

A NEW LOOK AT THE FUNDING OF LOCAL GOVERNMENT IN GHANA

By

Joseph R.A. Ayee\*

Introduction

There are several problems facing local government in Ghana. They include finance, apathy on the part of the local people, excessive control from the centre, political interference and lack of personnel. Of these problems, I consider finance as the major one; adequate financing is crucial to the development of local government. For local authorities cannot adequately discharge their responsibilities if their revenue is meagre; and they cannot plan for the future if the revenue yield is unstable and unpredictable. And yet local government finance in Ghana in general has been bedevilled by inadequate revenue collection; by disproportionate amounts of the revenue that are spent on payment of staff salaries; by the focus of its expenditure on social services to the virtual neglect of investment projects; and by inadequate administrative control over the money collected.

This paper attempts to direct the search light to, and thus focus public attention on, the inadequate financial resources of the local

---

\*Lecturer, Department of Political Science, University of Ghana, Legon.

government units and recommends an effective means of overcoming this deficiency so that the difficulties experienced by individual local government units may not only be minimised, if not totally done away with but also that they (i.e. local government bodies) may become capable of playing effectively their legitimate role in the task of socio-economic development.

### Sources of Revenue

It is a significant fact that while local government services keep on expanding, the sources of revenue for local government bodies remain inelastic and unreliable. The main sources of finance are local taxation and government grants. Four alternative systems of local taxation were permitted by law. These were - and still are - the Basic Rate, the Graduated Rate, Property Rate and Rate on assessed possessions.<sup>1</sup> Of these, the most popular are the Basic Rate, payable by all able-bodied adults and adolescents of 18 years and above, and the Property Rate, payable by owners of premises in the local council area. Although these alternatives have obvious limitations in terms of reliability in yield and equity, there is no way of getting away from them in the short term.<sup>2</sup>

The other source of revenue for local government units is central government grants-in-aid. The following table indicates central government grants-in-aid over a number of fiscal years for three selected regions:

GENERAL ACCRA		ASHANTI		CENTRAL	
Fiscal Year	Amount	Fiscal Year	Amount	Fiscal Year	Amount
1978/79	¢32,144,682.71	1978/79	£30,649,422.00	1978/79	£7,123,124.00
1979/80	40,696,537.23	1979/80	38,444,413.00	1979/80	5,760,854.00
1980/81	30,456,600.00	1980/81	66,437,512.47	1980/81	8,912,984.00
1981/82	4,518,698.00	1981/82	295,000.00	1981/82	135,000.00
1982/83	7,405,974.00	1982/83	2,625,000.00	1982/82	1,540,000.00
Total	115,223,492.94		141,451,347.47		23,471,962.00

Source: Finance Section, Ministry of Local Government and Rural Development.

N.B. : The three regions are chosen only for convenience as an example of the general pattern in the country.

From the table it is obvious that the grants-in-aid from the central government fluctuate. The uncertainty and irregularity characteristic of grants-in-aid and the adverse impact it has on a local government unit's operations, especially on its development plan, further emphasises the undesirability of local government's overwhelming reliance on central finances for its developmental activities. It should be noted that the 1981/82 and 1982/83 grants-in-aid to local government councils were only given to them during the 1984 and 1985 fiscal years.<sup>3</sup>

The central government's inability to meet the developmental needs of the people at the local level makes it imperative for the local government councils to find financial resources other than the central government subvention and traditional taxes and rates. This suggestion is due to the inability of most councils, if not all, to meet their revenue targets for almost every year. The tables below indicate this vividly.

