UNIVERSITY OF CAPE COAST

PERFORMANCE AND CHALLENGES OF INTERNALLY GENERATED REVENUE MOBILISATION OF THE ABURA-ASEBU-KWAMANKESE DISTRICT ASSEMBLY FOR LOCAL LEVEL DEVELOPMENT

CHRISTOPHER DICK-SAGOE

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BY

CHRISTOPHER DICK-SAGOE

THESIS SUBMITTED TO THE INSTITUTE FOR DEVELOPMENT STUDIES, FACULTY OF SOCIAL SCIENCES, UNIVERSITY OF CAPE COAST, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR AWARD OF MASTER OF PHILOSOPHY DEGREE IN DEVELOPMENT STUDIES

NOVEMBER 2013

DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Name: Christopher Dick-Sagoe

Signature:.. Date:................................

Supervisors' Declaration

We hereby declare that the preparation and presentation of this thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Name: Professor John Victor Mensah

Signature: ………………................................... Date: ……………………

Co- Supervisor's Name: Mr. Kwadwo Addo Tuffuor

Signature: ………………………………........ Date: ……………...........

ABSTRACT

The study set out to investigate the performance and challenges of internally generated revenue mobilisation of the Abura-Asebu-Kwamankese District Assembly in the Central Region of Ghana for local level development. Descriptive and analytical study designs were adopted for the study. A sample of 100 residents from the district, 21 revenue collectors, 8 key District Assembly officials and 6 organised groups operating in the district were selected for the study. Questionnaires and interview schedules were administered to solicit the views of residents, revenue collectors, key District Assembly officials and Chairmen of organised groups on internally generated revenue mobilisation and its challenges in the district. Descriptive statistics such as tables, pie chat and bar graphs was adopted.

The study revealed that investment and miscellaneous components of internally generated revenue performed better when compared to the other sources, such as land, rates and fines. Challenges identified in the study were overdependence on external sources of revenues, lack of voluntary compliance by revenue payers, low educational level of revenue collectors, lack of proper tax education for revenue payers and revenue collectors. Lack of participation of stakeholders in rate and fees fixing were also identified.

Recommendations made for the administrators of Abura-Asebu-Kwamankese District Assembly's internally generated revenue mobilisation include privatisation, capacity building, participation of stakeholder and preparation of credible and reliable revenue database.

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Lastly, I wish to express my greatest thanks to Miss Anna Dankwaa who is a Teaching Assistant in VOTEC Department, University of Cape Coast for typing and editing this thesis.

DEDICATION

Dedicated to my late father, Mr George Sagoe

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LIST OF ABBREVIATIONS

AAKDA	-	Abura-Asebu Kwamankese District Assembly
CAGR	-	Compound Annual Growth Rate
DAs	-	District Assemblies
DACF	-	District Assemblies' Common Fund
GOG	-	Government of Ghana
GPRTU	-	Ghana Private Road Transport Union
HIPC	-	Highly Indebted Poor Country
IGR	-	Internally Generated Revenue
M/DCEs	-	Metropolitan, Municipal and District Chief Executives
MMDAs	-	Metropolitan, Municipal and District Assemblies
NGO	-	Non Governmental Organisation
RCI	-	Revenue Collection Index
RCR	-	Revenue Collection Rate
SPSS	-	Statistical Product and Service Solutions

CHAPTER ONE

INTRODUCTION

Background to the study

Decentralisation has been embarked upon in many African countries to strengthen the role of regional and local government in development (World Bank, 1999a). The reason is that, decentralisation will enhance the chances of development at the local levels of society. Also, decentralisation is regarded as a critical mechanism for aligning public expenditures to local priorities, for improving management incentives and for improving accountability to users close to the point of service delivery. In short, decentralisation will empower local governments to be responsible for local development activities within their jurisdiction based on local needs, priorities and resources (Ikeanyionwu, 2001).

In Ghana, decentralisation of Local Government administration to the district level saw a major push in the mid 80's and is meant to encourage local development as a way to further the development efforts of the country. The adoption of decentralisation was based on incrementalism theory developed by Charles Lindblom in 1959. Incrementalism is the antithesis of intrusive central planning, which can create rigid work systems unable to deal with the actual problems faced at the grassroots level. Lindblom further states that incrementalism is a planning methodology which is normally found where a large strategic plan (such as the centralism forms of government which preceded decentralisation in Ghana) has failed to develop the country and for that reason it is often just called “muddling through”. Incrementalism theory suggests that national development can be achieved from local or grass-root level. Therefore, empowerment of local governments in Ghana to achieve local development will achieve national development. However, without a central planning framework, such as the central government, incremental working is difficult to support within structured systems and therefore requires a degree of self reliance, skills and experience of those dealing with the problems.

The practice of decentralisation in Ghana results in a shift of responsibility and discretion in decision-making from the central government to the local governments. The issue of responsibility in the hands of the local governments brings up the need for financial resources usually referred to as fiscal decentralisation. The justification is that, if local governments are to carry out their responsibilities effectively, they must have adequate level of revenues – raised locally and/or transferred from the central government – as well as the authority to make decisions about expenditures. This process of distribution of public finance and responsibilities to the various levels government is usually referred as fiscal decentralization. Ikeanyionwu (2001) and Bandie (2003: 4) support the need for local governments to be provided with adequate financial resources for the discharge of their decentralised functions. Yaw-Nsiah (1997:12) defines fiscal decentralisation as the transfer to sub-national governments the power to mobilise, allocate and manage financial resources according to locally determined priorities.

Fiscal decentralisation as a means of achieving local development is based on two main arguments namely economic efficiency and local revenue mobilisation (Bahl & Linn, 1992; Oates 1993). The emphasis of fiscal decentralisation is to strengthen local government finances and thus their ability to provide public goods and services. The idea is to give local governments some revenue powers and expenditure responsibility and allow them to decide on the level and structure of their expenditure budgets. Fiscal decentralisation gives local people, through their District Assembly, the chance to mobilise internally generated revenues from sources such as rates, fines, fees, land and licenses. The District Assemblies, being familiar with their local economy, will be in the best position to mobilise internally generated revenues from the fast-growing parts of their economic base. Through this, the local administration will comparatively mobilise more financial resources at less cost than the central government.

On the other hand, through fiscal decentralisation, local governments can invest in projects according to locally determined development needs. In this way, local people will be able to articulate their needs and preferences and participate in governing their affairs. This practice of community participation in development projects will ensure that every resource is optimally allocated to serve each person in the best way while minimizing waste and inefficiency.

The concept of decentralisation as a developmental phenomenon, with its financial decentralisation and autonomy in Ghana mandates the District Assemblies to generate their own revenues for their developmental activities within their geographical areas. Thus the District Assemblies under the legal provisions are allocated various tax sources to tap internally for their development. This was within the wider context of financial empowerment to the assemblies to enable them take their destinies in their own hands. Considering the fact that the District Assemblies are responsible for the overall development of their districts, and whatever amount they will get from the District Assemblies Common Fund will be dependent on their own internally generated resources, it behoves every district to take a critical look at its internally revenue generation efforts and performance. Article 252, sub-section 2 of the 1992 constitution of Ghana states that the parliament of Ghana shall share central government transfers to local governments based on a formula. This formula rewards high internally generated revenue collection with high central government transfers and vice versa.

More so, internally generated revenues are very important aspect of fiscal decentralisation in Ghana. This is so because, decentralisation requires local authorities to mobilise revenue at the local level to complement transfers from the central government. The importance of internally generated revenues even becomes crucial when placed within the context of inadequate and untimely disbursement of central government transfers (Bandie, 2003, p. 184). For example, the Member of Parliament for Bunkurungu, Solomon Boar alleged that District Assemblies in the country are crawling because government has so far failed to release statutory funds meant for the District Assemblies' Common Fund. Further he states that from January to September, 2013, MMDAs have not received the Common Fund from the administrator of the District Assemblies' Common Fund (myghanaonline.com/?id=1.1491002).

The argument is that local governments need to be strengthened financially to reduce their overdependence on financial transfers and assistance from the central government (Brosio, 2000; Smoke, 2001). By this, revenue collection administrations in these local governments will be efficient and then manage internally generated revenue collected properly (Odd-Helge, 2006). The theoretical argument is that internally generated revenue is necessary to achieve local development and to complement central government transfers but the current levels are not sufficient enough to induce local development in the face of increasing population of Abura-Asebu-Kwamankese district and the demand for development projects. There is therefore the need for a big push in internally generated revenue to maintain a critical minimum effort in local development. Increase in the collection of internally generated revenue will serve as investment for Abura-Asebu-Kwamankese District Assembly toward local development.

However, the development of Abura-Asebu-Kwamankese District is dependent on the amount of revenue that is generated. The current level of revenue available to the District Assembly is not enough to stimulate local level development. Critical minimum theory maintains that if local development of Abura-Asebu-Kwamankese district is to be raised permanently and continuously without falling back to the previous level of low internally generated revenue, then a certain minimum effort in revenue mobilisation needs to be invested. This can be achieved through improvement in internally generated revenue generation.

Abura-Asebu-Kwamankese District Assembly was carved out of Mfantseman, Ajumako and Akumfi Local Councils in 1984 through the legislative instrument (LI 1381). The Abura-Asebu-Kwamankese District Assembly exists to facilitate the improvement of quality of life of the people within the Assembly's jurisdiction through equitable provision of goods and services for the total development of the district within the context of good governance. With a vision to enhance the quality of life of its people of the district by mobilising physical and financial resources to provide socio-economic services, Abura-Asebu-Kwamankese District Assembly, like any other District Assembly in Ghana, was constitutionally created to be financially sound by raising funds locally for local development in addition to central government transfers (Kokor & Kroés, 2000). However, revenues generated locally by Abura-Asebu-Kwamankese District Assembly is hardly sufficient to cover administrative and other recurrent expenses much more to finance the delivery and running of basic infrastructure and services that directly benefit inhabitants (Adom, 2000; King, Azeem, Abbey, Boateng & Mevuta, 2003; Nicol, 2005).

This low levels of internally generated revenue have affect the District Assembly's ability to undertake development projects to improve the living conditions of its inhabitants (Adom, 2000; King, Azeem, Abbey, Boateng & Mevuta, 2003; Nicol, 2005). To others, the presence of central government's transfers has made local Governments feel laxity in their internally generated revenue mobilisation effort (Adom, 2000; Adedokun, 2006; Bandie, 2003).

Problem statement

Many municipalities are financially weak and rely on financial transfers and assistance from the central government (Brosio, 2000; Smoke, 2001). Moreover, the revenue collection administrations are often inefficient and large amounts of revenues collected are inappropriately managed (Odd-

Helge, 2006). Smoke (2001) identified four particularly problematic concerns on the revenue side. First, assigned revenues are almost never adequate to meet local expenditure requirements. This means that central government transfer programmes are inevitably required. Second, local governments often use too many unproductive revenue sources that barely cover the costs of collecting them. Third, the same lack of attention and capacity to implementation also plagues the revenue side. Fourth, individual local revenue sources suffer from some serious design problems, such as static bases, overly complex structures and ineffective collection mechanisms.

Abura-Asebu-Kwamankese District Assembly is not different from this situation. Revenue records from Abura-Asebu-Kwamankese District Assembly indicate the problem of unrealistic revenue target setting and low internally generated revenue mobilisation levels. For example, the revenue data for the year ended December, 2009 shows wide gap between revenue provision (target) for the various revenue items and the actual revenue mobilised for those items.

Out of seven revenue items available to the District, only four of the revenue provision (target) was realised and the remaining three representing almost fifty percent of the revenue items was not realised. It can also be seen that mobilisation levels from the various actual revenues items realised were low. For example, records from the Annual Estimate, 2010 for Abura-Asebu-Kwamankese District, indicates that GH¢31,630 was mobilised from property rate for the year 2009. However, a simple analysis of 111,329 houses (estimated from the Population and Houses Census, 2005) currently available in the district multiplied by the minimum amount among the property rates of

GH¢4.00 (Abura-Asebu-Kwamankese District, 2009) should result in GH¢445,316 and not GH¢31,630; which was recorded.

