CDD-GHANA

Policy Brief

Decentralization Beyond the DACF:
Building Sustainable Local Government Finance in Ghana

Special Issue on Decentralization and Local Governance

Policy Brief
No. 2

July 2026

Ghana Center for Democratic Development
ISSN: 3134-5530

Executive Summary

Ghana's district assemblies remain structurally dependent on central government transfers. Although the Constitution guarantees annual allocations through the District Assemblies Common Fund (DACF), these resources have become increasingly inadequate to meet the expanding responsibilities of Metropolitan, Municipal, and District Assemblies (MMDAs). Transfers are often delayed, released irregularly, and constrained by central pre-commitments that limit local discretion. Internally generated funds remain underdeveloped due to weak property valuation systems, limited revenue administration, and a narrow local tax base. The Constitutional Review Committee (CRC) proposes a package of reforms to strengthen local fiscal autonomy, including increasing the DACF allocation to 10% of national revenue, expanding local revenue sources, prohibiting central pre-commitment of district allocations, and integrating fiscal oversight into the proposed Independent Devolution Commission.

1.0 Background and Policy Context

Fiscal adequacy is the bedrock of functional decentralization. Without predictable and discretionary resources, local authorities cannot credibly plan, invest in infrastructure, or be meaningfully held accountable by residents for development outcomes. Ghana’s Constitution recognizes this: Article 252 establishes the District Assemblies Common Fund as a guaranteed source of development financing and mandates that at least 5% of total national revenue be allocated annually to MMDAs.

The Local Governance Act, 2016 (Act 936) further authorizes assemblies to levy rates, fees, licenses, and other local taxes as Internally Generated Funds (IGF). The legal framework is intended to provide local governments with meaningful authority to raise and manage their own resources.

A series of consultations conducted by the 2025 Constitutional Review Commission (CRC) consistently revealed a substantial gap between this legal framework and fiscal reality. The 5% of total national income allocated to the DACF is widely regarded as insufficient; disbursements are delayed and routinely earmarked for central government priorities; a portion is channeled to Members of Parliament; and most districts, including large metropolitan areas, are unable to realize their IGF potential. The result is structural fiscal dependence that fundamentally contradicts the logic of devolved governance.

In Financial Year 2023, the DACF disbursed approximately GHS 4.2 billion to MMDAs, representing roughly 5.1% of total national revenue. This averaged about GHS 16 million per district — a sum that covers only a fraction of the recurrent and capital expenditure needs of even a modestly active Assembly. DACF transfers have historically been disbursed in irregular quarterly tranches, often delayed by two to four months and subject to central government pre-commitments that can reduce the effective amount reaching district accounts by 20–30%. Meanwhile, IGF across all MMDAs collectively amounts to less than 1.5% of national revenue, with over 60% of that generated by just 10 metropolitan and municipal assemblies. The gap between constitutional intent and fiscal reality is therefore not marginal but structural.

2.0 Key Challenges Identified

The CRC identified five structural weaknesses that continue to undermine fiscal decentralization and the financial autonomy of district assemblies.

Inadequacy of the DACF Allocation

The 5% of total national income allocated to the DACF (which has remained unchanged since the establishment of the Fund) no longer reflects the growing responsibilities of MMDAs or their developmental aspirations. As local assemblies are expected to assume greater functions under deepening devolution – including, under the CRC's proposals, the emoluments of elected DCEs and Assembly staff – the case for a substantially higher guaranteed share of national revenue is compelling.

> **WHY IT MATTERS**
> When district assemblies lack adequate funding, decentralization becomes largely symbolic. Insufficient resources constrain local planning, infrastructure development, and service delivery, leaving assemblies unable to meet growing responsibilities or respond effectively to community priorities.

Delayed, Irregular, and Earmarked Transfers

Disbursements from the DACF and other central grants are often delayed and released irregularly. The central government's practice of contractually pre-committing DACF funds on behalf of MMDAs undermines the autonomy of local assemblies and distorts the principles of fiscal decentralization. Earmarking by central authorities restricts assemblies' ability to allocate resources according to locally identified priorities or to respond flexibly to emerging needs.

> **WHY IT MATTERS**
> Unpredictable and centrally controlled transfers undermine local autonomy and weaken development planning. Assemblies cannot prepare realistic budgets, implement projects on time, or respond to emerging local needs when funds arrive late or are already committed to centrally determined priorities.

Allocation to Members of Parliament

A portion of the DACF is allocated to Members of Parliament for development projects in their constituencies. Stakeholders widely condemned this practice as constitutionally flawed. Parliament’s mandate is legislative, representative, and oversight in nature, not executive development delivery. The diversion creates overlapping mandates, political interference in local planning, and a dilution of district assembly authority.

> **WHY IT MATTERS**
> Allocating DACF resources to Members of Parliament blurs the constitutional distinction between legislative oversight and executive implementation. It weakens district assemblies' authority, creates overlapping mandates, and reduces accountability for local development outcomes.

