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Reducing poverty through fiscal decentralization in Ghana and beyond: A review

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Abstract: The unfinished agenda in the theory and practice of fiscal decentralization is how fiscal decentralization affects the universal plague of poverty reduction in developing economies. Focusing on developing economies especially Ghana, and also employing secondary sources of information, this paper made an attempt to provide a holistic review of the concept of fiscal decentralization and its effects on poverty reduction from the optimist and pessimist views. The paper affirmed that fiscal decentralization has the potential for poverty reduction when it is characterized by greater financial autonomy of the local units with proper budgetary allocation, prioritization, accountability and responsiveness. Accountability and proper regulation may reduce some institutional setbacks such as corruption from the system. We, therefore, recommended for a more effective, efficient, and transparent institutional and legal framework to ensure effective fiscal transfer between the central and local governments in order to eliminate various lapses associated with fiscal decentralization as highlighted by the pessimists.

Subjects: Development Policy; Rural Development; Economics and Development

Keywords: fiscal decentralization; poverty reduction; optimist view; pessimist view; developing economies; Ghana

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PUBLIC INTEREST STATEMENT

Currently, Ghana like other developing countries is pushing for a greater fiscal decentralization to break down its centralized fiscal management system to promote efficient service delivery, participation, and ultimately reduce poverty. However, much less attention has been given to the linkages between fiscal decentralization and poverty reduction in Ghana and especially other developing countries. We, therefore, surveyed the literature to understand the various arguments thoughts and opinions regarding fiscal decentralization and poverty reduction discourse. The review shows that fiscal decentralization programme is worth pursuing because it may has a direct and indirect impact on poverty reduction. However, we warned that fiscal decentralization influence on poverty is not straightforward. This finding calls for extensive research to be done by policy makers and advisors before formulation and implementation of any fiscal decentralization initiative intended to reduce poverty.

1. Introduction

Decentralization is defined as the transfer of the responsibility of planning, decision making, resource allocation or administrative authority from central government to its field organization (Rondinelli & Cheema, 1983). Globally, the concept of decentralization has gained prominence in the last two decades (Rondinelli & Cheema, 1983). However, the seeming universal embracement of decentralization especially in the developing countries is underpinned by the inherited virtues of decentralization such as popular participation, democracy, responsiveness, accountability, and equity. These virtues have led to the belief that decentralization will lead to greater responsiveness to the poor (Crook & Sverrisson, 2001).

Specifically, there has been a worldwide revival of interest in fiscal decentralization from the 1990s onwards with most developing and transitional countries declaring their intention to embark on some type of fiscal decentralization initiative with the primary policy objectives of fostering economic growth and escaping from the traps of ineffective and inefficient governance and macroeconomic instability (Deininger & Squire, 1996; Martinez-Vazquez & Mcnab, 2003). Financial responsibility has, therefore, been emphasized as core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have an adequate level of revenues either raised locally or transferred from the central government as well as the authority to make decisions about expenditure (World Bank, 2001).

More importantly, two major trends have significantly influenced the political reality of numerous developing countries in the past two decades. First, poverty reduction has been seen as the overarching goal of development policy, which has been heavily influenced by stabilization and structural adjustment until the early 1990s. Poverty is arguably Africa's most daunting development challenge. Access to jobs, quality of education, health services, housing, and water supply remain inadequate for the majority in most cities. Although poverty is a universal concept, its definition is often contested. The term "poverty" can be considered to have a cluster of different overlapping meanings depending on the subject area or discourse. In 1975, the European council adopted a relative definition of poverty as "individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the member states in which they are". The United Nation also defined absolute poverty as "a condition characterized by severe deprivation of basic human needs including food, safe drinking water, sanitation facilities, health, shelter, education and information (UN, 1995, p. 57).

It is for this reason that academics and policymakers worldwide entered into a comprehensive debate about the design and implementation of poverty reduction policies. In contrast to the view held before, it is widely accepted today that macroeconomic reforms and economic growth are necessarily not a sufficient conditions for the reduction of poverty. Growth policy needs to be complemented with specific interventions in favour of the poor, while macroeconomic and political stability and good governance are regarded as prerequisites for the alleviation of poverty (World Bank, 2001). In this regard, fiscal decentralization attempts to solve fiscal crises and circumvent the limitations of central bureaucracies by transferring fiscal responsibilities to the local level. This aims at increasing the efficiency of public service provision as well as the effectiveness of public administration. But sometimes it merely takes the form of shifting the fiscal deficit downwards thereby maintaining the legitimacy of the national government (Litvack & Seddon, 1999; Manor, 1999; Shah and Thompson, 2004).