Table 1

1979/80

Name of Council	Estimated	Actual	Surplus	Shortfall
Sekondi/Takoradi	29,092,119.00	17,504,072.45		11,588,046.55
Aowin/Amenfi	456,780.00	351,103.16	-	105,676.84
Nzema	1,172,620.00	332,147.37	-	840,472.63
Sefwi/Bibiani	671,640.00	372,447.70	-	299,190.30
Wassaw/Fiasse/Mpohor	858,527.00	595,793.39	-	262,333.61
<u>1980/81</u>				
Sekondi/Takoradi	31,416,705.00	20,856,418.02	-	10,560,286.98
Nzema	457,230.00	262,022.79	-	195,207.21
Sefwi/Bibiani	3,726,420.00	530,110.25	-	3,196,309.75
Wassaw/Fiasse/Mpohor	4,287,590.00	3,081,614.66	-	1,205,975.34
<u>1981/82</u>				
Nzema	2,631,260.00	421,784.00	-	2,209,475.72
Sekondi/Takoradi	36,996,018.00	33,075,120.00	-	3,920,897.00

Source: Report of the Auditor-General on the Public Accounts of Ghana. For the Period Ended 30th June 1981 Second Supplement.

Table 2<sup>3</sup>ACCRA CITY COUNCIL

Fiscal Year	Estimated Revenue	Actual Revenue Collected
1979/80	£27,387,167.00	£14,507,028.50
1980/81	30,261,082.00	15,672,642.00
1981/82	20,877,064.24	6,212,110.00
1982/83	42,027,100.00	32,927,893.00
1983/84	75,171,602.00	40,932,510.00

Table 3<sup>4</sup>KPANDU DISTRICT COUNCIL

Fiscal Year	Estimated Revenue	Actual Revenue Collected
1979/80	£1,111,650.00	£1,196,383.23
1980/81	3,096,500.00	2,088,533.79
1981/82	1,956,410.00	1,272,688.66
1982/83	3,956,630.00	3,471,919.18
1983/84	5,952,780.00	4,657,589.12

The figures on Table 1 reveal the poor performance of the Nzema District and the Sekondi/Takoradi City Councils during the 1981/82 fiscal year in revenue collection and also the huge shortfall that occurred for all the Councils during the two preceding years.

In the case of the figures on tables 2 and 3 basic rates alone constituted about 45% of estimated revenue. Again, from the 3 tables it is very clear that something positive has to be done about the revenue generating capacity of the Councils before the situation deteriorates.

#### The Issue of Revenue - Sharing

Because of the financial difficulties facing local government councils in Ghana some scholars have advocated systems of revenue sharing between the central government and the local government councils: Nkrumah, for example, has stated,

Both the central government and local government councils could derive revenue concurrently from the same source. The fruitful sources of revenue such as excise duties on beer, cigarettes and textiles and personnel and company taxes would lend themselves as to this double taxing. This could be done by raising the rate of taxation.<sup>5</sup>

But successive governments in Ghana have been unwilling to share revenue with both regional and local councils because of their "desire to avoid multiple tax arrangements that could lead to confusion and also the scantiness of personnel in the area of tax administration",<sup>6</sup> though the central government's tax net is wide and indeed covers all the lucrative areas. Yet a revenue-sharing formula must be fully considered and adopted by the government because the bulk of the

Ghanaian population is in the areas of jurisdiction of local government councils which provide services directly for the people in the rural areas who are not less than 75% of the total population. We contend that the potential utility of our local government system is undermined by inadequacy of funds. This situation may be rectified if the central government should withdraw from certain tax fields, which would be taken over by our local government councils.<sup>7</sup>

#### Local Credit Institution

One other effective means of assisting in the provision of the necessary capital finance is the establishment of a specialised Local Credit Institution<sup>8</sup> to mobilize local resources for the development of our local communities. The establishment of such an institution is of supreme importance to local governments throughout the world and especially to those developing countries such as Ghana. Such a central financial institution would be responsible for collating funds from various sources and for lending money to local government councils to help finance their capital development projects.