The Assembly has (over the past five years) not been able to fully implement the projects and programmes outlined in its five year Medium Term Development Plan (MTDP) due to inadequate funds. The situation became worse with the news of frozen District Assemblies Common Funds (DACF) for the fourth quarter of the year 2009 for the district as a result of judicial orders (*Mattjalk Ltd V. Abura-Asebu-Kwamankese District Assembly*, May 12, 2009). On the other hand, most development projects initiated by Abura-Asebu-Kwamankese District Assembly have come to a standstill as a result of inadequate funds and over dependency on DACF. The District Assembly has consistently depended on the DACF to finance its expenses. For example, the Abura-Asebu-Kwamankese District Assembly's composite budget (2012, p. 12) reports of DACF contributing 95.4 percent to the total district revenue.

This problem has made it imperative to conduct this study to look into the performance and challenges of internally generated revenue of the Abura-Asebu-Kwamankese District Assembly for local development.

Objectives of the study

The general objective of this study was to investigate the performance and challenges of internally generated revenue mobilisation in Abura-Asebu-Kwanamankese District Assembly in order to suggest sustainable measures to address the mobilisation problems.

The specific objectives were to:

1. examine the revenue structure of the District Assembly from 2005 to 2010;
2. analyse the performance of internally generated revenue from 2005 to 2010;
3. analyse the relationship between actual and estimated internally generated revenue mobilisation from 2005- 2010;
4. examine the internally generated revenue mobilisation challenges in the district; and
5. make recommendation(s) to improve local revenue generation in District Assembly.

Research questions

The following research questions guide the study. These are:

1. What is the structure of revenue of the Abura-Asebu-Kwamankese District Assembly?
2. How has internally generated revenue performed in the Abura-Asebu-Kwamankese District from 2005 to 2010?
3. What is the relationship between actual and estimated internally generated revenue in the Abura-Asebu-Kwamankese District?
4. What challenges impede internally generated revenue mobilisation in the Abura-Asebu-Kwamankese District?

Scope of the study

Geographically, the study concentrated on the internally generated revenue and its related issues in the Abura-Asebu-Kwamankese District.

Theoretically, the study focused on fiscal decentralisation aspect of decentralization. The focus of the subject area of the study is internally generated revenue of the District Assembly in relation with its contribution to the local level development expenditure of the District Assembly.

Significance of the study

The study has the tendency to benefit various stakeholders. The study is of national significance since decentralisation has become the national agenda for development through the various District, Municipal and Metropolitan Assemblies, with emphasis on internally generated revenues to meet the service delivery functions of the sub-national governments. The Abura-Asebu-Kwamankese District Assembly in particular would be the beneficiary of the study since the findings and the recommendations would go a long way to help it in its revenue generation efforts. The study built upon existing literature and added some information and knowledge which is by no means exhaustive.

The residents of Abura-Asebu-Kwamankese District would be in a position to enjoy better infrastructure such as schools, roads, health, water and sanitation. The reason is the, the financial position of the District Assembly will improve. Available funds will be used to finance the provision of socio-economic infrastructure.

Organisation of the study

This study is organised into five chapters. The first chapter, the introduction focuses on the background to the study, problem statement, the objectives to the study, the significance of the study and the limitations of the study. Chapter Two reviews literature relevant to the study such as the decentralisation concept, intergovernmental fiscal allocation theory and a conceptual framework linking decentralisation as it is practised in Ghana with the theory of intergovernmental fiscal allocation.

Chapter Three deals with the research methodology. It outlines how the study was conducted. It covers the study area, the study population, the sampling procedure, data sources, instrumentation, pre test, field work, data analysis and ethical consideration. Chapter Four presents results and discussion while Chapter Five concentrates on summary, recommendations, conclusions and areas for further research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

In this chapter, literature has been reviewed in areas related to District Assemblies' internally generated revenue. Issues reviewed include the cannons of taxation, the concept of decentralisation, concept of revenue management and the intergovernmental fiscal allocation, which spells out the main arguments advanced towards revenue collection from local level and its expenditure. A conceptual/ theoretical framework has been developed to explain the relationship between the various concepts reviewed in the chapter.

Cannons of taxation

A good tax system is one which is designed on the basis of an appropriate set of principles (rules). The tax system should strike a balance between the interest of the taxpayer and that of tax authorities. Adam Smith was the first economist to develop a list of canons of taxation. These canons are still regarded as characteristics or features of a good tax system (Stiglitz, 2000).

The canons explained here are cannon of Equity, Certainty, Convenience, Economy, Productivity, Elasticity, Flexibility, Simplicity and Diversity. The principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities (Police, Defence) they could not have earned and enjoyed their income. Adam Smith argued that the taxes should be proportional to income, that is, citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state.

According to Adam Smith, the tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. In other words, every tax should satisfy the canon of certainty. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax. The mode and timing of tax payment should be as far as possible, convenient to the tax payers. For example, land revenue is collected at time of harvest income tax is deducted at source. Convenient tax system will encourage people to pay tax and will increase tax revenue.

This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer. It is also known as the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the government should have no need to resort to deficit financing. This is a good principle to follow in a developing economy. According to this canon, every tax imposed by the government should be elastic in nature. In other words, the income from tax should be capable of increasing or decreasing according to the requirement of the country. For example, if the government needs more income at time of crisis, the tax should be capable of yielding more income through increase in its rate.

It should be easily possible for the authorities to revise the tax structure both with respect to its coverage and rates, to suit the changing requirements of the economy. With changing time and conditions the tax system needs to be changed without much difficulty. The tax system must be flexible and not rigid. The tax system should not be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes. In India, the efforts of the government in recent years have been to make the system simple.

This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. It is not advisable for the government to depend upon a single source of tax, it may result in inequity to the certain section of the society; uncertainty for the government to raise funds. If the tax revenue comes from diversified source, then any reduction in tax revenue on account of any one cause is bound to be small.

Decentralisation

Over the past few decades, decentralisation has been championed within development circles and many developing countries have embraced the concept of decentralisation, though its application and what it entails differ from country to country. Specifically, it can be said that decentralisation became an important policy objective since the 1970s and 1980s as governments in developing countries sought to create more socially equitable pattern of economic growth and to meet the basic needs of the poor. Many countries are decentralising fiscal, political and administrative responsibilities to lower-levels of government. Political and administrative decentralisation has not happened in vacuum. A lot of factors have served as impetus or deriving forces for the ever increasing choice of decentralisation concept (World Bank, 1999a). Some of the factors include:

1. The size of the country;
2. Diversity and the history of a country;
3. The trend towards more democratically elected government;
4. The challenges of information technology making the traditional bureaucratic hierarchies less compelling;
5. Urbanization, education and economic development are all increasing both the demand for local services and the capacity to administer them locally; and
6. The trend towards market economies and the rethinking of government roles.

Decentralisation has received a lot of challenge. According to World Bank (199a) many developing countries are reluctant to decentralise due to fear in the areas of weak systems, poor information, unlimited needs, weak capacity, administrative diseconomies and above all decentralised budget responsibility would lead to loss of expenditure control.

Definitions and types of decentralisation

Decentralisation is broadly defined to include the transfer of authority from central to local governments and the management arrangements that relocate responsibilities away from the centre. United Nations (1962, p. 13) defines decentralisation as “the transfer of authority on a geographic basis whether by de-concentration of administrative authority to field units of the same department or level of government or by political devolution of authority to local government units, or by delegation to special statutory bodies”.

Decentralisation refers to “the transfer of political power, decision making capacity and resources from central to sub-national levels of government” (Walker, 2002, p. 63). Rondinelli (1989, p. 33) defines decentralisation as “the transfer of the responsibility for planning, management and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or nongovernmental private or voluntary organisations”. Decentralisation, according to the writer was classified into four: namely de-concentration, delegation, devolution and privatization.While some researchers accept and agree to only three types of decentralisation, others support the idea that decentralisation can be categorized into four main types. World Bank (1999) identifies four standard types of decentralisation. These are:

1. Decentralisation; meaning the delegation of responsibilities from a central government to a regional branch office;
2. Delegation; this is a step further on decentralisation. With this, local governments or agencies act as agents for the central governments, executing certain functions on its behalf;
3. Devolution therefore does not only give local governments the power to function as agents of the central government but also the power to decide on what to do; and
4. Privatisation or deregulation; involves the transfer of responsibility to non-governmental organisation on the private sector. This item has really created controversy among researchers. It is important to stress on the fact that in practice decentralisation varies from country to country and that the practice of decentralisation has been a mix of the various types identified above.

Theoretical justification of decentralisation

A lot of arguments were developed for the use / application of decentralisation concept in governance. For the purpose of this study, the author adopted two main theoretical justifications for the concept of decentralisation in governance. These two main justifications leveled for the use of decentralisation have been explained in full below. These are the economic and non-economic justification.

Economic justification of decentralisation can be categorised into two: welfare economies and the institutional economies (World Bank, 1999a). Welfare economies support the total welfare of the society. The main argument is that total welfare can be increased by following local preferences instead of applying a "one size fits all" approach which usually goes along with centralisation. The question which usually comes up with this kind of argument is: What is social welfare and how can social welfare be maximized? Welfare analysis can be considered to be a systematic method of evaluating economic implication of alternative allocations. It answers the following questions;

1. Is a given resources allocation efficient?
2. Who gains and who loses under various resource allocations?
3. By how much?

Therefore, it can be seen that welfare economics is a methodological approach to assess resource allocation and establish criteria for government's intervention. Welfare economics use the perspective and techniques of microeconomics; which is better achieved from a decentralised system. However, they can be aggregated to make macroeconomic conclusions. Because different "optimal" states may exist in an economy in terms of the allocation of resources, welfare economics seeks the state that will create the highest overall level of social welfare (World Bank, 1999a).

Institutional economics argues from efficiency issues of the various levels of government and the relations between them. North (1993) defines the new institutional economics as an attempt to incorporate a theory of institution into economics. World Bank (1999) argues that the institutional economics camp draws on the efficiency and therefore argues with the view of drawing public attention to the need of championing efficiency in the delivery of public services. The efficiency should apply to all levels of government as well as the relations between them. The economic justification of decentralisation argues from maximum welfare and efficiency. Maximum welfare is in the sense that if local people are actively involved (through decentralisation) they can include their needs in the plans and that will create sense of ownership on their side.

Institutional efficiency is maximized with the assumption that people are more willing to pay taxes if they receive services that they value. The challenges here have been outlined in the following questions below:

1. What services do the local people value?
2. How do we determine those services? and
3. Who determines those services?

Decentralisation ensures the maximum participation of the local people in the development process. Alternatively decentralisation can be of great advantage as it may be accompanied by an increase in tax effort and less resistance to your charges. The main arguments under non-economic justification for decentralisation are decentralisation from the grassroots perspective. Decentralisation from grassroots perspective / bottom up approach to fiscal decentralisation from the "bottom-up" generally stresses political values. These political values can be seen from improved governance, thus, local responsiveness and political participation, coupled with a locative efficiency by improving welfare.

Central Government may decentralise (top-down) to make their life easier by shifting what is known as deficit (or at least some of the political pressures resulting from deficits) downwards. On the other hand, the Central Government, for the purposes of effective and efficient resource allocation, may adopt this method is spear head the process. With this, the Central Government may delegate some powers to a local government. Though naturally, decentralisation has attracted a lot of favourable arguments within the intellectual circles it is bedeviled with some counter arguments. For example, Rondinelli et al, (1984) argue that the argument in favour of decentralisation is usually a priori rationalization based on plausibility.