What pertain in Ghana are inter-governmental transfer and the power of Metropolitan, Municipal and District Assemblies (MMDAs) to generate revenue internally (Bird, 1993). The objectives of Ghana's decentralization programme is to increase local revenue mobilization, restructure allocation of resources to meet local needs, and empower MMDAs to make allocation decisions at the local level over both locally generated funds and those transferred from the central government (Kokor and Kroes, 2000). In accordance to these objectives, the MMDAs have been mandated under section 245 of the 1992 Constitution and Act 462 to collect fees, fines, rates, tolls and licenses in order to support socio economic development in their areas. Also, the District Assemblies Common Fund was established and has been in operation for over a decade. Other legal instruments also exist to strengthen decentralization and for that matter fiscal decentralization in Ghana including Local Governance Act, 2016 (Act 936) which replaces Local Government Act 1993 (Act 462).

The Common Fund of MMDAs enabled them to provide basic infrastructure in the field of education, health, water, transport, sanitation etc. to areas which have been neglected before (Thomi, 1999) which has a tendency to reduce poverty. However, the assumption of the effectiveness of fiscal decentralization in reducing poverty remains a contentious topic. The types of services and the local institutional context that local authorities have to face play an important role in the provision of services and poverty reduction. Nonetheless, finding systematic evidence for fiscal decentralization outcomes in Africa or elsewhere is difficult. Some comparisons have been made using degree of decentralization as the independent variable, but the measure normally used—sub-national expenditures as a proportion of total government expenditure—is so flawed as an indicator of the character and functioning of decentralization structure that the results obtained can only be suggestive at most (see Huther & Shah, 1998).

Although, the direct impact of fiscal decentralization on economic growth is well understood (see Martinez-Vazquez & Mcnab, 2003), the unfinished agenda in the theory and practice of fiscal decentralization is to understand how fiscal decentralization affects the universal plague of poverty reduction. Understanding these linkages, and quantifying any potential tradeoffs associated with them, should help produce more informed policies for fiscal decentralization in developing and transitional economies, specifically Ghana. Thus, this paper provides a holistic review of the concept of fiscal decentralization and its effects on poverty reduction using cases of different countries. In essence, this review will inform the various stakeholders and policymakers about the kind of relationship that exists between fiscal decentralization and poverty reduction as well as the viability of fiscal decentralization as a poverty reduction strategy in developing economies particularly, Ghana. Moreover, the paper will reinvigorate government and other stakeholders' commitment and willpower for effective fiscal decentralization policies implementation geared toward poverty reduction.

The rest of the paper is organized as follows. First we provide a brief report on the methods used for this review; second, we present and discuss the meaning and arguments relating to fiscal decentralization; third, we analyze the linkages between fiscal decentralization and poverty reduction; fourth, we present empirical findings to date regarding the effect of fiscal decentralization on poverty reduction in Ghana and beyond; fifth, we present a brief discussion and policy recommendation and finally; we conclude by summing up and reviews the policy implications from our current knowledge of the issues.

2. Methods (search strategy)

In order to ensure that this review encompassed all the relevant literature on the latest developments on fiscal decentralization and poverty in Ghana and beyond, we conducted a qualitative literature review on the concept of fiscal decentralization and its effects on poverty reduction. The search was done using English Language words such as *Decentralization Fiscal Decentralization*, *Poverty Reduction,* and *Fiscal Decentralization and Poverty Reduction*. This review included papers that met three inclusion criteria (published, unpublished document and right and reputable source) and one exclusion criteria (unidentifiable source). We included journals, conference proceedings, and papers written in English. A systematic search of the electronic databases PubMed, Web of Science, MEDLINE, Google Scholar, and Scopus which yielded a total of 104 search results, with 75 papers satisfying the full inclusion criteria. Out of the 75 papers, 40 were published whereas 35 were unpublished. The review followed a thematic analysis.

3. The concept fiscal decentralization (arguments in support and against)

The entrustment of sub-national units with the capacity and authority to generate, allocate and utilize financial resources has become very important for sub- national governments in their quest to achieve their desired development goals and objectives at the local level (Adam, 2011; Dick-Sagoe, 2012). However, the debate has centred on two sets of questions. The first examines the actual meaning of fiscal decentralization while the second assesses the main driving forces and reasons for fiscal decentralization and its overall benefits.

