1. Country and Sector Background

Ghana has experienced two decades of strong and sustained economic growth. The average GDP growth rate from 2001 to 2008 was a robust 5.6 percent and has translated into substantial poverty reduction—the national poverty rate fell from 52 percent in 1992 to 29 percent in 2006. Ghana is expected to become the first Sub-Saharan African country to achieve the Millennium Development Goal of halving poverty and hunger by 2015. With the recent discovery of oil, prospects for sustained growth are positive.

With the passing of the Local Government Law (Act 462) of 1993, the Government of Ghana (GoG) sought to implement comprehensive local government and decentralization reforms. Under this Act, 170 local authorities (metropolitan, municipal and district assemblies, or MMAs) have been created thus far. Act 462 (Article 10) outlines the general functions and responsibilities of MMAs, of which the main are: (a) responsibility for overall development of the district and preparation of development plans and budgets; (b) revenue mobilization; (c) supporting productive activities, infrastructure development, management of human settlements and the environment; and (d) maintaining security and public safety. Some successes have been achieved through the transfer of some authority and responsibilities as per the above from the center to the local level. In particular, the creation of District Assemblies Common Fund (DACF) transfers important resources to enable local authorities to fulfill some of these mandates. However, progress has been slow and hampered by contradictory regulations, lack of clarity regarding roles of the center versus the local governments, and capacity constraints.

Ghana is urbanizing rapidly. 2010 marks the year when Ghana’s urban population surpassed the rural population. 51% of the population currently lives in urban centers, and the urban population growth rate is high at 3.2%. Ghana’s cities and towns face vast challenges in managing urbanization and have so far been unable to meet the growing demands for infrastructure and services. This is evidenced by the increasing incidence of urban poverty, the
development of slums, and low levels of access to water, sanitation, and other services in urban areas.

**GoG has recently undertaken a series of important steps to reinvigorate its planned decentralization of functions to local governments.** A new Decentralization Policy Framework was finalized in 2010, clearly recognizing the need to accelerate the decentralization process by directly addressing bottlenecks and gaps, and to do so in a coordinated and holistic manner rather than the incremental changes attempted in the past. The accompanying National Decentralization Action Plan (NDAP 2010-2014) lays out priority areas for action. Other significant activities include the initiation of constitutional and legislative reviews related to the decentralization process, the introduction of Legislative Instrument 1961 transferring local level civil servants to a Local Government Service (managed by the Local Government Service Secretariat or LGSS), the creation of the Inter-Ministerial Coordination Committee (IMCC) on Decentralization chaired by the Vice President, and the establishment of the District Development Fund (DDF) offering performance based grants to eligible local governments. Collectively, these activities have established a renewed commitment to far-reaching decentralization as an instrument to improve the accountability and effectiveness of basic service delivery.

**Parallel to these decentralization initiatives, GoG has also prepared a draft national urban policy.** This reflects the growing consensus that Ghanaian cities are facing significant and growing challenges resulting from high rates of urban growth and recognition of the increasingly urban nature of both poverty and economic development. Although still under development, this policy recognizes the centrality of effective institutions of city management in positioning cities as future engines of growth and poverty reduction.

**The intergovernmental fiscal framework is not yet responsive to the specific and significant needs of Ghana’s cities.** A strong basis exists for fiscal decentralization in Ghana through the DACF and the DDF referred to above. However, fiscal transfers adopt a uniform approach to local governments that discounts the pressures faced by growing urban centers. Ghana’s cities not only face large scale, lumpy investment needs associated with capital intensive basic infrastructure networks (such as sanitation, water supply, local roads and public transport), but must also provide regional scale infrastructure that serve non-resident populations while coping with the pressures of rapid population growth. These needs are currently not being met through the existing fiscal transfer systems which spread funding across the 170 MMDAs. Additionally, most large scale infrastructure investments have thus far been financed through projectized approaches. The generation of local revenues from property taxation and user fees has received inadequate policy and administrative attention, as evidenced through the low proportion of financing generated from local sources (in 2009, local revenues amounted to an average of only 33% of total revenues in the 46 urban assemblies in Ghana). These are key constraints to sustainable and sufficient urban infrastructure investment, and also reduce the prospects for future municipal borrowing.

**As more powers and resources are being decentralized, ensuring that local governments are being held accountable to central government as well as to their citizens becomes**

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1 National Urban Policy (draft), 2010, Ministry of Local Government and Rural Development
increasingly important. Current accountability systems, both upward and downward, are weak. The unpredictability of resources makes it difficult for local governments to respond to the needs of citizens and undermines citizen participation opportunities that exist in the planning and budgeting process. Financial accounting and reporting systems need to be strengthened. Audits in large part either do not exist or are of insufficient quality, and there is limited sharing of information about finances and programs. Linkages between citizens and their assemblies similarly are very weak.

