.16	68.58	69.00
U West Region	88.00	87.33	86.67	86.02	85.36	84.72	84.36	84.00
U East Region	67.00	70.50	74.18	78.06	82.14	86.43	87.21	88.00

**Source:** Simulation of Interpolated Values used Poverty Model by ClayDord Consult

**Graph A5.7: Illustration of Ghana and Regional Poverty Rates (1992-1999)**



For the inter-survey period, 1993-1998, Ghana, on overall basis registered average rate of decline in the incidence of poverty between -3.21% and -3.80% per annum. At the regional level, seven regions recorded various degrees of decline, while three exhibited increases in the incidence of poverty. The highest rate of decline in the poverty index was in Greater Accra Region with the rate of change in poverty estimated as between -13.46% and - 43.24% p.a. Concerning the interpolated indices, the highest rate of increase within this period was in Upper East Region with changes in poverty ranging from 0.90% to 5.22% per annum. Apart from this region, Northern and Western Regions also revealed increases in poverty index. It is important to note that these were periods when Ghana has not acceded to the HIPC initiative. We do not have poverty numbers for the period after 1999. However, with the help of the Poverty Model and the economy wide Macroeconometric Model of Ghana, we intend to undertake *ex ante* forecasting conditional on the poverty variables in the model.

### *Ex Ante Conditional Forecasts of Poverty Indices Using Poverty Model*

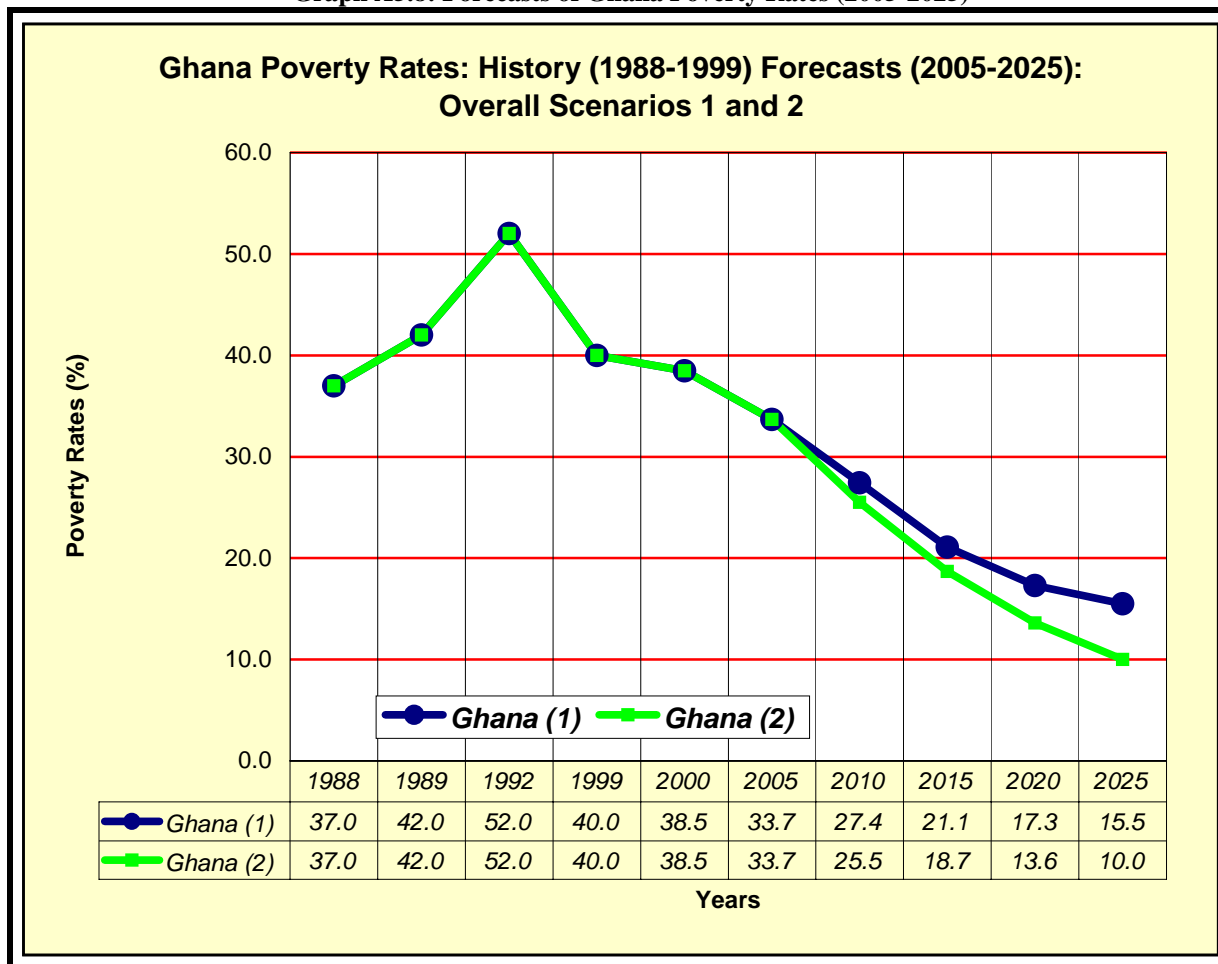
The results of the *ex ante* conditional forecasts of poverty indices are in Table A5.11 and Graphs A5.8 and A5.9. The analysis follows.

**Table A5.11: Forecasts 2003-2025: Ghana and Regional Poverty Rates and related Variables**

<b>Model Based Forecasts of Poverty Rates (History: 1992-1999; Forecasts: 2003-2025)</b>									
<b>Regions</b>	<b>1992</b>	<b>1999</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
<b>Ghana</b>	<b>52.00</b>	<b>40.00</b>	<b>37.54</b>	<b>35.60</b>	<b>33.66</b>	<b>27.42</b>	<b>21.07</b>	<b>17.29</b>	<b>15.50</b>
Western Region	60.00	27.00	25.89	24.79	22.00	15.90	8.70	4.21	2.00
Central Region	44.00	48.00	46.89	45.79	40.38	28.96	17.54	12.14	9.92
Greater Accra Region	26.00	5.00	4.39	3.79	2.64	1.82	1.00	0.52	0.32
Volta Region	57.00	38.00	36.89	35.79	28.48	19.90	11.09	7.67	4.52
Eastern Region	48.00	44.00	42.89	41.79	33.69	23.22	12.76	7.98	4.67
Ashanti Region	41.00	28.00	26.89	25.79	18.80	12.30	5.81	3.78	2.88
Brong Ahafo Region	65.00	36.00	34.89	33.79	28.12	21.30	14.48	8.81	6.60
Northern Region	63.00	69.00	67.89	66.79	63.88	56.20	48.52	45.61	43.40
Upper West Region	88.00	84.00	80.89	77.79	76.14	71.35	66.56	60.42	58.21
Upper East Region	67.00	88.00	85.89	83.79	78.89	69.22	59.56	50.66	48.45
Employment (EMPINC)			7.20	7.56	7.94	10.22	14.00	19.00	25.50
DACF (¢Billion)			43.33	46.58	50.07	68.90	95.50	135.88	190.78
HIPC (¢Billion)			56.45	60.12	64.03	88.27	124.70	170.35	250.00
DA Budget (Sample)			41.68	43.97	46.39	61.13	80.20	118.31	169.80
<b>Percentage Changes (Annualised for Years More Than One)</b>									
<b>Regions</b>			<b>2004</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	
<b>Ghana</b>			<b>-5.17%</b>	<b>-5.45%</b>	<b>-3.71%</b>	<b>-4.63%</b>	<b>-3.59%</b>	<b>-2.06%</b>	
Western Region			-4.27%	-11.25%	-5.55%	-9.06%	-10.32%	-10.50%	
Central Region			-2.36%	-11.80%	-5.66%	-7.89%	-6.16%	-3.64%	
Greater Accra Region			-13.78%	-30.39%	-6.21%	-9.00%	-9.60%	-7.69%	
Volta Region			-3.00%	-20.43%	-6.02%	-8.85%	-6.17%	-8.22%	
Eastern Region			-2.58%	-19.38%	-6.21%	-9.01%	-7.49%	-8.30%	
Ashanti Region			-4.11%	-27.11%	-6.91%	-10.55%	-6.99%	-4.76%	
Brong Ahafo Region			-3.17%	-16.78%	-4.85%	-6.40%	-7.83%	-5.02%	
Northern Region			-1.63%	-4.35%	-2.40%	-2.73%	-1.20%	-0.97%	
Upper West Region			-3.84%	-2.12%	-1.26%	-1.34%	-1.85%	-0.73%	
Upper East Region			-2.45%	-5.85%	-2.45%	-2.79%	-2.99%	-0.87%	
Employment (EMPINC)			5.00%	5.00%	5.75%	7.40%	7.14%	6.84%	
DACF (¢Billion)			7.50%	7.50%	7.52%	7.72%	8.46%	8.08%	
HIPC (¢Billion)			6.50%	6.50%	7.57%	8.25%	7.32%	9.35%	
DA Budget (Sample)			5.50%	5.50%	6.35%	6.24%	9.50%	8.70%	

**Source:** Simulation Results used Poverty Model by ClayDord Consult

Graph A5.8: Forecasts of Ghana Poverty Rates (2005-2025)



**Analysis of Ex Ante Conditional Forecasts (2005 – 2025)**

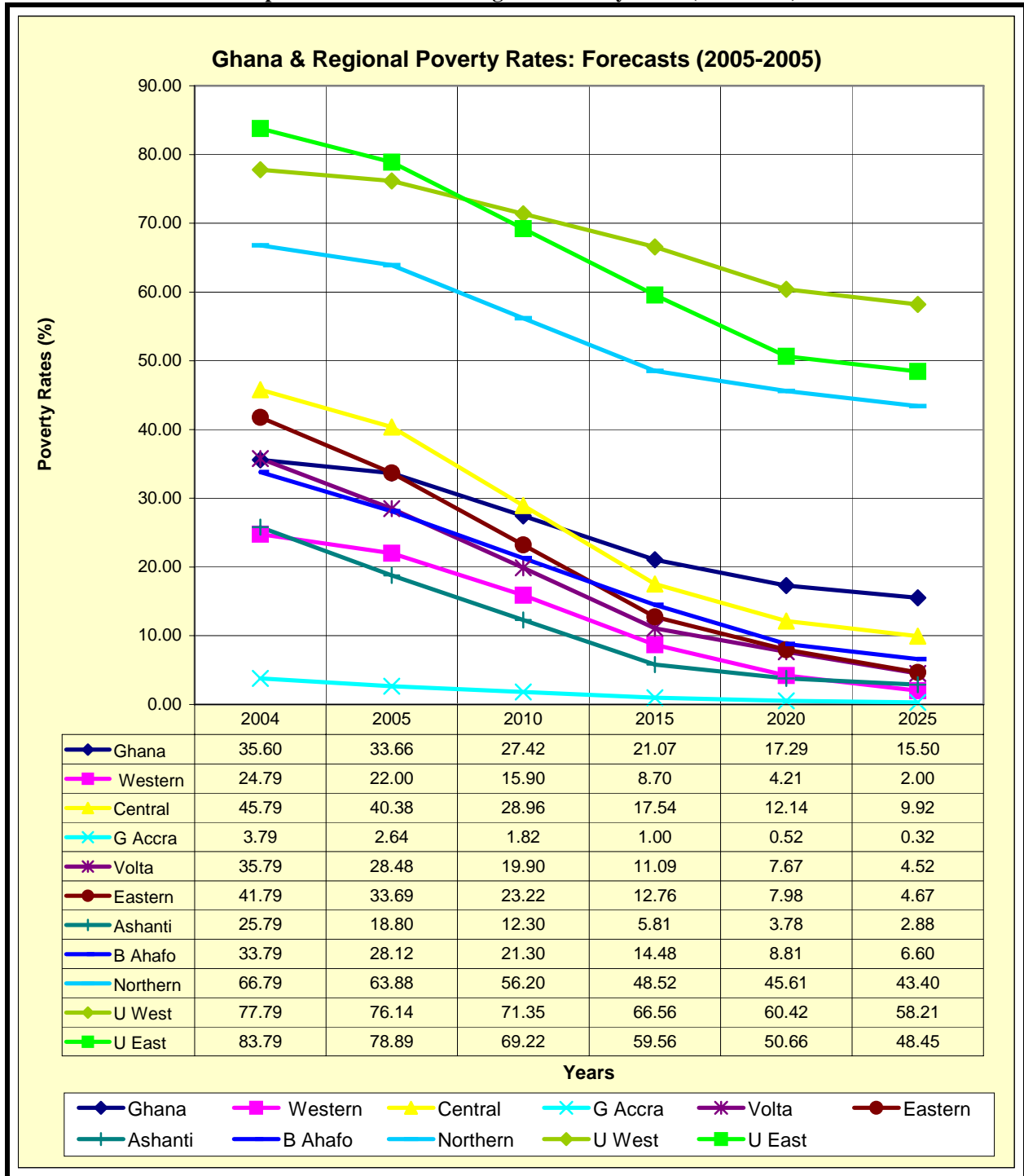
In the previous section we undertook *ex post* forecasting since we already know the history. Now we are concerned with *ex ante* forecasting, i.e. forecasting before the events. On the basis of the estimation and historical simulation results, we undertook mechanical and conditional forecasting of the national and regional poverty indices that are presented in Table A5.11 and Graphs A5.8 and A5.9 for the period 2005 to 2025.

The exogenous factors, which condition or determine the forecasts are employment, DACF, HIPC benefits and the budget of DAs, etc. First, we decide on the future values of these related variables. Even though any values can be chosen we are guided by two scenarios: (i) one being fairly realistic taking into consideration the historical growth trends in the exogenous variables,<sup>27</sup> and (ii) more optimistic forecasting where we assume faster growth rates of the exogenous variables. We have reported the first scenario in Table A5.11, and have illustrated the two scenarios in Graph A5.8.

Given that the rate of increase in job opportunities is 7.4% per annum, real DACF increases by an average of 7.72% p.a. while real DA budget increases 6.25% p.a., and HIPC benefits rise by about 7.6% p.a. (in real terms) over the period 2005-2025, poverty index is expected to decline by an annual average of about 3.5% p.a. Thus by 2015 it is possible for the Government to half the poverty incidence from 40% in 1999 to 21% by 2015.

<sup>27</sup> We also used the auto-regressive integrated moving average (ARIMA) processes on the exogenous variables to cross check the results against the policy-conditioned forecasts.

Graph A5.9: Forecasts of Regional Poverty Rates (2005-2025)



These are in line with the GPRS and the Millennium Goals for Ghana as well as the NEPAD goals for African countries. The second scenario which is much more optimistic (with all the exogenous variables rising faster than in the first scenario) may achieve a fall in poverty index to as low as 18.7% by 2015. (Refer to Graph A5.8).

The corresponding regional poverty indices are in Table A5.11 and Graph A5.9. The decreases in the regional poverty rates have exhibited different paths with some crossing others. For example the poverty index of Upper East crosses that of Upper West between 2005 and 2010. There are other examples in Table A5.11 and Graph A5.9. These indicate the variations in the assumed values of the exogenous variables.

A question of concern is: *Why are the related variables not able to reduce incidence of poverty to zero since their impacts are all negative apart from the household size?* The plausible answer is that there are other significant exogenous variables of concern as can be discerned from the full macroeconometric model simulation. The Summary is in Table A5.12 while the details are in Table A5.13. From the economy wide perspective there are hidden variables that contribute their quota to the overall poverty in Ghana. The main ones include: population growth, retrenchment policy (D87), general and consumer price indices, discount and prime rates, and terms of trade, etc.

In view of all these “positive” (or poverty inducing) factors as well as the economy wide elements, one sees a strong tendency for the overall poverty to rise by over +3.6476. However, the very strong impact of the “negative” (or poverty reducing) factors in the macroeconomy, points to an overall effect of –1.3262. Refer to Table A5.13 for the details of the impacts of the various variables from the baseline solution.

The policy morale is that the probability of reducing poverty incidence is very high. It should, therefore, be possible to reduce poverty at a faster rate than in scenario 1 above provided we adopt policies that will enhance the poverty reducing factors and attenuate the poverty inducing factors. The key policies to focus on include: matching wage with productivity, regular maintenance of capital, increase in productive job opportunities, remove all bottlenecks that will induce an increase in both government and private capital, payment of more realistic prices for agricultural products, increase value addition to primary products, engender competition among the banks that will induce narrowing of the spread between the lending rates and deposit rates.

**Table A5.12: Effect of Determined and Hidden Poverty Inducing Factors**

<b>Effect of Poverty Inducing Factors</b>				
<b>Selected Exogenous Variables</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
Population Growth	0.5290	0.4233	0.0000	0.0000
Retrenchment Policy (D87)	0.6342	0.1091	0.2239	1.5796
General Price Index	0.4129	0.0000	0.0000	0.0000
TUC effect	0.0023	0.0000	0.0000	0.0000
Consumer Price Index (Prvt Workers)	0.1262	0.0000	0.0000	0.0000
Consumer Price Index (Govt Workers)	0.1091	0.0000	0.0000	0.0000
Discount Rate/Prime Rate	0.3318	0.4127	0.4892	0.1827
Exchange Rate	0.2793	0.3325	-	-
y with non- bank public	0.2218	0.1509	0.4285	0.0043
Terms of Trade deterioration	0.2162	0.2514	0.0023	0.2386
<b>Total Effect</b>	<b>2.8628</b>	<b>1.6799</b>	<b>1.1439</b>	<b>2.0052</b>
Economy wide intercept & “positive” elements	0.7848	1.3389	0.5904	0.4752
<b>Overall Effect</b> (including “positive” elements)	<b>3.6476</b>	<b>3.0188</b>	<b>1.7343</b>	<b>2.4804</b>

#### ***A5.1.6 Full Macroeconometric Simulation with Poverty Sub-Model***

In order to appreciate the poverty situation from an economy wide point of view we have to take into consideration all the key variables that directly or indirectly affect poverty in Ghana including all the policies undertaken. The policies span fiscal, monetary including interest rate, international trade including exchange rate, employment, production, etc. The results of the simulation are reported in Table A5.13. In terms of the full macro simulation, the total impact on poverty reduction is –2.111. This is in line with the estimation by Demery and Squire, which is computed at -1.95 for the period 1988-1992.