If such an arrangement were successfully introduced, it would enable our local government units to play an effective role in the provision of social services to our rural communities. Assigning greater responsibilities to local government councils is realistic only with the establishment of a local credit institution, if their



ability to meet the day-to-day expenses arising from the provision of essential social services is not to be overtaxed. In trying to fulfil new and increasing obligations, local governments in developing countries generally experience capital shortages. In Ghana while the central government enjoys flexibility in its revenue-raising ways, local government bodies are greatly restricted in their access to resources because they need the approval of the central government to both taxation and borrowing.<sup>9</sup>

We strongly feel that specialized credit institutions for our local authorities would assist in obtaining a more satisfactory supply of funds to finance both developmental and welfare projects. To go to the open market may be useful in some cases but in most cases the charges for the loans are too high. It would be more desirable therefore if special local credit institutions are formed on regional base as a means of providing financial and technical services to local government councils in each region. This is the operative idea behind the British Local Government Act of 1958 which empowers County and County Borough Councils, and in certain cases other councils, to set up the Local "Consolidated Loans Funds".<sup>10</sup>

To help the smaller local government units overcome the difficulties they experienced in securing capital in the open market, the British Government set up a body known as the Public Works Loan Board

(PWLB) which to all intents and purposes is a credit institution. It can, and, in fact, does, borrow money in the open market on the same terms as the Central Government. It then lends funds from its own resources to local government councils at a slightly higher rate than it (the PWLB) borrows itself. Although the rate of interest it charges is slightly higher than that which it borrowed from the open market, the fact remains - and this is crucially important - that the rate of interest is still considerably lower than the rate of interest the smaller local authorities would succeed in getting for money borrowed on the open market.<sup>11</sup>

#### Sources of Funds for the Proposed Credit Institution

The local credit institutions should rely heavily on governmental or public sources for funds with which they can start the lending operations to local government councils. Each regional administration should make available grants, in the form of annual appropriations, of about 2 per cent of all monies accruing to it every year to the credit institution in its area of jurisdiction. The local government councils in the region concerned should make their contributions in the form of regular deposits of surplus funds, and of proceeds from commercial undertakings. The Central Government should also contribute 3 per cent of all monies accruing to it every year. There can also be contributions from private sources as well, such as donations from

wealthy businessmen and women, while other possible sources include loans from international organizations and retention of profits accruing to the central financial institution itself.<sup>12</sup>

### Criteria for lending

The most important function of a credit institution is the lending of funds either on short, medium or long terms. The idea is to ensure that there is a steady flow of revenue.<sup>13</sup> In determining the duration of the loan the credit institution will consider the period for which it has borrowed from other lenders. Thus it is generally unwise and clearly unadvisable to borrow on short term and lend such funds on long term. Thus the credit institution, in lending funds to local government councils, will have to consider firstly, whether the local council has any legal authority to borrow which is a requirement normally imposed on local governments in developing countries, who must seek a loan sanction before funds are made available to them by any lending source. Secondly, the credit institution will look into the economic and technical viability of the project which the local government council has in mind. Thirdly, it will have to consider the financial position and the capacity of the local government council to repay the loan with interest. It follows that the lending institution will have to make exhaustive study of the credit-worthiness of the client as a pre-requisite for lending.<sup>14</sup>

Some other criteria have to be taken into account in deciding the amount of loan to be granted. Those that readily come to mind are the size of population and availability of arable land. The first of these criteria is in line with the Benthamite utilitarian principle of the <sup>15</sup> greatest good of the greatest number; the local government council with the largest population should receive the largest share of the fund. <sup>16</sup> The other criterion is of special significance because of the current emphasis on agriculture and the improvement of livestock by the Provisional National Defence Council (PNDC). Thus, the greater the cultivable and productive land a local government unit has the greater should be its credit-worthiness. These criteria should be considered together with the soundness of the proposal for lending in terms of cost-benefit analysis. It should be noted that these criteria will be affected by the Central government's fiscal policy as well as the prevalent economic conditions in the country as a whole. <sup>17</sup> Unquestionably, the local credit institution is not without some drawbacks. For example, it seems only the big local government units of the urban centres will really benefit from the scheme as they are the ones that can invest the funds they obtain from the credit institution in revenue yielding projects, so that repayment of the loan will not pose any problem.