Decentralisation practice in Ghana

Goel (2010) looks at decentralisation in three main areas. These are administrative, democratic and financial (also known as fiscal decentralisation). Administrative decentralisation is basically about the structure of the local government. Local government system consists of a Regional Coordinating Council, Metropolitan and Municipal / District Assembly structure. Metropolitan, Municipal and District Assemblies, henceforth District Assemblies, have a constitutional responsibility for the overall development of their district of jurisdiction. District Assemblies therefore have legislative and executive functions and they formulate and implement a medium term development plan and budget (Goel, 2010).

The District Assemblies, on the other hand, have the overall responsibility over the operation of all development agencies in the district including the central government ministries, departments and agencies and non-governmental organisations. They execute this responsibility through coordination, integration and harmonization of activities of all development agencies and won governmental organisations.

Grass-roots level administration consists of two sub-district structures. These are Town / Area Councils and Units Committees (UC). Town / Area Councils and Units Committees perform special duties delegated to them by the assemblies. Crawdford (2005) further states that the main function of the unit committees were to link remote rural locations at the grass-roots to the district level whereas the District Assemblies link the grass-roots to the central government. The Urban / Town / Zonal / Area Councils are also expected to implement their own development projects based on the funds allocated to them as stipulated in LI 1589. This same legal instrument clearly spells out the lines of reporting and communication; which are expected to result in high standards in both the implementation of development plans and accountability in the utilization of development funds.

Democratic decentralisation focuses on the election of executive for the District Assemblies. Elections of local governments are paid by the Central Government and managed by the Electoral Commission. The election positions available are; the District Chief Executive (DCEs) and the councils.

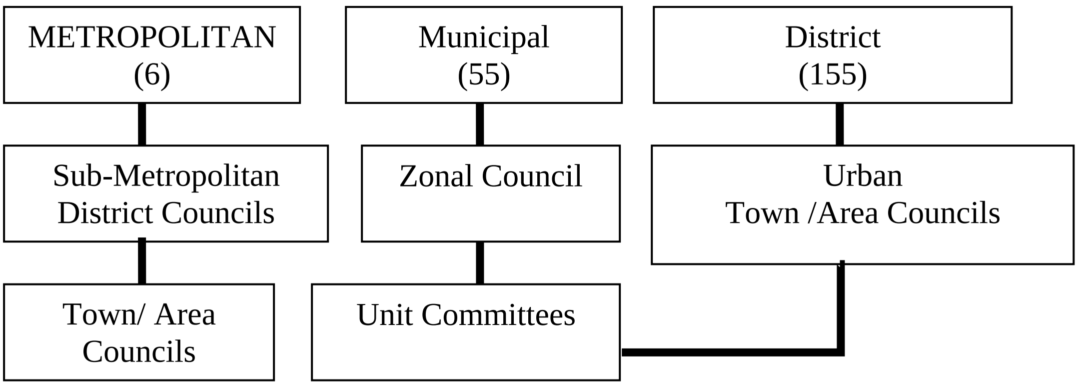


Figure 1: The Structure of Local Governance in Ghana

Source: Adapted from Ministry of Local Government and Rural Development, 2012

Fiscal decentralisation in Ghana relates to the most common theoretical rationale for decentralisation; which is to attain allocation efficiency among different local preferences for public goods and services (Musgrave, 1959; Oates, 1972). Financial responsibility is the core component of decentralisation. If decentralised units are to carry out their responsibility effectively, they must have adequate level of revenues – raised locally and/or transferred from the central government – as well as the authority to make decisions about expenditures. This process of distribution of public finance and responsibilities to the various levels government is usually referred as fiscal decentralisation.

The emphasis of fiscal decentralisation is to strengthen sub-national (local government) finances and thus their capacity to provide public goods and services. The idea is to give local governments some revenue powers and expenditure responsibility and allow them to decide on the level and structure of their expenditure budgets. In this way, the local people will be able to articulate their needs and preferences and participate in governing their affairs. Fiscal decentralisation as a means of achieving local development is based on two main arguments namely economic efficiency and local revenue mobilization (Bahl & Linn, 1992; Oates 1993). Detailed explanation of these concepts is provided in this chapter.

Local governments were introduced in Ghana as a result of colonization and development assistance requirements. The earliest attempts at local administration during the colonial era were with the native authorities, which centered on a chief or some unit of local royalty, which was not well defined. These native authorities were not democratically elected but handpicked to represent the interests of the British Colonial Government as well as to administer law and order (Inanga & Osei-Wusu, 2004). According to them subsequent steps towards decentralisation were purposely for administrative and control purposes. These, among others include, the Municipal Ordinance of 1859, which led to the creation of municipalities in the coastal towns of the Gold Coast, as Ghana was then known.

Over the years, various attempts have been made to establish decentralisation in Ghana. After independence the Local Government Act, Act 54 of 1961 was enacted. The features of these efforts include a central government body, which dealt with national issues and the local authorities as central government agencies. Decision making at the local level, however, took much time because most issues had to be referred to the ministerial levels. The effects are the stifling of local autonomy, democratisation, economic development and self-determination.

Some challenges to the earlier efforts in decentralising the machinery of government from the centre to the local levels included the lack of personnel with professional skill and expertise as well as financial resources to meet obligations. These factors, among others such as the increased demand for infrastructure and services, necessitated the institutioning of the current decentralisation policy. The economic policies adopted in Ghana during the 1980s focused mainly on an aggressive programme of stabilisation and economic liberalisation. The main features include, first, the Economic Recovery Programme (ERP) and the Structural Adjustment Programme (SAP). These programme emphasised a private sector-led growth with limited role of governments (Inanga & Osei-Wusu, 2004).

The other issue was the creation of a market-friendly environment. In the decade that followed, annual GDP growth averaged 5 per cent and physical and social infrastructure was rehabilitated. However, the role of the public sector in development seems to have been ignored as at 1988. There were thus, increased economic and political pressures to decentralise the functions of government (Inanga & Osei-Wusu, 2004). There five main implementation aspects in Ghana’s decentralisation policy are political, administrative, planning and programme implementation, management of public / private partnerships and fiscal decentralisation. Most of these policy aspects have experienced tremendous strides. This includes the formation of local government institutions that have been empowered to exercise deliberative, legislative and executive functions at the sub-national level of governments.

In Ghana, there are three levels of government, namely, the National, Regional and the Metropolitan / Municipal or District levels. The sub-national government structure comprises ten Regional Coordinating Councils, 170 Metropolitan / Municipal / District Assemblies (MMDAs) and Town / Area Councils and Unit Committees (Goel, 2010). Main features of the current decentralisation programme, which has implications for the management of finances, include:

1. the composition of the District Assemblies: appointed and elected members;
2. re-demarcation of Districts to create more manageable and viable local government units and District Assemblies as non-partisan local government bodies;

3. empowerment of District Assemblies as the legislative, administrative, development planning, service delivery, budgeting, and rating authorities; to promote participatory decision-making and implementation;
4. establishment of a National Development Planning Commission to co-ordinate decentralised development planning;
5. the non-partisanship of the District Assembly to promote consensus building though functioning in a politicized environment;
6. the capacity for bottom-up planning and the effective resourcing of such plans;
7. transfer of responsibility for 86 statutory functions of state to local government bodies with jurisdiction over demarcated geographical areas;
8. restructuring of resource allocation and establishment of resource sharing between central and local governments; and
9. Redefinition of the roles, functions and structures of government institutions at the national (policy formulation), regional (co-ordination) and local levels (implementation).

Section 240 (2c) of the Local Government Act, 1993 (Act 462) and the constitution of the Republic of Ghana (1992), Section 245b provides that each local government unit shall have a sound financial base with adequate and reliable sources of revenue. Despite this requirement the Metropolitan, Municipal and District Assemblies (MMDAs) have a limited number of sources of revenue for carrying out their activities, which include the District

Assembly Common Fund (DACF), grants, transfers, cede revenues and external credits, land rates and minerals royalties and other internally generated revenue (IGR). The sixth schedule of Act 462 lists the revenue sources of local government bodies to include entertainment duty, casino revenue, betting tax, business registration charges, gambling tax, rates and levies, fees, licenses, as well as taxes chargeable on the income of certain categories of self-employed persons. There are also miscellaneous receipts such as stool land revenue, fees for dislodging of latrines, collection of sand and stones and others.

However, the internally generated revenues do not yield much revenue, not even for the recurrent expenditure and so most Districts depend entirely on the DACF and other grants from the Central government. This study delves deep into the issues of the internally generated revenues for the District Assemblies. According to Ayee (2004), Ghana's approach to decentralisation appears to be a system of devolution which involves the transfer of power to District Assemblies with absolute autonomy and responsibility to determine the level of services required, the best methods to ensure their provision and the sources and types of funds to finance them.

Fiscal decentralisation / Inter-governmental fiscal relations

Decentralisation holds great promise for improving the development objective of public service delivery, but the outcomes depend on its design and the institutional arrangements governing its implementation. Greater fiscal decentralisation is expected to allow public goods and services to be provided at the level and costs desired by the local communities and promote citizen participation to increase government accountability. Fiscal decentralisation efforts typically begin with a fundamental review of allocation responsibilities for expenditures and revenues by level of government. Rationalising these responsibilities, combined with establishing an inter-governmental transfer programme, is the first step towards creating a fiscal structure that can enable governments to properly fulfill their stabilisation, distribution and allocation functions (Shah, 1994).

Fiscal decentralisation is also called central-local (or inter-governmental) fiscal relations by European writers and fiscal federation by American writers. Therefore, the terms are used interchangeably. Inter-governmental fiscal relations, according to Shah (1994), focus on the fundamental problem of allocating expenditure and revenue responsibilities among levels of government. It also refers to the devolution of authority for public finances and the delivery of governments services from the national to sub-national levels (Tanzi, 1996). The conceptual framework of fiscal decentralisation is well established, drawing largely on the contributions by Stigler (1957), Musgrave (1959), Oates (1972) and Brennan and Buchanan (1980). The core logic is based on the following: if growth and poverty issues are to be taken into account, one should be concerned about efficiency-supplying services up to the point at which, at the margin, the welfare benefit to society matches its cost (cited in Ebel & Yilmaz, 2002).

Fiscal decentralisation is an issue of considerable practical importance facing many developing economies and has been championed by international bodies such as the World Bank and the Organisation for Economic Cooperation and Development (World Bank, 2003). The two basic interrelated themes under the inter-governmental fiscal relations are; the distribution of revenue mobilisation and expenditure under the centralised / decentralisation alternatives (the assignment problem of “who collects and gets what”). Another is the degree of financial autonomy of local governments versus dependence on central transfers. The distribution of revenue sources and expenditure responsibilities between different levels of government is such that local public expenditures tend to exceed own-source revenues (also referred to as Internally Generated Revenues).

Local governments have no option than to heavily depend on Central Government transfers; thus limiting their degree of financial autonomy. Financial autonomy can be defined as the ability of government units to finance own expenditures from own revenues. Fiscal imbalances do not necessarily indicate an inappropriate allocation of governmental responsibilities and powers. However, appropriate delegation of revenue authority to local government will depend, to some extent, on the assignment of expenditure responsibilities.

By description, fiscal decentralisation comprises the financial aspects of devolution to regional and local government. Fiscal decentralisation has been broken into two issues. The first is the spending responsibility and revenue sources between levels of government (national, regional and local). The second deals with the amount of discretion given to both regional and local governments to determine their expenditures and revenues; both in aggregate and details (Davey, 2003).

Davey (2003) developed criteria for measuring the actual power and responsibility of horizontal (regional and local government) exercise. These are:

1. What range of public services they finance;
2. Whether their revenues are commensurate with these responsibilities;
3. How much real choices they have in allocating their budget to individual services; and
4. Whether they can determine the rates of their taxes and charges (both allowing them to vary their level of spending and making them answerable to the payers). In this section the term local government was used to describe both upper (regional, country, District) and lower (city, municipal, settlement) tiers of self-government.