**Table A5.13: Full Macroeconometric Simulation with Poverty Sub-Model**

<b>Primary Variables Transmission Channels and Impact Analysis</b>				
<b>Selected Exogenous Variable</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
Average Wage	-0.0977	0.0000	0.0000	0.0000
Maintenance (Depreciation) of Capital	-0.1284	0.0000	0.0000	0.0000
Total Employment	-0.6334	0.0000	0.0000	0.0000
Population Growth	0.5290	0.4233	0.0000	0.0000
PAMSCAD Policy	0.0000	-0.0117	0.0000	0.0000
Agriculture Average Wage	-0.2142	-0.2225	0.0000	0.0000
Agriculture Investment	-0.4795	-0.4976	0.0000	0.0000
Agriculture Employment	0.0000	-0.4699	0.0000	0.0000
Industrial Average Wage	-0.0022	0.0000	-0.0140	0.0000
Industrial Investment	-0.0087	0.0000	-0.1838	0.0000
Industrial Employment	0.0000	0.0000	-0.3097	0.0000
Lagged Industrial Employment	-0.0517	0.0000	-0.4392	0.0000
Service Average Wage (lagged)	0.0000	0.0000	0.0000	-0.4880
Industrial Output	0.0000	0.0000	0.0000	0.0078
Service Employment	0.0000	0.0000	0.0000	-0.1923
Kalabule Dummy (D75)	0.0000	0.0000	0.0000	-0.0023
Retrenchment Policy (D87)	0.6342	0.1091	0.2239	1.5796
Average Private Wage	0.0000	0.0000	-0.2142	0.0000
Private Investment	-0.2016	-0.0881	-0.0118	0.0000
Private Employment	-0.2716	-0.0974	0.0000	0.0000
Govt Investment	0.0000	-0.4043	0.0000	0.0000
Government Employment	-0.2019	0.0000	0.0000	0.0000
Lagged Govt Employment	-0.2217	0.0000	0.0000	-0.1740
<b>Second or Simultaneous Wage Exogenous and/or Policy Variables Effects on Poverty</b>				
<b>Selected Exogenous Variable</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
<i>Average Wage</i>				
General Price Index	0.4129	0.0000	0.0000	0.0000
TUC effect	0.0023	0.0000	0.0000	0.0000
Lagged Wage	-0.0185	0.0000	0.0000	0.0000
<i>Agric Average Wage</i>				
Price of Agricultural Products	0.0000	-0.4125	0.0000	0.0000
Lagged Minimum Wage	0.0000	-0.2215	0.0000	0.0000
<i>Industrial Average Wage</i>				
Price of Industrial Products	0.0000	0.0000	-0.3096	0.0000
Lagged Minimum Wage	0.0000	0.0000	-0.1856	0.0000
<i>Service Average Wage</i>				
Lagged Minimum wage	0.0000	0.0000	0.0000	-0.2100
Lagged Service Wage	0.0000	0.0000	0.0000	-0.1189
<i>Average Private Wage</i>				
Consumer Price Index	0.1262	0.0000	0.0000	0.0000
Lagged Minimum Wage	-0.1177	0.0000	0.0000	0.0000
<i>Average Govt wage</i>				
Consumer Price Index	0.1091	0.0000	0.0000	0.0000
Minimum Wage Policy	-0.1090	0.0000	0.0000	0.0000

**Table A5.13: Full Macroeconometric Simulation with Poverty Sub-Model (Cont'd)**

<b>Third or Simultaneous Price Exogenous and/or Policy Variables Effects on Poverty</b>				
<b>Selected Exogenous Variables</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
Discount Rate/Prime Rate	0.3318	0.4127	0.4892	0.1827
Deposit Rate	-0.2313	-0.4223	-0.3254	-0.0955
Exchange Rate	0.2793	0.3325	-0.0023	-0.2864
Output	-0.8561	-0.3925	-0.2133	-0.1068
Currency with non- bank public	0.2218	0.1509	0.4285	0.0043
<b>Fourth or Simultaneous Exchange Rate Exogenous and/or Policy Variables Effects on Poverty</b>				
<b>Selected Exogenous Variables</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
Unrequited Transfers	-0.6057	-0.6676	-0.4223	-0.3543
Terms of Trade deterioration	0.2162	0.2514	0.0023	0.2386
<b>Fifth or Simultaneous Outputs and Employment Exogenous and/or Policy Variables Effects on Poverty</b>				
<b>Selected Exogenous Variables</b>	<b>Overall Poverty</b>	<b>Agric Poverty</b>	<b>Industrial Poverty</b>	<b>Service Poverty</b>
Capital	-0.1847	0.0000	0.0000	0.0000
Agric Capital	0.0000	-0.4051	0.0000	0.0000
Rainfall Index	0.0000	-0.1740	0.0000	0.0000
Industrial Capital	0.0000	0.0000	-0.2222	0.0000
Service Capital	0.0000	0.0000	0.0000	-0.3192
Technological Progress	-0.3382	-0.0046	-0.0028	-0.7278
<b>Total Impact</b>	<b>-2.1110</b>	<b>-3.4767</b>	<b>-1.7123</b>	<b>-1.0625</b>
Economy wide intercept & positive elements	0.7848	1.3389	0.5904	0.4752
<b>Economy wide &amp; poverty Overall Effect</b>	<b>-1.3262</b>	<b>-2.1378</b>	<b>-1.1219</b>	<b>-0.5873</b>
<b>Note:</b> ( ) = - = Negative => reduction in incidence of poverty No sign = + = Positive => increase in incidence of poverty				

## 5.2 Trend Analysis of Cost of DA and Parliamentary Elections

Currently the practice of election of the DCEs is for the President to appoint the DCE to be confirmed by the Assembly by two-thirds majority (or 50% for a second chance in 10 days time). Within 10 days another voting is held to be confirmed by two-thirds majority. The opportunity is lost if it is less than that two-thirds majority. The concern is with respect to the high cost of time lost. It has also been proposed that we undertake presidential and parliamentary elections.

There is the call for the election of the DCEs to be done as is the case of the Presidential and Parliamentary Elections. The concern, however, here is to establish the financial implications. In order to undertake a comparative analysis we also analyse the cost of Presidential and Parliamentary Elections in 2004 and undertake Projections for 2008 in this study.

As captured in Tables A5.14 (a) and (b), the cost of the District Assembly Elections in 2002 was €47.125 billion which was 0.31% of National Budget and 0.10% of GDP. In order to have full election additional costs will come only from additional expenses on:

1. Allowances for personnel,
2. Printing of Ballot Papers and Stationery, as well as
3. Recruitment and Training

The cost of full local level elections in 2006 is projected at €85.47 billion. This is expected to be about 0.30% of Budget and 0.08% of GDP.

**Table A5.14 (a) and (b): Cost Analysis of DA, Presidential and Parliamentary Elections**

Table (a): Cost of District Assembly Elections in 2002 & 2006 Projections (€'billion)			Table (b): Cost of Presidential and Parliamentary Elections in 2004 & 2008 Projections (€'billion)		
Components	2002	2006	Components	2004	2008
1. Allowances of personnel	15.42	31.50	1. Allowances of personnel	33.98	52.70
2. Printing of Ballot Papers	27.62	43.20	2. Printing of Ballot Papers	48.79	75.67
3. Travel and Transportation	1.31	3.68	3. Travel and Transportation	6.76	13.49
4. Fuel if not in 3	-	2.59	4. Recruitment & Training	14.87	23.06
5. Stationery (and computer)	1.56	2.80	5. Stationery	75.22	116.67
6. Advertisements	1.07	1.50	6. Publicity & Advertisement	5.00	9.75
7. Special Transport	0.15	0.20	<b>Total Cost</b>	<b>184.62</b>	<b>291.33</b>
<b>Total Cost</b>	<b>47.13</b>	<b>85.47</b>	Total Budget	24,853.00	38,546.21
Total Budget	15,447.00	28,122.60	GDP	77,620.00	135,630.58
GDP	47,764.00	103,455.82	Cost as % of Total Budget	0.74%	0.76%
Cost as % of Total Budget	0.31%	0.30%	Cost as % GDP	0.24%	0.21%
Cost as % GDP	0.10%	0.08%	Sources: Electoral Commission; Projections by ClayDord		

Given the importance attached to the full implementation of decentralisation in the long-term, it is recommended that elections be carried out at the district level if the concern is financial just as in the case of the Presidential and Parliamentary Elections.

### 5.3 Summary of Macroeconomic Outlook

The corresponding macroeconomic outlook for the period 2004-2008 (using the ClayDord Macroeconometric Model from which the budget and GDP numbers are obtained) is presented below.

#### 5.3.1 National Policy Assumptions

We did two scenarios: high and low. The low scenario is based on some specific policy assumptions that have to be articulated. In case we fail to satisfy these conditions the outcome may even be worse than the low scenario. These include the following:

- Continuation of market based economic policies,
- Divestiture of State-Owned Enterprises (SOEs) including partial off-loading of Government Ghana Commercial Bank shares (possibly to the Ghanaian public),
- Intensification of fight against crime on all fronts (both preventive and curative),
- Political stability and pursuance of the virtues of democracy and governance,
- Continued implementation and further decentralisation of the “Ghana Poverty Reduction Strategy” (GPRS),
- Effective and efficient administration of the funds from the HIPC Initiative,
- Achievement of all the Second ECOWAS Monetary Zone (EMZ2) convergence criteria latest by end-2005,
- Exploiting and taking advantage of the international initiatives such as the AGOA and NEPAD,
- Continuation of cordial international relations with UN, EU, OAU/AU, as well as other bilateral relations,
- Increase in investment to 25% of GDP in the medium-term, and
- Prevention of a rise in the public sector expenditure as a result of the election year effect.

### ***5.3.2 Forecasts Summary***

#### ***High Growth Scenario: “Accelerated Growth”:***

If the growth in real GDP is to reach double digit in five years what does it mean and take? By implication it means removing constraints in the way of production and allowing the economy to release all its potentials that will raise the per capita income from \$432 to \$609 by end-2006. The investment implications include capital formation rising from the current 23.5% of GDP to 39% by 2008. The ICOR shows that there must be efficient use of investment resources that will reduce ICOR from 5.2 to 3.7.

#### ***Low Growth Scenario: “Business as Usual”:***

If the old policy regime persists, growth rates may not exceed 5.5%, maybe for exceptional outliers due to extra-ordinary performance of the rain-dependent agricultural sector. The major elements in the old regime are as follows: low level of financial intermediation resulting from high lending rates and low deposit rates, low domestic savings rates and investment, inadequate infrastructure, no term savings, high reserve ratio, rates of inflation in double digit, and over-valuation of the cedi.

#### ***Forecasts and Analysis (2004-2008):***

The macroeconomic objectives for 2004 include real GDP growth of 5.2% (with agriculture targeted to grow by 6.1%, industry 5.2% and services 4.7%). Average inflation is targeted by Government to fall further to 17% (ClayDord Consult forecasts are in the attached Table). The fiscal deficit of 1.7% of GDP is programmed. Broad money supply is projected to increase by 26.3%. On the external front, a trade deficit is anticipated. The current account will also exhibit a deficit of \$98 million, while overall balance is also expected to be negative (a deficit of \$72 million).

The real GDP growth is expected to remain at 5.2% in 2004 to reach 6% by 2008 mainly propelled by the services and agricultural sectors. In order to achieve a growth rate of about 8%, the agricultural sector must register an average growth of between 6% and 6.5% per annum, industrial sector by about 6.6% and the services sector by about 7%.

Investment rate is projected to be about 25% of GDP over the forecast horizon. Fiscal balance is expected to show some modest improvement and is projected to be very close to 0% specifically at -0.33% of GDP by 2008. Given the history of resource inflow and the current Multi-Donor Budgetary Support (MDBS) system and the curtailment of the perennial lack of local counterpart funds, it is expected that Government would maintain on revenue mobilisation and allocation, and expenditure moderation in order to gain from the confidence of the donor/development partners.

The external account is likely to stabilise and improve moderately in the medium term. Thus trade balance as a proportion of GDP may improve from -11.4% expected in 2003 to -10.2% by 2008. The financial intermediation would show a modest improvement from 32% in 2004 to 46% in 2008. The rate of employment is not expected to increase fast enough to reduce the rate of unemployment and to absorb an expected increase of 330,000 new entrants per annum to the labour market. Thus unemployment rate is projected to range from 6% to 11.5% per annum.

**Table A1.3.1 Economy Wide Macroeconomic Outlook**

<b>GHANA ECONOMIC FORECASTS AND ANALYSIS 2004-2008; ANNUAL HISTORY (2000- 2003)</b>									
<b>Variables</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>AGGREGATE DEMAND (Billion Cedis)</b>									
GDP (Real; 1993 Prices)	5142.10	5357.10	5600.80	5892.04	6198.43	6539.34	6912.08	7315.75	7742.99
GDP (Nominal)	27152.70	38070.70	47764.90	65262.00	77620.00	89961.58	103455.82	117939.63	135630.58
Private Consumption	3805.15	4017.83	4144.59	4330.65	4524.85	4760.64	4976.70	5194.18	5497.52
Government Expenditure	608.29	615.59	623.60	632.33	641.81	652.08	688.60	726.47	766.43
Gross Fixed Investment	1138.98	1232.13	1316.19	1414.09	1518.61	1602.14	1703.83	1798.94	1904.00
Exports (Goods/Services)	1105.55	1151.78	1192.97	1384.63	1518.61	1687.15	1893.91	2011.83	2129.32
Imports (Goods/Services)	1851.16	1982.13	2122.70	2280.81	2305.82	2354.16	2488.35	2523.93	2671.33
Net Exports	-745.60	-830.35	-929.73	-896.18	-787.20	-667.01	-594.44	-512.10	-542.01
Change in Stock	335.28	321.90	446.16	411.15	300.35	191.49	137.40	108.26	117.05
<b>AGGREGATE SUPPLY (Billion Cedis)</b>									
Agriculture	1849.10	1923.40	2007.20	2129.64	2257.42	2392.86	2532.85	2681.52	2841.07
Industry	1295.20	1333.10	1396.20	1467.41	1543.71	1642.51	1752.56	1868.23	1991.53
Services	1525.30	1602.70	1678.10	1773.75	1857.12	1954.06	2071.68	2220.00	2373.39
Net Indirect Taxes	472.40	497.90	519.30	542.20	540.18	549.91	555.00	546.00	537.00
<b>GOVERNMENT FINANCE (Billion Cedis)</b>									
Total Revenue	7613.45	10813.68	12936.60	19841.70	23539.20	25772.00	27582.90	33068.44	38096.21
Total Expenditure	9916.00	13570.00	15447.00	21997.00	24853.00	26544.60	28122.60	33518.44	38546.21
Domestic Interest Payments	1446.20	2309.50	2210.00	2786.90	2456.50	1706.00	1910.72	991.70	992.70
Development Expenditure	2606.30	4205.20	1951.20	3600.70	3725.70	4497.40	5091.50	5727.94	6443.93
Budget Deficit/Surplus	-2302.55	-2756.32	-2510.40	-2155.30	-1313.80	-772.60	-539.70	-450.00	-450.00
Budget Deficit/GDP(%)	-8.48	-7.24	-5.26	-3.30	-1.69	-0.86	-0.52	-0.38	-0.33
Domestic Debt	7842.33	10598.65	13109.05	15264.35	16578.15	17350.75	17890.45	18340.45	18790.45
Foreign Debt	42722.85	46690.33	55572.41	59489.71	67479.72	75318.16	81434.00	87802.95	94670.02
Total Indebtedness	50565.18	57288.98	68681.46	74754.06	84057.87	92668.91	99324.45	106143.40	113460.47
<b>BALANCE OF PAYMENTS (US\$ Million)</b>									
Merchandise Exports	1936.30	1867.10	2063.90	2314.00	2368.00	2538.50	2723.81	2917.20	3124.32
Merchandise Imports	2766.60	2968.50	2705.10	3156.30	3232.85	3449.45	3687.46	3945.59	4221.78
Trade Balance	-830.30	-1101.40	-641.20	-842.30	-864.85	-910.95	-963.66	-1028.39	-1097.46
Invisibles Balance (Overall)	443.00	776.00	656.80	883.10	766.85	575.00	580.00	583.00	584.00
Current Account Balance	-387.30	-325.40	15.60	40.80	-98.00	-335.95	-383.66	-445.39	-513.46
Unrequited Transfers	630.90	959.10	900.20	1084.10	1177.00	1059.30	985.15	1081.69	1187.70
Direct Foreign Investment	48.00	47.00	45.00	48.00	50.00	51.00	56.00	57.00	63.00
Overall Balance	-117.00	8.60	39.80	367.30	-72.00	30.00	32.50	38.50	42.00
Terms of Trade 1987=100	59.72	58.11	56.20	60.71	65.86	71.67	76.11	79.71	79.71
<b>EXTERNAL DEBT (US\$ Million)</b>									
Total External Debt	6062.00	6376.77	6585.33	6717.04	6864.14	7028.88	7169.46	7327.18	7488.38
Long-Term Debt	5404.34	5600.53	5697.03	5822.36	5956.86	6093.27	6233.42	6383.02	6536.21
Medium-Term Debt	382.66	476.24	528.30	540.08	552.50	565.32	578.44	591.74	605.35
Short-Term Debt	275.00	300.00	360.00	354.59	354.78	370.28	357.60	352.42	346.82
Amortization	373.30	257.00	309.50	235.10	274.57	182.75	250.93	260.85	266.59
Interest Payments	107.00	71.26	-126.60	-118.10	-118.00	-126.53	-129.53	-127.57	-156.00
Debt-Service/Export (%)	24.81	17.58	8.86	5.06	6.61	2.21	4.46	4.57	3.54
Debt/GDP (%)	157.34	122.64	116.35	91.16	86.94	83.72	78.71	74.45	69.80

**Table A1.3.1 Economy Wide Macroeconomic Outlook (Cont'd)**

Variables	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>MONETARY SECTOR (Billion Cedis)</b>									
Money Supply (M2+)	7248.12	10247.70	15368.07	20875.30	26371.43	32937.72	41123.42	50616.63	62423.15
Money Supply (M1)	3516.53	5121.46	8218.03	11074.30	14003.97	17384.68	21323.54	25234.28	29876.51
Currency	2635.55	3089.86	4671.62	6039.30	7609.52	9519.51	11728.03	13604.52	15781.24
Demand Deposit	880.99	2031.60	3546.41	5035.00	6394.45	7865.17	9595.51	11629.76	14095.27
Quasi-Money	1788.37	2752.30	3596.71	5225.00	6693.23	8460.24	10862.94	14121.83	18358.37
Foreign Currency Deposits	1943.21	2373.94	3553.33	4576.00	5674.24	7092.80	8936.93	11260.53	14188.27
M2+/GDP Ratio (%)	26.69	26.92	32.17	31.99	33.98	36.61	39.75	42.92	46.02
<b>PRICES, WAGES, INTEREST AND EXCHANGE RATES</b>									
GDP Deflator (1993=100)	528.05	710.66	852.82	1107.63	1252.25	1375.70	1496.74	1612.13	1751.66
Consumer Price Index(97=100)	161.27	214.39	246.12	311.83	378.25	423.27	460.09	495.83	534.35
Exchange Rate (Official) €:\$1	7047.65	7321.94	8438.82	8856.54	8980.76	10715.53	11358.46	11983.18	12642.25
Exchange Rate (Bureau/Parallel)	7150.55	7579.58	8534.61	9294.19	9509.49	11367.17	12162.87	13026.43	13951.31
Lending Rate (%)	47.00	55.00	38.50	35.54	32.50	31.00	30.00	25.00	20.00
Discount Rate/Prime Rate (%)	27.00	27.00	24.50	24.50	21.50	20.30	18.80	18.50	18.80
Deposit/Borrowing Rate (%)	18.00	13.40	11.00	9.75	10.50	11.00	10.00	9.00	8.00
Minimum Wage Rate (Cedis)	4200.00	5500.00	7200.00	9200.00	11200.00	13216.00	15594.88	18401.96	21714.31
Real Minimum Wage (Cedis)	2604.33	2565.42	2925.41	2950.29	2960.97	3122.38	3389.55	3711.34	4063.67
GDP Per Capita (Real, '000€)	279.28	283.86	289.81	298.03	306.48	316.07	326.57	337.87	349.56
GDP Per Capita (Nominal, €)	1474.71	2017.25	2471.60	3301.07	3837.88	4348.10	4887.89	5446.92	6123.13
PPPRER Index (1993 = 1.00)	0.67	0.68	0.67	0.65	0.63	0.62	0.61	0.60	0.60
GDP Per Capita (US\$)	414.97	416.15	432.56	458.51	489.58	509.78	535.36	563.12	582.60
<b>POPULATION AND EMPLOYMENT</b>									
Total Population (Million)	18.41	18.87	19.33	19.77	20.22	20.69	21.17	21.65	22.15
Urban Population (Million)	6.29	6.47	6.65	6.85	7.06	7.30	7.55	7.80	8.08
Labour Force (Million)	8.98	9.21	9.44	9.68	9.93	10.18	10.43	10.69	10.95
Employment (Million)	7.36	7.64	7.98	8.32	8.69	9.03	9.39	9.73	10.02
Unemployment Rate (%)	18.00	17.10	15.50	14.00	12.50	11.30	10.00	9.00	8.50

Note: Projections by ClayDord Consult under the guidance of Prof. C.K. Dordunoo

## 5.4 Field Survey Empirical Results

For the details of the full Empirical Results for the Field Survey refer to Appendix 2 of this Report.