On the meaning of the concept, Martinez-Vazquez and Mcnab (2003) argued that fiscal decentralization may actually appear to be more popular among developing and transitional countries than it truly is because there is often a confusion in terminology and seems often to mean whatever the person using the term wants it to mean (Bird, 1993). This is because, what some transitional and developing governments call fiscal decentralization is actually nothing more than the geographical deconcentration of central government bureaucracy and service delivery (Martinez-Vazquez & Mcnab, 2003). Although, there are several ways to describe the process of fiscal decentralization, its essence is captured by the two related processes of either "delegation" or "devolution" of fiscal authority. In either case, decision-making power on the composition of expenditures and often on the composition and level of revenues is shifted to separately elect subnational governments (Martinez-Vazquez & Mcnab, 2003).

Fiscal decentralization involves defining fiscal responsibilities of the different levels of authority and also consists of fiscal instrument procedures that are aimed at helping in the public delivery of local goods (Bird, 1995). It entails dispersing previously concentrated powers of tax and revenue generation to other levels of government, example local governments are given the power to raise and retain financial resources to fulfill their responsibilities (Gregersen, Contreras-Hermosilla, White, & Phillips, 2004). In the view of Bird (1993), two quite different approaches may be taken to the concept fiscal decentralization. One views decentralization from the top down. The stimulus may be, for example, to make the life of the central government easier by shifting deficits (or at least some of the political pressures resulting from deficits) downward. Or it may be a desire on the part of the central government to achieve its allocated goals more efficiently by delegating or decentralizing authority to local governments. An additional goal may (or may not) be to increase the level of national welfare. In any case, this top-down approach suggests that the main criterion for evaluating fiscal decentralization should be how well it serves the presumed national policy objectives.

In contrast, the second approach to fiscal decentralization is from the bottom up. This approach stresses both political values-improved governance in the sense of local responsiveness and political participation, for example-and, again, allocative efficiency. Sometimes efficiency is explicitly defined in terms of improving welfare-the "decentralization theorem" of Oates (1972), for example, or the broader notion of increased scope for dynamic innovation that may be traced back to the Federalist papers. In other instances, such less individualistic concepts as "local autonomy" and "accountability" may be brought into play. Whatever the specifics of such "localist" arguments-and the variations are infinite, as Prud'homme (1991) and Dafflon (1992) emphasize in different ways-the appropriate criterion for evaluating fiscal decentralization differs sharply from that in the top-down approach.

On what causes developing countries to embrace fiscal decentralization, literature has copiously documented interestingly diverse reasons. Smoke (2001) identifies three main reasons why fiscal decentralization is relevant in developing countries. These are: the failure of economic planning by central governments in promoting adequate development; changing international economic conditions and structural adjustment programmes designed to improve public sector performance which have created serious fiscal difficulties for developing countries and; encouragement of the development of financial autonomy in developing countries by changing of political climates. Thus, fiscal decentralization can be considered relevant for effective governance, macroeconomic stability and growth. Musgrave (1959) is, arguably, the main architect of the basic theory of fiscal decentralization, which he labels fiscal federalism. He identifies the main economic functions of government as allocation, distribution and stabilization. The first function involves securing adjustments in the allocation of resources. The second similarly secures adjustments in the distribution of income and wealth. The third relates to policies formulated to secure macroeconomic stability. These suggest that fiscal decentralization has political, economic and social significance to the local level (Smoke, 2001; cited in Inanga and Owusu, 2004). Fiscal decentralization as a means of achieving local development is based on two arguments namely economic efficiency and local revenue mobilization (Bahl & Linn, 1992). The efficiency argument is that fiscal decentralization moves government nearer to the people and makes local governments more responsible for decisions about the level of taxes and expenditure, thus increasing welfare. The revenue mobilization argument for fiscal decentralization centers on the fact that a decentralized tax structure might actually lead to increase in the overall rate of revenue mobilization.

The discussions on fiscal decentralization suggest that there are many benefits to countries implementing it. Ayee (2000) suggested that the sustained interest in decentralization since independence in many African countries indicates that the promise the concept holds in involving the local people in the development process. Development is argued to be a motive for decentralization. In many ways, this is based on motives such as efficiency, equity, participation and democratization. It is based on the idea that with greater participation and local democracy, the benefit of local activities may be retained and reinvested in local needs and aspirations. Greater participation or representation is believed to lead to a more relevant planning process and the delivery of a more useful local service. A stable environment is believed to help create conditions in which people are more likely to invest (World Bank, 2000).