Vo (2008) perceives fiscal decentralisation as devolution of authority to sub-national levels of government. The four interrelated fiscal issues among levels of government are:

1. Expenditure decisions;
2. Taxing and revenue- raising powers;
3. Sub-national borrowings; and
4. Intergovernmental fiscal transfers. The explanations to these four points have been provided under the sub-heading captioned practical issues in fiscal decentralisation.

Revenue and expenditure responsibilities of governments

The discussion here was made with particular attention to developing countries. Local government spending tends to be directed on services such as primary public goods and basic health care, whereas the central government has significant expenditures in such areas as defense and security, transport and communications infrastructure, public administration. It therefore, follows from the argument that, if it is accepted, that the national government has primary responsibility for horizontal fiscal equalisation, economic stabilisation and management, as well as, significant expenditure responsibilities in such areas as major economic infrastructure, it follows that the centre should exercise control over the most important (lucrative) and flexible, as well as the main redistribute tax sources.

World Bank (1988) and Bahl and Linn (1983) have argued along the lines of what the local government should do. The arguments dwells on the grounds of efficiency and states that for the sake of efficiency, District Assemblies should distinguish between services based on some characteristics. These characteristics are: (i) pure public goods- which should be financed by user charges, and (ii) externalities – financed by intergovernmental transfers.

Gandhi (1983) puts a challenge to this simplified classification of services. Gandhi argues the simplification of the classification has resulted in conflicts in its application. For example, clean water supply can be a public utility which has significant externalities. Public utility includes services such as national defense, mosquito abatement, pollution control, disease control etc. The common characteristics of these services are that once they are made available, separation of those who have paid from those who have not paid is impossible and any number of people can consume the same good at the same time without diminishing the amount of goods available for anyone else to consume.

The transfers from higher to lower levels of government are often a significant source of local finances. Local resource mobilisation may either expand or contract in response to the transfer. In the former case, the transfer can be termed “simulative”, whilst in the latter local governments cut back on local revenue raising and substitute the central transfer (Bahl et al., 1984). The objective of central transfers should be to allow recipient local governments to fulfill their expenditure functions, while encouraging their own fiscal efforts as far as possible and ensuring an equitable distribution of public service provision throughout the country. There are a number of empirically testable hypotheses concerning how the aggregate level of revenues generated might be influenced by the structure of government, in particular, when spending and taxation decisions are made on a decentralised basis. Yet there is very little in terms of rigorous quantitative evidence.

Brennan and Buchanan (1980) put forth the view, by analogy with the convention theory of monopoly in the private sector that a monolithic (i.e. centralised) government will systematically seek to maximize tax revenue. This led them to the proposition that the size of the public sector varies inversely with the extent of decentralisation. From the perspective of the above mentioned authors, (which is obviously somewhat different than the present one), decentralisation is endorsed as a means of constraining total public resource mobilisation.

The degree of fiscal decentralisation affects public finance through the following avenues (Marlow, 1989):

1. Decentralisation increases competition in the public sector, leading to a relatively lower tax burden- i.e. given mobility of residents and capital in pursuit of fiscal gains, the greater the numbers of alternative tax jurisdictions, the less likely that ‘excessive taxes will be levied;
2. Conversely, centralisation restricts the ability of states to compete (as in (i) since a growing national share of total government money weakens the relative significance of local governments; and
3. Centralisation may generate a greater reliance on inflationary finance given that only the national government is able to print money.

Oates (1985) argued that decentralisation would tend to increase total public resource mobilisation. An empirical investigation conducted by Oates (1972) for 42 countries reveals a strong and statically significant negative association. The study was done by regressing tax revenue (size of public sector) on a fiscal centralisation ratio (central revenue as proportion of the total). In another study, Oates (1985) explored the question again for 43 countries (18 industrial and 25 developing). The results proved that for the entire sample, the rank correlation between the size of the public sector and the extent of centralisation is strong and significantly negative. Meaning a relatively decentralised public sector is typically large.

Spending responsibilities between levels of government

In most countries local governments are responsible for what are often called "communal services": local roads and lighting, water supply and sanitation, waste management, parks and sports facilities, cemeteries, social housing. Three tier government system: central, state and local as in federal sates creates a challenge. The main challenge in this area lies in "to what extent should the state or the local government be involved or responsibility for the provision of certain facilities includes education, health and social assets."

Practically, Davey (2003) identifies three opinions. First is the state funding the whole service from its budget and the second funding responsibility splitted between local and the central government. This option may be by function. For example, the state paying for secondary education, hospitals, social benefits and local government for basic education, primary health care and social service. Or it can be by cost factor (for example, the state providing professional salaries while local government pays all other operating costs). The third option is the case where the local governments meet all cost except central provision. On the other hand, fiscal decentralisation, which begin with the review of the expenditure and revenue responsibilities of level of government is expected to allow public goods and services to be provided at the level and cost desired by local communities and to enhance citizen participation in government (Kelly, 1998).

Fiscal decentralisation and the theory of revenue assignment

There is no generally accepted framework globally on revenue assignment between different levels of government. Different countries practice different systems in its assignment between different levels of government. The theory of revenue assignment, according to Bordignon and Ambrosanro (2006), is concerned with the optimal determination of the vertical structure of taxation and tries to answer questions such as which level of government ought to choose the taxes to be imposed at any level? And which one should define both the tax base and the tax rates? Finally, it also includes which one should enforce and administer the various tax tools. Furthermore, the authors identify two broad extreme arguments on the development of revenue assignment for the various levels of government. These are the traditional normative approach and the public choice approach.

The Traditional Normative Approach, was the first ever argument and was developed and championed by early writers such as Musgrave and Oates. The theory identifies three distinct fiscal functions of every government. These are resource allocation, income redistribution and macroeconomic stabilisation (Musgrave, 1983). To share the three functions, Musgrave (1983) and Oates (1999) argue in favour of the central government to be in charge of the function of income redistribution and macroeconomic stabilisation whereas the local governments handle the resource allocation fiscal function. The argument in support for the allocation above between the central and local government is that because of spill-over effects which would be difficult to internalise at local level, the responsibility. Income redistribution and macroeconomic stabilisation should be assigned to central government, whereas resource allocation could be performed by all levels of government including the local government. The basis for this argument was on the assumption that optimal revenue assignment is strictly related to the normative optimal assignment of expenditure functions to levels of governments.

The traditional normative approach provided some guidelines for the setting of sub-national taxes. These guidelines were developed on efficiency grounds for local development. These are:

1. Local government should levy taxes on relative immobile assets such as land, buildings etc in order to prevent tax competition and revenue losses;
2. Levy taxes on bases evenly distributed among jurisdictions in order to prevent horizontal fiscal imbalance; and
3. They should levy taxes whose yield is relatively stable in real terms to ensure expenditure planning (Bordignon & Ambrosanio, 2006).

The central government, on the other hand, was therefore charged with the collection of income taxes in the areas of individual progressive income taxes, corporate income taxes etc. since they presents themselves or enjoys the relative advantage over other types of taxes as the best instrument to achieve the main fiscal objectives of the central government. It was therefore argued that the central government can catalyze her main objective of macroeconomic stability and income redistribution of attention is placed on this type of income related taxes. The traditional normative approach places much attention on the economic theory of revenue assignment.

Traditional normative theory has suffered a lot of attacks mainly from the camp of Brennan-Buchanan approach. The critics point the approach, first of all, is fundamental wrong since it was developed on the premise that governments are benevolent or social welfare maximising entities, which in real case is not. The traditional approach practically did not consider the forces of political power exercise and bargaining which usually comes along with revenue assignment with different levels of government. Also, the traditional normative approach is a purely normative theory which provides weak / poor explanation of revenue assignment and expenditure across central and local government, as we observe in the real world.

Lastly, the traditional normative approach was criticised to be purely an academic or theoretical approach which is likely to face a lot of challenges when applied to real life situation, thus cannot stand the test of time. Local governments in reality are concerned with income redistribution, for instance, in education and health care sectors and rather make less use of benefits taxes as the theory indicates. The shortfalls in the traditional normative approached led to the birth of Brennan-Buchanan approach.

Brennan–Buchanan Approach was developed to fill the gaps identified within the application of the traditional normative approach. Put differently, the Brennan-Buchanan approach hinges upon a completely alternative view of government and therefore leads to a completely alternative view of the optimal revenue assignment (Bordignon & Ambrosanio, 2006).

Unlike the traditional normative approach, this approach acknowledges that fact that governments are not benevolent and that even in countries where democracy is well developed, effective controls on politicians are poor. The approach considers that fact:

1. The only way politicians can maximize total revenue from the private sector is through tax (revenue mobilization); and
2. that large amount of revenue through tax, maximise the spending powers of politicians and bureaucrats.

To achieve these two broad goals; the following strategies need to be adopted. The first strategy is choosing broad tax bases with the aim of minimising tax evasion and tax erosion and the second is imposing higher rates on less elastic bases. Brennan-Buchanan approach was used to describe the contemporary roles most central government play in any economy. According to the authors, the central government uses their powers and authority to control revenue assignment. The approach also creates some sort of competition among the local government.

The competition created serves the following advantages. It serves as one of the forces restraining tax design and budget size. The argument here is that substantial local government taxes should be levied or imposed on mobile factors which has the ability to trigger completion to limit the rapaciousness of levitation. Completion again brings about efficiency, just as competition in the private sector, is accompanied with efficiency. Completion will therefore reduce the monopoly powers of governmental units. However, just like the traditional normative approach, Brennan and Buchanan's approach also dwells on or was developed on based on economic efficiency rationale. Some of the criticisms the approach faced were: The approach was too rigid on central government's role in taxation. It painted governments as Leviathan; thus the name the Leviathan model, however, in practice governments are less monopolist than the approach claim, and The competition created by this model among local government can be dangerous, since it has the high capacity of introducing serious allocative distortions. This allocation distortion can lead to an erosion of the tax base.

Options for central - local government fiscal transfers

Questions which usually follow local government fiscal transfers such as ways of arranging fiscal resource transfers from central to local government, how efficient horizontal allocation mechanism should be and how should the central government grant (fiscal) resources be allocated among local governments (who gets what and what should be the basis to judge who gets what)? These questions though look very simple and easy on paper, however, faces a lot of challenges in its implementation / application. The practice of fiscal decentralisation carries along with its own expected benefits. Fiscal decentralisation if addressed properly will create a stable, equitable and efficient horizontal allocation mechanism. However irrespective of the method / approach used, some local government will receive more grant than others. Some of the options available for horizontal allocation mechanisms are: the per capita transfer funding, the ad hoc approach and the formula-base allocation mechanism / approach.

Per capita transfer funding (commonly referred to as the straightforward horizontal allocation mechanism) distributes the total pool of intergovernmental grants available in a country proportionally among all local government s based on the number of people that resides in each local government area. This system looks too simple and tempting to use due to its simplicity making it attractive. One may ask, is it very easy to estimate the number of people within each local government especially, within this current era of huge rural-urban migration? How effective will the calculation be? So in effect, this system sound perfect academically but will face huge application problem since it ignores vital information which are necessary in allocating revenues among local governments, With this method, in place, each local government will receive the same amount of per capital transfer funding. This method practically does not meet efficiency and equity criteria (Boex & Martinez-Vazquez, 2005). Furthermore, in reality, intergovernmental grants are rarely allocated strictly to per capital basis.

By ad hoc approach, horizontal allocation of grants to local governments is done through negotiation or through the fall on the discretion of fiscal policy experts and practitioners. Just as the per capital basis approach discussed above, the ad-hoc approach has suffered a lot of challenges. Bahl (1999) considers this method inherently central, which is against the decentralisation concept this fiscal decentralisation follows. Grant disbursements to local governments that are negotiated (as part of central government's budget formation process) are inherently more centralizing than formal–based grants. Politicians (governments) will wield their influence to the benefit of their constituents. It also has the potential that give cabinet officials or members of parliament an opportunity to "sell" favours to local officials. This approach also goes with high chance of introducing corruption in the process of horizontal allocation of grants.