Weak Internally Generated Revenue

Local IGF remains chronically underdeveloped. Key revenue sources – income tax, VAT, and corporate tax – are centralized at the national level, leaving assemblies dependent on property rates, market tolls, and business permits. Property registers and valuation systems are outdated; tax collection capacity is weak; and misaligned incentives operate perversely. Assembly tax-collection staff are paid from central government funds, reducing the financial urgency to maximize local collections. Political reluctance to enforce taxation in communities where elected or politically appointed officials depend on local goodwill further depresses yields.

The proposed ceding of informal-sector income taxes to District Assemblies (see Section 3.4) directly addresses part of this structural gap by broadening the local tax base in the sector where most economic activity is concentrated across most districts. However, this measure will only realize its potential if complemented by corresponding improvements in local tax administration capacity, as discussed in Section 3.

> **WHY IT MATTERS**
> Heavy reliance on central transfers makes local governments financially vulnerable. Strengthening internally generated revenue gives assemblies greater fiscal independence, improves service delivery, and creates stronger incentives for efficient local revenue mobilization and financial management.

The Fiscal-Democratic Disconnect

The current system decouples fiscal responsibility from democratic accountability. If communities do not fund local governance through local taxation and local leaders are not responsible for managing locally generated resources, the essential link between local accountability and performance is severed. The CRC identifies this as a fundamental obstacle to genuine devolution: "Without predictable and discretionary resources, local authorities cannot plan credibly, invest in long-term infrastructure, or be held meaningfully accountable by residents for development outcomes."

> **WHY IT MATTERS**
> Democratic decentralization depends on a clear link between local taxation, local decision-making, and local accountability. When communities do not finance their local governments and assemblies lack meaningful control over resources, citizens have fewer incentives to hold local leaders accountable for development results.

3.0 Proposed Reform Framework

To ensure that local governments have predictable and discretionary resources to operate effectively, the CRC proposed the following reforms:

- **Increasing the DACF to 10%.** The CRC recommends amending Article 252 of the Constitution to increase the guaranteed DACF allocation from at least 5% to at least 10% of total national revenues. This doubling would provide a more realistic fiscal base for the expanded responsibilities of devolution, including funding for sub-district programs.

  For the 2023 fiscal year, total national revenue was approximately GHS 84 billion. A 10% DACF allocation would have yielded approximately GHS 8.4 billion — roughly double the GHS 4.2 billion disbursed under the current 5% formula. This would translate to an average of about GHS 32 million per district. This meaningful increase would begin to bridge the gap between constitutional aspiration and developmental reality at the local level. However, doubling the DACF is a major fiscal commitment with implications for the central government's budget.

An additional 5% of national revenue directed to MMDAs corresponds to a reduction in discretionary central spending. The CRC acknowledges this trade-off and notes that the transfer of functions from central ministries to assemblies should accompany increased DACF allocations, so that the fiscal transfer reflects a genuine devolution of expenditure responsibility rather than a net increase in total public spending.

- **Merging the DACF Administrator into the Devolution Commission.** The CRC recommends merging the Office of the Administrator of the DACF into the proposed Independent Devolution Commission (IDC) as a functional intergovernmental fiscal transfers division. The IDC is a proposed new institution that would require a constitutional amendment and enabling legislation. Pending the IDC's establishment, the existing Office of the Administrator of the DACF should continue operating under its current mandate. The merger should be treated as an integral part of the legislation establishing the IDC, not a standalone administrative decision. The consolidation would:
    - Align fund administration with the broader IDC mandate on territorial organization, capacity building, and performance accountability.
    - Enable integrated oversight of transfer equity, predictability, and conditionality in conjunction with system-wide planning.
    - Eliminate the institutional fragmentation between funding decisions and decentralization strategy.
    - Strengthen the IDC's ability to leverage fiscal allocations as instruments of performance, incentivization, and capacity development.
- **Prohibiting Central Pre-commitment and MP Allocations.** The Constitution should be amended to provide that: (a) no portion of a district's DACF allocation may be contractually pre-committed on the district's behalf by the central government; and (b) no portion of the DACF may be allocated to any Member of Parliament. These prohibitions restore the Fund's constitutional purpose as a source of locally controlled development financing.
- **Ceding Local Informal Sector Tax Revenues.** Parliament should enact legislation to transfer specific taxes on informal-sector income to District Assemblies. Because a substantial share of economic activity in most districts occurs in the informal sector, transferring these taxes would significantly expand the local tax base and align revenue-mobilization incentives with local economic governance.

  This recommendation raises important implementation questions that the brief addresses as follows:

  First, regarding the categories to be ceded: the CRC recommends that Parliament identify and cede those income taxes levied on operators in local markets, street trading, artisanal activities, and small-scale transport — categories where the Ghana Revenue Authority (GRA) currently has limited collection reach and where district assemblies are better positioned to administer and enforce compliance.