Fiscal decentralization may empower minorities and vulnerable groups to get involved in the development process at the local level (Kyei, 2008). The virtues of decentralization such as democracy, popular participation, responsiveness, accountability and equity have led to the belief that decentralization will lead to greater responsiveness to the poor. (Crook & Sverrisson, 2001). Empowerment strategies create enough space for the poor to effectively voice their pressing needs for it to be captured in decisions and policies that affect them at the local level. The empowerment would be evident at the level of participation in decision making, implementation and in the process of good governance through due recognition in which the destiny of the masses lies in their own hands. The involvement of the local people in decision making will ensure transparency and accountability in the utilization of resources which will eventually lead to addressing issues that will impact positively on poverty reduction (Dinye & Ofei-Aboagye, 2002).

Conyers (2000) identified fiscal decentralization as a means to reduce the financial burden of central government or public expenditure and safe revenue base by including revenue sources that can be exploited more efficiently by the local government. Reducing public expenditure can strengthen the central state. Generally, fiscal decentralization can bring about good governance. Good governance has been found to improve the variety of outcomes such as quality of life indicators or even GDP growth (Kaufmann, Aart, & Zoido-Lobatón, 1999). Decentralization and good governance are in many ways symbiotic and produce the best results especially when local elections and participation is present (Martinez-Vazquez and Mcnab, 2005; Manor, 1999). In this case, the extent to which decentralization and better governance improve local services delivery is related to the well-being of the poor and the reduction of absolute poverty. Relative poverty may also be reduced if the improvement in the quality of services is in those areas that are not often proportionally consumed by the poor. Enhanced efficiency and service delivery can directly improve access to basic services by the poor such as education, health, water, sewage, and electricity.

4. Fiscal decentralization and poverty reduction linkages

As poverty alleviation has not been a principal motivation for decentralization in general and decentralization has until recently not played a major role in the debate about poverty reduction (Steiner, 2005), earlier research focused heavily on the impact of fiscal decentralization on development in general (Bahl, 1999; Schroeder, 2003), and on aspects of development other than poverty, such as corruption (Arikan, 2004; Fisman & Gatti, 2002), public service delivery (Bardhan & Mookherjee, 2006) and health (Lieberman et al., 2005). However, more research attention has recently been paid to the link between decentralization (fiscal) and poverty (Braun and Grote, 2000; Jütting et al., 2004). Empirically, divergent and contradictory findings have been reported on the nexus between fiscal decentralization and poverty reduction. In this view, two main dominant schools of thought exist in the literature: the optimistic school of thought (Jütting et al., 2004; Braun and Grote, 2000; Rao, Bird, & Litvack, 1998) and the pessimistic school of thought (Crook, 2003; Davoodi & Zou, 1998; Tanzi, 1995; Zhang & Zou, 1998).

4.1. The optimist view: Fiscal decentralization and poverty reduction linkages

For the optimists, fiscal decentralization and poverty are indeed correlated and have come up with a general framework to exactly account for how fiscal decentralization affects poverty. The frameworks presented by Jütting et al. (2004) and Braun and Grote (2000) identify the economic influence of fiscal decentralization on poverty reduction via higher efficiency and better targeting. Even though, centrally provided investment in certain public areas enjoys economies of scale and size, it would be more efficient for lower levels of government to expend the majority of public services. The basic tenet/strength of the optimists' argument is that it clearly explains the processes and procedures involved in fiscal decentralization that lead to poverty reduction. This school theorizes that fiscal decentralization promotes greater responsiveness, efficiency and accountability. Local governments are expected to be in a better position to identify their local needs (including those of the poor) and to deliver public services accordingly (UNDP, 2005). In other words, the efficiency advantage in combating poverty that lower-level governments enjoy relative to higher level governments comes from the former's local knowledge and relative proximity to the target population—the impoverished.