Lastly, the formula-base allocation mechanism / approach have been the most widely accepted approach for horizontal allocation mechanism. It also does not ensue that the allocation of resources is objective, fair, efficient or stable. Because of this, the formula-base allocation approach does not have a globally accepted format. The formula can be changed anytime when it is considered appropriate to make it more responsive to fairness, equity objective and stable (Boex & Martinez-Vazquez, 2005). In many countries, the central government has the discretion to unilateral change the factors included in the allocation formula and change their relative weights from year to year, giving the central government de facto control to alter the effective distribution of grant resources as it sees fit. Unnecessary manipulation by central governmental officials to affect the outcome of the formula has been the most common challenge to this approach. This is done through the manipulation of data used to compute the allocation factors. A classical example was the case of Russia's equalization fund during the mid 1990s (Boex & Martinez-Vazquez, 2001).

Now the question to address is that irrespective of the approach one adopts, what will determine the horizontal allocation of intergovernmental grants? In countries that rely on a sound formula-based transfer system such as the United States of America, the form of the horizontal allocation mechanism is very often a function of the ultimate policy objectives pursued by the central government.

Practical issues in fiscal decentralisation

A lot has been written to describe fiscal decentralisation theory in this chapter. The study considered this particular section important in the sense that theory is developed from observations of phenomena in question. World Bank (2003, p. 3) identifies four main practical issues that concern fiscally decentralised systems. The assignment of responsibility for the provision of services across different tiers of government, the assignment of revenue-raising powers, intergovernmental fiscal transfers and lastly the sub-natural borrowing.

The assignment of responsibility for service provision option argues that every multi-tiered fiscal system has responsibility for the provision of a particular type of service. This service is usually assigned across different tiers of government. The assignment of services takes two forms. These are "unique" and / or "shared" Service provision is termed "unique" if for example one particular level of government is made to finance or provide a particular type of service. Example, provision defense (National Security) has always been the responsibility of the central government. "Shared" across levels of government, is considered or applied on instance such as education; which is jointly provided by national government and sub-national (local) governments. One common concern which has created hot debate on the assignment of responsibility for service provision has been identified as follows. The extent of assignment among various tiers of government and the composition of assignment (Vo, 2008). Of equal importance is the legal issue pertaining to the assignment of responsibility for service provision.

All the challenges outlined above have attracted attention of international bodies. The concerns have highlighted the following issues. Should the assignment of spending responsibilities (within and between various levels of government) be constitutionally codified? Or should the assignment be merely the outcome of the practice and fiscal competition? These are some of the main challenges with respect to the practice of service provision responsibility.

The assignment of revenue-raising powers has attracted hot debate within the international circles. The word “power(s)” used in this context involves two main elements (Vo, 2008). These are identified as powers to;

1. The legal authority to raise particular types of revenue, thus, constitutional question; and
2. The decision by various levels of government as to whether or not to exercise all, some or none, of their legally guaranteed powers to raise revenue.

However, there are some fundamental legal questions to be addressed. Revenue assignment can be unique. In this case, each level of government is assigned taxing powers that other levels of government do not have and that whether the assignment of revenue-raising powers should be codified in a fiscal constitution, or whether the composition of taxing powers across government levels should be the result of some of the process, such as competition within and between, different levels?

Assignment of revenue-can also be shared; thus taxing power is shared across different levels of government. Sharing takes the following forms;

administrative or legislative, a strategy commonly referred to as "piggybacking" by Vo (2008). Administrative, in the sense that, the central government taxing authority collects tax on behalf of local government and legislatively, on the other hand, involves the case where local governments tax bases are defined in national government legislation. Revenue collected by central government from its tax bases may also be "shared" with the local government.

Intergovernmental financial transfers address issues of revenue assignment across the levels of government. It has been observed that this usually results in some level of mismatch between spending responsibilities and revenue-raising powers for local (sub-national) government. This challenge has resulted in the need for some form of fiscal transfer from one level to the other level of government; usually from the central to local (sub-national) government is needed to correct this abnormality. This challenge, is often referred, to as vertical fiscal imbalance. Vertical fiscal imbalance; which is defined as a mismatch between the revenue-raising powers and expenditure responsibilities of each level of government; where a shortfall in revenue for one level of government (typically the regional level) is made up by grants funded from the surplus revenue of the other (typically the central government)

This form of transfer has been named intergovernmental fiscal transfers. Fiscal transfers to correct vertical fiscal imbalance, also face design challenge. Related to the fundamental question of vertical fiscal imbalance is the issue of, how fiscal transfers should be designed? In this regard, the first-order issue concerns the share of general purpose (for unconditional or untied) transfers related to specific purpose (or conditional or tied) financial transfer.

Within these two broad types, there are some variations of types of grants. First, conditional grants can be subdivided into: (i) lump-sum grants and (ii) matching grants. For the first subdivision, a fixed sum of money is received and a recipient needs to spend money on designated areas. On the other hand, matching grants depend on a fiscal capacity of a jurisdiction to "match" funds transferred from high-tier government. It is to say, the amount of matching grants will depend on how much money local jurisdictions spend on a particular service. Second, unconditional grants can also be subdivided into two different types: (i) a lump sum and (ii) effort-related grants. While the first subtype is clear, the second requires the judgment from the national government about the "effort" of local governments in fiscal activities. The second-order issue concerns the question of whether intergovernmental transfers should be the subject of "fiscal equalization" across all governments for a given tier of politics (henceforth, "horizontal fiscal equalization")

Sub-national or local government borrowings concentrate on access to financial market for local government, which has been a controversial issue especially in the literature relating to developing countries. The arguments which go in favour of central government borrowing vis-à-vis the local government has been that the local governments have poor accounting and disclosure standards and rely heavily on the central government to ail out debt crises, when there is a conflict of interest between lenders and borrowers (Ter-Minassian, 1996).

World Bank (2004) argues in favour of local governments borrowing with the following points. Local governments' investment expenditure entirely financed from current tax revenue is inappropriate for the equity reasons. Investment here is important here for the local governments in the sense that it will bring benefits for future generation. Also, through this, the local governments will be at least partially responsible for their spending. The second points is that the ever present mismatch between revenue and expenditure in most developing countries makes it relevant for local governments to borrow, and lastly political accountability is evident in the borrowings from local governments.

This point is in support of the first generation theory (Vo, 2008, p. 47), which associates the process of fiscal decentralisation with an enhancement in the overall degree of public sector responsiveness to a public demand and, ultimately, to an improvement in the economic efficiency of public economic activities by better linking resource allocation with public preferences. Furthermore, it was argued that in the absence of significant intervention from the national government, financial markets send a clear signal of local governments' performances by providing borrowings or block them from accessing the financial market. The first generation theory also suggests that local government should be given the space to manage and service their own debt, but in conjunction with transparent accounting arrangements for public sector finances (Vo, 2008).

Ter-Minassian (1996, p. 156) in Vo (2008, p. 45) challenged the practice of local government borrowing. The question of the extent of the budget constraint to be imposed on local government by the national/ central government should be address. Should it be soft or hard budget constraint? A hard budget constraint means that the national/ central government will not bail out local government for excessive debt under any circumstances. In such a case, the market should be fully informed on the conditions in dealing with the local governments. The statement should carry the policy statement of no bailout for any local government by the central government under any condition. Additionally, the local governments have no incentives to borrow and fail to meet financial responsibility.

Development and local development

Defining development is a particularly difficult issue as there is no universally agreed definition. The different definitions and uses of the concept reflect varying disciplinary biases, distinctive paradigms, and ideological disputes. Generally, the type of definition used is often a function of the socio-economic, political and educational background of the author.

In the 1950s and the early 1960s development was only seen in economic terms. The degree of development was most often measured in terms of national income. However, by the mid of 1960 people were beginning to question the economic concept of development. Its critics argue that this concept had many problems, which are basically social and political and they include:

1. The breakdown of traditional, social and political institutions, which in turn result in increase in crime, deprivation and inequality; and

2. The problem relate to environment like pollution of land, water and the atmosphere; and the depletion of natural resources.

Dudley Seers (1969, p. 72) in expressing concern about this concept of development wrote: The questions to ask about a country's development are therefore:

1. What has been happening to poverty?
2. What has been happening to unemployment?
3. What has been happening to inequality?

If all the three have declined from high level, then beyond doubt this has been a period of development for the country concerned. If some or all three have been going worse it would be strange to call the results development even if per capital income doubled. These concerns raised about the economic concept of development led to the welfare of mankind in the 1970s.

This new concept sees development as a state of human well being rather than as a state of the national economy. This new thinking was first expressed in a statement known as the Cocoyoc Declaration (1974). It was adopted by participants at a seminar in Cocoyoc city in Mexico organized by the United Nations Council on Trade and Development, a United Nations environmental programme (UNEP). The declaration states our first concern is to redefine the whole concept of development. This is not to develop things but to develop man. Human beings have basic needs such as food, shelter, clothing, education etc, therefore any process of growth that does not lead to their fulfillment or even led to worse, disrupt them is a travesty of the idea of development. So therefore, development consists of economic growth, equity, poverty reduction, employment generation, improved housing, gender empowerment, elimination of all forms of discrimination, freedom, justice and maintaining a healthy environment (Mensah, 2005)

This concept of human centered development concerns itself with distribution of the benefit of development, that is, the benefit of development be equitably distributed. This concept of development is further advanced to be what came to be known as the “third system project” developed by international foundation for development alternatives (AFDA) in Nyon, Switzerland. The third system took an innovative study by recognizing the different scales at which development occurs, thus local, national or global. Of these, local space was regarded as the most significant base for development deeply rooted in the maxim that “development is lived by people, where they live, work, play and die.” The primary community therefore whether geographical or organizational is the immediate space within which personal and societal development first and best interact (Adarkwa & Diaw, 1999, p. 52). This underpinned the concept of local development.

The desire for human development that ensures reduced poverty, access to the minimum basic needs of life is the goal in every society. In the traditional Ghanaian society, even at the community level, a strong desire for development, for the individual and the community has always been set as goals of life. At the community level, development is seen as the availability of good educational infrastructure, good roads, and access to services like potable water, electricity and health facilities among others.

Local level development

There is no agreement on what the term local implies. However, Uphoff (1986, pp. 10-12) has identified ten levels of decision making activities ranging from international level to the level of individual level decision makers. Within this range, Uphoff distinguishes three different local levels which are nested within one another. These local levels area: locality level, community level and group level (Andoh, 1967, p. 8). With this differentiation, attempts have been made at explaining what the term local connotes. Uphoff (1992, p. 15) sees the term as referring to "a geographical area composed of a group of local government authorities that generally share an economic base and are close together enough to allow residents to commutes between them for employment, recreational and retail shopping." Furthermore, "local" is "where people have some possibility of personal acquaintance, and usually some experience of working together."

Fekade (1994, p. 7) broadens the knowledge that "local" refers to "a spatial delineation of a limited size in which its inhabitants share similar problems treats and constraints and resources. Inhabitants are routinely interlinked by common identity (language, history, culture, physical patterns such as settlement, roads, shared service centres) and commonly shared needs and appreciation of problems in a mobilisable potential." From these interpretations, the term "local space" for the purposes of this study is defined as an area made up of fairly cohesive and bounded by social units (that is communities), which has some established patterns of communication, economic exchange and social interrelationships, with some perceptions of common interest and some capacity for collective action.

By this definition, the districts in Ghana are considered as local level space. This is premised on the observation that people within the districts have some acquaintance with each other directly or indirectly through intermarriage, trading relations, religious festivals or participation in local government activities.

