

## **FISCAL DECENTRALIZATION AND POVERTY REDUCTION: CITIZENS VIEW**

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### **ABSTRACT**

*This study intends to corroborate the positive theoretical relationship between fiscal decentralization and poverty reduction (Crook and Manor, 1998; Moore and Putzel, 1999; World Bank, 2001) base on non-monetary measurement. A qualitative research method was applied for the study. Focus group discussions was conducted using one-hundred and thirty (130) stakeholders in the community divided into five (5) area councils. The study revealed participants clear understanding of poverty. There was however, a limited support from the findings on the theoretical construct on the positive relation between fiscal decentralization and poverty reduction using non-monetary measurement. It was therefore recommended authorities must tackle both economic and social dimensions in any policy definition in order to achieve success at poverty reduction.*

**Keywords:** Fiscal decentralization, District assembly, Poverty reduction, Non-monetary measurement, Social projects, Ghana.

### **Contribution/ Originality**

By focusing on non-monetary poverty measurement index, this paper departs from using income consumption measurement in evaluating the impact of fiscal decentralization on poverty levels in decentralized rural district in Ghana.

## **1. INTRODUCTION**

For decades, poverty reduction has engaged the attention of national governments and global institutions. Consequently, considerable progress has been made in terms of design of policies and strategies and building appropriate structures, incentives and institutions to combat rural and urban poverty around the world. In the 1980s an unprecedented wave of decentralization swept across Asia, Latin America and Africa (Crawford, 2008). The global call for adoption of decentralization is as a result of its benefits to national governments (Manor, 1999; Blair, 2000; Crook and Sverrisson, 2001; Francis and James, 2003) and direct expected link to poverty reduction theoretically (World Bank, 2001; Jutting *et al.*, 2005).

As the demands on developing countries to decentralize mount, several issues come to the fore: definition and measurement of poverty; type of decentralization that would deliver the expected benefit; lack of local government capacity to generate sufficient financial resources and inadequacies of central government financial transfers to commensurate with responsibilities in implementing fiscal decentralization (Owusu and Yankson (2007).

In Ghana, inter-governmental fiscal transfer has been a constant and important fiscal policy consideration since the promulgation of the 1992 constitution and the local government Act. The Acts provide for the establishment of District Assembly Common Fund (DACF) to give Metropolitans/Municipal/Districts Assemblies (MMDAs) more financial autonomy to make decisions at the local level. The fund is to complement the internally generated funds of the MMDAs in the development of the rural areas so as to reduce poverty among the people through the provision of social infrastructural projects and allocating a percentage of the fund for income generating ventures to improve incomes of the local population (Bossuyt, 2000).

Since the passage of DACF Act, (Act 455), large amount of resources have been transferred from the central governments to the MMDAs. However, the debate as to the effectiveness of inter-governmental transfers in eliminating poverty in Ghana rages on. For example, whiles Von Braun and Grote (2002) classified Ghana's decentralization as successful, Twum-Baah (2000) argues little benefits of the overall growth process have been felt by the poor.

While a review of the literature on poverty in both developed and developing countries reveals a growing interest in the application of non-monetary poverty approaches (Nolan and Whelan, 2010), the use of poverty line in evaluating the impact of decentralization (income and consumption measurement) is still largely in use in Ghana (GoG/NDPC, 2002; Ghana Statistical Service (GSS), 2007; Ghana Statistical Service (GSS), 2013). Furthermore, In spite of previous studies, knowledge regarding the decentralization and poverty reduction nexus still requires further empirical investigation in view of the conflicting conclusions in the literature.

This study sets itself the task of assessing whether there has been any significant change in the level of poverty through the provision of public services, from the perspectives of the rural poor, since the inception of fiscal decentralization (inter-governmental transfer).