Efficiency in public expenditures comes not only from better localized knowledge but also from greater accountability and inter-jurisdictional competition. More fiscal decentralization tends to entail a higher degree of accountability. Local governments now become more accountable to higher levels of government and to their local citizens. Greater accountability is more likely to be an incentive for local governments to improve efficiency in delivery of public services. Interregional competition might be able to improve efficiency by loosening the grip of local rent-seekers and the corrupt and by promoting government innovations and poverty reduction (Shah, 2007). However, these optimist's argument have been criticized on a number of grounds. For instance, Bashaasha, Mangheni, and Nkonya (2011) argue that a key ingredient of fiscal decentralization—the transfer of more financial political power and responsibilities to local leaders—may also provide an avenue for abuse. This feature opens the system to corruption, especially in awarding lucrative service contracts to friends, family, relatives, clansmen, and those who pay bribes. This corruption can lead to the marginalization of the poor in society such as women, the disabled, the less politically favored and other minorities, unless measures are explicitly put in place to deter it. For example, in Uganda, May and Baker (2001) observed that despite pressures on local politicians and staff at both the district and the sub-county level, corrupt behavior still occurs. The authors further observed that, in general, financial management, procurement, and audit systems were weak and that decentralization had exacerbated this weakness through a chronic shortage of qualified accountants at all levels of government. Flanay and Watt (1999) also referred to what they called the decentralization of corruption. Moreover, critics have argued that local governments may have limited capacity for revenue mobilization and low financial resource base due to limited sources of local tax revenue and overdependence on grants from the central government making poverty reduction impossible with fiscal decentralization (World Bank, 1999).

4.2. The pessimist view: Fiscal decentralization and poverty reduction linkages

The pessimists posit that the motivation for fiscal decentralization is not for reducing poverty but to foster economic growth and development (Martinez-Vazquez & Mcnab, 2003). The strength of this school of thought lies in its ability to bring to light the various issues in fiscal decentralization. As a result, any attempt by local governments in many countries to implement fiscal decentralization in a bid to reduce poverty tend to run deficits, and draw on the central government budget to cover their shortfalls; local governments fail to repay loans from the central government, again forcing the latter to dip into its general funds, often to repay loans to international development organizations, such as the World Bank (Davoodi & Zou, 1998; Tanzi, 1995; Zhang & Zou, 1998). Strictly defined arrangements for sharing central resources with local governments take control from the centre over how to use public resources; local governments tend to be more corrupt than central governments, leading to bad spending decisions and misuse of public resources; there is need to worry about the extent to which decentralized units of government compete with the centre for tax bases, or compete with one another by undertaking policies that may affect business costs and free domestic trade. With such occurrences, any poverty reduction effort may prove futile (Tanzi, 1995). Crook (2003) specifically argued that fiscal decentralization does not lead automatically to more pro-poor spending and political and administrative decentralization seem a precondition. Even higher public expenditure on social services may not translate into more or better services for poor. Programmes for poor people are too often of low quality and unresponsive to their needs.

A critical analysis of such arguments indicate that they are difficult to counter because most people would tend to agree that at least some of these problems exist in a significant number of developing countries. But a counter argument could be that these conditions may not exist in all developing countries and the elaboration of these problems relates to mainly short-term macroeconomic issues. Even if these concerns are real, it is important to consider whether they are eventually offset by potential microeconomic gains that justify decentralization in the fiscal federalism model. By focusing largely on examples of constraints of fiscal decentralization in relation to poverty reduction, the pessimists' school of thought failed to explain clearly the actual elements in fiscal decentralization which inhibit poverty reduction.

By recognizing the strengths and weaknesses of both thoughts regarding fiscal decentralization and poverty reduction, it can be argued that both arguments can work together to promote positive fiscal decentralization effects on poverty. As the optimists' argument enhances pro-poor spending and responsiveness, the pessimists thought on the other hand corrects the issues in the system thereby reducing poverty. Presently, it can be argued that the relationship between fiscal decentralization and poverty reduction can be time and country-specific thus, a specific finding at one country may not be the same at different settings largely owing to the institutional, cultural and social arrangements that differ among countries.

5. Empirical evidence on fiscal decentralization and poverty reduction in Ghana and other developing countries

The provision of social services, including education, health, agricultural advisory services, and rural infrastructure (rural roads, water, electricity, and so on), through fiscal decentralization is embedded in the larger decentralization processes that are occurring in the sub-Saharan Africa (SSA) region (Bashaasha et al., 2011). With an increased level of sub-national expenditures, one might expect more pro-poor spending for public services, such as health and education. However, empirical evidence existing in the literature to support both positive and negative linkages between fiscal decentralization and poverty is scarce with almost all the evidence emanating theoretically. The existing literature basically suggests pathways through which fiscal decentralization can lead to poverty reduction including: improvements in the level and quality of local services; improvements in revenue sources; better matching of local services to the preferences of local constituencies; and greater accountability (Inanga & Osei-Wusu, 2004). With this, issues of fiscal decentralization for the poor shall be further analyzed using poverty manifestation variables such as education, health, income, among others in the context of Ghana and other developing economies.