From the above definition of the terms ‘locals’ and ‘development’, local level development is therefore defined as a process of change that enables people in a particular locality to take charge of their own destinies so as to realize their full potential. This form of development requires the use of social, economic, technological and institutional process to build in the people the confidence, skills, assets and freedom necessary to achieve their development aspirations. This is considered as development from below, attained principally through the efforts of the people themselves and not as a result of goodwill gestures of those who have excessive monopoly of decision making powers and resources. This is the basis of community involvement.

Inherent in this definition is the “defining trait of the new development paradigm that development must be human-centered, coming from within, rather than imposed from outside.” Local level development, as rightly noted by Fekade (1994, p. 46), is associated with the following attributes. These emanates from within a community/ locality, meeting of the basic needs of the population, environmental sustainable, culturally specific, access to resources and opportunity to employ one’s energy and accommodates external (i.e., non local intervention in the internally induced) process.

Empirical review on internally generated revenue

Over two decades of implementation of decentralisation policy in Ghana, fiscal administration, as part of the decentralisation programme, still remains a thorny issue. This is because, despite the availability of two main constitutionally recognised sources of revenue available to the MMDAs to finance local development projects / programmes, MMDAs continue to face formidable challenges in financing its development projects. Due to this challenge, most MMDAs are not in the position to implement all the projects outlined in their medium term development plans. The result has been the total abandoning of development projects or projects taking overdue time to complete.

Section 240 (2, c) of the Local Government Act, 1993 (Act 462) provides that each local government unit shall have a sound financial base with adequate and reliable sources of revenue. Despite this requirement, Metropolitan, Municipal and the District Assemblies (DACFs) have limited revenue sources for carrying out their activities; which include the DACF, grants, transfers, ceded revenues and external credits, land rates and minerals royalties, and other internally generated revenue (IGRs). Kokor and Kroés (2000) argue the central government has assigned a number of independent sources from which revenue could be mobilized by the MMDAs to finance its activities. But the majority of these MMDAs generate revenue which are hardly sufficient to cover their administrative and other recurrent expenses much more to finance the delivery and running of basic infrastructure and service that directly benefit their communities.

The Sixth Schedule of Act 462 lists the revenue sources of local government bodies to include entertainment duty, casino revenue, betting tax, business registration charges, gambling tax, rates levies, fees, licenses, as well as taxes chargeable on the income of certain categories of self-employed persons. There are also miscellaneous receipts such as stool land revenue, fees for dislodging of latrines, collecting of sand and stones and others. However, the IGRs do not yield much revenue, not even for the recurrent expenditure and so most Districts depend almost entirely on the DACF and other grants from the central government. The next paragraph outlines some of the challenges MMDAs face in her quest to mobilize revenue internally.

Challenges, in this study are the impediments, weaknesses, disincentives or difficulties that do hinder the maximisation of revenue collections internally at the sub-national and local government levels. Studies conducted by King et al. (2003) reveals that the external sources of funds available to the MMDAs mainly, the constitutionally established District Assembly Common Fund (DACF) have faced some practical challenges. Some of these challenges identified were delayed payments, payments never made or withheld; through judiciary directives and payments attracting unnecessary deductions from source. This has seriously undermined the functions of the District Assemblies. For example, the local Government Act of 1992, Act 462 mandates the MMDAs to ensure the overall development of its area of jurisdiction. To facilitate this function, the MMDAs have been given the legal backing to tax economic activities within its jurisdiction and to channel the revenue mobilized for its development.

Nicol (2005) identifies some of the mobilization challenges of IGR to include the following. The main challenges have been in the areas of weak collection and monitoring systems, under declaration of revenue, leakages/corruption, lack of credible and reliable database on taxable economic activities, lack of training for revenue collection and administration staff etc. Therefore challenges outlined above have rendered the MMDAs financially handicapped in executing its enormous development functions.

Bahl and Schroeder (1983, p. 34) identify two main challenges to impede local revenue mobilization and a more efficient functioning of the local government sector. These are:

1. The substantial restrictions placed on expenditure of local government by the central government; and
2. The challenges in local governments' budgeting and financial management process.

To correct these anomalies, the World Bank (1988) came out with the features of a good or effective revenue mobilization and management administration. To them, good or effective revenue structure is a prerequisite for enhanced revenue levels. The features according to them is the type which has separate departments or units for revenue assessment and revenue collection, regular training for employees in the areas of computer literacy, so employees can design and operate procedures. Furthermore, they outlined higher literacy levels especially if the employees can perform basic audit for a personal account and for a company, the use of the state of the art equipment for revenue mobilization and collection such as computer software to gather and process large data. However, the argument concluded that such a structure limits the use of revenue collectors' discretion in fixing revenue rates, which often leads to bribery and corruption, under declaration of revenue collected, unrealistic revenue target setting, limits revenue default and finally reduce the cost of revenue collection to the District.

Challenges take the form of inadequate personnel to undertake the difficult task of revenue collections in a very rural setting, the absence of clear data that can help in revenue collections, the attitudes of the citizenry towards tax payments generally and how effectively the laws can be enforced or a certain level of overdependence on central government grants (Oduro-Mensah, undated). Ebel and Vaillancourt (1998) admit that the system of financing local governance in many countries is characterised by dependence on the central government on transfers and shared taxes, and almost complete lack of robust generation of own revenue sources. Boachie-Danquah (1996) cautions that if local governments have to depend primarily on central government funding and other external resources to enable them deliver the services required of them, then that over dependence is a sure recipe for disaster in as far as the concept of decentralisation is concerned.

Bird (2003) notes that the revenue performance of developing countries in the last decade has been disappointing. Internally generated revenue challenges may be classified as institutional and human. Others may be laxity, inertia, indifference or sheer irresponsibility on the part of those whose duties are to collect the revenues. Institutionally, revenue collections have been hampered by the absence of logistics for the revenue collectors who are supposed to reach every potential tax or ratepayer for the purposes of tax collections (Oduro-Mensah, undated). The laxity or inertia may arise out of complacency on the part of the local authorities or the sub-nationals resulting from access to grants or loans that are so reliable and does not require many efforts to acquire.

Kelly (1995) notes that tax payments anywhere in the world are very unpleasant to the payers. People generally do not want to pay taxes voluntarily. The challenges that confront local authorities in many developing countries in as far as revenue collection is concerned, have to do first with the attitudes of people generally towards the payment of taxes of whatever forms. The second challenge has got to do with those engaged to collect the taxes on behalf of the local authorities who either short change the local institutions by underpaying what they collect or sometimes engage in outright fraud through fake receipt printing (Zanu, 1994). The structures that serve as checks and enhance efficient tax/rate collections are very weak. In some cases the revenue collectors collect less than they are expected to collect from those who are expected to pay those taxes and in return, no receipts are issued for the payments, thus making accounting very difficult. There are indeed programme design problems in internal revenue collections, implementation problems and above all attitudinal problems.

Appeah (2003) adds that revenue collections are open to serious abuse and corruption in their wildest forms in many developing countries. The leakages, under-declarations and other blatant acts of official misconducts are a great challenge to efforts at increasing internally generated revenues. Appeah further notes that District Assemblies in Ghana do not have any systematic machinery or format for monitoring revenue collections because the data that will guide the preparation of that format is not available. Revenue collectors account for their collections a week or more after the collections, a situation that is subject to abuses and many reasons are cited for their inability to render accounts as and when they are expected to do so.

One other major challenge that Aboagye (1994) sees as confronting District Assemblies in the process of revenue mobilisation is the current and almost moribund and unscientific method whereby technocrats prepare revenue and expenditure estimates for the fiscal year in close collaboration with the Finance and Administration Sub-Committee of the Assembly (some of whose members in many District Assemblies have no knowledge about budgeting and its related issues) for discussions. The current estimates are based on a percentage increase over the previous year’s estimates. Not much consideration is given to the fact that the previous set targets were either achieved or not achieved. No serious analysis is done in areas where set targets were not achieved to identify the reasons for the failures or successes, whichever the case might be and advise on remedies to correct the problems or improve upon the successes. Also, efforts aimed at bringing potential revenue sources into the tax net are met with serious resistance with its attendant political upheavals and blackmail.

If the tax payers believe that they do not benefit from the taxes they pay, they are not likely to comply (Aboagye, 1994). According to Aboagye, District Assemblies have a responsibility to build confidence in the people as regards what they (Assemblies) do with the monies they collect from them. It is a big challenge for the District Assemblies to let the people know and appreciate the fact that the revenues they pay help contribute towards their standard of living by way of development projects. Most of the revenue collectors are poorly motivated. Job or career progression for many of the revenue collectors particularly, the commissioned collectors are non-existent because of their educational background.

Over and above all, one of the biggest challenges that impede revenue generation for the sub-nationals is the fact that they are not allowed to borrow externally to develop any viable project (Adedokun, 2004). Good or effective revenue mobilization and management structure has the ability to reduce the cost of revenue collection. If revenue collection goes down, we expect total revenue collected or mobilized to increase and made available for District development.

According to Kokor (1991), the amount of revenue raised locally results from the interplay of two local level factors namely: the willingness of local residents to give a specific proportion of their resources as taxes, levies or rates which is expressed through the rate of local tax payment compliance or avoidance. The level of local revenue mobilisation and collection effort which is influenced by such factors as revenue generation strategies adopted and level of efficiency of revenue collection and accounting which ensures the flow of all funds collected into the local authority treasury.

Conceptual/ theoretical framework for local government finance system in Ghana

According to Miles and Huberman (1994), a conceptual framework explains, either graphically or in narrative form, the main things to be studied; namely, the key factors, constructs or variables and the relationship among them. This framework was developed from theories, concepts and empirical review presented in this chapter. Therefore, the framework attempts to show the link or relationship between the key concepts of the study, which include the decentralisation concept (World Bank, 1999a) and the theory of intergovernmental fiscal allocation (Shah, 1994). All these concepts have been explained fully in the earlier pages of this chapter. The study was done from two main theoretical/ conceptual strands.

These are the decentralisation concept; which is practiced in the form of District Assembly concept (Metropolitan, Municipal and District) in Ghana and the theory of intergovernmental fiscal relation; which spells out the fiscal policies for the District Assemblies in Ghana. These (concept/ theory) have been explained in details in the early pages of this chapter. However, particular attention was placed on the theory of intergovernmental fiscal relation / fiscal decentralisation, which spells or describes out the financial systems of the District Assemblies and the fiscal relations between the central government of Ghana and the local governments (Metropolitan, Municipal and District Assemblies).

The reason is that the topic for the study concentrated on fiscal aspect of the decentralisation concept as practiced in Ghana. It goes further to study the challenges of internally generated revenue of District Assembly’s finances. According to the works of Goel (2010) as presented in the earlier pages of this chapter, decentralisation (from the perspective of Metropolitan, Municipal or District Assembly) as practiced in Ghana is divided into three main areas.