## ANNEX 1

### TECHNICAL ANNEX TO POVERTY AND MACROECONOMETRIC AND SPREADSHEET MODELS

#### A1.1 Data Analysis Of Poverty Rates And Related Variables

##### *Summary of the Methodology Used for Impact Analysis*

The starting point for establishing the main determinants of the incidence of poverty requires data on the number of the poor over as long a period as the factors/determinants. Unfortunately, the observations in the case of Ghana spans only four years, namely, 1988, 1989, 1992 and 1999 for poverty data. Despite this it is only for 1992 and 1999 that consistent regional and national data exist. This means that we cannot use econometric methodology in its conventional form. Therefore, we resort to the use of Tobit response model which we estimate using a pooled panel data analytical framework. In terms of data analysis we pooled the 1992 and 1999 data that exist for the 10 regions of Ghana. The practical methodology unfolded in Chapter 5 in this ensuing appendix sub-section.

##### *Pooled Panel Data Analytical Framework*

Panel data, also called longitudinal data or cross-sectional time series data, are data where multiple cases are observed at two or more time periods. Panel data analysis endows regression analysis with both spatial and temporal dimensions. The spatial dimension pertains to a set of cross-sectional units of observations. In the case of this present study these could be district assemblies, unit committees, stakeholders, poor population groups, or the poor people. The temporal dimension pertains to periodic observations of a set of variables characterizing these cross-sectional units over a particular time span. Thus in the case of this present study, a sample of District Assemblies for which there are the same economic variables—such as expenditures on education, health, governance, water, roads, sanitation, production and employment—collected annually over a period of time may be described as a panel data set. It is also possible to regress a sample of District Assemblies with sources of revenues over a period of time. This pooled data set, sometimes called time series cross-sectional data, contains observations for which a Panel Analysis Equation might be expressed as:

$$y_{it} = a_i + \beta_1 X_{1it} + \beta_2 X_{2it} + e_{it}$$

e.g.,

$$PE_{it} = a_i + \beta_1 HHinc_{it} + \beta_2 PDI_{2it} + e_{it} \quad (Eq.1)$$

##### *Types of Pooled Panel Analytic Models*

There are several types of panel data analytic models that could be applied to estimate the effects of a pro-poor decentralization policy reform. These are constant coefficients models, fixed effects models, and random effects models. Among these types of models are dynamic panel, robust, and covariance structure models that address solutions to problems of Heteroscedasticity and autocorrelation.

*The Constant Coefficient Model* which is also called the pooled regression model refers to both intercepts and slopes that allow the pooling of the data to run an ordinary least regression when there is no significant temporal effects of a policy reform intervention. Although most of the time there are temporal effects, there are occasions when these effects arising out of the policy reform are statistically significant.

The model also makes it possible to test for the presence of statistically significant group and/or time effects of the policy reform. Because *i-1* dummy variables are used to designate the particular panel set of data, this same model is sometimes called *the Least Squares Dummy Variable Model*, which might be expressed as:

$$y_{it} = a_1 + a_2 \text{group}_1 + a_3 \text{group}_2 + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}$$

—e.g.,

$$PE_{it} = a_1 + a_2 \text{Country}_1 + a_3 \text{Country}_2 + \beta_2 PDI_{2it} + \beta_3 HHinc_{3it} + e_{it} \quad (\text{Eq.2})$$

Another type of fixed effects model could have constant slopes but intercepts that differ according to time. In this case, the model would have no significant differences but might have autocorrelation owing to time-lagged temporal effects. The residuals of this kind of model may have autocorrelation in the process where the variables are homogenous across space. They could be similar in a region such as a district assembly or area of focus. For example, pro-poor decentralization policy reform could have effect on specific characteristics that may have temporal changes in the variables being analyzed. The time effect over the  $t$  years with  $t-1$  dummy variables might be expressed by the equation:

$$y_{it} = a_t + \lambda_t + \beta_1 X_{1it} + \beta_2 X_{2it} + e_{it}$$

—e.g.,

$$PE_{it} = a_t + \lambda_t \text{Year1991} + \lambda_t \text{Year1992} + \dots + \lambda_t \text{Year2000} \quad (\text{Eq.3}) \\ + \beta_1 PDI_{it} + \beta_2 HHinc_{it} + e_{it}$$

There is another fixed effects panel model where the slope coefficients are constant, but the intercept varies over space and time. In that case the model could be specified as follows:

$$PE_{it} = a_0 + a_1 \text{Country}_1 + a_2 \text{Country}_2 \\ + \lambda_0 + \lambda_1 1991 + \lambda_2 1992 + \dots + \lambda_9 1999 \quad (\text{Eq.4}) \\ + \beta_1 PDI_{it} + \beta_2 HHinc_{2it} + e_{it}$$

Another type of fixed effects model has differential intercepts and slopes. This kind of model has intercepts and slopes that both vary according to the area with the time-varying covariates as expressed in the equation:

$$PE_{it} = a_1 + a_2 \text{Country}_2 + a_3 \text{Country}_3 \\ + \beta_2 PDI_{2it} + \beta_3 HHinc_{3it} + \\ + \beta_4 * \text{Country}_2 * PDI_{2it} + \beta_5 * \text{Country}_3 * PDI_{2it} \quad (\text{Eq.5}) \\ + \beta_6 * \text{Country}_2 * HHinc_{3it} + \beta_7 * \text{Country}_3 * HHinc_{3it} + e_{it}$$

If all of these are statistically significant, there is no reason to pool. The degree of freedom consumption leaves this model with few degrees of freedom to test the variables. If there are enough variables, the model may not be analyzable.

*The Random Effects Model* is a regression with a random constant term. One way to handle the error is to assume that the intercept is a random outcome variable. The random outcome is a function of a mean value plus a random error. The time series cross-sectional regression model is one with an intercept that is a random effect.

$$y_{it} = \beta_{0i} + \beta_1 x_{1it} + \beta_2 x_{2it} + e_{it}$$

$$\beta_{0i} = \beta_0 + v_i \quad (\text{Eq.10})$$

$$\therefore y_{it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + e_{it} + v_i$$

Under these circumstances, the random error  $v_i$  is heterogeneity specific to a cross-sectional unit. This random error  $v_i$  is constant over time. Therefore,  $E[v_i^2 | x] = \sigma_v^2$  the random error  $e_{it}$  is specific to a particular observation. For  $v_i$  to be properly specified, it must be orthogonal to the individual effects. Due to the separate cross-sectional error term, these models are sometimes called one-way random effects models.

Owing to this intrapanel variation, the random effects model has the distinct advantage of allowing for time-invariant variables to be included among the regressions.

*Dynamic Panel Models* allow the application of one or more of the several tests for residual autocorrelation. The Durbin-Watson test for first-order autocorrelation in the residuals was modified by Bhargava et al. to handle balanced panel data which was further modified to handle unbalanced panel and equally spaced data. There may be panel specific autocorrelation or there may be common autocorrelation across all panels. There are provisions for specifying the type of autocorrelation. One approach to deal with autocorrelation in the random errors is the Parks method. The model assumes an autoregressive error structure of the first order along with contemporaneous correlation among the cross-sections and this model is estimated by a two-state generalized least squares procedure.

$$e_{it} = \rho_t e_{i,t-1} + \eta_{it} \quad (\text{Eq12})$$

Panel data models with generalized estimating equations can handle higher order panel data analysis.

*Robust Panel Models* are used to address a number of problems that plague panel data models. Outliers can bias regression slopes, particularly if they have bad leverage. These outliers can be down weighted with the use of M-estimators in the model. Heteroskedasticity problems arise from group-wise differences, and often taking group means can remove heteroskedasticity. The use of a White heteroskedasticity consistent covariance estimator with ordinary least squares estimation in fixed effects models can yield standard errors robust to unequal variance along the predicted line.<sup>28</sup>

### ***Binary Response Model and Maximum Likelihood - Censored Normal (TOBIT) (Quadratic Hill Climbing)***

Given the above constraints, we have two broad methodologies: (i) Binary and (ii) Tobit. We resort to the use of binary response model which we estimate using a probit or logit model. We resort to the use of binary response model which we estimate using a probit or logit model. We first assume the regression model:

$$1. \mathbf{y}_i = \beta \mathbf{x}_i + \varepsilon_i$$

where  $y_i$  = household expenditure per head for the  $i$ th household,  $\beta$  = vector of parameters,  $x_i$  = vector of household characteristics,  $\varepsilon_i$  = error term. If we assume that the error term is normally distributed then Equation 1 can be estimated by ordinary least squares method.

We define a binary variable:

$$2. \mathbf{s}_i = \mathbf{1} \text{ if } \mathbf{y} \leq \mathbf{z}$$

$$\mathbf{s}_i = \mathbf{0} \text{ otherwise}$$

where  $z$  = poverty line.

The corresponding binary model becomes

$$3. \mathbf{Prob}(\mathbf{s}_i = \mathbf{1}) = \mathbf{F}(\mathbf{z} - \beta \mathbf{x}_i)$$

where  $F$  = cumulative probability function.

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<sup>28</sup> For details the following literature may provide basis for references: Greene, W. H. (2003). *Econometric Analysis*. 5th ed. Upper Saddle River: Prentice Hall; Gujarati, D. (2003). *Basic Econometrics*. 4th Ed. New York: McGraw Hill; and Yaffee. Robert, *A Primer for Panel Data Analysis*, ITS Computing Services.

We assume a normal/logistic distribution of the error term. We estimated the probit model after the necessary addition of the various characteristics of the households including household size, age dependency, household headship, education levels, unemployment rate, etc. and economy-wide variables such as interest rate, investment rate, population growth rate, real wage rate, exchange rate, inflation rate, fiscal deficit, changes in money supply, and producer price/farm gate price, etc.

Where the binary response fails as a result of the absence of single digits, we resort to the use of the Maximum Likelihood censored normal Tobit regression techniques. This method enables us to censor the partially observed variables.

In order to have an idea of the magnitude of the coefficients in terms of the effects of the economic policy variables, among others, on poverty in a general equilibrium setting, the empirical probit model equation is merged with a system of equations in a "Macroeconometric Model of Ghana: Dynamic Simulation, Policy Analysis and Forecasting", already cited in the main text Section 5.

### **A1.2 Parameterisation of Demery And Squire Framework<sup>29</sup>**

In 1996, Demery and Squire undertook a study titled "Macroeconomic Adjustment and Poverty in Africa: An Emerging Picture" where effect of macroeconomic policies were measured using index of performance. We summarise the main theme of their methodology especially as the sign of the relationship between poverty and macro policy variables are concerned.

The macroeconomic policy index embodies three components, viz., fiscal policy, monetary policy, and exchange rate policy. The score for each component is calculated as follows:

#### Fiscal Policy Scores:

A change in the fiscal deficit of less than -10 percentage points was given a score of -3; from -10 to -5, a score of -2; from -5 to -2, a score of -1; from -2 to 1, a score of 0; from 1 to 3, a score of 1; from 3 to 5, a score of 2; and a deficit change greater than 5, a score of 3. If the change in total revenues was less than -4, the fiscal score was decreased by 1; if the change was greater than 3, the score was increased by 1.

#### Monetary Policy Scores:

A change in seigniorage of greater than 4 was given a score of -3; from 2 to 4, a score of -2; from 1 to 2, a score of -1; -0.5 to 1, a score of 0; -2 to -0.5, a score of 1; -3 to -2, a score of 2; less than -3, a score of 3. A change in inflation of greater than 31% was given a score of -3; from 10 to 31, a score of -2; from 5 to 10, a score of -1; from -2.5 to 5, a score of 0; from -10 to -2.5, a score of 1; from -50 to -10, a score of 2; and less than -50, a score of 3. The overall monetary policy score was, where possible, a simple average of the seigniorage and inflation scores.

#### Exchange Rate Policy Scores:

A change in the real effective exchange rate of less than -10 was given a score of -2; from -10 to -5, a score of -1; from -5 to 2, a score of 0; from 2 to 15, a score of 1; from 15 to 31, a score of 2; greater than 31, a score of 3. A change in the premium of greater than 50 was given a score of -3; from 15 to 50, a score of -2; from 4 to 15, a score of -1; from -10 to 5, a score of 0; from -30 to -10, a score of 1; from -100 to -30, a score of 2; and less than -100, a score of 3. The exchange rate policy score is a simple average of the real effective exchange rate and the premium score.

The change in each constituent variable is calculated as the percentage difference in the average of the variable in the year of the first survey and the preceding two years and the average of the variable in the year of the second survey and the two preceding years. The final index is calculated by combining the three

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<sup>29</sup> Demery, L. and L. Squire (1996), "Macroeconomic Adjustment and Poverty in Africa: An Emerging Picture" in The World Bank Research Observer, Vol. 11, No.1.

components using the following weights: fiscal policy, 36.7 %; monetary policy, 11.8%; and exchange rate policy, 51.5%. The weights were derived from regressions linking the indicators to growth.

The scores and final index are as shown in Tables A1.1.1 and A1.1.2 below: <sup>30</sup>

**Table A1.1.1: Index of Changes in Macroeconomic Policies (Weighted Average of Performance)**

First Survey	Second Survey	Change in Fiscal Policy	Change in Monetary Policy	Change in Exchange Rate Policy	Overall Change in Macroeconomic Policy
1988	1992	0	0.5	2.5	1.35

Source: Demery and Squire, 1996.

**Table A1.1.2: Macroeconomic Policy and Poverty in Ghana**

Survey Years	Change in Macroeconomic Policy (weighted score)	Change in Poverty (percentage points per year)
1988/92	+1.35	-1.95

Source: Demery and Squire, 1996.

Our Poverty Sub-Model simulation results reveal a total effect of -2.111

<sup>30</sup> For details refer to Demery and Squire, 1996 reproduced in Dordunoo and Sackey (1996), “The Effects of Economic Policies And Reforms On Poverty Alleviation In Ghana”, A Country Case Study of Ghana as part of the Case Studies Prepared for the GTZ.

## APPENDIX 2

### A5. RESULTS OF PSIA AND FOCUS AREAS ANALYSIS: FIELD SURVEY

In line with the PSIA Framework, we determined the rate of participation in the secondary data collection and field survey. The key stakeholders that participated have been summarised in Sub-section 3.3 in Tables 3.3.1 (a) and (b) and Table 3.3.2. The PSIA areas that are TOR-determined are: (i) stakeholder analysis, (ii) scenario analysis, (iii) transmission mechanism and impact analysis, and (iv) risk analysis. The focus areas are: (i) legal framework, (ii) resources, (iii) capacity, and (iv) participation. The last area of the PSIA straddles both the PSIA and the Focus Areas. We, therefore, merged the PSIA and the focus areas analysis for the risk component of the study. Sections A5.1 to A5.3 are in Appendix 1.

#### A5.4 The PSIA Results

##### *A5.4.1 Stakeholder Analysis*

In stakeholder analysis this study traces the characteristics, interests and influence both of those stakeholders who affect pro-poor decentralisation and those who potentially will be affected by the project. The rationale is to permit determination of what practical tactics to build into the project design. In Sub-section 2.3.1 (in the main text) we defined and identified the relevant stakeholders for this study. We now classify the areas of operation and the main types of roles followed by their main characteristics. We also illustrate and present the stakeholder analysis matrix (SAM) matrix.

##### *Roles and Characteristics of Stakeholders*

The study sought to link the *roles of the 12 identified stakeholders* to three important areas of the project/programme cycle: (i) policy strategy formulation, (ii) implementation, and (iii) monitoring and evaluation. The details on the roles of stakeholders under each area are in Table A5.4.1.

Regarding the *characteristics*, four parameters come to the fore: (i) policy formulation, (ii) location and capacity, (iii) interests and commitment to status, and (iv) influence. The analysis focuses on the relationship between stakeholders' *influence* and *interest/commitment* to decentralisation. In all, there are 6 groups of stakeholders with varied and various characteristics. The details are in Table A5.1.2. By applying the criteria of (a) level of administration, and (b) government as well as non-government institutions, the following *groups of stakeholders* can be identified:

1. *Government policy makers at central level:* Stakeholders made up of central level (not decentralized) policy actors and those with oversight monitoring and evaluation responsibilities, include Parliament, Cabinet, central MDAs notably, MOFEP, MLGRD and NDPC with direct responsibility for specified aspects of pro-poor decentralization.
2. *Implementing agencies at regional and local level:* Stakeholders made up of pro-poor decentralization implementing agency staffs usually located at the decentralized level with a career or professional interest (with possible beneficiary interests) in pro-poor programmes and projects at those levels; e.g. MMDAs, localized MDAs, Urban/Town/Zonal Councils. Also the traditional authorities (chiefs) belong to this group.
3. *Private Sector and interest groups:* Economic enterprises whether national or international constitute another group of stakeholders as well as Small and Medium Size Enterprises (SMEs).
4. *CSO and NGOs:* International and national NGOs make up this group together with Civil Society Organizations in general as well as CBOs, religious organizations performing specified activities on the environment for vulnerable groups and participating in pro-poor programmes.
5. *Beneficiaries:* Stakeholders made up of direct beneficiaries of pro-poor decentralization programmes and projects at the decentralized levels, which need to own these programmes and projects to ensure their successful implementation. They include Unit Committees, Communities, Households (individuals) the poor, vulnerable and excluded including the disabled, the landless, women, children and subsistent farmers.

**Table A5.4.1: Roles of Stakeholders**

<b>Stakeholder</b>	<b>Policy/Strategy Formulation</b>	<b>Implementation</b>	<b>Monitoring/Evaluation</b>
Parliament and Cabinet (PC)	Inputs by Sub-committees Debates, endorsement of policy	Approval of provisions. Provide oversight over implementation	Progress reporting
Ministry of Finance & Economic Planning (MFEP)NDPC	Initiate GPRS, validate as key Ministry relate to macro-economic indicators	Link to MTEF manual budget. Ensure ownership of implementation (provide guidelines to MDAs, NGOs, etc) Coordinate donor funding	Central monitoring and evaluation of implementation
Ministries, Departments Agencies (MDAs)	Sector inputs, validation and identification of priorities	Lead sector in implementation Ensure inclusion of project on MTEF/Annual Budget	Internal monitoring and evaluation provide information to others
Development Partners (DPs)	Indicate support at initial stages of policy formulation	Assess, support/endorse GPRS Realign existing programmes Initiate new programmes	Independent monitoring and evaluation
District Assemblies (DAs)	Selection of communities for policy planning. Validate local priorities, problems isolate coping strategies	Coordinate implementation Develop partnerships with NGOs, CBOs, private sector	Internal M&E provide data input to MFEP
Traditional Authorities (TAs)	Participate in community poverty analysis process	Resolve land acquisition issues Commit land for projects Community mobilization for project implementation	Protect traditional norms. Report on development projects.
Communities (Unit Committees (UC), Households (HH)	Serve as sources of information for GPRS process Identify problems, coping strategies Constraints and priorities for poverty reduction	Provide communal labour Undertake paid employment in construction Utilise infrastructure for production Form groups to benefit from programmes/projects Try new products and ideas	Participate willingly and truthfully in M&E exercises
Community based Organisations (CBOs)	Serve as sources of information for GPRS process Identify problems, coping strategies Constraints and priorities for poverty reduction	Mobilise community members for activities Undertake implementation of some poverty reduction projects	Undertake independent evaluations Participate in external evaluations
Non Governmental Organisations (NGOs)	Concerns about environment vulnerable groups, and participation	Mobilise community members for activities Undertake implementation of some poverty reduction projects	Conduct participatory monitoring and evaluation with communities
Civil Society Organisations (CSOs)	Advocate for inclusion of socially important provisions in poverty reduction strategy	Implement aspects of GPRS relevant to CSOs. Monitor and insist on implementation of relevant policies	Independent monitoring and evaluation
The Private Sector (PS)	Contribute to GPRS formulation Input measures that promote private sector investment	Implement aspects of strategy relevant and attractive to private sector Form public/private partnerships with DAs, NGOs Monitor and insist on implementation of relevant policies	Monitor implementation of government policies Umbrella organizations GEA, etc. to ensure consistency of public/private provisions in GPRS
Religious Organisations (ROs)	Direct participation in Pro-Poor programmes	Propagation of important messages Vocational training, etc.	Monitoring & Evaluation of aspects of interest to them