5.1. Fiscal decentralization and education

In a comparative analysis of decentralization of education in several sub-Saharan African countries, Naidoo (2002) concluded that initial indications are that fiscal decentralization creates intermediate levels of power which are accountable not to the grassroots they are supposed to serve but to the central authority or their own institutional interests. In general, the location of power has not really shifted from the center to the periphery but has reinforced the central control of the periphery. In Uganda, Reinikka and Svensson (2004) using panel data models to assess the extent to which the education capitation grant actually reached the intended end user (schools) revealed that schools received an average of only 13% of the grants, with most schools actually receiving nothing. The authors noted that local officials (and politicians) captured the bulk of the school grants. Assessing the Ugandan Primary Education implemented through fiscal decentralization, Nishimura et al. (2008) discovered that other than enrollment, the policy's actual effects are yet to be realized or empirically determined as the policy has not improved access to primary education for children of poor families by removing tuition fees. It has been seen due to the various other charges that are still levied (such as uniforms, meals, exercise books, local materials for building classrooms), a dropout rate as high as 55% has been observed.

According to Graham-Brown (1998), except in the rhetoric, the Ugandan educational system does not reflect any vision toward a society of more equity, though it does, in its structure, reflect continued growing inequality in society. Access to education continues to favor the more affluent groups. Net enrollment rate continues to be skewed against the poor from primary education to higher levels, with the situation getting worse with the advancement in levels. The net enrollment rate for secondary education varies from 2% for the poorest quintile to 27% for the richest quintile, and the net enrollment rate for higher education varies from 1% for the poorest quintile to 5% for the richest quintile. Overall, fiscal decentralization and UPE have made no meaningful contributions to alleviating these equity constraints.

In Bolivia, Elgar (2009) observed that increases in education transfers do not significantly affect the share of children not attending school. Habibi et al. (2001) studied the impact of devolution on social sector outcomes in Argentina for the period 1970–94 and concluded that fiscal decentralization had a positive impact on delivery of education and health services as well as reducing intra-regional disparities. Eskeland and Filmer (2002) using a cross sectional data from Argentine schools also found that decentralization of education led to improvement in school achievement scores. King and Ozler (1998) observed that decentralized management of schools led to improvement in achievement scores in Nicaragua. These findings are corroborated by Parry, who found that decentralization and privatization have exacerbated the negative consequences of educational decentralization, resulting in greater inequity in expenditures and greater differences in the performance of students from different income groups (Parry, 1997).

5.2. Fiscal decentralization and healthcare

As noted earlier, the general objectives of fiscal decentralization within the wider context are to bring financial power and responsibility closer to local communities, to respond to local needs, to build local capacity, and to improve accountability. Specifically for the health sector, improvement is expected in the form of increased utilization of health services, better access to health services, more coverage of the poor population with basic services, better quality of healthcare and, ultimately, a decline in the rate of illness and death (Jeppsson & Okuonzi, 2000). However, in Uganda, according to Jeppsson and Okuonzi (2000), existing data show no improvement in social services or people's quality of life during the period of the reform. In fact, many indicators have either remained the same or worsened fiscal decentralization. A case study conducted between December 2000 and February 2001 that used key informant interviews and analysis of Uganda's budget system and policy history found evidence of a steep decline in spending on primary healthcare following decentralization. It also found that funds intended for schools and health facilities were used for administrative costs, that health workers were rarely present, and that drugs and supplies were diverted for personal gain (Foster & Mijumbi, 2002). This observation agrees with the assertion of Bashaasha et al. (2011) that a key ingredient of fiscal decentralization—the transfer of more financial political power and responsibilities to local leaders—may also provide an avenue for abuse

Similar findings were obtained by Akin, Hutchinson, and Strumpf (2005), who analyzed district annual health work plans and budget patterns for fiscal years 1995/96, 1996/97, and 1997/98. Their findings supported the hypothesis that districts altered the budget shares of public goods and other types of health activities during the decentralization process. From 1995/96 to 1997/98, the overall budget share allocated to the public goods category of health activities decreased from nearly 50% of the total budget to around 30%. Their results also indicate a movement of resources out of highly public activities into brick-and-mortar and staff amenities—in other words, away from societal benefit goods and toward expenditures that benefit health sector managers and employees. These results bring into question the widely held assumption that decentralization necessarily increases social welfare (Akin et al., 2005). Apparently, it is the budgetary allocation patterns by local governments that prompted the central government to introduce conditional grants to local authorities in a bid to force them to cater for basic essential services (Foster & Mijumbi, 2002).