  Second, on GRA-Assembly coordination: the CRC envisages a co-administration model in which GRA retains the legislative framework for income tax assessment, while District Assemblies are responsible for registration, collection, and enforcement within their jurisdictions, under a revenue-sharing or full-transfer arrangement prescribed by Parliament.

  Third, regarding the risk of double taxation or collection disputes: the ceding mechanism is designed as a full transfer for specified categories rather than a shared levy, thereby eliminating the risk of dual assessment of the same taxpayer on the same income. Parliament's Finance Committee should be mandated to develop a detailed implementation framework within two years of the constitutional amendment, including a taxonomy of ceded income categories, collection protocols, and dispute-resolution mechanisms.

- **Property Rate Modernization.** The IDC should coordinate technical assistance for District Assemblies – especially Metropolitan and Municipal Assemblies – to update local property rate valuations, establish functional property registers, and build tax collection capacity. Given the significant untapped revenue potential in metropolitan property markets, this is among the highest-return investments in local fiscal capacity. Incentive structures should be reformed so that assembly staff directly benefit from higher local revenue yields.
- **Fiscal Responsibility for Voting Districts.** For Voting Districts that elect their DCEs, the CRC recommends that all salaries and allowances for the DCE, Assembly members, and Assembly staff be paid solely from the Assembly's Internally Generated Funds, supplemented by an appropriate local tax base ceded by Parliament. This deliberate linkage of democratic rights to fiscal responsibility creates a powerful incentive for revenue mobilization and establishes the accountability link at the heart of genuine local self-government.

  However, not all Voting Districts, particularly those newly upgraded from Non-Voting District status, will have an IGF base sufficient to fund all emoluments on the first day of elected DCE operations. The CRC therefore recommends that the IDC conduct a fiscal capacity assessment of all prospective Voting Districts before the commencement of DCE elections. If a district's IGF base is assessed as insufficient to cover emoluments in full, a phased transition period should apply — during which a declining share of emolument costs is supported by central transfers, accompanied by a binding local revenue mobilization target and a capacity-building plan. Full fiscal responsibility for emoluments should be triggered only after the IDC certifies that the district's locally generated revenues are sufficient. This ramp-up provision is critical: without it, the emolument-from-IGF requirement could be used to argue against holding elections in districts that are not yet fiscally ready, thereby defeating the purpose of the entire reform framework.

4.0 Recommendations

The following recommendations are interrelated. The CRC recommends establishing the IDC and increasing the DACF allocation as foundational steps before the district-level fiscal responsibility provisions take effect. Specifically, the Voting District emolument requirement (see below) cannot be imposed responsibly until (a) the local tax base has been expanded by ceding informal-sector taxes and (b) the IDC has conducted fiscal capacity assessments and implemented ramp-up plans for each affected district.

- Enact constitutional and legislative provisions establishing the Independent Devolution Commission (IDC) as a prerequisite for implementing all other recommendations in this brief, since the IDC is responsible for administering fiscal transfers, conducting district capacity assessments, and overseeing the transition to local fiscal responsibility.
- Amend Article 252 of the 1992 Constitution to increase the guaranteed DACF allocation from at least 5% to at least 10% of total national revenue.
- Merge the Office of the Administrator of the DACF into the Independent Devolution Commission as a specialized division for intergovernmental fiscal transfers, with the Administrator serving as the division's head.
- Amend Article 252 to prohibit the central government from contractually pre-committing any DACF allocation on behalf of a district assembly without the Assembly's explicit consent.

- Amend Article 252 to prohibit the allocation of any portion of the DACF to Members of Parliament.
- Direct Parliament to enact legislation ceding specified taxes on informal-sector income to District Assemblies within two years of the Constitution's amendment.
- Mandate the IDC to coordinate technical assistance for property rate valuation modernization and IGF collection capacity development across all MMDAs within three years.
- Provide that in Voting Districts, all DCE and Assembly staff emoluments are paid entirely from locally generated revenues, not from the Consolidated Fund, with a corresponding local tax base ceded by Parliament.
- Direct the IDC to develop a transparent, equitable, and formula-based intergovernmental transfer system that reduces discretion and increases the predictability of district financing.

5.0 References and Further Reading

1. Constitution Review Committee of Ghana, Final Report, 29 January 2026, Chapter VII, paras. 7.15–7.17, 7.86–7.98.
2. Constitution of the Republic of Ghana, 1992, Article 252 (District Assemblies Common Fund).
3. Local Governance Act, 2016 (Act 936), Parliament of Ghana — provisions on MMDA fiscal powers, IGF, and the DACF.
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6. World Bank (2021). Fiscal Decentralization and Local Government Finance in Sub-Saharan Africa — Working Paper.

About this series
This special issue of the CDD-Ghana Policy Brief series offers accessible, evidence-based analysis of selected constitutional reform proposals and their implications for governance and democratic development in Ghana. The briefs aim to inform public discussion and policy engagement by examining the issues, trade-offs, and potential impacts of key reform recommendations.

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ISSN 3134-5530
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