**Table A5.4.2: Key Characteristics of Stakeholders**

Stakeholder	Policy Formulation / Strategy	Characteristics, Location, Size, Organisational Capacity	Interests Commitment to Status or Openness to Change (decentralization)	Influence <sup>31</sup>
<b>Group 1</b>		<b>Government / central level</b>		
Parliament	Long term visions	Central, no direct interfaced organizational structures	Interest to change, subject to party politics	H
Ministry of Finance	GPRS, MTEF, Long and medium term financial planning	Central, strong capacity	Legally bound to support decentralization, but interest to keep the status quo	L
MLGRD	Long and medium term planning	Central with direct link to decentralized institutions on regional and local level, medium capacity	Strong interest to change and improve and accelerate decentralization	H
NDPC	Long-term, Medium-term overall planning and coordination	Central with direct link to RPCU and DCPU, high capacity	Strong interest to change and improve and accelerate decentralization	H
Ministry of Health	Long term sectoral planning	Central with strong line of extension offices on regional and district level, high capacity, very professional	Legally bound to support decentralization, but interest to keep the status quo	L
Ministry of Education	Long term sectoral planning	Central with strong line of extension offices on regional, district and local level, high capacity, rich experience	Legally bound to support decentralization, but interest to keep the status quo	L
Ministry of Food and Agriculture	Long term sectoral planning	Central, with extension offices, very professional	Legally bound to support decentralization, but interest to keep the status quo	L
<b>Group 2</b>		<b>Agencies at Regional / Local Level</b>		
MDAs of Health, Education, Agric.	Implementing and data gathering	Regional, long experience, professional, relatively well staffed and qualified	Legally bound to support decentralization, but in direct rivalry to the instructions under the elected bodies (DA)	L
District Assemblies (DAs)	Legislative and executive, active in medium/short term planning	Existing since 1993, understaffed, problems in professional performance	Very interested in deepening decentralization	H
Traditional Authorities (TAs)	Mainly short term perspectives but concern for sustainability	Deeply rooted in the customs and solid, active in community concerns, represented in DAs by appointment of DCE	Very interested in decentralization	H
Communities (Unit Committees (UC)),	Mainly implementing role in short and medium term plans	Local, closest to the people, cooperation with traditional leaders in UC, low capacity in staff, ill equipped, low qualification	High commitment in decentralization	L
<b>Group 3</b>		<b>Private Sector</b>		
SMEs	Short and medium term commercial planning	Regional and national, capacity in service delivery, small size	Interested in decentralization concerning new business ventures	M
Professional Associations	Medium term planning for interest group	National and regional (occasionally)	Interested in decentralisation concerning qualified service delivery (consultancies)	M
Money lenders	Short term outlook	Local, small enterprises, only punctually strong influence, but in general low influence	Not interest in having increased competition by decentralized credit activities	L
<b>Group 4</b>		<b>CSO / NGO</b>		
Non Governmental Organisations	Medium term planning, strongly dependent on donors	National and regional, not covering the whole territory, in selected spots strong capacity	Strong interest in decentralization by own outlook and by professional interests	H
Community based Organisations	Short and medium term planning	Local occasionally regional in scope, strong organizational capacity	Strong interest in participation	M
Religious Organisations with social aspects	Long term vision of community life	Good in guiding and orientation and in traditional activity helping the poor, low capacity in participatory practices	Medium interest in decentralization of participation, often not inclined to coordinate with “outsiders”	M

<sup>31</sup> (H = High, L = Low, M = Medium)

**Table A5.4.2: Key Characteristics of Stakeholders (Cont'd)**

<b>Group 5</b>		<b>Beneficiaries</b>		
Poor Households	Short term survival vision with interest in long term sustainable livelihood	Local, low capacity in organization and coordination, solidarity links sometimes strong	Interest in decentralization only if pro-poor; n these processes are not part of their daily life; potentially very interested.	L
<b>Group 6</b>		<b>Development Partners (Gov.)</b>		
WB / IMF	Long term vision, PRSP	International, high capacity, interested in national ownership	Strong interest in decentralization, “proximity” to the poor in PRSP	H
Governmental Dev. Agencies	Long term vision, adopting PRSP as reference	Bilateral, high capacity, interested in national ownership	Strong interest in decentralization often based on own national experience	H
International NGOs	Long term vision, critical but positive reference to PRSP	Bilateral, punctually high capacity,	Strong interest in decentralization based on past local projects	H

**Table A5.4.3: Stakeholder Analysis Matrix (SAM) for Pro-Poor Decentralization**

Stakeholder Categories	Relevant Stakeholders	Characteristics, Social Situation, Location Size, Organisational Capacity	Interests Commitment to Status quo Vrs. Openness to Change	Influence	
				H = High L = Low	M = Medium
Government Policy Makers	P+C, MFEP/NOPC, MDAs	National/Central level Organizations Large Well resourced (relatively)	Openness to change Commitment to status quo (MDAs)	H	
Implementing agency staffs	MDAs MMDAs NGOs	Decentralized Local level, sub district Not well resourced	Openness to change	M	
Intended beneficiaries	UCs, Communities CBOs, Individuals or Households	Grassroots Sub district, towns, villages, Poorly equipped/ resourced	Openness to change	L	
Adversely affected persons	The poor and excluded	Isolated unorganised Individuals Not well resourced	Openness to change	L	
Organized interest groups (business associations trade unions)	Professional Associations, TUC/Unions, Business Organizations	Organized central location Well resourced	Commitment to status quo (TUs)	M	
Civil society (NGOs, CBOs, Religious organisations)	CBOs, NGOs, Ros	Localized, small Not well resourced	Openness to change (NGOs, CSOs) Commitment to status quo (ROs)	M	
Donors/Development Partners	DPs, WB, DFID, USAID, GTZ, KfW	International, large organization Well resourced and capable	Openness to change	H	
Other external/ international stakeholders	UNDP, UN, UNECA	International, large organization Well resourced	Openness to change	M	

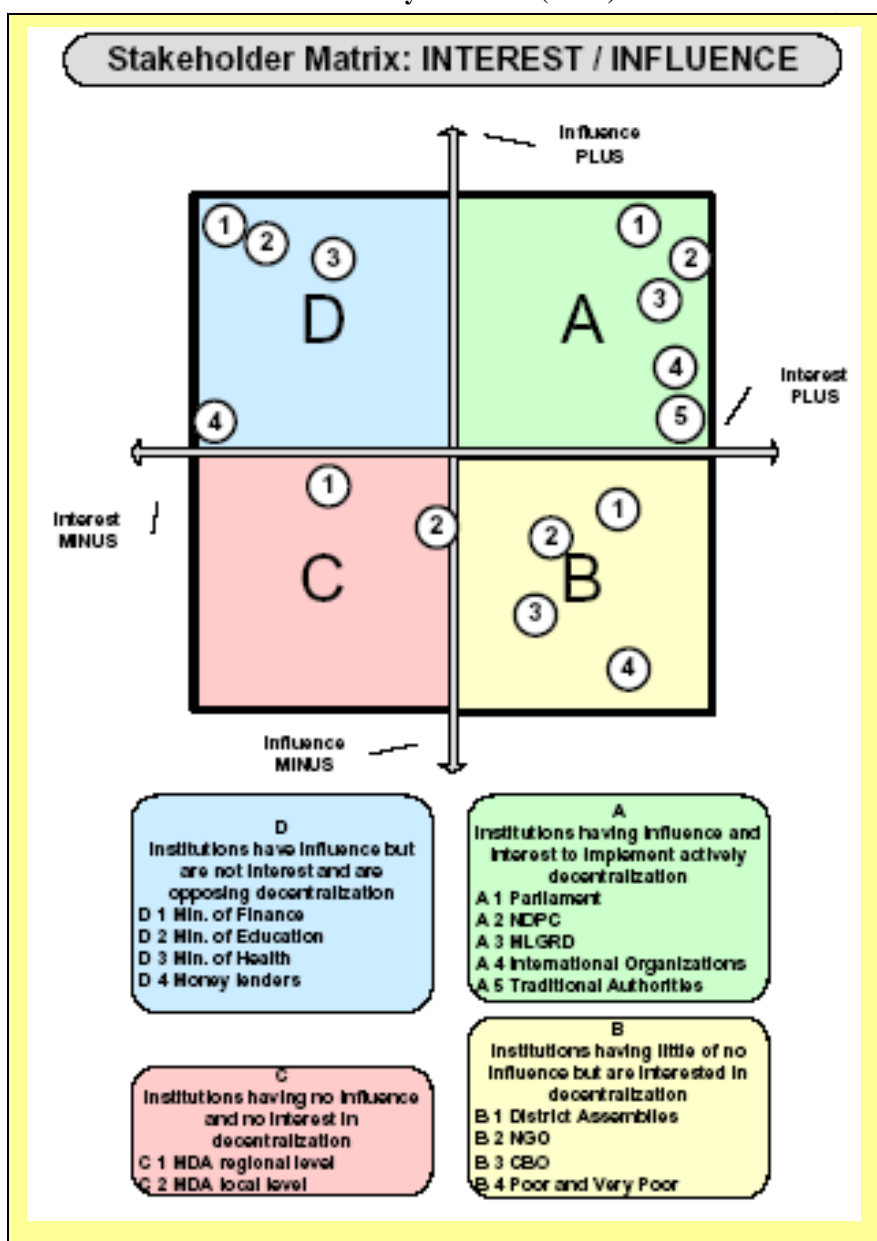
**Source:** Adapted using Ghana data from Social Analysis Source Book SDP The World Bank. August 2002 P. 28.

6. *Governmental development partners:* Stakeholders made up of independent donor or development partners present in Ghana to offer assistance consistent with their own countries aid policies in specified sectors or areas of the economy, relating to pro-poor decentralisation such as DFID, GTZ, KfW, World Bank, IMF, DANIDA, UNDP, and CIDA.

Stakeholder Analysis Matrix (SAM)

The analysis of existing data and the open-ended questionnaires enabled the consultants to obtain relevant information, which was used to construct the Stakeholder Analysis Matrix (SAM) in Table A5.4.3 and Illustration A5.4.1. The matrix in the illustration visualizes the characteristics in Table A5.4.3. Influence and interest are the dimensions, which help to position a specific stakeholder. For example, the Ministry of Finance and Economic Planning has great influence and at the same time strong interest not to decentralize the fiscal system. Reasons given by the opponents are often low professional capacity of the personnel working in elected institutions or in departments at the decentralised levels and their inability to deliver on project implementation.

**Illustration 5.4.1: Stakeholder Analysis Matrix (SAM)**



From the PSIA results, the following can be asserted:

- Stakeholder roles have been clearly categorised to the extent that those of (un) affected by given projects can be identified, to ensure project success.
- Characteristics, levels of influence and interest of key stakeholders have been identified as varied and diverse.
- All the major institutional stakeholders including those in Government District Assembly level and those outside government like NGOs, CBOs, Civil Society Organisations. Peasant or Subsistence farmers, religious organisations etc. have been clearly identified as having weak interest but with low or no influence (see Tables A5.4.2, A5.4.3; and Illustration A5.4.1).

<b>Table A5.4.4: Expectations and Interests of different social groups on DAs</b>		
<b>Expectations and interests</b>	<b>Number</b>	<b>Percentage</b>
1. Economic infrastructure development	16	22.22
2. Social infrastructure development	18	25.00
3. Reduced incidence of poverty in the area	17	23.61
4. Overall development and prosperity of the area	21	29.17
<b>Total</b>	<b>72</b>	<b>100.00</b>
Source: Field Reports 2004		
<b>Table A5.4.5: Influence of key social interest groups on Decision Making</b>		
<b>Influencing decision making</b>	<b>Number</b>	<b>Percentage</b>
1. Formal petitions and memoranda to DA members	14	22.22
2. Lobbying of assemblymen or representatives	24	38.09
3. Durbars or group brainstorming sessions	17	26.48
4. Position papers	4	6.35
5. Others	4	6.35
<b>Total</b>	<b>63</b>	<b>100.00</b>
Source: Field Reports 2004		

petitions to assemblymen/representatives seem to be the dominant means of over 60% (22.22% + 38.09%) of respondents/stakeholders to influence decisions affecting resource mobilization, allocation and utilization. The use of position papers to influence decision making requires a higher level of education and expertise than can be expected from a predominantly semi- educated population at the district/local level.

#### **A5.4.2 Scenario Analysis**

The scenarios examined here are from the survey results. The scenarios on social impact analysis and transmission mechanism are not reported here. For these refer to Chapter 5 (in the main text) and Appendix 1.

The key issues considered in the scenario analysis for this section are (1) the impact of increase in the DACF to 7.5% and (2) election of DCEs and DA members.

<b>Table A5.4.6: Impact of increase in the DACF to 7.5% on development of the district</b>		
<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Additional basic social facilities	91	53.53
Improved capacity	23	13.53
Only marginal improvement in the completion of existing projects	13	7.65
Remarkable improvement in the completion of existing projects	40	23.53
There will be no effect at all	3	1.76
<b>Total</b>	<b>170</b>	<b>100.00</b>
Source: Field Work, 2004.		

the recommended policy of an increase of DACF by 7.5%. The persons interviewed expect overwhelmingly to have additional basic social facilities as a result of the DACF increase.

#### Expectations and Interests

Data relating to the expectations and interests of different groups of stakeholders on DAs from field reports are presented as Table A5.4.4. Data available show that DA officials and local rural residents are overwhelmingly interested in and expect overall development of the area through the performance of the district assembly. Their expectations for development that seemed driven by their wish for a reduction in poverty and an increase in prosperity are consistent with the objectives of the GPRS. The predominantly poor and rural stakeholders, 100% of them have both high expectations and interests in the reduction of poverty, but they really have little influence to back their expectations. There seems to be little difference between the choice of social and economic infrastructure.

#### Influence of Social Interest Groups on Decision Making

Based on Table A5.4.5, lobbying and formal

<b>Table A5.4.7: Potential beneficiaries of increased resource allocation in the DAs.</b>		
<b>Beneficiaries</b>	<b>Number</b>	<b>Percentage</b>
The ordinary person (the poor)	16	32.00
The average or middle level group	5	10.00
The high class and privileged	1	2.00
The management of DAs	0	0.00
All groups of people	28	56.00
<b>Total</b>	<b>50</b>	<b>100.00</b>

Source: Field Reports 2004

increased resource allocation to the DAs. (See Table A5.4.7).

#### Potential Beneficiaries of Increase in Resources

As regards the potential benefits of an increase in resources the study found out that the majority of respondents, 88% believe that increased resource allocation will benefit the ordinary persons and all those resident in the DA area rather than some few privileged or middle class residents. Only about 2% of respondents believe that increased allocation will benefit the rich and privileged. Nobody thought that only management of the DAs stood to benefit from

#### Election of DCEs and District Assembly Members

Under the scenario “full implementation of decentralization” were the following essential measures:

3. The election of District Chief Executives (DCEs)
4. The election of all Assembly Members.

Respondents from all the cohorts except the household cohort were asked questions pertaining to the above two political policy options. The questions were basically to obtain their opinion on whether the DCEs should be elected or nominated. They were also asked to indicate reasons why they would want to have the DCEs elected and the impact that this would have on the District Assembly. The results of survey indicate that the majority of respondents (63%) would like to have the DCE elected. They are generally of this view for the following reasons:

- The DCEs would be accountable and responsible to the people.
- The people would have the option of choosing the right person.
- It would prevent the DCEs from having double allegiance.

<b>Table A5.4.8: Whether all DCEs should be elected and not nominated by Government</b>		
<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Yes	111	62.71
No	64	36.16
Don't Know	2	1.13
Total	177	100.00

Source: Field Work, 2004

#### Election of DCEs

On the impact that the election of the DCEs would have on the District, as presented in Table A5.4.8 the respondents generally indicated the following: The DCEs would enjoy the full co-operation and total allegiance of the people (unlike the current situation where there is a partisan assembly). The fear of being voted out of office would make them perform better. A substantial minority (36%) however feared that the work in the DAs might be overshadowed by partisan or personal politics.

<b>Table A5.4.9 Preference for all members of the District Assemblies to be elected</b>		
<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Yes	86	48.04
No	89	49.72
Don't Know	4	2.23
Total	179	100.00

Source: Field Work, 2004.

#### Election of all Assembly Members

The issue of the election of all the Assembly Members in Table A5.4.9 refers to the one third of DA members appointed: traditional leaders and economic groups. The majority of the respondents (50%) indicated that they would not like to have them elected. However, a sizable percentage, (48%) answered in the positive.

The respondents who preferred to retain the present situation did value (a) the professional expertise of the appointed members, and (b) the representation of traditional leaders and civic groups in the DA. This result clearly indicates that decentralisation and democratisation in itself is not per se seen as a positive measure. It has to serve a purpose: The political measures should be in the service of the people. And another consideration is important: The presence of traditional leaders (who are appointed by the DCE) is highly valued. However, it must be added that the presence of traditional leaders can be maintained if the elected Presiding Member (PM) of the District Assembly is given the functions, which are currently exercised by the DCE.

### A5.4.3 Transmission Mechanisms

#### Social Groups in District Population

The PSIA Study collected data on different social groups through which reform measures could be transmitted. The study found out that in the districts, we might identify quite a lot of different social groups. These include: subsistence farmers, micro-enterprise operators, the poor or very poor, religious groups, ethnic groups, disabled (physically challenged, women and children, and other vulnerable groups). The survey results presented in Table A5.4.10 have thrown some light on the relative size of these different social groups affected by the transmission mechanisms.

Table A5.4.10: Size of Different Social Groups in District Population		
Group	Number	Percentage
Subsistence farmers	147	16.44
The poor or very poor	124	13.87
Women and children	121	13.53
Religious groups	118	13.20
Micro-enterprise workers	103	11.52
Disabled (Physically challenged)	96	10.74
Ethnic groups	75	8.39
Other vulnerable groups	63	7.05
The rich	47	5.26
<b>Total</b>	<b>894</b>	<b>100.00</b>

Source: Field Reports, (2004)

Data available reveal that among the identifiable social groups in the districts, subsistence farmers are in the majority (16.44%) followed by the poor or the very poor (13.87%), and the third dominant group is women and children. Next, come the religious groups accounting for 13.20%. As may be expected, the rich are in the minority accounting for 5.26% of the total. Since it is known that

many subsistence farmers hardly live above the poverty line, it may be concluded that in reality the poor population predominantly reside in the districts, and hence the right intervention is highly needed.

#### Effect of Decentralisation on Economic Activities

The study sought to collect information on how the decentralisation process has affected some economic activities of the people, made up of mainly the poor in the districts. Table A5.4.11 presents the summary results.

Decentralisation and Transmission Channel							
Channel	Worsened	No Improvement	Little Improvements	Substantial Improvement	Very Substantial Improvement	Don't Know	Total
1. Employment	3	21	25* (40.98%)	9	3	-	61
2. Manufacturing	3	23* (44.23%)	15	6	2	3	52
3. The general price level	5	15	23* (40.35%)	7	4	3	57
4. Acquisition of Assets e.g. Buildings, etc.	3	15	19* (32.20%)	15	3	4	59
5. Production of basic commodities	3	14	17* (29.82%)	13	6	4	57
6. Payment of taxes, levies	5	8	13	19* (32.20%)	9	5	59
<b>Total</b>	<b>22</b>	<b>96</b>	<b>112</b>	<b>69</b>	<b>27</b>	<b>19</b>	<b>345</b>

Source: Field Reports, (2004): \*Highest frequency of each row and the respective percentages are in brackets.

**Table A5.4.11: Decentralization Process and Transmission Channel**

From Table A5.4.11 above we observe that the decentralisation plan has so far registered just *little improvement in the employment level* of the people in the district. This is shown by the highest frequency of 25 out of 61 respondents, representing 40.98%. The story is even worse with respect to manufacturing. Thus, 23 out of 52 respondents (44.23%) reported no improvement in the manufacturing activities with respect to the decentralisation process. Next is the general price level. It is reported to have registered little improvement, as confirmed by 23 out of 57 respondents (40.35%).

In terms of acquisition of assets such as buildings, etc., 32.20% reported of little improvement so far. The story is the same for production of basic commodities, where 29.82% of respondents made this revelation. Payment of taxes and levies is reported to have witnessed substantial improvement (really mean an increase) since the implementation of the decentralisation plan.

The above has so far demonstrated the application of the transmission channels with respect to the decentralisation process. Essentially, we have observed that so far the channels of transmission have had weak effect on the local people. Perhaps, it is because the decentralisation/GPRS processes are yet to be fully implemented.