Burki, Perry, and Dillinger (1999) found evidence from six Latin American countries to indicate that the quality of service provision has worsened under fiscal decentralization. Transfer of financial responsibilities and resources and staff to lower levels of government neither improved service delivery nor reduced the costs of care. Local residents saw primary healthcare as unreliable, ineffective and unresponsive to their needs, while councilors were unclear of the health needs of their constituents, and had little knowledge of health plans and activities (Crook & Sverrisson, 2001). In Nigeria, Okojie (2009) observed that despite the significant local revenues, issues such lack of accountability, the funds earmarked for social and economic services at the local government level for rural communities are often diverted into private pockets. Even when the funds are not fully diverted, local governments provide substandard services. Thus, in Nigeria, it is estimated that total spending in the health sector (public and private) exceeds 6% of GDP, which is rather high by international standards. However, the health outcomes remain extremely poor and have not improved over the years. Infant and maternal mortality rates remained at 110 and 8 per 1000 births in 2005 (Federal Government of Nigeria, 2007). The impacts of poor service delivery are largely human, affecting both men and women.

In Ghana for example, the richest quintile receives nearly three times the public health spending received by the poorest quintile (Filmer & Pritchett, 1999). The health care system has been decentralized for some time through the establishment of district-based health teams (DHT) in Ghana. In Ghana, costs of medical consultations are perceived as high, but the quality of hospitals is perceived as more competent in general. Subsidies in health services tend to benefit wealthier groups. In Ghana's Volta Region, less than 1% of patients were exempt from health user fees, and 71% of exemptions went to health service staff in 1995 (Nyonator & Kutzin, 1999). On the contrary, Conyers (2007) quotes evidence from Mehrotra (2006) that indicates that decentralization of primary healthcare services to locally elected health committees in Benin, Guinea and Mali, and to local government in Mozambique, has increased access to affordable health services and this has contributed to improvements in immunization rates and infant mortality. Impact was found to be associated with the nature of the decentralization which was fiscal type where greater financial powers and resources were de facto transferred to local governments.

5.3. Water, sanitation and others

In the study by Okojie (2009) in Nigeria, spending on infrastructure does not translate to increased access to water and electricity. With respect to electricity, during 2001–05, the federal government spent N270 billion or more than $2 billion, through investment grants, subsidies and loans in the sector. Yet massive power shortages remain the major development constraint to the private sector and a critical social problem. No evidence of a clear improvement in the poorest municipalities, or for the poorest people exist. In Cote di'voire Crook and Sverrisson (2001) found that preferences expressed by local people for roads, social facilities and water supplies did not correspond to spending priorities of the communes, which focused on municipal buildings and secondary schools. A similar finding emerged from Ghana, where survey evidence from two districts demonstrated that 70% of respondents felt that the elected assembly did not respond to their needs. Expressed preferences for road repairs, health facilities, water supplies and electricity were not reflected in district assembly expenditure priorities which focused on commercial transport services, farming, manufacturing enterprises or markets, a situation exacerbated by the dominance of recurrent expenditures in district budgets (Crook & Sverrisson, 2001). However, Isham and Kahkonen (1999) observed improvements in water services in Central Java, Indonesia with local community management through fiscal decentralization. In addition, Estache and Sinha (1995) using data on a cross-section of industrial and developing countries found that fiscal decentralization leads to increased spending on public infrastructure.