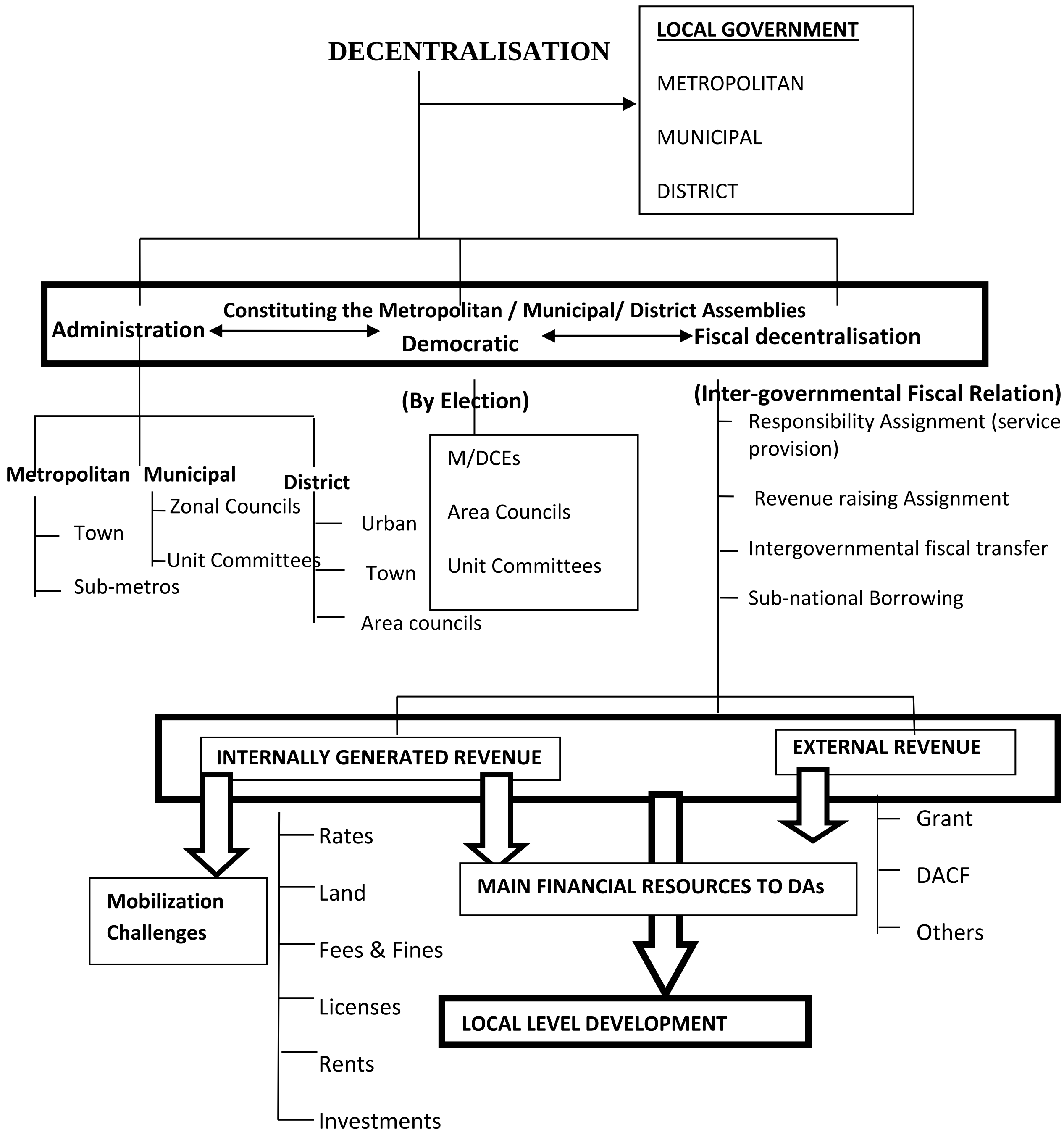


Figure 2: Framework for Local Government finance system in Ghana

Source: Author's Construct (2012)

These are administrative, democratic and fiscal decentralisation. In other words, the decentralisation concept, as practiced in Ghana gives the Metropolitan (population of over 250,000 people), Municipal (one town Assemblies, with population over 95,000 people) and District (population of

75,000 and above people) Assemblies the following powers: These are the Administrative power, Democratic powers and fiscal powers. Explanation has been provided below.

Administrative decentralisation in Ghana has a format (Figure 2). Metropolitan Assemblies naturally has been divided into two sub groups. These are the town councils and the sub-metropolitan offices. The reason for this division was basically to strengthen administration. As population keeps increasing, more sub-metropolitan and town council offices are created to ease administration and make it more manageable. However, all these sub-metropolitan and town council offices report to the main Metropolitan Assembly. Municipal assemblies also follow similar division. For them the divisions are zonal councils and the unit committees. Districts, on the other hand, have been divided into three components. These are the Urban, Town and Area.

Democratic decentralisation, diagrammatically presented in Figure 2, outlines the political positions within the Metropolitan/Municipal and District Assemblies (also called District Assemblies). The main positions for election have been identified for the position of Metropolitan/Municipal/District Chief executive (M/DCEs), Area Council elections and Unit Committee election. All these are positions which one has to contest to secure the position.

In Ghana, it has been realized that the issue of fiscal decentralisation is one of the main causes of the failure of successive local government systems in the country (Asibuo & Nsarkoh, 1994, p. 32; Kessey, 1995, p. 25, Bandie, 2005, p. 4). Greater fiscal decentralisation is expected to allow public goods and services to be provided at the level and costs desired by the local communities and promote citizen participation to increase government accountability. For the purpose of this study, fiscal decentralisation is defined as the devolution of a certain degree of revenue- raising authority and transfer of funds and economic Programme to local institution (Haque, 1997, p. 8). Until recently most developing countries practiced decentralisation which did well in the transfer of responsibility to the local government units without the corresponding means (fiscal decentralisation).

These fiscal decentralisation efforts typically begin with a fundamental review of allocation responsibilities for expenditures and revenues by level of government. Rationalising these responsibilities, combined with establishing an intergovernmental transfer Programme, is the first step towards creating a fiscal structure that can enable governments to properly fulfill their stabilisation, distribution and allocation functions (Shah, 1994).

The focus of this study centres on the mobilization effort of internally generated revenue for District Assemblies. Internally generated revenue can therefore be sub-divided into rates, royalties, fees and fines, licenses, rents and investment. Mobilisation and utilisation challenges of financial resources at the local level has been described by Mensah (2005) as one of the major challenges militating against the smooth implementation of District Medium Term Development Plans at the local level. This problem has affected local level development and led to widespread poverty in the districts.

These challenges as explained in the empirical review of this chapter can be traced to the District Assembly (revenue collectors and the revenue administrators) and the revenue payers (residents) as proposed by Kokor (1991). To revenue payers, the willingness to pay is the primary factor, whiles to the District Assembly is the ability to mobilise revenue, transparency in revenue mobilized and amount of local level development is required. The willingness to pay revenue can be fully achieved through the application of the cannons of taxation, as explained in the early pages of this chapter.

Conclusion

The context within which this study is being done lies in the fact that local and sub-national governments are conceptually expected to identify their needs, develop their strategies according to their circumstances in order to local level development. This also requires that a substantial amount of resources be generated from within the local area as the basis for meeting any programmed needs. This calls for increased internally generated revenue collection to support other forms of revenue to sub-national governments. While it is crucial that local governments generate more resources to deliver on their responsibilities, the challenges that confront many of them, particularly those in the developing world, is inadequate internally generated revenue making them more dependent on central authorities and, in the process, lose part of their autonomy. There are still immense opportunities for local governments to be financially sound if the mobilization challenges that impede their efforts towards financial freedom are tackled with all the seriousness.

CHAPTER THREE

METHODOLOGY

Introduction

The chapter presents the study area, research design, study population, sample and sampling procedure, instruments for data collection and data analysis procedure. It also provides information on data collection sources and mode of collection.

Study area

Geographically, Abura- Asebu- Kwamankese District is located between latitude $5^{o}05^{II}$ and $5^{o}25^{II}$ N and longitude $1^{o}5^{II}$ and $1^{o}20^{II}$ W. With a short coastal strip of 5.2 km along the Gulf of Guinea and stretching inland, the district shares political and administrative boundaries with Cape Coast on the south west, Twifo-Hemang Lower Denkyira District on the north-west, Assin South District in the north, Mfantseman District on the east and Gulf of Guinea in the south (Figure 3). The Abura- Asebu- Kwamankese District has a land area of about 380 sq. km which is about 4 percent of the total land area of the Central Region (9562 sq. km.)

According to Ghana Statistical Service (2005), the district's population is 90,093; which represents 5.6 percent of the region's total population. Therefore, this makes the district as one of the least populated district after the Asikuma-Odoben-Brakwa District. The district has about 262 communities, with Abura Dunkwa as its capital. With a given population growth rate of 2.4 percent, the district population was estimated at 145,159 in the year 2010. Agriculture (crops, forestry, livestock, fishing and hunting) constitutes the major economic activity of the district economy. It employs about 65.4 percent (that is 54.5 percent for farming and 10.9 percent for fishing) of the economically active population, followed by 21.9 percent for services and then 12.7 percent for Industry (Abura- Asebu- Kwamankese District Assembly, 2009).

Manufacturing and processing enterprises in the district include timber processing firms, agro-processing activities such as distillation of local gin (Akpeteshie), gari making, kenkey making, palm oil and palm kernel extraction, starch production and mineral water bagging. Besides these agro processing units, there are a large number of artisanal workshops including masonry, hairdressing, blacksmithing, carpentry and joinery, dress-making and soap-making. There is sandcrete production as well as charcoal production. Another economic activity in the district is stone quarrying located at Kwodogya, Kakanase, Obohen. While the stone quarry at Kwoadogya is done on a relatively large scale, the rest are on small scale. They provide employment to the people, support the construction industry and also serve as a source of revenue to the Assembly.

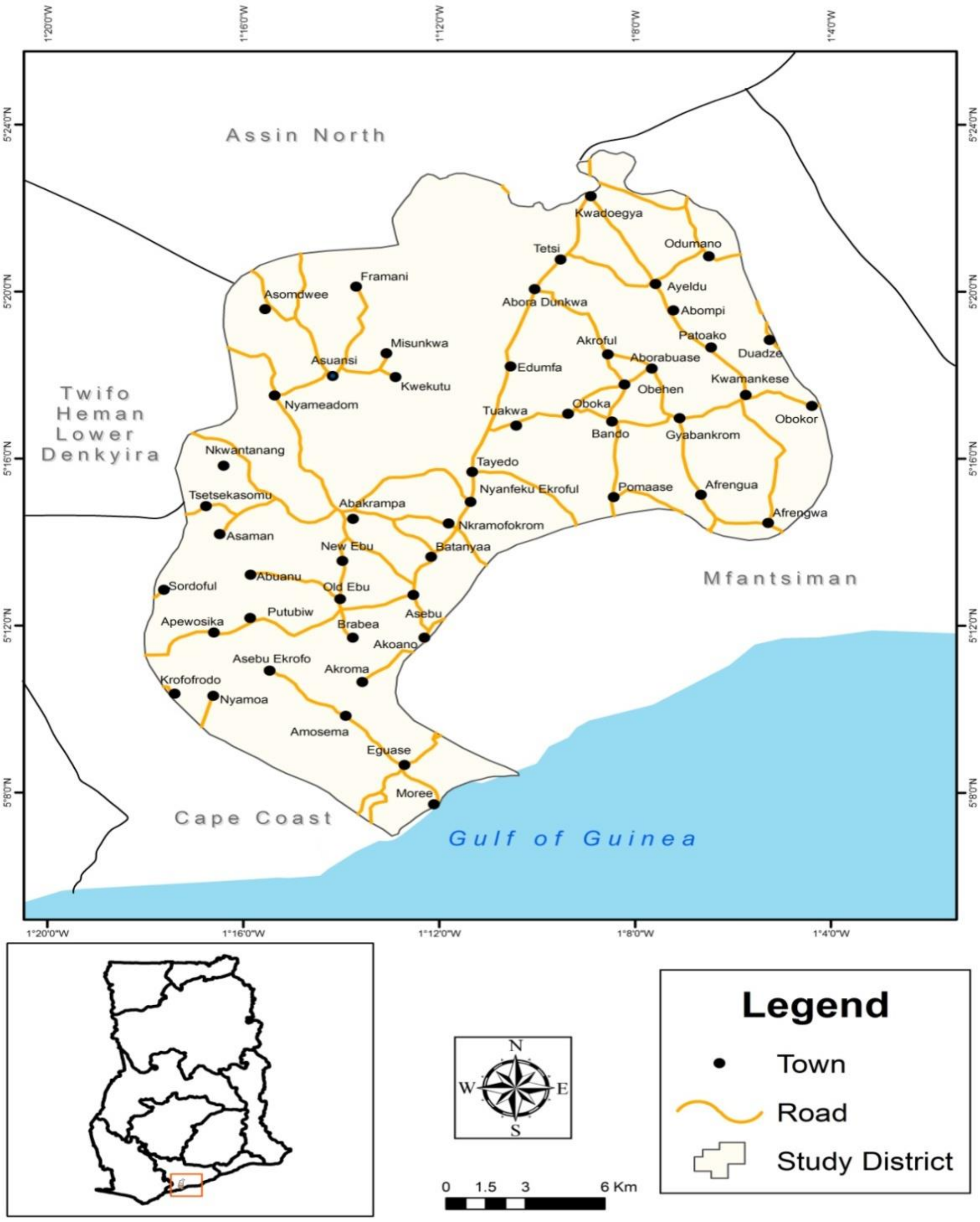


Figure 3: Map of Abura- Asebu- Kwamankese District

Source: Cartographic Dept. UCC, 2012

Study design

Analysis of secondary data study design was used. Analysis of secondary data is the re-analysis of quantitative data already collected for previous work by a different researcher normally wishing to address a new research question (Payne & Payne, 2004; Boslaugh, 2007). The study made use of the financial data and reports collected and compiled by the finance office of Abura-Asebu-Kwamankese District Assembly from 2005 to 2010. This data was taken from sources such as the district's financial reports, trail balance report and the district's medium term development plans. Specifically, this analysis aids in uncovering long-term trends. It provided readily available information for the study. The analysis of the data from the financial report was used to answer questions on the structure of the district's revenue (both internally and externally revenue generation sources)