**Beneficiary Assessment: Household/Poor Population Groups**

The study attempts to incorporate the different dimensions of the impact of the decentralization process on poor population groups. Broadly speaking the PSIA approach on poor population groups seeks to learn from the voices of the poor population groups through focus groups discussions and other participatory techniques to collect both quantitative and qualitative information on the impact of the decentralization process on the poor population groups. In all a total of 33 poor population groups of about 6-8 people in a group were interviewed in the sampled District Assemblies spread across the ten regions.

Data representing occupational groups of the sampled poor population groups are presented in Table A5.4.12. Data available indicate that more than half (55.73%) of the poor population groups were engaged in agriculture, agribusiness, forestry and fishing while nearly a further one-third (32.81%) are engaged in non-farm activities. The high proportion of these two categories of people constituting 88.54% in the sample reflects the high incidence of poverty between these two categories of occupational groups (GPRS 2003: p. 16). The total of the two categories of occupational groups appears to be about 7.14-percentage points higher than the 81.6% recorded by the 2000 Population and Housing Census. This is due to the purposive nature of the sample design which was intended to listen to the voices of poor population groups tell their own experiences about the impact of the decentralization on their work and

<b>Table A5.4.12: Occupational groups of Poor Population</b>		
<b>Occupation</b>	<b>Number</b>	<b>Percentage</b>
1. Agriculture, Agribusiness, Forestry, Fishing	141	55.73
2. Commerce, Trade Manufacturing	59	23.32
3. Communications, Information Services	0	0.00
4. Environment, Natural Resource Management	0	0.00
5. Finance, Banking, Insurance	15	5.93
6. Infrastructure and Utility Services e.g. Water, Energy, Transport, etc	9	3.56
7. Law Justice	0	0.00
8. Legislature, Politics, Education, Health	1	0.40
9. Social Services e.g. Education, Health	8	3.16
10. Other (please specify)	20	7.91
<b>Total</b>	<b>253</b>	<b>100.00</b>
Source: Field Reports (2004)		

lives. Our assessment further indicates that the poor population groups are not among those engaged in law, justice, communication and information services, environment, natural resource and management. Only one teacher among the 33 groups of 6-8 people reported to be poor.

The study also sought to collect information on different social groups who constitute the major beneficiaries of pro-poor programmes and projects in the districts. The results that are presented in Table A5.4.13 show that about one out of every four beneficiaries of pro-poor programmes and projects in the districts are subsistence farmers. Considering the high incidence of farmers in the poverty

profile of Ghana the high proportion of this category of social groups as major beneficiaries of pro-poor programmes and projects in the DAs has positive implications for pro-poor decentralisation process.

It is however regrettable to note that the vulnerable and excluded as well as the aged and the physically challenged do not benefit from pro-poor programmes and projects in the districts. There is therefore the need to refocus and redirect pro-poor programmes and projects to benefit these categories of people also at the districts.

Table A5.4.13: Major beneficiaries of pro-poor programmes and projects in the Districts		
Responses	Number	Percentage
1. Subsistence farmers	30	24.19
2. Micro-enterprise workers	19	15.32
3. The poor or very poor	16	12.90
4. Religious groups	8	6.43
5. Ethnic minorities	4	3.23
6. Women and children	20	16.13
7. The aged	3	2.42
8. The disabled or physically challenged	11	8.87
9. The vulnerable and excluded	9	7.25
10. Other	4	3.23
<b>Total</b>	<b>124</b>	<b>100.00</b>

Source: Field Reports 2004

Table A5.4.14: Degree of familiarity with the work of the District Assembly			
Familiarity	Scale	Number	Percentage
<b>Not Familiar</b>	<b>1</b>	144	62.61
	<b>2</b>	34	14.78
	<b>3</b>	20	8.70
	<b>4</b>	12	5.22
Extremely familiar	5	13	5.65
Don't Know	6	5	2.17
Refused	7	2	0.87
<b>Total</b>		<b>230</b>	<b>100.00</b>

Source: Field Reports (2004)

Table A5.4.15: Perceptions of Poor Population Groups of the Decentralisation Process		
Response	Number	Percentage
1. No Response	6	18.18
2. Decentralisation is good but rather benefits the educated folks most	5	15.15
3. Involvement of chiefs and communities in the decentralisation process	4	12.12
4. Decentralisation has rather intensified poverty	4	12.12
5. Decentralisation has not had any effect on poverty reduction	3	9.09
6. Bias in the distribution and allocation of fund	2	6.06
7. Marginal improvement in decentralization	2	6.06
8. Irregular flow of information	2	6.06
9. Availability of funds and regular markets for farm produce	1	3.03
10. Provision of schools and social facilities in rural areas	1	3.03
11. Decentralisation is just waste of nation's resources	1	3.03
12. Assemblyman should make themselves available	1	3.03
13. Decentralisation has brought some relief to the communities	1	3.03
<b>Total</b>	<b>33</b>	<b>100.00</b>

Source: Field Reports (2004)

#### Familiarity of poor population groups with the District Assemblies

One important trigger to make pro-poor decentralization impact more positively on poor population groups is the degree of familiarity of the members of poor population groups who are the major beneficiaries with the work of the District Assemblies. *Our assessment indicates that majority of the poor population groups (77%) are not familiar with the work of the District Assemblies.* Only about one out of 10 people reported some degree of familiarity with the work of the District Assemblies. Thus the interest and influence of the major beneficiaries are not taken into account in the decentralization process. The high degree of non-familiarity of poor population groups with the work of the District Assemblies implies that the decentralization process is still far from the poor people and that the projects are far from being pro-poor since the poor people who are supposed to be the major beneficiaries really are not familiar with what is being done at the DAs. Refer to Table A5.4.14.

Again only one respondent out of 152 persons interviewed reported as having received some help from the District Assembly when faced with the most serious crisis. This raises the question as to who are the real beneficiaries of Poverty Alleviation Funds. *The non-familiarity of the poor population groups with the work of the district assemblies and the inability of the District Assemblies to help the poor population groups cope with crisis render the decentralization process ineffective in poverty reduction.*

#### Perceptions of Poor Population Groups

The perceptions of the poor population groups to the decentralization process are diverse and complex. Available data (Table A5.4.15) indicates that about 15.15% of the poor populations groups perceive the decentralization process as being beneficial rather to the educated folks most while a further 12.12% of the poor population groups perceive the decentralization as being *rather poverty intensifying instead of being poverty reducing* because the vast majority of the people for whom the process is meant to benefit really do not know what is happening. The implications of this is the basic assumption that the pro-poor

decentralization should reach poor population, is not being met as they themselves are not familiar with what is going on at the District Assemblies.

Access of poor population groups to adequate earnings and productive work

The creation of an enabling environment for improved private sector-led agro-based industrial development is expected to stimulate an increase in production and gainful employment (GPRS 2003: p 69). Consequently, a key policy instrument for pursuing poverty alleviation interventions and also to provide safety net protection for poor population groups who are most at risk to decent work deficits is the provision of adequate earnings and productive work (Amankrah 2003: p.18). Thus the provision of adequate earnings and productive work constitute an important means of the transfer of a policy reform that determines the standard of living and the material well being of poor population groups as well as their dependants.

<b>Table A5.4.16: Borrowing Money in the Last 12 Months</b>						
<b>Asset Responses</b>	<b>Frequency</b>					
	<b>Yes</b>	<b>Percentage</b>	<b>No</b>	<b>Percentage</b>	<b>Don't Know</b>	<b>Percentage</b>
1. To seek for wage employment	8	3.15	177	11.49	2	25.00
2. To do business/trade	50	19.69	147	9.55	0	0.00
3. To set up an enterprise	2	0.79	171	11.10	1	12.50
4. For normal living	70	27.56	131	8.51	1	12.50
5. For health expenses	39	15.35	142	9.22	1	12.50
6. Education/training	43	16.93	135	8.77	1	12.50
7. Marriage	5	1.97	169	10.97	2	25.00
8. Outdooring	0	0.00	174	11.30	0	0.00
9. Funerals	26	10.24	145	9.42	0	0.00
10. To procure travelling documents	11	4.33	149	9.68	0	0.00
<b>Total</b>	<b>254</b>	<b>100.00</b>	<b>1540</b>	<b>100.00</b>	<b>8</b>	<b>100.00</b>

Source: Field Reports (2004)

In the case of Ghana the labour supply is growing faster than the rate of job creation with negative consequences on promoting employment to enhance poverty reduction (Amankrah 2003: p. 45). The rapidly increasing labour force will require a corresponding increase in marginal labour productivity to provide employment at a constant real wage and adequate income to ensure decent living. The inability of the decentralization process (and other policy measures) to achieve this has necessitated poor population groups to resort to either borrowing money or selling some assets owned to ensure a decent living. Data available (Table A5.4.16) indicate that nearly a third of poor population groups (27.56%) borrowed

<b>Table A5.4.17: Source of Income From Main Work</b>		
<b>Mode of Payment</b>	<b>Number</b>	<b>Percentage</b>
1. Paid for the things I sell	79	33.76
2. Daily wage (By Day)	53	22.65
3. Paid from my produce from farmlands	49	20.94
4. Monthly wage/salary	22	9.40
5. Contract basis	10	4.27
6. Weekly wage	8	3.42
7. Piece rate	5	2.14
8. Paid from my produce from my workshop/ factory	5	2.14
9. Other	2	0.85
10. Fortnightly wage	1	0.43
Total	234	100.00

Source: Field Reports (2004)

money or sold some assets to enable them meet normal living requirements. Again nearly one out of five of poor population groups borrowed money or sold some assets to do business or trade while a further 15.35% borrowed money or sold assets to meet health expenses..

Against this background the source of income provides an important link between poverty reduction interventions and standard of living on one hand and the impact of measures to promote employment.

Access to income

Well-targeted interventions lead to increased access to income and consequently improved standard of living. Our assessment reveals that majority of the poor population groups do not have a decent income

and that majority do not have a secured income. The study found out that daily wage (by day) is the source of income from main work for about one out of every four of the poor populations groups while the source of income for more than half (54.7%) of the poor population groups are from the things they sell or produce from farmlands. (Table A5.4.17) Even though more than half of the poor population groups are engaged in agriculture only about 20.94% derive their main source of income from produce

from farmlands. Data available further indicate only one out of every ten who are on monthly income was found to be poor.

#### Adequacy of Income

The study further sought to find out the adequacy of income earned to meet basic necessities such as food, health care, education clothing etc. The table below presents the results of summary findings. Data available indicate that about four out of every five (78.4%) of poor population groups reported that income from main work is insufficient to cover education, clothing, health care, transport and food. The implication of this is that the decentralization process has not translated into making the poor have adequate incomes to cover even the basic necessities in life as education, healthcare transport and food.

<b>Table A5.4.18: Adequacy of Main Income to Meet Basic Household Needs</b>						
<b>Response</b>	<b>More than sufficient</b>	<b>Percentage</b>	<b>About Adequate</b>	<b>Percentage</b>	<b>Insufficient</b>	<b>Percentage</b>
Food	6	60.00	47	26.11	123	17.88
Clothing	3	30.00	33	18.33	140	20.35
Healthcare	1	10.00	42	23.33	131	19.04
Education	0	0.00	29	16.11	141	20.49
Utility Bills	0	0.00	0	0.00	29	4.22
Travelling & Transport	0	0.00	29	16.11	124	18.02
<b>Total</b>	<b>10</b>	<b>100.00</b>	<b>180</b>	<b>100.00</b>	<b>688</b>	<b>100.00</b>
<b>Total Percentage</b>	<b>1.1</b>		<b>20.5</b>		<b>78.4</b>	<b>100.0</b>

Source: Field Reports (2004)

Data available indicate that income from main work constitutes the only income of about four out of every five (81.72 %) of the population groups while income from secondary work is also not sufficient to cover the needs of half of the poor population groups. Assets and investments, remittances or transfers, constitute a very negligible proportions of the share of household incomes. Thus the source of livelihood of most of the population is precariously linked to income whose sources are unpredictable. The study also found out that gifts and grants as well as donations and loans constitute less than a quarter of the share of about half of the sources of income of household income of about a third of the poor population groups (29.63%). This probably accounts for the low recovery rate of most poverty alleviation loans given out by most DAs. What these figures show is that the decentralisation process has not been translated to reflect in the share of household income of most population groups.

<b>Table A5.4.19: Monthly Income Earned by Poor Population Groups</b>		
<b>Amount</b>	<b>Number</b>	<b>Percentage</b>
Above ₡500,000	4	1.93
₡3000,000 - ₡499,999	14	6.76
₡100,000 - ₡299,999	50	24.15
Below ₡100,000	27	13.04
Nothing	98	47.34
Don't know	14	6.76
<b>Total</b>	<b>207</b>	<b>100.00</b>

Source: Field Reports (2004)

#### Monthly income earned

Data relating to monthly income earned by poor population groups is presented in the Table A5.4.19. Data available show that nearly half (47.34%) of the poor population groups earn nothing from the work they do while about one out of four people of the poor population groups earn between a hundred to three hundred thousand cedis while a further 13.64% earn less than a hundred thousand cedis a month. In effect more than a third earn below the prevailing minimum wage<sup>32</sup> of ₡11,200.00 which is in itself just a little above the dollar at the prevailing exchange rate of ₡9,200.00=US\$1

<sup>32</sup> The minimum wage has been increased from ₡9,200 to ₡11,000 in March 2004 (See: Daily Graphic, 30.03.2004).

#### ***A5.4.4 Risk Analysis***

This sub-section straddles both the PSIA and the Focus Areas. We, therefore, merged the PSIA and the focus areas analysis for the risk component of the study in sub-section A5.5.5.

### **A5.5 Results of Focus Areas**

In line with the TOR this study has four areas namely: (i) legal framework/mandate, (ii) resources, (iii) capacity, and (iv) partnership/participation. These are discussed together with the results of the (v) risk analysis.

#### ***A5.5.1 Legal Framework***

The DAs need the power, authority and the mandate to discharge their poverty alleviation duties effectively and efficiently. This means that the legal backing for policies spelt out in the NADP and re-echoed in the GPRS be implemented to the letter. As noted earlier the DAs have a constitutional backing and are supposed to be autonomous bodies with the power to plan and implement projects, yet this study confirmed that they are still the appendages of the Central government and dance to the tune of the MDAs.

Concerning the institutional set up of local government there are two aspects: (i) the internal aspect concerning the modus of election and appointment of the assembly members at different levels, and (ii) the external aspect concerning the relationship between the elected institutions of local government and the extension offices of the line ministries.

##### ***Internal Aspect: Election Versus Appointment: Election of DCE***

The main position in local government is the District Chief Executive (DCE) so far appointed by the President. As mentioned in chapter 5, there was a majority of voices (with a substantial minority of 36%), in favour of electing the DCE. The reasons given were accountability to the electorate and not to the central government. The minority argued that it is also important to have a person who has good relations with the central government. If we follow the majority, then the conclusion is to elect the DCE by the assembly or to abolish the position and to attribute his function to the Presiding Member of the District Assembly.

##### ***Election of “One Third” of the Assemblies***

About one third of the members of the district are appointed by the DCE. The rationale is to have the traditional leaders and also economic groups being represented in the assemblies. It has been noted that 50% of the interviewees opposed this motion. The reasons given are the high respect the people have towards their traditional leaders and also their concern for all members of the community including the poor. This point has been strongly emphasized during the stakeholder workshop in Accra (30.03.2004). The presence of traditional leaders, however, can be assured also by democratic means: They may be elected among their own constituency (the chiefs in the district) and nominated by the Presiding Member of the DA.

##### ***External Aspect: Institutional Rivalry: Institutional Dilemma***

This has been of much concern to stakeholders. The emergence of elected local institutions is threatening the mode of existence (not the existence itself!) of the extension offices functioning under centralized authority of the line ministries. Indeed the present rivalry is not the best way of synergetic service delivery to the people. A mode of dual allegiance has not found the approval of most participants at the stakeholder workshop (Accra 30.03.2004). The policy option is clearly for a fully decentralized single line system as discussed. Intermediate steps are possible and already practised: integrated, multi-sectoral programme implementation as a first phase and composite planning and budgeting as a second phase. The orientation for the second phase has been confirmed in the GPRS.

*The “Losers” and the “Winners”*

The stakeholder analysis identified the key stakeholders of the reform programme, i.e., those who will be affected by the reforms (intended beneficiaries and possible adversely affected persons) as well as those who may primarily determine the outcome (policy-makers, interest groups, implementers). The

1	Ghana Education Service
2	Ghana Library Board
3	Information Services Department
4	Department of Social Welfare
5	Department of Community Development
6	Department of Town and Country Planning
7	Ghana Highways Authority
8	Public Works Department
9	Department of Parks and Gardens
10	Statistical Service
11	Department of Rural Housing and Cottage Industries
12	Births and Deaths Registry
13	Department of Forestry
14	Controller and Accountant-General's Department
15	Office of the District Medical Officer of Health
16	Department of Feeder Roads
17	Fire Service Department
18	Department of Animal Health and Production
19	Department of Fisheries
20	Department of Agricultural Extension Services
21	Department of Crops Services
22	Department of Agricultural Engineering

stakeholders in the decentralization process are Ministries, Departments and Agencies (MDAs), local and regional institutions, civil society organizations, and international development partners. Crucial in the decentralization process is the group of governmental institutions at all levels and the way they interact. Their way of interaction or behaviour pattern – as related to the scenarios in the preceding section – serves as criteria to categorize the stakeholders into groups: winners, losers and neutral ones. The winners are clearly the elected institutions at the local level; the losers are undoubtedly the departments and organizations among the MDAs called “ceasing to exist” (Table A5.5.1 and A5.5.2). Neutral ones can be called those MDAs, which do not have a regional and local extension and thus are not affected by the decentralization process. The local extension offices of all the important line ministries are supposed to be merged with the structures under the authority of the District Assemblies.

District	Municipal	Metropolitan
1. Central Administration Department.	1. Central Administration Department	1. Central Administration Department
2. Finance Department	2. Finance Department	2. Finance Department
3. Education, Youth and Sports Department	3. Education, Youth and Sports Department	3. Education, Youth and Sports Department
4. Municipal Health Department	4. Metropolitan Health Department	4. Municipal Health Department
5. Agricultural Department	5. Waste Management Department	5. Agricultural Department
6. Physical Planning Department	6. Agricultural Department	6. Physical Planning Department
7. Social Welfare and Community Dev. Dept.	7. Physical Planning Department	7. Social Welfare and Community Dev. Dept.
8. Natural Resources Conservation Department Forestry, Game & Wildlife & Division	8. Social Welfare and Community Dev. Dept.	8. Natural. Resources Conservation Department Forestry, Game and Wildlife Division
9. Works Department	9. Natural Resources Conservation Dept, Forestry, Game & Wildlife Division	9. Works Department
10. Industry & Trade Department	10. Works Department	10. Industry & Trade Department
11. Disaster Prevention Department	11. Industry & Trade Department	11. Transport Department
	12. Budget and Rating	12. Disaster Prevention Department
	13. Legal Department	13. Urban Roads
	14. Transport Department	
	15. Disaster Prevention Department	
	16. Urban Roads	

These departments, which are provided for in the Local Government Act, overlap considerably with the responsibilities of those departments “ceasing to exist“. These should coordinate all activities in the district territory. Nominally they are the “winners”. In reality they have not won: they coexist side by side with the very strong presence of the “losers”.

<sup>33</sup> Republic of Ghana/MLGRD: *GHANA – The New Local Government System*, Accra, Nov. 1996 (2nd ed.), p. 77.

## ***A5.5.2 Resource Mobilisation, Allocation and Management***

### ***Resource Mobilisation***

This involves the origin of the resources to the DAs and hence the level of dependence of the DAs on the central government. The DAs need adequate financial resources in order to plan and implement their poverty reduction projects. The main sources of revenue for the DAs in 2002 are depicted in Table A5.5.3.