Decentralization in Ghana must thus increasingly meet the dual objectives of strengthening an accountable system of local governance while specifically enabling cities to meet the challenges of urban growth. Key to addressing these objectives will be measures to re-orient and enhance the capacity of both national and local government agencies to play the new roles demanded of them in a decentralized framework for governance and service delivery. For national government, enhanced ability to set priorities and support and monitor their implementation become critical, while at the local government level the capacity to design and manage local development interventions will be of key importance.

2. Objectives

The overarching goal of the project is to strengthen institutions that support accountable local governance for improved service delivery. The specific Project Development Objectives are:

i. To strengthen the intergovernmental fiscal framework;
ii. To strengthen local public financial management and accountability for improved infrastructure and services in urban assemblies; and
iii. To improve citizens’ engagement with urban assemblies and their perceptions of urban management

3. Rationale for Bank Involvement

Ghana’s current development document, called the Ghana Shared Growth and Development Agenda (GSGDA) presents its strategies according to seven thematic pillars: (i) ensuring and sustaining macroeconomic stability; (ii) enhanced competitiveness of Ghana’s private sector; (iii) accelerated agricultural modernization and natural resource management; (iv) oil and gas development; (v) infrastructure and human settlements development; (vi) human development, employment and productivity; and (vii) transparent and accountable governance. The last pillar notes the importance of upgrading public expenditure and financial systems, strengthening social accountability mechanisms and implementing effective decentralization to local governments.

In 2007, development partners, including the World Bank, formulated a Ghana – Joint Assistance Strategy (G-JAS) to support government’s development agenda. The Bank’s specific program of support under the G-JAS (the CAS) provides an explicit commitment to make available analytical and financial resources to strengthen governance through “activities in decentralization, including urban policy, public sector reform, economic governance and promoting evidence- and results-based public policy choice”. This project will specifically contribute to this commitment. It will allow the Bank to leverage its comparative advantages in: (i) being able to bring a growing body of operational experience across Africa and elsewhere on
systematic approaches to strengthening accountable local governance and service delivery; (ii) making a long term commitment of resources that can assist in the programmatic implementation of decentralization initiatives; and (iii) working with a broad range of development partners.

GoG has recently demonstrated a strong commitment to the implementation of the decentralization programme. The National Decentralization Policy and Action Plan have been approved and published, spearheaded by the Ministry of Local Government and Rural Development (MLGRD); legal reforms have been introduced to devolve personnel to MMDAs (L.I. 1961); and the 2011 Budget Policy Statement clearly recognizes the importance of addressing issues in fiscal decentralization, notably through the establishment of capacity in the Ministry of Finance and Economic Planning (MoFEP).

4. Description

The project has four components:

- **Component 1: Strengthening the fiscal framework for decentralization.** This component will support the establishment of a predictable and transparent fiscal framework for local governance, through assisting MoFEP to develop and manage specific aspects of the fiscal framework for local governance.

- **Component 2: Enhancing decentralized urban service delivery.** This component will support selected urban local governments to improve their management capabilities in the identified key reform areas through two sub-components: (i) a performance based annual Urban Development Grant (UDG) which will be allocated based on achievements in key reform areas, and transferred to eligible urban local governments for infrastructure and service improvements that fall within their mandated responsibilities; and (ii) targeted capacity support to participating local governments.

- **Component 3: Stimulating demand for accountable governance and service delivery.** This component will generate civil society demand for financial information from urban assemblies (e.g. budgets and audits); foster more effective engagement of civil society with assemblies on this data (i.e. helping civil society to understand the data and provide a forum for exchange and debate around the information); and strengthen the capacity and engagement of citizens’ representatives on the budget and service delivery issues.

- **Component 4: Institutional and Project Management Support.** This component will provide support to MLGRD in fulfilling its role in supporting the decentralization process specifically related to fiscal decentralization and urban development. Support will be provided to: (i) strengthen MLGRD through providing technical assistance and operational support to selected departments; (ii) support the management of the UDG including safeguards monitoring, performance assessments, and procurement and FM reviews; and (iii) support project management including evaluations, citizen surveys, and communications activities.

5. Financing

Source: ($m.)
6. Implementation

MLGRD will be the lead implementing agency for the project as a whole. The Planning, Budgeting, Monitoring and Evaluation (PBME) Department is the entity designated by MLGRD to manage the project. The management of components will be undertaken within the current line function responsibilities of government departments and agencies, under the leadership of existing senior managers in the civil service. MoFEP, in particular, the Fiscal Decentralization Unit within the Budget Directorate, will manage the implementation of Component 1. MLGRD, specifically the DDF Secretariat will manage the disbursement of the Urban Grant under Component 2(a). The capacity building and technical assistance programs under Component 2(b) will be managed by the Local Government Service Secretariat (LGSS) which is mandated to build the capacity of local governments. Component 3 will be managed through a Social Accountability Unit being created MLGRD. Component 4 activities will be managed by MLGRD, with the PBME director in charge of overall project management and evaluation activities.