## **2. LITERATURE REVIEW**

### **2.1. Defining Poverty**

Though poverty is regarded as a multidimensional phenomenon that exists in many parts of the world, the concept "poverty" unfortunately, is suffering from definitional problem (Maxwell (1999) According to the World Bank (2001), poverty is pronounced deprivation in well-being. This well-being is made of multiple human deprivation dimensions such as economic, social and political. In supporting the World Bank view, Todaro and Smith (2009) asserted the word "poverty" can be considered to have a cluster of different overlapping meaning, depending on which subject area or discourse is being examined. They further argue poverty description may also vary with values and attitudes of the society under consideration and with its characteristics.

Several authors also make distinction between different dimensions of poverty. For example; Moser (2004) and (Sen, 1999) emphasized on lack of combination of assets; consumption and

participatory approach to poverty (Kanbur and Shaffer (2006) and individual and collective poverty (Braathen, 2008). The above conceptual distinctions suggest poverty can be seen partly as a value judgment, based on criteria that differ from society to society. In this sense, conditions that define poverty can differ quite significantly across countries and cultures. This phenomenon call for different approaches to poverty reduction.

## 2.2. Poverty Situation in Ghana

The most current poverty report in Ghana compiled by Ghana Statistical Service (GSS) indicates a decline in the overall poverty across the country. The report points to a decline in absolute poverty from about 7.4 million individuals in 1991 to 6.2 million individuals in 2006 (GSS, 2007). In percentage term, the poverty rate fell from 51.7% in 1991/92 to about 28.5% in 2006. However, there exists a significant difference across regions of Ghana. As such the overall poverty situation can be described as both rural and agricultural. For example, the decline was noticeable in the Southern belt where there is predominant production of cash crops, food producing and fishing communities (GoG/NDPC, 2010). Despite the reduction in the overall poverty incidence from about 36% in 1991/1992 to about 29% in 2005/2006, extreme poverty continues to be high in the rural areas of Ghana. It stands at 25.6% compared to 5.7% urban and 18.2% national in 2005/2006 (GSS, 2007).

## 2.3. Fiscal Decentralization in Ghana

The decentralization concept as used in development studies has variety in relation to meaning, forms, purpose and attributes (Rondinelli, 1981; Wolman, 1990; Kiggundu, 2000). Fiscal decentralization is commonly defined as the transfer of the fiscal power and resources from the central government to subordinate or quasi-independent government units (Oates, 1999). In international development, fiscal decentralization generally is approached from four angles: public finance reform (Boex and Tidemand, 2008); governance-driven decentralization reforms (Asfaw, 2007); poverty reduction reform (Falletti, 2005) and strengthening of local participation (Boex and Tidemand, 2008). Ahmad and Brosio (2006) noted that fiscal decentralization reforms will fail if it does not address the above four dimensions. Similarly, the reform efforts will fail when policy reforms at the central level are not accompanied by capacity strengthening at the local level (Ahmad and Brosio, 2006).

Ayee (2000) traced decentralization in Ghana to the introduction of indirect rule by the British colonial authorities in 1878, which lasted up until 1951. Fiscal decentralization in Ghana has been designed to promote poverty reduction through rural development. It is backed by brawny legal environment, thus section 240 (2c) of the Local Government Act 1993 (Act 462) and section 245(b) of the 1992 constitution (Republic of Ghana, 1993) that seeks to promote and ensure its success over the years. The law designated for the lodging of 7.5% of the total tax revenues of Ghana to the district assemblies for development and of which the amount shall be paid into the DACF in quarterly instalment. In principle, there is no control on the use of the funds but in practice, guidelines are issued which in turn limits the freedom of the MMDAs (Appiah *et al.*, 2000). The distribution of the fund is therefore based on the recommendation of the

administrator of the fund which has to be approved by parliament before disbursement to the MMDAs can proceed (Osei-Akoto *et al.*, 2007). According to Fynn (2011) the five main factors that are applied in sharing the fund among the districts include: equality, need factor, responsive factor, service pressure factor and the reserve factor.