<b>Table A5.5.3: Sources of Funding DAs' Development</b>		
<b>Source</b>	<b>%*</b>	<b>%+</b>
GOG Consolidated Fund	34%	32%
DA Internally Generated Revenue	3%	11%
Development Partners' contribution	40%	36%
HIPC Relief Fund	8%	7%
District Assemblies Common Fund	15%	14%
Total	100%	100%
Sources: * GPRS Annual Report (2002) + Field Reports/Survey, 2004		

There is empirical evidence that payment of taxes and levies have witnessed substantial improvement since the implementation of the decentralisation plan between 2002 and 2004 leading to a modest rise in IGR. (Refer to Table A5.5.3). Despite the modest structural change, resource mobilisation at the district level in Ghana is still very weak. This has made the DAs still highly dependent on the central government revenue. The survey results have also indicated

that the involvement of traditional authorities, local communities, civil societies, assembly members and the private sector in the revenue mobilisation activities of the DAs is not much - just about average. This also calls for concern.

What is clear from these sources of revenue is that individually, Development Partners contribute the highest percentage (40%) to the financing of DA's projects. But when we put together the receipts from the Government of Ghana consolidated Fund (34%) and the DACF (15%), under Central Government Revenue to the DAs, we get a total of 49%. Thus, it is logical to say that the main source of revenue for the DAs in Ghana is the central government revenue. This revelation has made the DAs very much financially dependent on the central government. Therefore, any slack in the flow of revenue from the Central government to the DAs is injurious to them. Our survey results have also ranked the Central government regular revenue to the DAs as the first source of their revenues (For 38 out of 43 respondents, i.e. 88.37%) confirmed this. There is however, some discrepancy in the ranking of the rest of the sources of their revenues.

It must be pointed out that an important component of the Central Government revenue is the DACF, which is of recent origin, and has the potential of affecting the finances of the DAs, poverty-reduction wise. As a result, it demands some focal analysis in this pro-poor study. Against this background, and recalling the fact that there are great regional differences in the poverty level (especially, the three Northern regions) one questions the adequacy of the current formula in the disbursement of the DACF. The formula has to take into consideration the regional and for that matter district disparities as well as equity into consideration to enable those poverty-endemic districts get more allocation of the DACF.

The DAs are financially constrained because they do not get adequate annual revenue to enable them execute their vital projects, including poverty-reduction projects. Essentially, there are two dimensions for a permanent solution of this financial inadequacy problem. First, the Central government must try to allocate a substantial amount of revenue to the DAs.

Second, the DAs themselves must increase their efforts to derive enough revenue from their internally generated revenue (IGR). Collection of local tolls, levies and fines need to be efficiently mobilised in order to rope in as many people as possible. Another way is for the DAs to engage in some direct productive investment activities such as farming (tungya system, wood-lots farms, food crop farms, cash crop farms) poultry, animal rearing such as cattle, etc. Even though the districts' IGR is the lowest (3%) among the sources of revenue for the DAs in Ghana as we have noted, its importance is very high to the DAs. It has also been rising very fast. For example, in 2000 the total for the 110 district assemblies was ₵70.4 billion, increased to ₵95.7 billion in 2001 and jumped to ₵155.2 billion in 2002 (an increase of 120% between 2000 and 2002). The highest IGR increase over the period was 389% recorded in the

Northern Region, followed by 384% in the Volta Region and 205% in the Upper East Region (GPRS Annual Report, 2002). It is thus observable from this revelation that the IGR of the DAs is a very good and reliable potential source of revenue that must be tapped fully to aid their pro-poor activities. The IGR potential remarkably appears very strong in the regions that have very high incidence of poverty (example, the Savanna regions and the Volta), as revealed by the percentage figures.

Local Institutions in Resource Mobilisation and Allocation

Similarly, the DAs need to very actively involve other local institutions such as traditional authorities, local communities, civil societies, assembly members, in resource mobilisation and allocation etc. Currently, these local institutions do not contribute much to mobilisation of revenue for the DAs. Our field reports have given confirmation to this, as contained in the Table A5.5.4.

Table A5.5.4: Specified Institutions in Resource Allocation and Mobilisation							
Item	Not active at all	Fairly inactive	Average	Fairly active	Very active	Don't know	Total
Traditional Authorities	9	7	12 (30.77%)	3	5	3	39
Local Communities	2	8	17 (44.74%)	7	2	2	38
Civil Society	5	7	8	10 (26.32%)	6	2	38
Assembly Members	-	5	10	11 (28.21%)	10	3	39
Departments and Agencies	1	5	8	10 (27.78%)	8	4	36
The Self-employed	6	10 (27.03%)	7	7	1	6	37
Other	-	1	-	-	-	-	1
<b>Total</b>	<b>23</b>	<b>43</b>	<b>62</b>	<b>48</b>	<b>32</b>	<b>20</b>	<b>228</b>

**Source:** Field Reports, 2004. **Note:** Highest frequency's percentages are in brackets.

Table A5.5.5: Is DACF released on Quarterly Basis as Planned?		
Response	Number	Percentage
Yes	14	35.00
No	24	60.00
Don't Know	2	5.00
Total	40	100.00

Source: Field Reports, 2004

It is evident that currently traditional leaders are averagely involved in the district revenue allocation and mobilisation issues. About 30.77% of respondents held this majority view. Local communities are also averagely involved - confirmed by 44.74% of respondents. Civil Societies and Assembly members as well as government departments and Agencies are reported to be fairly involved in the revenue issues in DAs. The highest percentages of respondents are 26.32%, 28.21% and 27.78 % respectively. The self-employed have been reported to be fairly active in the mobilisation of the revenue issues of the DAs.

Table A5.5.6: Adequacy of Releases Over The Fiscal Year		
Response	Number	Percentage
Yes	35	79.55
No	6	13.64
Don't Know	3	6.82
Total	44	100.00

Source: Field Work, 2004.

Resource Allocation

There is also the problem of the timely release of resources to DAs. On paper, the DACF is to be released quarterly. Our interview of the DCEs, and budget/planning officers indicates that the allocation of resources are not only irregular, they are also inadequate and usually falls short of the planned budget. From the broader survey, the results in Table A5.5.5, we observe that the DACF is not released quarterly as documented. About 60% of the 40 respondents (24) confirmed this. Not only is the DACF delayed, but also the DAs cannot really predict when it will come and if it will be the full amount. Undeniably, some DAs are often in arrears. Projects may as a result partially be completed, as revealed by the majority of the respondents.

Sampled DA Budgets Estimates and Actuals

Similarly, the funds released from the Central Government (including DACF) often fall short of the financial requirements of the DAs plans and operations (confirmed by 79.55%) in Table A5.5.6. A careful observation of the district assemblies' budget details (as in Table A5.5.7) fully supports this revelation. These budgetary details indicate that the pattern of resource allocation (actual amount) has generally been

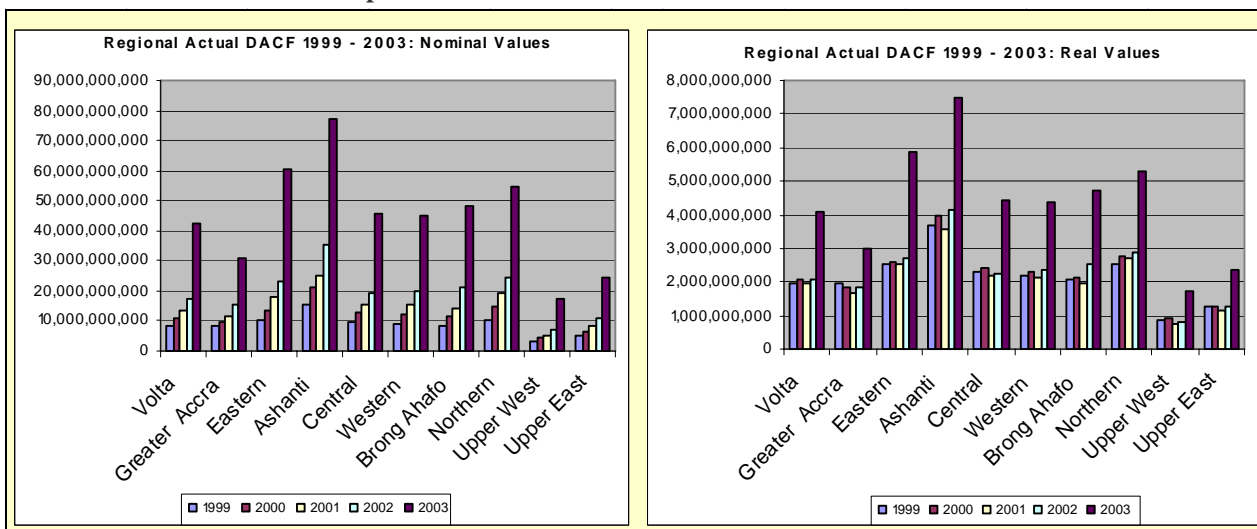
on the increase over the last four years (2000 - 2003). This is a good trend of allocation, it may be noted. However, the funds that the DAs actually received have fallen short of the amount budgeted for. This is evidenced from the persistent deficits that have come about as a result. On the whole, the deficits have averaged between 20 and 30% of the amount budgeted for. This may adversely affect the execution of many poverty reduction projects in the districts.

**Table A5.2.7: Nominal Budget Estimates and Actuals of Sampled DAs (2000-2003)**

Trend of Budget Details of the Sampled District Assemblies From 2000-2003									
Year	Million Budget	€' Million Actual	Deficit/ Surplus	D/S % of Budget	Year	€' Million Budget	€' Million Actual	Deficit/ Surplus	D/S % of Budget
Accra Metropolitan Assembly (Accra)					Komenda (Central)				
2000	65,949.31	55,235.52	(10,713.79)	-16.25%	2000	1,200.00	662.41	(537.59)	-44.80%
2001	79,394.02	57,441.07	(21,952.96)	-27.65%	2001	1,800.00	1,489.61	(310.39)	-17.24%
2002	103,177.11	85,282.18	(17,894.93)	-17.34%	2002	2,563.00	1,919.26	(643.74)	-25.11%
2003	92,109.65	95,564.74	3,455.09	3.75%	2003	5,250.74	4,408.90	(841.84)	-16.03%
Adansi West (Ashanti)					Nzema East (Western)				
2000	459.93	3,276.84	2,816.91	612.46%	2000	3,317.03	1,949.68	(1,367.35)	-41.22%
2001	6,777.38	4,696.02	(2,081.37)	-30.71%	2001	4,040.66	2,196.39	(1,844.27)	-45.64%
2002	7,258.01	5,847.06	(1,410.95)	-19.44%	2002	4,776.13	3,238.87	(1,537.26)	-32.19%
2003	9,564.98	9,286.05	(278.93)	-2.92%	2003	10,252.77	9,496.01	(756.76)	-7.38%
Birim North (Eastern)					Tamale Municipality (Northern)				
2000	162.86	795.53	632.67	388.48%	2000	3,255.41	2,471.73	(783.68)	-24.07%
2001	1,724.56	2,107.97	383.40	22.23%	2001	4,936.50	1,804.15	(3,132.34)	-63.45%
2002	488.09	416.41	(71.68)	-14.69%	2002	3,653.83	4,848.60	1,194.77	32.70%
2003	589.00	524.22	(64.78)	-11.00%	2003	6,049.30	4,138.33	(1,910.97)	-31.59%
Bongo (Upper East)					Techiman (Brong Ahafo)				
2000	2,200.00	13,571.78	11,371.78	516.90%	2000	1,900.00	638.93	(1,261.07)	-66.37%
2001	2,277.60	3,456.46	1,178.86	51.76%	2001	2,000.00	1,135.12	(864.88)	-43.24%
2002	2,200.00	1,857.45	(342.55)	-15.57%	2002	3,200.00	770.38	(2,429.62)	-75.93%
2003	7,135.00	3,114.84	(4,020.16)	-56.34%	2003	4,735.00	3,265.12	(1,469.88)	-31.04%
Ketu (Volta)					Wa (Upper West)				
2000	2,539.89	1,280.86	(1,259.03)	-49.57%	2000	65.33	70.43	5.10	7.80%
2001	2,827.50	1,484.88	(1,342.62)	-47.48%	2001	2,533.91	2,022.81	(511.09)	-20.17%
2002	3,334.41	3,314.26	(20.15)	-0.60%	2002	7,345.51	5,636.47	(1,709.04)	-23.27%
2003	5,182.88	6.72	(5,176.16)	-99.87%	2003	11,639.49	7,341.65	(4,297.84)	-36.92%

Source: Field Reports 2004. Notes: ( ) = - = Deficit += Surplus

**Graph A5.5.1: Actual DACF – Nominal & Real Values**



### Real and Nominal Values of DACF

The study has revealed that the inflation factor is also telling on the value of the DACF. Refer to Graph A5.5.1 for details. Even though the actual nominal figures of DACF to the districts have been on the increase between 1999 and 2003, the real values are generally lower, and have been fluctuating for the ten sampled districts - Ketu (Volta), AMA (G/R), Birim North (E/R), Adansi West (Ashanti), Komenda Ebirem (C/R), Nzima East (W/R), Techiman (B/R), Tamale (N/R), Wa (UW/R) and Bongo (UE/R). These developments have contributed to a further shortfall in the DAs annual receipts as against their annual budgets.

### Estimated Impact of DACF Increase to 7.5%

Considering the major recent change and big step forward in fiscal decentralization, the increase of funds (DACF) from 5% to 7.5% of government revenues (part of the scenario “status quo”) the following findings highlight the situation. Assuming the funds made available were increased from 5% of the total national revenue to 7.5%, the majority of the respondents indicated that this would result in the provision of additional basic social facilities (for example, water, health sanitation and education would be provided). They were generally of the view that there should be a 100% increase in the percentage that is from its current level of 5% to 10% instead of the recommended policy increase of 7.5%. The persons interviewed expect overwhelmingly to have additional basic social facilities as a result of the DACF increase. Refer to Table A5.5.8.

<b>Table A5.5.8: Impact of increase in the DACF to 7.5% on development of the district</b>		
<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Additional basic social facilities.	91	53.53
Improved capacity	23	13.53
Only marginal improvement in the completion of existing projects	13	7.65
Remarkable improvement in the completion of existing projects	40	23.53
There will be no effect at all	3	1.76
<b>Total</b>	<b>170</b>	<b>100.00</b>

Source: Field Work, 2004.

### Importance of Increased Resource Allocation

The opinions of respondents reveal a common strand through all of them invariably emphasising the fact that increased resource availability or allocation would enable the DAs to spend on many poverty-reduction activities. This is collaborated by the model simulations results. The information on the category of people who are likely to benefit from the increased resources include not only the ordinary persons especially the poor groups but all groups of people. This

revelation is in line with our earlier argument that increased resource allocation to the DAs has an element of Pareto improvement (the majority of all shades of people would benefit in one way or another). Resources here also apply to other sources of revenue for the DAs such as internally generated funds, HIPC funds and grants from NGOs. See Table A5.5.9.

<b>Table A5.5.9: Importance of Increased Resource Allocation</b>							
<b>Items</b>	<b>Not Important at all</b>	<b>Fairly Unimportant</b>	<b>Average</b>	<b>Fairly Important</b>	<b>Very Important</b>	<b>Don't Know</b>	<b>Total</b>
Helping to reduce poverty	-	1	1	5	37 (84.09%)	-	44
Developing an effective poverty reduction strategy	-	-	4	7	35 (76.09%)	-	46
Helping strengthen the private sector	-	1	4	5	34 (75.56%)	1	45
Helping to develop SME	-	-	5	4	33 (75.0%)	2	44
<b>Total</b>	-	<b>2</b>	<b>14</b>	<b>21</b>	<b>139</b>	<b>3</b>	<b>179</b>

Source: Field Work, 2004. **Note** Highest frequency of each row, and the respective percentages are in bracket

### Resource Management

Resources (especially financial resources) channelled to the DAs are supposed to be efficiently managed so as to derive optimal utilisation from them. The key officials that play important roles in the financial resource management at the district level include the District Finance Officer, Budget Officer, Planning Officer and the Audit Unit. District assembly expenditure details are first supposed to be audited by the internal audit unit. Since the DAs are also financially responsible to the Finance Ministry and hence the

Central government, external auditors also call on them to audit their books and report to the Controller and Accountant General, and to the Ministry of Finance.

<b>Table A5.5.10: Transparency in the Resources Management</b>		
Response	Number	Percentage
Very high	3	2.38
High	56	44.44
Low	51	40.48
Very low	16	12.70
Total	126	100.00

Source: Field Reports, 2004

<b>Table A5.5.11: Frequency in Auditing of DA Funds</b>		
Response	Number	Percentage
Yearly	13	30.95
Half-yearly	12	28.57
Quarterly	14	33.33
Once a year	3	7.14
Total	42	100.00

Source: Field Reports, 2004

<b>Table A5.5.12: Whether DAs have Monitoring and Evaluation Team</b>		
Response	Number	Percentage
Yes	42	93.33
No	3	6.67
Total	45	100.00

Source: Field Reports, 2004

<b>Table A5.5.13: Whether the Monitoring and Evaluation Team is Effective</b>		
Response	Number	Percentage
Yes	29	67.44
No	14	32.56
Total	43	100.00

Source: Field Reports, 2004

By fiscal decentralisation, all DAs are supposed to be financially independent from the Ministry of Finance and Economic Planning. This in a way is a big risk, and the only way out is for the DAs to manage their resources prudently and efficiently for the desired developmental impact (especially, poverty-reduction). One wonders the extent to *which transparency prevails in management* of District Assembly resources (especially financial). Table A5.5.10 provides our field reports on this issue. The respondents on this issue came from both management and Non-management staff of cohort A, namely, Metropolitan/Municipal/DAs.

We observe that *transparency in the management and use of resources* allocated to the DAs is high. This was revealed by 44.44% of respondents. This figure is challenged closely of an evidence of low transparency by 40.48% of respondents. Our impression here is that there is a lot still to be done in this direction. The DA accounts that are audited quarterly in line with the statutes is just 33.33% (see Table A5.5.11). This percentage is too low, and hence something has to be done to arrest this situation.

It is gratifying to note that the DAs reported of having a monitoring *and evaluation (M&E)* team. The majority (67.44%) of respondents confirmed that the M&E team is effective. Whiles 14 out of 43 (32.56%) said the M&E team is not effective (see Tables A5.5.12 and A5.5.13 respectively). Our impression is that the DAs would not want to implicate themselves. It appears that

they are doing fairly well in resource of management, but much more is required of them.

### **A5.5.3 Capacity for Pro-Poor Decentralisation**

Capacity building may be defined to include training, human resource development, organisation and institutional development, availability of logistics, financial resources and change management. For the sake of this study however, capacity refers to whether the DAs have the requisite and adequate resources (both human and material apart from financial), technical and institutional for the DAs to be able to plan, manage and execute poverty-reduction projects among others. This implies that in this study we exclude financial resources from capacity category. If the DAs are deficient capacity-wise, they cannot conduct pro-poor decentralisation activities as best as may be expected of them. The NDAP continues to state that seventeen out of a total of twenty-three projects in support of decentralisation may be classified as “capacity building” or local government activities, as reflected in the new programming proposed under the GPRS and the Government Decentralisation Action Plan. It is logical to state that since the DAs have been in operation, they have got some level of capacity on the ground. The adequacy or otherwise together with how strengthened capacity will enhance pro-poor decentralisation is our main concern at this stage.

There is an *attitudinal problem* of personnel to work at lower levels in the system of local government. To some of them working at the lower level is like a punishment or demotion. It is also related to the value system in general (solidarity being just the last resort when other means fail), working conditions (equipment, housing etc.)

### Adequacy of Logistics

Essential logistics are also lacking at the districts. The DAs are deficient in basic logistics such as filing cabinet, telephone, computers, motor vehicles etc. If the DAs are to function effectively and efficiently, these basic logistics would have to be put in place as soon as possible. It must be mentioned here that during the stakeholders' workshop on the preliminary findings of the Pro-poor Decentralisation programme held on 30<sup>th</sup> March, 2004 in Accra, some of the participants emphasised lack of essential logistics at the district level, as an important factor making working at the district level uninteresting.