### Organization and Management of the Credit Institution

Although the mode of operations of a local credit institution will be influenced to a large extent by the size of its capital, we would advocate the setting up of an internal governing body which would be charged with the responsibility of formulating the financial and administrative policies of the institution. This body should be able to deal with matters relating to the lending of funds as stipulated in the organization's constitution, the approval and disapproval of proposed local development projects based on feasibility study reports and the maintenance of the financial position compatible with the needs of the borrowing local government units. We suggest that members of the governing body should be appointed on full time basis by the Regional Secretary and drawn from Regional and local government councils. The members of the board should be experts in the fields of planning and financial management, since they would be responsible both for day-to-day running of the credit institution and planning, programming, budgeting and assessing the feasibility of projects.

### Conclusion

If adequate funds are to be made available as capital for local development and if the serious difficulties and inconveniences experienced at the moment by local government bodies, not only in financing their capital development programmes, but also in providing

satisfactorily essential social services, then the issues of the central government sharing revenue with local government units and the establishment of a local credit institution in each region should be seriously considered. The resolution of these issues is necessary if our local government bodies are to play a meaningful role in the socio-economic development of our rural areas.

#### NOTES

- 1) K.A. Owusu-Ansah "Ghana's Local Government in the Context of Development Administration" Greenhill Journal of Administration Vol.2, No.2, July - September 1975, p.35.
- 2) Ibid., p.36.
- 3) F. Mawuena Dotse, "The PNDC Decentralization Programme"; Paper presented at the 6th Annual Delegates Conference of the National Association of Local Councils at the Great Hall, University of Ghana, Legon, August 1985, p.5.
- 4) Ibid., p.5.
- 5) J.K. Nsarkoh, "Local Government Grants-in-aid and the Ghana Local Government Grants Commission", School of Administration Working Paper Series No.8, 1980, p.5.; Also S.A. Nkrumah: "Sources of Revenue for Regional Councils - An Exploratory Note", School of Administration Working Paper Series No.15, 1980; pp.2-3.
- 6) S.A. Nkrumah, op.cit., p.3.
- 7) S.A. Oladosu, Kaduna Essays in Local Government, Kaduna (1981), p.146.

- 8) By Local Credit Institution is meant an institution which is primarily responsible for advancing funds to local governments in order to enable them to finance essential communal services (especially services involving huge sums of money) which they render to their inhabitants. In some countries it is called a Municipal Fund.
- 9) UN: Decentralization for National and Local Development, New York, United Nations Publications ST/TAO/M/19 Sales No.62.11, H2 1962, p.162.
- 10) UN: Credit Institutions for Local Authorities: New York, United Nations Publications ST/TAO/M/61 Sales No.E.72, 11. H.1, 1972 p.36.
- 11) Ibid., p.38.
- 12) Ibid., p.39.
- 13) Ibid., p.39.
- 14) Ibid., p.41.
- 15) Oladosu, op.cit., p.88
- 16) Ibid., p.88.
- 17) UN: Credit Institutions for Local Authorities, op.cit., p.44.

#### REFERENCES

- |                  |      |  |
|------------------|------|--|
| 1) Nkrumah, S.A. | 1980 | "Sources of Revenue for Regional Councils" An Exploratory Notes in <u>School of Administration Working Paper Series No.15.</u>                   |
| 2) Nsarkoh, J.K. | 1978 | <u>A Second Look at Aspects of Local Government Finance in Ghana.</u>  |
| 3) -             | 1980 | "Local Government Grants-in-Aid and the Ghana Local Government Grants Commission" in <u>School of Administration Working Paper Series, No.8.</u> |

- 4) Oladosu, S.A. 1981 Kaduna Essays in Local Government, Kaduna.
- 5) Owusu-Ansah, K.A. 1975 "Ghana's Local Government System in the Context of Development Administration" Greenhill Journal of Administration, Vol.2, No.2  
July - September.
- 6) UN 1962 Decentralization for National and Local Development; New York, United Nations Publications ST/TAO/M/19, Sales No.62.11 H2
- 7) UN 1972 Credit Institutions for Local Authorities; New York, United Nations Publications ST/TAO/M/61 Sales No.E.72, 11 - H.1.