#### 2.4. Decentralization and Poverty Reduction

Decentralization has long been highlighted by the World Bank as having the potential of increasing governments responds to the pro poor (World Bank, 2001). In contribution to this assertion, Steiner (2007) argued decentralization can contribute through increased participation in public decision-making which can enhance informational benefit regarding local needs and preferences.

Though the positive relationship between decentralization and poverty has been theorized, such claims have generally not been supported by empirical evidence.

Empirical studies on the relationship between decentralization and poverty in the literature is now gathering pace since the earlier works of VanZyl *et al.* (1995) and Semidei *et al.* (1996). However, bulk of this studies were based on country observations and the findings are welfare cantered (Braathen, 2008); neglect specific country characteristics while assuming homogeneity of nations in their analysis (Jette, 2005) most of the reviews were based on secondary literature (Von Braun and Grote, 2002; Crook, 2003; Jutting *et al.*, 2004; 2005; Vedeld, 2003). Finally Crook (2003) indicated 'most data are derived from partial case studies that are not systematically comparable and with few case studies satisfying the minimum requirements for a valid internal measure of performance.' Significant of note is that the widest reviews were conducted by Crook and Sverrisson (2001) and Jutting *et al.* (2004). These studies cut across Asia, Africa, Latin America and with few states in India. Interesting the findings from this studies share familiar features. That is decentralization and poverty reduction are negatively correlated (Crook and Manor, 1998; Moore and Putzel, 1999) and that decentralization can have a harmful effect on poverty levels (Crawford and Hartmann, 2008) which remains discouraging for the decentralization advocates.

The seemingly negative poverty reduction evidence of decentralization in the literature can also be reviewed from angle of measurement of poverty indicators such as participation and empowerment and socio economic outcomes. For example, while Jutting *et al.* (2004; 2005) and Von Braun and Grote (2002) examine poverty reduction through political, economic linkage, Crook and Sverrisson (2001) look for evidence of poverty reduction through increased 'responsiveness and participation' and improved 'social and economic outcomes. Furthermore, Braathen (2008) and Skira (2006) also look for proof of poverty reduction through inter-governmental fiscal transfers and assignment of expenditure responsibilities to different government levels.

The general conclusion from the survey reveals that decentralization has not had a significant effect on poverty reduction and majority of the "studies reveal a failure of decentralization to help the poor" (Crook and Sverrisson, 2001). For example, a study by Jutting *et al.* (2004), establish 'an unambiguous link between decentralization and poverty reduction".

Jutting *et al.* (2004) classify countries by performance into four categories: positive (three countries); somewhat positive (four); somewhat negative (nine); and negative (five). Reviewing the literature on decentralization and poverty reduction link, Vedeld (2003) shows that there is “little evidence to convince that decentralization will necessarily produces gains for the poor”. Bossuyt and Gould (2000) also found a weak link between poverty reduction and decentralization after analysis of cases in Africa. The same applies to the study of Steiner (2007) in Uganda.

Despite the negative results, there are however few success cases. For example, a study by Braathen (2008) in Tanzania shows a reduction in poverty at the sub-national level with implementation of fiscal decentralization reform using both primary and secondary data and descriptive approach. Similarly, a further study by Skira (2006) using 165 countries in evaluating resultant poverty effects of fiscal decentralization reveals that fiscal decentralization has the potential to reduce poverty. Other countries of relative of success include Ghana, South Africa, West Bengal, Bolivia and the Philippines (Jutting *et al.*, 2004). However, none of these countries have attained ‘substantial effects on poverty reduction (Crawford and Hartmann, 2008).

### 3. METHODOLOGY

A total of one hundred and thirty (130) participants, specifically twenty six (26) selected from a population made up of five (5) area councils in the Akatsi District of Volta Region was used for the study. The composition of twenty six members for each area council was made up of twenty (20) community’s members who are farmers, artisans, traders and teachers. The chief (1), four (4) elders of the community and the assembly or unit committee member (1).The authors adopted qualitative method to examine the citizen’s experience and understand their perspective (Green and Thorogood, 2004) regarding the use of DACF in poverty reduction drive in the District.