5.4. Overall poverty effect

Bardhan and Mookherjee (2003) found that decentralized management advanced poverty alleviation goals in West Bengal, India. The same results were confirmed by Galasso and Ravallion (2001) for Bangladesh. In sharp contrast, Ravallion (1998) found that in Argentina, poorer provinces were less successful in favor of their poor areas and decentralization generated substantial inequality in public spending in poor areas. West and Wong (1995) found that in rural China, fiscal decentralization resulted in lower level of public services in poorer regions. Mitullah (2004) also found little evidence that fiscal decentralization has enhanced the position of the poor. In Ghana, Crook (2003) found that the effect of fiscal decentralization is difficult to ascertain and assess since poverty reduction has been the main reason for the Ghanaian fiscal decentralization programme. In addition, Zambok, Asubonteng, Aikins, and Adomako (2016) in their study on fiscal decentralization and community representation and poverty reduction in the Asokore Mampong Municipality and the Atwima Nwabiagya districts observed that fiscal decentralization has had no meaningful impact on poverty reduction due to issues like delays in disbursement of funds from the central government, inadequate human resources, logistics and weak revenue mobilization of local government units. Similarly, Kyei (2008) revealed that implementation of fiscal decentralization in Ghana over a decade has not improved the standard of living of the poor masses in most rural areas and can only reduce poverty when both central and local governments change their roles from providers of service and development project to facilitators or enabler for the local people to actively involve themselves in development decision which include project identification and implementation. Also, when the transformative participation involves the empowerment of the poor and the people disadvantaged in terms of wealth, education, ethnicity and gender to be part of the development decision and not just implementation process. When these are in place, citizens become sufficiently empowered to adequately mobilize resources, effective decision making to capture the view of the poor and the marginalized. Knowledge and skills of the local people would be utilized to help themselves and the community to bring about development.

6. Discussion and policy recommendation

In this paper, we have qualitatively and holistically reviewed literature existing on fiscal decentralization and its effects on poverty reduction in Ghana and beyond. This paper revealed that fiscal decentralization has become very important for sub- national governments in their quest to achieve their desired development goals and objectives at the local level due to elements such as efficiency, responsiveness, transparency, participation, empowerments that are believed to underpin it. The paper has also demonstrated that the relationship between fiscal decentralization and poverty is not one dimensional but rather two dimensional with both positive and negative impacts depending on the country and its internal institutional and socio-economic as well as cultural arrangements.

The paper also observed that paper observed from the literature that fiscal decentralization may promote poverty reduction when it is capable of supporting asset accumulation by the poor to engage in diverse livelihood strategies for meaningful livelihood outcomes. Also, any fiscal decentralization that is supposed to serve the poor must be part of a larger, more general framework, that is, a framework that helps to generate appropriate incentives for accountable decentralized decision making. On the contrary, in the absence of the foregoing factors coupled with low local capacities for income generation, management and decision making, fiscal decentralization may be practiced for a decade but its impact on poverty reduction would not be realized.

Based on the qualitative review conducted, this paper seeks to offer some tentative recommendations to shape the current fiscal decentralization arrangements in Ghana and beyond to promote the poverty reduction agenda. These include: a) an adequate enabling environment: This implies a well-planned and designed system where the central and local governments cooperate rather than unnecessary control and interference from the central governments; b) assignment of an appropriate set of functions to local governments: Mostly, local governments' functions are undefined and uncoordinated promoting duplication of functions and limiting performance measurement. In this regard, financial functions and responsibilities of local units must be clearly and appropriately stated and specified to enhance delivery; assignment of an appropriate set of local own-source revenues to local governments; c) aside the responsibility to generate, mobilize and manage financial resources, local governments must have adequate and appropriate sources where revenues to be collected, managed and utilized for public service would be internally generated. In the absence of this, local governments may continue to depend solely on central governments grants and other transfers; d) establishment of an adequate intergovernmental fiscal transfer system: Both effective, efficient and transparent institutional and legal framework or system is needed for the transfer between the central and local governments. Such system would help reduce or eliminate the various issues associated with fiscal decentralization as echoed by the pessimists e) establishment of adequate access of local governments to development capital: As not all local government units may have the financial resource base, developmental capital which will propel such units is critical for effective fiscal decentralization implementation and its associated effects on poverty reduction. These five key recommendations are considered critical for the implementation of a good fiscal decentralization programme leading to poverty reduction (Smoke, 2001).

7. Conclusion

This paper made an attempt to provide a holistic review of the concept of fiscal decentralization and its effects on poverty reduction from the optimist and pessimist views. The paper affirmed that fiscal decentralization has the potential for poverty reduction when it is characterized by greater financial autonomy of the local units with proper budgetary allocation, prioritization, accountability and responsiveness. Thus, any fiscal decentralization policy should endeavour to take into consideration these elements of good governance and decentralization.

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