Item	Very inadequately equipped	Inadequately equipped	Average	Fairly adequately equipped	Very adequately equipped	Total
District Level	8	11	15 (31.25%)	13	1	48
Area Council Level	14	22 (51.16%)	5	2	-	43
Town Council Level	15 (38.46%)	13	8	3	-	39
Unit Committee Level	27 (62.79%)	11	3	2	-	43
<b>Total</b>	<b>64</b>	<b>57</b>	<b>31</b>	<b>20</b>	<b>1</b>	<b>173</b>

Source: Field Reports, 2004: Highest frequency and the respective percentages are in brackets

The conditions relating to lack of adequate logistics, namely, necessary and adequate supply of equipment and the related training to be able to use them are critical especially at the Town Council Level. From Table A5.5.14, it is clear that the DAs are just

averagely equipped (that is *averagely* capacitated) in terms of personnel, equipment, etc. for implementation of pro-poor decentralisation plans. This is not encouraging at all. The story is even worse for other district essential organs such as Area Councils and Unit Committees.

A careful study of Table A5.5.15 shows that the people in the districts are barely satisfactorily capacitated. This inhibits the DAs in meeting their pro-poor needs as it relates to political leadership, resource mobilisation and allocation, transparency, working in participatory manner, technical competence, and response to complaints. These are ranked just average or quite satisfactory.

Item	Very Unsatisfactory	Quite Unsatisfactory	Average	Quite Satisfactory	Very Satisfactory	Don't Know	Total
Political leadership	8	10	40 (43.95%)	24	7	2	91
Resource mobilisation and allocation	7	15	34	38 (36.95%)	9	2	105
Technical competence	3	15	40 (43.48%)	21	7	6	92
Transparency	17	25	19	28 (28.86%)	4	4	97
Working in participatory manner	10	16	38 (40.86%)	22	4	3	93
Response to complaints	12	19	30 (32.61%)	21	4	6	94
<b>Total</b>	<b>57</b>	<b>100</b>	<b>201</b>	<b>154</b>	<b>35</b>	<b>23</b>	<b>570</b>

Source: Field Reports, 2004: Highest frequency and respective percentages are in brackets

During an in-depth discussion of the state of logistics the key office holders especially the personnel managers, finance and budget officers complained bitterly about the inability of the central government to pay heed to the numerous calls for adequately equipping the DAs for efficient and effective delivery of services and for the implementation of projects and programmes. The key reason for this inability to achieve results according to them is underlined by inadequacy of financial support.

Response	Frequency	Percentage
Yes	42	93.33
No	3	6.67
Total	45	100.00

Source: Field Reports, (2004)

### Need for Capacity for DA Personnel

In that regard the DAs have indicated that they still have the need for enhanced capacity building to enable them develop and implement pro-poor plans, refer to Table A5.5.16. As high as 93.33% of respondents stated this view. Some areas they indicated as needing attention are: (i) administration, (ii) financial management: budget preparation and execution, (iii)

project management, (iv) training in ICT, (v) monitoring and evaluation, (vi) planning, programming and policy analysis, and (vii) conflict resolution.

The caveat to our main study hypothesis is that both resources and capacity are needed to achieve a higher level of effectiveness and sustainability and these should meet supply expectations (sustained responses) of DAs to enable them meet the demand (requests) from the citizens.

On the demand side there is need for capacity/ empowerment of the citizens to make requests. Thus training must be extended to the citizens through CSOs, CBOs, etc. so that they will be able to make the right requests/demands on the DAs. This can be enhanced through: (i) participation and partnership training, (ii) monitoring and evaluation capacity, (iii) transparency, accountability and probity, (iv) lobbying and advocacy skills, and (v) general education on functions of DAs.

#### **A5.5.4 Participation and Partnership**

##### Overview

Development in Ghana has become a shared responsibility of the central government, DAs, CSOs, private sector and the communities as whole. At the district level, the relevant groups that need to be very actively involved in designing and implementing the pro-poor decentralisation programmes are civil society organisations, assembly members, unit committees, traditional leaders, the communities (the poor and women groups), etc. The policies, programmes, and projects affect the various stakeholders or groups of people (especially the poor). Hence their participation at all stages of the projects cannot be over-emphasised.

<b>Table A5.2.17: Participation of Community in Decision Making on Provision of Service</b>			
Type	Yes	No	Total
Education	24 (64.86%)	13	37
Health-Care Delivery	15	20 (57.14%)	35
Water	22 (61.11%)	14	36
Roads	12	23 (65.71%)	35
Construction of Places of Convenience	25 (69.44%)	11	36
Markets	22 (59.46%)	15	37
Lorry Parks	14	20 (58.82%)	34
Waste Disposal, Environment, Sanitation	23 (63.89%)	13	36
Other	-	-	-
<b>Total</b>	<b>157</b>	<b>129</b>	<b>286</b>

Source: Field Reports, (2004): Highest frequency % in brackets

##### Community Participation in Decision Making

Analyses of information from secondary sources strongly suggest that participation and partnership are at very low ebb and the district level contrary to the expectations of the decentralisation policy. This inference has also been confirmed by our survey results to a very large extent.

Evidence is quite mixed at the extent to which the community/village participate in decision-making concerning provision of services and amenities that affect them. Table A5.5.17 has indicated high percentages of participation for education, water, construction of places of convenience, sanitation,

etc. These percentages are generally higher than 50%, which is fairly good. But they do not participate as well in health care delivery, roads and lorry parks as we can see from the table. More efforts at their involvement are needed.

<b>Table A5.2.18: Extent of Participation in Decision Making by the Poor</b>		
Response	Number	Percentage
To a large extent	14	13.86
To some extent	35	34.65
Average	20	19.80
Marginal	10	9.90
Not at all	22	21.78
Total	101	100.00

Source: Field Reports, 2004

We infer from the Table A5.5.18 that the poor are not very much involved in decision making. In fact, our focus group discussion revealed that the poor are actually marginalised in the main decision making that affect them. While 13.86% claimed involvement to a large extent, about 34% of the poor group

respondents are found out to participate to some extent. The remaining 51.49% of the respondents are involved only on average, at the margin, or not at all.

In the area of submission of inputs to sub-committees, undertaking research, data collection, etc., and providing own resources e. g. vehicles, finances, logistics, personnel, etc. the majority of respondents claimed no involvement at all. It is fairly satisfying to note that in the areas of: (i) participation in

workshops, meetings, (ii) initiation of policies, (iii) serving as sources of information, (iv) advocacy, negotiation, lobbying, (v) mobilising members to undertake activities, (vi) propagating information, and (vii) acting as a lead or a corroborating agency counselling, advisory, consultation participation ranges between 26% and 39%. Even though these are fairly encouraging, there is a lot of room for improvement. Refer to Table A5.2.19 for the details on the level of involvement of stakeholders.

<b>Table A5.5.19: Level of Involvement by Stakeholders in Key Areas</b>							
<b>Response</b>	<b>Not effective at all</b>	<b>Fairly in effective</b>	<b>Average</b>	<b>Fairly effective</b>	<b>Very effective</b>	<b>Don't Know</b>	<b>Total</b>
Direct involvement	27	13	44 (25.73%)	38	40	9	171
Submission of inputs to sub-committees	41 (26.45%)	37	23	33	14	7	155
Participation in workshops, meetings	14	15	34	37	55 (34.38%)	5	160
Initiation of policies	31	23	37 (23.42%)	25	37 (23.42%)	5	158
Validation	29	22	37 (24.03%)	32	21	13	154
Serving as sources of information	20	11	28	38	60 (37.27%)	4	161
Advocacy, negotiation, lobbying	27	11	33	43	41 (25.95%)	3	158
Mobilising members to undertake activities	16	12	19	40	58 (39.46%)	2	147
Propagating information	20	11	35	38	53 (32.52%)	6	163
Acting as a lead or a corroborating agency	20	15	40	31	45 (28.13%)	9	160
Undertaking research, data collection, etc.	42 (28.57%)	20	37	26	17	5	147
Counselling, advisory, consultation	26	23	36	32	42 (26.09%)	2	161
Providing own resources e. g. vehicles, finances, logistics, personnel, etc.	45 (29.22%)	25	35	19	23	7	154
Assessing, endorsing	28	16	38 (25.68%)	25	29	12	148
<b>Total</b>	<b>386</b>	<b>254</b>	<b>476</b>	<b>457</b>	<b>535</b>	<b>89</b>	<b>2197</b>

Source: Field Reports, (2004): Highest frequency and the respective percentages are in brackets.

**Table A5.2.20: Suggestions to Make the DA More Pro-poor**

<b>Items</b>	<b>Number</b>	<b>Percentage</b>
Yes	102	74.45
No	35	25.55
<b>Total</b>	<b>137</b>	<b>100.00</b>

Source: Field Reports, (2004)

#### *On The Issue of Pro- Poor Decentralisation*

From the survey results in Table A5.5.20, it is observed that 102 out of 137 (74.45%) have indicated that they have some suggestions as to how to make the DAs more beneficial or more pro-poor. Among some of their suggestions are: (i) the poor should be properly identified by survey (poverty mapping) and duly attended to, (ii) that needs assessment must be properly done, (iii) interventions must be specifically designed to reduce poverty, (iv) the district sub-structures must be made more functional, and (v) policies must be explained very well at the grassroots, among others.

**Table A5.2.21: Any Harmful Effects of Decentralisation**

<b>Items</b>	<b>Number</b>	<b>Percentage</b>
Yes	23	26.14
No	65	73.86
<b>Total</b>	<b>88</b>	<b>100.00</b>

Source: Field Reports, (2004)

#### *Harmful Effects of Decentralisation*

According to the survey results the majority of the respondents indicated that there have not been any associated attendant harmful effects of the decentralisation process so far. See Table A5.2.21. A total of 65 interviewees out of 88 respondents (73.86%) were of this view. This being the situation, there is no alternative but to proceed with the pro-poor decentralisation process. The minority 26.14% who confirmed that there are some attendant harmful effects, stated among others the following: (i) some DCEs are biased in the allocation of social amenities; (ii) late release of funds from the Central Government; (iii) no salary for Area Council workers; (iv) the local people are mostly left out in decision making; (v) only the rich benefit; and (vi) there is a lot of favouritism and nepotism. It is important that the complaints of the minority are also taken seriously for a successful pro-poor decentralisation programme in Ghana.

### ***A5.5.5 Risk Analysis***

Risk analysis constitutes a crucial element of PSIA as observed earlier. This essentially involves an assessment of assumptions underlying the reforms, and also emanating from the reforms, which are more likely to put the reform outcomes at risk. Thus, we are concerned with those risks that are crucial and may affect the pro-poor decentralisation process in registering the desired positive impact on the poor local population<sup>34</sup>.

#### ***Institutional Risk***

As we have noted under scenario and stakeholder analysis, pro-poor decentralisation involves some institutional changes, and movement of staff or personnel. Different groups working in central as well as decentralised institutions are administrators, technical personnel and politicians. As noted, even if an institution may have the 'institutional interest' of opposing decentralisation as some MDAs, the groups of persons working in this institution might have different interests. Whilst the technical professional may want to excel in technical performance and effectiveness, the administrators may naturally want to maintain status quo. The politicians also have their divergent views or agenda. All these lead to institutional conflict of interests, and hence an institutional risk which may adversely affect the pro-poor decentralisation process.

In the literature, it was also argued that institutional problems are created when a partisan central government is superimposed on a non-partisan local government system (Asante, 2003). Furthermore, conflicts between local Members of Parliaments (MPs), Presiding Members (PMs) of DAs and the DCE have been known to hold back programmes for local development. It is crucial that in order to minimise or avoid institutional conflicts, the roles of the MP as ex-officio member of the DAs and the PM on audited accounts need specification in the Local Government Act. Alternatively, a bye law can be developed in the interim to take care of this problem.

#### ***Risks with Regard to Inappropriate Allocation of Funds at the District level***

We may recall that by the instrument of fiscal decentralisation enshrined in the Decentralisation Document (2003), DAs are to be the custodians of their own financial resources - plan, design and

<b>Table A5.5.22: Inappropriate Allocation of Funds at the District Level</b>		
<b>Item</b>	<b>Number</b>	<b>Percentage</b>
Projects are left uncompleted	35	30.43
Some projects are not initiated at all	23	20.00
Projects are done shoddily	57	49.57
<b>Total</b>	<b>115</b>	<b>100.00</b>

Source: Field Reports, (2004)

<b>Table A5.5.23: Problems Concerning the District Monitoring and Evaluation Team</b>		
<b>Item</b>	<b>Number</b>	<b>Percentage</b>
Inappropriate composition	31	24.41
It is like a toothless bull-dog	36	28.35
Lack of technical expertise	60	47.24
<b>Total</b>	<b>127</b>	<b>100.00</b>

Source: Field Reports, (2004)

implement pro-poor projects among others. This involves allocation or disbursement of funds at the district level for the various projects earmarked. There are many "allegations" pointing to financial misapplication at the DAs. Our concern is whether the DAs would do this allocation efficiently and appropriately. Focusing on perceptions of stakeholders as regards inappropriate utilisation of funds, we obtain information from our field reports summarised in Table A5.5.22. We observe that district level execution of projects does suffer a great deal if funds are inappropriately utilised. The main risk we run as we can see from the table is shoddy execution of district level projects. This is confirmed by 49.57% of respondents. It is followed by the risk of partial completion of some vital pro-poor projects in the district to the detriment of the vulnerable and suffering poor, while others are left un-initiated or are completely left to beneficiaries.

#### ***Problems Concerning the District Monitoring and Evaluation Team***

In order to ensure scarce resources, especially financial resources are appropriately utilised at the district level also, there is the need for an effective monitoring and evaluation (M&E) of the resources channelled for their projects. It is no wonder the field reports revealed the main

<sup>34</sup> Risk analysis helps to identify risks that could undermine reform objectives, provides alternatives to policy design and develop risk management strategies for identified risks to the policy reform. The type of risks identified guides the recommendations for policy reform and the corresponding corrective measures. The four main risks identified in this study are institutional risk, country risk, political economy risk and exogenous risk.

problems the monitoring and evaluation team is facing, as depicted by the following Table A5.5.23. The district M&E team has serious problems. The main one is the lack of technical expertise, as confirmed by 47.24% of the respondents interviewed followed by it being a toothless bull dog, and being inappropriately constituted. That is 100% ineffective. Surely we need to address this critical area too if we want our pro-poor decentralisation plan to be effective.

#### Dimensions of Exogenous Risk

Another important risk present in Ghana as a developing country is exogenous risk. It is highly prevalent

<b>Table A5.2.24: Main Exogenous Risks</b>		
<b>Item</b>	<b>Number</b>	<b>Percentage</b>
Chieftaincy disputes	111	33.04
Land litigations	93	27.68
Ethnic conflicts	19	5.65
Political inclination of identifiable groups	58	17.26
Natural disasters, drought, flood, bush-fires, etc.	31	9.23
Other	24	7.14
<b>Total</b>	<b>336</b>	<b>100.00</b>

Source: Field Reports, 2004

in the country posing a big threat to realisation of the objectives of pro-poor decentralisation process. Its details are captured in Table A5.5.24. There are a number of internal elements of exogenous risk in Ghana, which may affect the implementation of district level projects. The main ones among them are chieftaincy disputes, land litigation and political groups. The traditional system gives an important value to chieftaincy, and it should be used rather as a powerful instrument of development, and not an affront to development.

#### Suggested Solutions to Exogenous Risks

In order to minimise the recurrence of the numerous chieftaincy disputes most of the interviewees (all the cohorts except the house hold group) made some critical suggestions for solving these problems. The key measures suggested include: (i) committee to be formed to settle all chieftaincy disputes quickly; (ii) District Council of Chiefs should be formed; (iii) only the right person should be enstooled after proper screening; (iv) history must be set straight to know the rightful heirs to the throne, (v) adherence to the land title; (vi) need for political tolerance among the people as well as the district assembly; and (vii) proper education of the people.

<b>Table A5.5.25: Transparency in Resource Management</b>		
<b>Items</b>	<b>Number</b>	<b>Percentage</b>
Very high	3	2.38
High	56	44.44
Low	51	40.48
Very low	16	12.70
<b>Total</b>	<b>126</b>	<b>100.00</b>

Source: Field Reports, 2004

#### Transparency and Accountability of Resource Management

Developing countries are always battling with the problem of scarcity of resources. And Ghana is no exception. Hence the little that we get should be prudently managed for an optimal gain. This is crucial in our bid to getting a successful pro-poor decentralisation in Ghana. It has been noted under resource management that transparency in resource management is fairly high even though there is a lot of room for improvement. This is inferred by about 44.44% of the respondents (even though less than 50%), as in Table A5.5.25.

Our respondents (essentially all cohorts except development partners and NGOs, and the household group) went ahead to make some suggestions to us on how best to ensure efficiency and transparency in the use of resources allocated to the DAs, they stated among others as follows: (i) regular auditing (internal and external) of DAs Accounts be intensified; (ii) there should be periodic unannounced auditing; (iii) audited accounts be published on bill boards in the community; (iv) there should be effective monitoring and evaluation team; (v) opinion leaders should be involved in the award of contracts; (vi) community (beneficiary) participation in selection and monitoring of projects is vital; (vii) government team should often go round to inspect projects; (viii) district economic management team must be put in place; (ix) effective management by the District Tender Board; and (x) technical officers such as accountants should be transferred every two years.

#### On Risk Concerning Implementation Capacity

The issue of implementation has been a worrisome one and raises a lot of concerns. In the first place, we may mention the negative effect of the prevalence of political risk. For example, from the literature review, we identified weak co-ordination and linkage between actors as one of the key problems that account for delays in district level planning and implementation of development programmes. Secondly,

it must be noted that at the district level, we have the local stakeholders who are essentially the beneficiaries of the projects. These include traditional leaders, assembly members, women groups, youth groups, unit committees, religious leaders, the community, etc. Their expertise for project implementation may be lacking in one way or another. However, if this is carefully approached through education and training as needed, the little expertise of these local level stakeholders can be improved upon. Of course, those aspects requiring highly technical competence have to be handled by highly qualified personnel drawn from the whole country, and if possible from outside. What we are saying is that the DAs should pro-actively involve the local level stakeholders and the poor, whose interest is being served.

## **APPENDIX 3: TERMS OF REFERENCE**

### **ENHANCING CAPACITY FOR PRO-POOR DECENTRALISATION:**

Resource Allocation, Mobilization, Management  
and Capacity Building at District Level

#### **I. INTRODUCTION**

As part of the implementation of the GPRS M&E plan, a number of Poverty and Social Impact Analysis (PSIA) studies were identified through extensive consultations. It is intended that the information generated by the impact assessment studies will inform government on the effectiveness of its policies, programmes and projects resulting from the GPRS and where necessary, support the process of policy redesign.

The issue of enhancing capacity for pro-poor decentralisation, in particular with regard to resource allocation, mobilization and management as well as capacity building at district level was identified as being of significant policy relevance and will be the area of research for the study under consideration. The terms of reference as outlined below are designed to assist researchers in drawing up proposals for this work.

#### **II. BACKGROUND**

The Government's commitment to decentralisation has been reconfirmed in the Ghana Poverty Reduction Strategy (GPRS). The GPRS reflects the central objective of the Government of Ghana to create wealth by transforming the nature of the economy to achieve growth and accelerated poverty reduction within a decentralised, democratic environment. The GPRS stresses the need for a vigorous and progressive deepening of decentralisation and the devolution of power. The GPRS further states that decentralisation is 'pivotal to the provision of democratic governance, transparency, the greater involvement of communities in poverty reduction, growth and the surveillance of central and local government machinery.'

The District Assemblies play a key role for the effective implementation of poverty reduction programmes and projects, the improvement of the framework conditions for regional economic growth as well as for the provision of basic social services for the population. The GPRS strategies for the provision of basic services and for good governance rely strongly on the efficient and effective functioning of decentralised structures and their responsibility for translating the poverty reduction strategy to the local level.