Proportional quota sampling technique was used in choosing the 20 study participants in each area council base on the ratio of 12:8 for male and female respectively, in each local council area. The aim is to guarantee the representation of significant dimensions of the population (Scheaffer *et al.*, 2006; Levy and Lemeshow, 2008). To participate in this study, respondents must be resident within the district for at least three years. Area council secretaries who are the administrators were engaged to assist in the selection because they have a fair knowledge about people within their area that can provide information that will be needed in this situation. A focus group (FG) discussion was the main instruments used to collect data from the various local councils for the study. The aim was to gain direct contact with influential members of the community and increase researcher's understanding of their experiences, aspirations, needs (Krueger, 1988; Morgan, 1988; Stewart and Shamdasani, 1990) and capture the different perspectives of the groups about poverty reduction strategy employed in the respective districts (McDonagh-Philp and Bruseberg, 2000). Two trained research assistants aided in moderating the interview guide and more importantly, interpreted the questions in the local language and recorded the responses using a recording device. Each session of the focus group discussion lasted on the average, two and half hours. The recordings were later transcribed; common themes were identified and coded based on the research objectives.

## 4. RESULT AND DISCUSSIONS

### 4.1. Conceptualization of Poverty at the Grassroots

The first goal of this paper was to conceptualise respondents understanding of poverty. *In this light they were asked to explain what they perceived as poverty.* Participants from FG1 and FG3 perceived poverty as being in the state of unemployment or low income employment and dependence on others. Similarly, Participants from FG4 also perceived poverty as lack of access to basic social amenities such as schools, electricity, water, good roads etc. Whilst FG2 and FG5 agree with the earlier responses, they added mythology dimension. Thus they saw poverty as a bad omen which consumes people's money.

The question "*who are the poor*" was posed to them in a direct attempt by the researchers to examine whether the respondents recognised poverty as an incident close to them or within their community. Participants in FG1, FG3 and FG4 identified the poor as the unemployed with unstable income and the individuals who have no access to basic amenities such as access roads, healthcare facilities, schools, no income generating activity. Participants in FG5 identified the poor as those who cannot cater for themselves and cannot receive help from others. Finally, participants in FG2 identified the poor as farmers.

A follow up question was posed to determine whether the participants considered themselves as *being poor, the causes and what could be done to eliminate it.* All the respondents in the focus groups indicated they were poor. Furthermore, participants in FG1 and FG3 indicated poverty was caused by unemployment, low income and lack of access to markets. Participants in FG4 and FG5 also indicated it was caused by lack of employable skills resulting from a lack of good education and laziness. Participants in FG2 believed it was caused by poor rainfall patterns, use of simple farm implements for agricultural production, low pricing for farm produce and improper family planning, resulting in unplanned child-bearing. The responses by majority of the participants to the question –*what can be done to reduce poverty in the community* included provision of good motorable roads, tractors services, agro-processing factory, provision of irrigation facilities, stable prices, skills training, funding for farmers and provision of social amenities. However, minority also proposed provision of government jobs and government backed credit facilities and finally one group added that to reduce poverty, assist the community to get what it lacks.

The results from the study show participant's understanding of poverty can be categorized into both economic dimension and social dimension. For economic dimension, their awareness was anchored on unemployment and low income and from social dimension it is anchored in lack of basic social amenities such as schools, electricity, health facilities etc. Others also have controversial outlook of poverty where they consider the poor as farmers. This view reflects the general societal view about farmers in the country. Because in Ghana majority of farming is on subsistence basis linked with low earnings from the market, which subsequently impact on their livelihood. It is therefore not surprising the causes and solutions recommended by some of the participants are related to agriculture.

#### 4.2. The DACF and Provision of Social Projects

This section of the focus group discussions provides the findings regarding possible channels through which fiscal decentralization can provide non-monetary outcomes. The results were reported using Human Development Index (HDI) categorised into the following dimensions: education, health and living standard.