7. Sustainability

The sustainability of the project has policy, fiscal and local level investment dimensions.

- **Policy sustainability** prospects are strong, given clearly articulated government commitments to decentralisation that are expressed in recent policy statements, detailed action plans, legislative commitments and recent organisational changes in national ministries.

- **Fiscal sustainability.** The project will incorporate 27 percent of Ghana’s 170 MMDAs. GoG already makes significant contributions to MMDAs, most notably through the DACF that allocates them a constitutionally protected 7.5 percent of national revenues.

- **Service-delivery and physical asset sustainability.** The project development objective reflects the longer-term relationship between enhanced MMA institutional capacity and accountability and improved local service delivery. For local infrastructure assets that will be financed (in part) by the Urban Development Grant, analysis undertaken for project preparation indicates that the increments in amounts that MMAs have received (and will continue to receive) are sufficient to cover these annual costs.

8. Lessons Learned from Past Operations in the Country/Sector

The Bank has gathered substantial international experience from local government institutional strengthening programs that it has supported over the past decade in a number of diverse countries including Uganda, Tanzania, Ethiopia, Cambodia, Indonesia, Bangladesh and a number
of states in India. Many of these have design features with some parallels to the LGCSP, and a number of important lessons have emerged from this experience. Four are particularly relevant.

First, the results of supply-side capacity building measures aimed at local governments in the absence of demand-side incentives have been disappointing. Conversely, there is growing evidence that capacity building initiatives, such as systems development (in areas like financial management and planning) and training, are considerably more effective when they are linked with a system which creates demand on the part of targeted local governments. With appropriate incentives, local governments have responded by taking advantage of these capacity building activities and have demonstrated greater commitment to inculcating them into their ongoing operations. The LGCSP adopts this approach through basing actual access to the grant funds provided under Component 2 on improvements in institutional performance which local governments will be able to achieve through the capacity building activities supplied. The mechanism through which this will be ensured is the annual Functional and Organizational Assessment Tool (FOAT) which is being carried out across 170 assemblies to assess performance under the DDF.

Second, the capacity of the project implementation entity to implement a project which covers extensive numbers of local governments robustly can easily be overwhelmed if the scope of the project is too wide, if the targeted local governments are too weak or if their participation in the project is not phased in. Accordingly, the project focuses on only 46 urban MMAs of whom those with higher performance will join the program first. This will ensure that they have sufficiently capacitated systems in place to mitigate implementation risk in the first years of project implementation.

Third, maintaining the integrity of performance grant systems is critical. Recent global comparative studies have suggested a checklist of issues that must be addressed. These include the measurability of the performance indicators, the ability of sub-national governments to deliver on these indicators, the adequacy of funding, the credibility of the national commitment to the achievement of the indicators by beneficiaries, the degree to which the indicators require “real-but-realistic” effort from sub-national governments, and the ability of the beneficiary to sustain the results over time. This checklist suggests that careful attention needs to be paid to past government experience with operating performance-based grants, and to the selection of participating sub-national governments with sufficient capacity to respond to the incentives provided.

Fourth, recent implementation experiences have highlighted the importance of developing robust, clearly understood and well-supported implementation arrangements that are mainstreamed into core government functions. The design and implementation readiness activities undertaken during preparation have taken specific account of these.

Fifth, the design of the social accountability initiatives in the project have drawn extensively on information gathered from a recent Consultative Citizens’ Report Card Survey of service

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delivery in the City of Accra. This exercise pointed to the need to provide city residents with sound information on service coverage and quality and to introduce measures to encourage residents to engage more, and more effectively, with their local representatives and city administration. Currently, limited effort is made by local authorities to engage with, or inform citizens on service delivery or local taxation efforts.

9. Safeguard Policies (including public consultation)

The Urban Grant component of the project triggers the OPs related to Environmental Assessments and Involuntary Resettlement, as this component will provide discretionary funds to MMAs that can be used for small scale civil works such as rehabilitation or building local roads, street lighting, drainage, markets, public toilets, sanitation, etc. The project is classified as category B, and the overall environmental and social impacts of the project are expected to be positive.

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<td>Projects in Disputed Areas (OP/BP 7.60)</td>
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10. List of Factual Technical Documents

(i) National Urban Policy (draft), 2010, Ministry of Local Government and Rural Development


11. Contact point
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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.
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