However, the GPRS also notes that progress in decentralisation in Ghana has been extremely slow. Its implementation has been constrained by sectoral conceptual differences in the interpretation of the decentralisation policy, weak intersectoral collaboration, inadequate budgetary allocations, weak capacity to effectively monitor the implementation process and evaluate the performance of local government institutions, weak economic base of some district assemblies as well as constitutional constraints. District Assemblies have become the focal point for all development activities at the local level. However, the delayed and insufficient financial re-sources and capacity deficits have imposed limitations on the ability of District Assemblies to undertake the tasks demanded of them by decentralisation. While substantial progress has been made in this direction, in particular aided by the availability of the DACF to support District development policy, planning and program implementation, a number of essential constraints persist.

Strengthening Leadership and Capacity of District Assemblies and Deepening District Assemblies Associations with Civil Society are therefore two central issues discussed in the GPRS with regard to the issue of decentralisation. The election of all members of the District Assemblies, mechanisms for cooperation and consultation of traditional authorities and the establishment of the Local Government Service are major policy targets. In addition, the extension of the District Assemblies financial management role as well as the upgrading and updating of knowledge and skills of District Assembly staff in financial management, as well as in policy and plan formulation, management and implementation are essential strategies that are assumed to ensure success. Effective management of infrastructure and services are key actions reflected in the policy matrix for the GPRS implementation and will therefore heavily depend on the be-fore mentioned strategies. The importance of capacity building and access to resources at the local level is reflected by the long list of activities timetabled in the GPRS (see annex).

The Government of Ghana through the Ministry of Local Government and Rural Development has developed a Draft Strategic Action Plan for Decentralisation as a framework for the step-wise implementation of decentralisation. The Action Plan comprises eight main strategic objectives. Strengthening local governance at the District level by focusing on more systematic financial resources mobilization and harmonized capacity building and the establishment of decentralized financial management and accountability systems are two of the strategic

objectives stated in the Action Plan. Correspondingly, the issue of District Development Funding Facility has been identified as one of the four main Program areas.

Several bilateral donors and the EU support the implementation of the GPRS with the „Multi Donor Budget Support (MDBS)-Program“. The German Government also participates in Co-funding the MDBS with 6 million Euro. Certain triggers for the MDBS are based on progress in implementing the decentralisation .

The Worldbank will support the GPRS-Implementation with a Poverty Reduction Support Credit (PRSC). The PRSC includes decentralisation as one of the relevant policy areas for government’s reform strategies and progress indicators in the policy matrix. It stresses the need for the establishment of a local Government Service that is assumed to improve local level management of development considerably. The PRSC reiterates the necessity of the integration of the district level structures of the line ministries such as education, health and agriculture into the district administrations.

This process should be governed by the soon legislated “Local Government Service Bill” The elimination of parallel structures will enhance the efficiency of public administration.

### **III. OBJECTIVES OF THE STUDY**

The central issues identified for research in the field of enhancing capacity for pro-poor decentralisation are the resource allocation at district level, the mobilisation and management of these resources as well as the issues of participation and accountability in decision-making, especially with regard to budgets at the district level. Strengthening the capacity of district assemblies with the objective to enable them to play their essential role in implementing the GPRS as well as in the system of decentralised government, a number of reform requirements and issues for further discussion have been identified in the key documents and strategies mentioned above. However, so far, the proposed reforms have not yet been fully analysed with regard to their impact on district assemblies on the one hand and the (poor) district population as the final beneficiaries on the other hand. The study - drawing on the concept as well as the tools of PSIA - shall provide an analysis of the intended and unintended consequences of the proposed reforms and policy interventions on the different social groups.

The objective of the study is to provide in-depth understanding of the impact on the poor emanating from policy reforms and public actions for enhancing pro-poor decentralisation. Research emphasis should be on resource mobilisation, management and allocation as well as the capacity constraints in delivering pro-poor services at the district level.

Furthermore, the study shall provide a basis for considering policy action alternatives as well as an appropriate sequencing of policies. It shall identify risks to the policy reform and help to integrate appropriate mitigation measures and risk management systems into the reform program, if and when adverse impacts and risks are encountered. The study should seek to provide answers to the following questions:

- 1) What are the impacts of increased resource availability at district level on the local economic and social development?
- 2) How will alternative policy measures and reforms, which aim at improving resource mobilisation, management and allocation at district level, impact the target groups?
- 3) To which extent do capacity constraints influence the decentralised local government system in delivering services that support the implementation of essential elements of the GPRS?
- 4) To which extent are the proposed and implemented schemes for building capacity within local government appropriate and adequate in terms of content and quantity to resolve the capacity weaknesses?
- 5) What conclusions and recommendations can be derived with regard to the implementation of the planned reforms?

### **IV. CONCEPTUAL FRAMEWORK FOR THE STUDY**

The study will consist of several components focussing on the different aspects of the research issue. An analysis of the core problem will allow to understand the context for policy change and impacts of the reform and to state more precisely the questions to be examined. The analysis of the core problem will furthermore provide information for the alternative scenarios for reforms to be evaluated in the scenario analysis. The stakeholder analysis will identify the key stakeholders of the reform program, those who will be affected by the reforms (intended beneficiaries and possible adversely affected persons) as well as those who may primarily determine the outcome (policy-makers, interest groups, implementers). An analysis of the “transmission channels (i.e. employment, prices, access, assets and transfers) will provide information on the links connecting policy measures with outcome and on the responses of the different stakeholders to policy changes. The impact assessment is the core element of the study and will

provide information on the impact of the alternative reform measures on the different stakeholder groups as described in the scenario analyses. The study will be complemented by a risk analysis to provide further information on potential risks to the reform as well as originating from the reform under consideration. The complexity of the issue and the different leading questions call for a mix of quantitative and qualitative methods. Identification of the core problem and the stakeholder analysis assessment have to be the reference systems for all re-search questions and for all further steps of the analysis. The conclusions on impact, risk and policy recommendations should be developed based on both, the quantitative and the qualitative approaches.

### **(I) Analysis of Core Problem: Context and Key Issues in the Reform**

This aspect involves a desk review of available documents, studies and prior field mission re-reports as well as discussions with experts to capture the existing knowledge with regard to pro-poor decentralisation, in particular the issues of resource allocation and mobilisation as well as capacity deficits at district level. The issues to be examined during the desk review include:

- Analysis of decentralisation process in Ghana, reform steps (triggers for the MDDBS and PRSC), Strategic Action Plan for Decentralisation and the GPRS
- Analysis of constraints for fiscal decentralisation, resource allocation, management and mobilisation at district level
- Analysis of constraints in relation to the organisational behaviour and performance particularly at the decentralised level
- Analysis of capacity constraints within local government with regard to promoting pro-poor development by adequate and strategic service provision
- Lessons learned from other SSA countries regarding the capacity needs for pro-poor decentralisation.

The literature review will be complemented by fact finding in the field to gain a thorough understanding of the context in which decentralisation in Ghana aids poverty reduction and of the stakeholders involved in fiscal decentralisation, in resource management as well as in economic and social development at district level. Among others, this part of the study shall include an analysis of the regional disparities in economic and social development (indicators from GPRS). Issues to be examined are:

- Aspects relevant for the regional economic development (economic structure by sector, structure of poverty, integration into markets, infrastructure, etc.)
- Availability of financial resources and financial needs at district level
- Access to and utilisation of basic services by the poor, particularly with regard to health, education, water and sanitation
- In-country poverty related migration, expected medium and long term population dynamics
- Existing capacities or potentials in decentralisation that specifically promote poverty reduction, within local government structures and other relevant institutions.

### **(II) Scenario Analysis**

A scenario study will be conducted to evaluate the potential alternative policy reform scenarios for strengthening the resource allocation at district level as a framework for the analysis of key transmission mechanisms and the subsequent impact assessment. The scenarios to be analysed will include the proposed increase of the DACF allocation from 5% to 7, 5 %, district revenue reforms as well as direct and indirect allocation of HIPC funds. Other scenarios will be identified by the research team.

Scenarios will also need to be developed for the question of capacity constraints for decentralised local government systems in delivering services to support the GPRS implementation. The different scenario objectives (resource allocation and capacity) might require the use of a mix of methods.

The analysis will provide information for different scenarios for policy reforms to be analysed in the impact assessment component of the study with regard to their consequences for the implementation of the GPRS and their impact on the different stakeholders.

### **(III) Stakeholder Analysis**

The stakeholder analysis will identify the various MDAs, structures of local government, civil society organisations, and sub-groups within the general public who should be consulted as part of the study. The study should describe the stakeholders in terms of their key characteristics, their interest in relation to the research issue and their importance for the proposed re-forms. The analysis will furthermore provide a deeper understanding of the context of resource allocation at district level and the stakeholders involved, their relations and interests. The inter-action of the different stakeholders and the importance of the institutions for the implementation of the reforms should be examined. Core questions with regard to the stakeholder analysis are:

- Which institutions are (actively or passively) involved in reforms of fiscal decentralisation / resource allocation?
- What role would these institutions play and what specific interests do they have with regard to the planned measures (Ministry of Finance and Economic Planning, Line Ministries, District Administrations)?
- What are the constraints for reform implementation and at what level do they occur?
- What are the respective capacities for reform implementation?
- What are the incentives for the District Assemblies to take into account the preferences of the (poor) population and to implement pro-poor programs and projects ?
- What is the inclination of District Assemblies towards expenditure for economic infrastructure (roads, markets, bus stations) as opposed to expenditure on basic social infrastructure, and why?
- What are the preferences of the District Assemblies with regard to the utilisation of additional funds (administrative costs, investment, social or economic infrastructure)?
- What are the incentives to encourage District Assemblies to focus expenditure on basic social infrastructure?
- What are the different social groups in the population (key characteristics, employment, income), for example subsistence farmers, small scale market oriented farmers, micro-enterprises etc.
- What expectations, interest and influence do the different social groups / stakeholders have vis-à-vis the District Assemblies? To what extent do key groups within the communities influence decision making on resource mobilisation, allocation and utilisation?
- Under what conditions will different social groups benefit from the district expenditure?
- To what extent do different stakeholders differ in their perceptions of resource allocation, and why?
- How can different stakeholder articulate their preferences?
- Are Unit Committees, Urban and Town Councils efficient and appropriately positioned and enabled/empowered structures for representation of interests?
- What are the preferences of the different social groups with regard to the utilisation of financial resources and the organisational structure responsible for the management of the financial resources?
- What development programs would be in the interest of the different social groups (credit schemes, infrastructure, etc.)?

#### **(IV) Analysis of Key Transmission Mechanisms and Impact Assessment**

The analysis shall provide in-depth understanding of the transmission mechanisms that link the reform measures under consideration to the welfare of the poor district population and respective stakeholders. The five transmission channels to be analysed include employment, prices, access to basic services, assets and transfers. This part of the study shall provide information on how increased resource availability at district level is connected to improved services for the different social groups and how strengthened capacity in decentralisation translates into policy changes at district level that promote poverty reduction. The analysis of the key transmission channels provides the necessary basis for the impact assessment and will inform the research team on appropriate methodologies to be applied.

The impact assessment is the core element of the study and provides insight into the central research questions. Gathering data and information relevant for the question under consideration and choosing the appropriate analytical methods and tools are inherent components of the impact assessment. Integration of qualitative and quantitative data can provide a better understanding of impacts. However, the choice of methodology has to take into account the resources available for analysis (capacity and data). The assessment of impacts shall take into account the different scenarios elaborated under part (II) of the study and shall cover the alternative reform measures in relation to the relevant stakeholder groups. Questions to be examined with regard to impact assessment are:

- What would be the impact of a stronger reflection of the need factor in the distribution of funds from the DACF on the financial situation of District Assemblies (regional differentiation)?
- What would the impact of an increase of the financial transfers (i.e. increase in DACF funding from 5% to 7.5%) to the District Assemblies be? Differentiate between impact on different stakeholders
- What is the impact of other sources of income, such as locally generated funds, district HIPC funds and the allocation of MDAs' HIPC and other funds through the various line ministries? Differentiate between impact on different stakeholders
- What would be the impact of an increase of the resource availability (improved resource mobilisation) at district level? Differentiate between impact on different stakeholders
- What is the impact of additional infrastructure investment on the revenue situation of the District Assemblies (analysis on regional basis)?
- What is the (direct and indirect) impact of additional infrastructure investments on the employment and income situation of the different social groups (short and long-term)?
- What are the required economic and institutional framework conditions for positive impacts on the employment and income situation? To what degree are these conditions given at district level? Can this sufficiently be

influenced by local governments considering their present mandates and powers on one hand and their existing capacities on the other hand?

- What kind of control mechanisms are in place and are they appropriate to ensure the adequate spending of and accounting for funds by the District Assemblies?
- What are the minimum capacity levels required for effective service delivery by district structures?
- What are the constraints in developing the necessary capacity ?
- What are suitable mechanism for the development of necessary capacity?
- What attitudinal changes take place as a result of implementing GPRS?
- What are the attitudinal expectations for successful pro-poor decentralisation?
- What are the potential negative impacts of the proposed reform on the interests of different social groups and stakeholders?

#### **(V) Risk Analysis and Recommendations for Policy Reform**

The assessment of different risks (institutional, country, political economy, exogenous) to the reform and emanating from the reform. Key issues are:

- What are the risks with regard to inappropriate allocation of fund at the district level?
- What additional regulations are required to ensure transparency and accountability of resource management?
- What risks are linked to the implementation capacity of the involved stakeholders?
- What kind of compensation measures and corrective actions are required to minimize these risks?

#### **(VI) Process Orientation**

As the PSIA results are meant to inform policy, the sequencing and timing as well as the integration into the policy formulation process in Ghana is vital for the impact of the PSIA. A concept note shall outline how the analytical work will be linked with the policy related aspects of a PSIA. Key issues here are:

- How are the PSIA results embedded into the PRSC / MDBS discussions?
- How will the results and the policy recommendations be presented and to whom?
- How and when will the different stakeholder groups be consulted on the preliminary results?
- How shall the results be disseminated?
- Which forum takes these decisions?

Given that the application of PSIA is still in its pilot stage, exchange of experience and systematic knowledge sharing are crucial elements to systematically improve the PSIA approach for further applications in Ghana. The study shall therefore include a short process analysis with regard to the methodological approach, the methods, the process applied, the stakeholder involvement during the application of the PSIA as well as the impacts and results achieved in respect to present policy options to the Government of Ghana, Development Partners and other national stakeholders in the respective reform area, as well as influence in the policy formulation cycle.

### **V. ORGANISATION AND SCOPE OF WORK**

The Ministry of Local Government and Rural Development as well as the NDPC are coordinating the PSIA. Representatives of MLGRD and the NDPC will liaise with the study team through-out the study to ensure that maximum benefit is gained from emerging findings and lessons learned. The study will be supported by German Development Cooperation through GTZ and KfW. A Steering Committee and a Technical Committee will play oversight role on the study.

#### **TASKS:**

Task 1:

Present a comprehensive Concept Note (process as well methodological approach) how to operationalize the objectives of the ToR outlined above.

Task 2:

Literature Review (including government / policy related, grey and international literature) and field trips to identify the key issues for research and gain understanding of the context and the relevant stakeholders involved in pro-poor fiscal decentralisation, resource allocation, mobilisation and management and capacity for pro-poor decentralisation at district level in Ghana

Task 3:

Scenario and Stakeholder Analysis in order to identify the alternative reform options and key stakeholders for the research area as well as for the study itself.

An interim report based on the literature review as well as the stakeholder and scenario analysis shall be provided after completion of task three and present the methodology for the core research.

Task 4:

Core research based on an adequate methodology (to be developed by research team) to take into account existing studies, data and information, outputs from the monitoring system of the GPRS, qualitative and quantitative data. The core research shall provide in-depth understanding of the mechanisms by which the allocation, mobilisation and management of financial re-sources at district level impact on the social and economic development of districts in Ghana. The core research will furthermore provide the relevant information for an assessment of the potential impact on the welfare of the district population.

The preliminary findings from the core research as well as a concept for the discussion of the findings with the different stakeholders (workshops) shall be presented in a concise report after completion of task 4.

Task 5:

Workshops with different stakeholder groups to discuss preliminary findings with the different groups of stakeholders

Task 6:

Final report including policy recommendations with regard to the reforms proposed in the GPRS and recommendations for efficient pro-poor implementation of development programs at district level.

Task 7:

Share experiences and lessons learned: Conduct a process analysis with regard to the methodological concept and analytical processes applied as well as the impacts and results achieved in respect to the policy formulation process. The outcome of this process analysis will be documented in a separate report.

## **VI. EXPECTED OUTCOME AND DELIVERABLES**

This study aims to assist the Government of Ghana in policy formulation via evidence based analysis. This will improve upon the implementation of the GPRS and increase the chances for achieving positive results. It should provide information to the Government and other stake-holders on the impact of the specified GRPS-related policies or programmes and identify opportunities for enhanced steering of the overall process. The main outputs of this study will be a final report, the dissemination of results to the full range of stakeholders and relevant information for decision makers inside and outside government.

The deliverables comprise:

1. Comprehensive concept note (process as well methodological approach) how to operationalize the objectives of the ToR outlined above (see task 1).
2. An interim report based on the literature review as well as the stakeholder and scenario analysis to be provided after completion of task three. This interim report shall present the methodology proposed for the core research.
3. Short summary of preliminary findings from the core research as well as a concept for the discussion of the findings with the different stakeholders (workshops) shall be presented in a concise report after completion of task 4.
4. Final report including policy recommendations with regard to the reforms proposed in the GPRS and recommendations for efficient pro-poor implementation of development programs at district level.
5. Report on the outcome of the process analysis with regard to the methodological concept and analytical processes applied as well as the impacts and results achieved in respect to the policy formulation process

## **VII. COMPETENCE AND EXPERTISE REQUIREMENTS**

The team leader would ultimately be responsible for delivering the research outputs that meet the required quality standards and ensure the implementation of an effective dissemination strategy. It is therefore important that the team leader has sufficient research and team management experience.

The team should contain a mix of skills and experiences, including the following:

- Professional experience in relation to pro-poor decentralisation
- Familiarity with the Ghanaian decentralisation process
- Impact assessment study experience
- Strong knowledge of socio-cultural and poverty issues in Ghana
- Expertise in development issues
- Cross-disciplinary skills (e.g. social, economic, institutional etc.)
- Gender issues and analysis
- Familiarity with policy related work
- Experience in stakeholder consultation processes

The team should include international research expertise.

## VIII. TIMING

The study would take three calendar months to complete.

### Annex

Activities timetabled in the GPRS to enhance the implementation of decentralization

The GPRS recognises the importance of building capacity at the local level both for the success of decentralisation and for the effective implementation of the GPRS. This is reflected by the long list of activities timetabled in the GPRS to take place between 2002 and 2004. The decentralisation and local government capacity-related activities include:

- Roles of Regional and District departments rationalised, defined and enforced (2002)
- DACF increased to 7½ % (2002)
- Courses on open and participatory governance commenced for Regions and Districts (2002)
- Criteria for hard living District allowances established (2002)
- Local Government Service Bill reviewed, revised and strengthened (2002)
- Consultations between DA and CSO on mechanisms for instituting participation completed (2002)
- Comprehensive training schedule for Regional and District departments prepared (2002)
- Legal review on legislation related to decentralisation completed (2002)
- Capacity building courses for RPCU and DPCU commenced (2003)
- Courses on composite budgeting commenced for District Assemblies (2003)
- Hard living allowance progressively introduced (2003)
- Instructional courses on LGS law and role of District Assemblies for Assemblymen and staff commenced (2003)
- Courses for RPCU and other Regional departments on planning, budgeting and monitoring commenced (2003)
- Community participation, including PPA, instituted and commenced in pilot Districts (2003)
- District Poverty Profiles Prepared (2003)
- Roles and procedures for Sectoral, Regional and District Planning units defined and enforced (2003)
- Initiate process of changing the Constitution to get District Chief Executives elected
- Initiate process to get all Assembly members elected
- Capacity of District Assemblies to formulate basic development plans, programmes and projects achieved (2004)
- Responsibility for establishing intra-sectoral composition of expenditure for all District programmes and projects vested in District Assemblies (2004)
- Composite budgets introduced in pilot Districts (2004)
- Instructional courses to MDA on the LGS and role of District Assemblies completed (2004)
- Mechanism for working partnerships with NGOs and private business sector established
- Community participation, including annual participatory poverty analysis at Unit Level, established in all Districts (2004)

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