Education is an important tool for providing people with basic knowledge, skills and the competencies to improve their quality of life at all levels of development (GSS, 2007). A number of studies identify a direct positive link between education and better health through knowledge of combating diseases (Psacharopoulos, 1991; GSS, 2007). Provision of education was analysed as a non-monetary educational factor. For educational outcomes all participants in the FG's indicated they have seen evidence of educational infrastructures been provided using government transfer.

In addition, the health status of people determines their quality of life, level of productivity and longevity, and this is directly linked to the general state of development of a country (GSS, 2007). Provision of health facilities was assessed as the non-monetary index. In an answer to this, all respondents affirm there is an evidence of health care facilities provided using government transfers.

It has been widely argued that improved access to adequate living standard indices would lead to improvements in the health, hygiene, livelihoods, psychological wellbeing (UN-Habitat, 2009). Provision of electricity, good roads, sanitation, good drinking water and markets facilities was assessed as the non-monetary index.

For electricity, good drinking water, all respondents in the FGs asserted there DA provided them with those facilities. However, participants in FG1, FG3 FG5 indicated the DA did not undertake any (developmental) projects within their localities with respect to good roads, sanitation and markets facilities.

This finding reveals that in the communities studied, a considerable proportion of them are deprived of some indicators. This will subsequently reflect in the inequality in the level of development and poverty situation (Aryeetey *et al.*, 2009).

#### 4.3. The DACF as a Tool for Poverty Reduction

The final section of the focus group discussion was aimed at determining whether the provision of non-monetary benefits help in reduction of poverty within the communities the research was conducted. The result from the investigation is mixed. In communities lacking the provision of markets, good roads and good sanitation (FG1, FG2, FG3) all respondents suggested the provision of social amenities does not in any way have a positive impact on poverty. For all other communities that have all HDI facilities provided, while majority of the participants in the FG discussion indicated implementation DACF has resulted in a decrease in poverty, an equally high proportion of the sample also asserted they cannot tell whether it has decreased poverty. This finding is not surprising because majority of the indigenes are farmers, artisans and traders. Where there is inadequacy of social services the ability of the locals to generate money from the



sale of their farm and artistry products is limited. Consequently, their ability to pay for education and health also becomes a challenge. These would in no doubt impact on their life negatively.

## 5. CONCLUSION

The inadequacy of empirical studies in confirming theoretical relationship between fiscal decentralization and poverty reduction using the monetary income or poverty line measurement has brought in its wake the need for engaging alternative complementing approaches in helping to determine poverty alleviation claim of decentralization. For this reason non-monetary poverty measurement was employed since it takes into accounts the view that poverty is more than income.

With respect to understanding poverty, the research has revealed that the people in the studied district have adequate understanding of poverty. Two major dimensions were identified: economic and social dimensions. Interestingly, their views reflects long held believe that poverty is a multifaceted issue (World Bank, 2001; Todaro and Smith, 2009).

Paradoxically, opinion of respondents was split regarding poverty reduction potential through the provision of social amenities. While all respondents agree, the introduction of the DACF has resulted in the provision of projects, an equally half of the respondents are less impressed about its impacts on poverty reduction which concurs with the findings of Crawford (2008) in two communities in two regions in Ghana. This finding also supports the assessment of Crook and Sverrisson (2001) that decentralization is a clear illustration of disappointment to help the poor, rather than the more optimistic judgement opinion held by of Von Braun and Grote (2002) and Jutting *et al.* (2004).

The finding coincidentally shows the inadequacy of the non-monetary measure alone in determining the impact of decentralization. It is therefore noteworthy to indicate that, the intricacy surrounding constituent's of poverty definition clearly indicates that extreme emphasis on one measurement index cannot be the complete answer in understanding all the factors that lay at the core of poverty. A major strength is to blend both economic pointers and social trends since this procedure recognizes that there is much more to well-being than only economics.

This study is limited in that; it considers only one dimension of fiscal decentralization, thus intergovernmental transfers. A combination of all dimensions would be helpful examining the full effects of fiscal decentralization.

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