The study was also descriptive; which aims at going beyond existing information on the challenges of District Assembly's internally generated revenue. Descriptive study design delves into the unknown to bring to the fore what indeed the problem is and possibly identifies the causes and how they could be addressed in Abura-Asebu-Kwamankese District. Descriptive survey is a process of collecting data to describe what exists on ground (Saunders, Lewis & Thornhill, 1997). Descriptive survey method was used to find the challenges of internally generated revenue in the study area. The variables under the study are not manipulated for any reason since the research is intended to be non-interventional.

The choice of descriptive study in this study was based on the concerns expressed in academia and operators of the decentralisation programme on the challenges of internally generated revenues and how internally generated revenue can be the major source of funds for development in the various districts. Descriptive study provided in-depth attention to the causes and challenges of internally generated revenue of the Abura-Asebu-Kwamankese

District. Finally vivid description of the variables based on the observations is made and solutions provided.

Study population

The study population comprised the residents of Abura-Asebu-Kwamankese District, revenue collectors of the Abura-Asebu-Kwamankese District Assembly, Chairmen of organised groups with members in all parts of the district (such as Ghana Private Road Transport Union (GPRTU), Local liquor brewers, Citrus growers Association, Beauticians Association) and the key District Assembly officials of the Abura-Asebu-Kwamankese District Assembly.

Five key District Assembly officials of the Abura-Asebu-Kwamankese District Assembly together with four chairmen from the organised groups were purposively selected as key informants and interviewed. The five key District Assembly officials of the Abura-Asebu-Kwamankese District Assembly selected include the District Finance Officer (DFO), the District Planning Officer (DPO), the District Chief Executive (DCE), District Coordinating Director (DCD) and District Budget Officer (DBO). The basis for the purposive selection of these Key District Assembly officials includes their role and knowledge in internally generated revenue target setting, collection and management. These District Assembly officials are in charge of the fee fixing for the various internally generated revenue items. However, the District Finance Officer and the District Planning Officer also made contributions towards the study.

The four chairmen from the organised associations like the GPRTU, for example, were purposively drawn as key informants to represent their members who cut across the whole district, thus offering a district wide representation. These four chairmen were selected in terms of their economic activities and the type of revenues generated from them. This became necessary because some of the groups pay annual fees like licenses, others pay monthly fees, while others pay daily rates. The chairmen of these four active organised groups were therefore selected. These are the GPRTU, Beauticians Association, Citrus growers Association and Local distillers Association.

The adult populations (18 year and above) of the eight Urban / Area Councils that make up the Abura-Asebu-Kwamankese District have been presented with its respective adult populations. These are: Moree (25,627), Abakrampa (22,973), Nyanfeku Ekroful (13,911), Abura Dunkwa (12,402), Abura Etsifi (11,904), Asebu (11,123), Amosima (8, 517) and Ayeldu (7, 803). Please refer to Table 1 for details.

Table 1: Spatial distribution of study population and sample

Council	Name of town	Population (18+years)	Sample
Urban	Moree	25,627	22
Urban	Abakrampa	22,973	20
Area	Nyanfeku Ekroful	13,911	12
Area	Abura Dunkwa	12,402	11
Area	Abura Etsifi	11,904	10
Area	Asebu	11,123	10
Area	Amosima	8517	8
Area	Ayeldu	7803	7
Total		**114,260**	**100**

Source: Author’s construct, 2012

Sample and sampling procedure

Non-probability sampling methods were employed for the study. Non-probability sampling employs no strict probability rules in the selection process: every unit of the population has no equal chance of being selected for the sample. Non-probability sampling is less strict and makes no claim for representativeness (Sarantakos, 2004). According to the Abura-Asebu-Kwamankese District Medium Term Development Plan (2010-2014), the adult population (18+ years) of the residents of the district is 114, 260. The breakdown according to Area/ Urban councils has been presented in Table 1. The mathematical formula for determining sample size was considered appropriate and was used for generating the sample size for the study (Table 1 and Appendix E).

From Appendix E, the sample size for the district residents was 100. The study is a district – wide activity and therefore, opinions from all the eight Urban/ Area Councils, namely: Moree, Abakrampa, Nyanfeku Ekroful, Abura Dunkwa, Abura Etsifi, Asebu, Amosima and Ayeldu Urban/Area Councils became necessary and were sampled (Table 1). The study purposely selected all the revenue eight (8) zones for study due to its small number. Owing to the population differences among the various Urban/ Area Councils, the sampled population (100) was proportionally shared on the basis of the population sizes.

With regard to the non-probability sampling, the purposive method was used. The primary consideration in purposive sampling is the judgment of the researcher as to who can provide the best information to achieve the objectives of the study (Babbie, 2004). The 100 residents were selected using purposive sampling method. The process was repeatedly used to select the respondents in the various Urban / Area council of the district until 100 was reached. All the 21 revenue collectors in the district were purposively selected for the study. The selection of all field revenue collection officers were based on the following justification: their day-to-day activities in revenue collection, their in-depth practical knowledge in revenue mobilisation and also their total number was statistically considered small (less than 30). Hence the study involved all of them. This was intended to generate relevant information useful to the study.

Purposive sampling technique was also used to identify key informants for one on one question and answer sessions. The key informants selected for the study includes four chairmen from active organised groups and five key District Assembly officers. The five key District Assembly officers who were purposively selected from the Abura-Asebu-Kwamankese District Assembly as key informants includes the District Budget Officer (DBO), District Planning Officer (DPO), District Finance Officer (DFO), District Coordinating Director (DCD) and the District Chief Executive (DCE).

Four chairmen were purposively selected from four active organised groups. These organised groups include the GPRTU, Beauticians Associations of Ghana (which comprises hairdressers and seamstresses), Distillers of Local Liquor (Akpeteshie distillers) and Citrus growers Association. These organised groups were categorised and purposively sampled in terms of their economic activities and the type of revenues generated from them. This became necessary because some of the groups pay annual fees like licenses, others pay monthly fees, while others pay daily rates. Table 2 is the complete sample distribution for the study. However, these nine key informants for the study were all interviewed.

Table 2: Distribution of sample for the study

Respondents	Population	Sample
District residents	114, 260	100
Revenue Collectors	21	21
Key District Assembly officials	5	5
Organised Groups	4	4
Total	**114, 290**	**130**

Source: Author's construct, 2012

Data sources

This study made use of two types of data: primary and secondary data. With regard to primary data, the study used instruments, such as questionnaire and interview schedules, to collect data from respondents. The study made use of secondary data from the district medium term development plan. Other secondary data the study made use of includes the district trial balance report from 2005 to 2010 and reports from the revenue superintendents. Also useful information was elicited from the district's rate impost for the years 2008, 2009 and 2010.

Instrumentation

The instruments used to collect the primary data were interview schedules and questionnaires. Four sets of instruments were used. The first set of instruments was administered on the district residents. The second was an interview for the revenue collectors. The third was questionnaire for the key district officers selected and the last was also a questionnaire for the chairmen of the selected active organised groups. Interview schedules were designed to facilitate the conduct of interviews on one-on-one basis with the various respondents randomly selected from the Area Councils and Chairmen of organized groups and the questionnaire was designed for the official of the District Assembly.

Pre-test

The instruments were pre-tested on ten respondents in the Moree Urban Council by two field assistants. The purpose of this exercise was to assess the reliability and validity of the instruments. In testing the instruments some few mistakes were observed. Even though they were not so much, they could have negatively affected the data collection process as well as the information derived from it. Ambiguous questions were also corrected. The validity and reliability of the instruments used in collecting data for the study was therefore confirmed through this exercise. Most of the respondents were not willing to take part in the exercise for a reason or two, but the presence of the revenue collectors, who spoke on behalf of the field assistant and the team leader, convinced them to feel free to release certain information and take part in the exercise. Pre-test was done on the 14th to the 15th September, 2011.

Field work

The actual fieldwork was carried out after the pre-test of the instruments was done. The field data collection exercise took two weeks (that is from 6th February to 20th February, 2012). Two research assistants were recruited and trained on the instruments. The team leader and the research assistants gathered the data together. The team leader supervised the work of the research assistants by monitoring and evaluating each day's work to ensure that data was collected from the correct source. The involvement of the revenue collectors made the tracking and the involvement of respondents easy on ground. This strategy increase voluntary participation of interviewees in the exercise.

Data analysis

The data collected from the field was edited and some interview instruments that had incomplete responses were returned to the respondents for the necessary inputs to be made. These activities were instituted to ensure that instruments were completed. All instruments were given serial numbers to facilitate easy identification, data entry into the computer and easy correction. The data analysis was done using descriptive statistics, showing frequencies and percentages which were transformed into tables, pie charts and bar graphs for easy understanding. The statistical package employed for the data analysis was the Statistical Product and Service Solutions (SPSS) software version 16 and Microsoft Excel (2007 version). This software described the variables and presented very clear information, for easy interpretation of results.

Ethical consideration

Ethics in social scientific research is generally shared agreement by researchers about what is proper and improper in the conduct of scientific inquiry (Babbie, 2004). Ethical considerations adopted for the study spanned in the following areas (Creswell, 2003). The study provided all the participants with information on the purpose of the research. An official letter was sent to the Abura-Asebu-Kwamankese District Assembly, which outlined the purpose of the study and also sought the help of the institution to facilitate the study by providing all the necessary answers to the questions asked.

Participants’ rights were protected in the study in the data collection process. Data analysis and interpretation dissociated the personal identity of respondents. Completed questionnaires were kept in safe place away from other users. The study reported issues adequately to do away with suppression, falsification or inventing findings an audience’s needs. For the purpose of credibility, the details of the study were released together with the study design in chapter three.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results from the data analysis and discusses the results from the data analysed. It shows the findings of the study which seek to answer the research questions vis-à-vis the study objectives. The study sampled one hundred residents from the eight Urban/ Area Councils, twenty-one revenue collectors, five key District Assembly officials and four selected chairmen of trade associations and organised bodies. The 21 revenue collectors (comprising 16 permanent staff and 5 commission revenue collectors) were employed by Abura-Asebu-Kwamankese District Assembly to collect revenue in the district. All the 21 revenue collectors working in the 8 revenue zones were all selected for the study. The first part of the results covers the background characteristics of the respondents. The subsequent parts of the results were focused on the substantive objectives of the study.

Socio-demographic characteristics of the respondents

The study began with the socio-demographic characteristics of the respondents as captured in the instruments. The background characteristics considered in the study include sex, age, marital status and educational background. Also included were the years of job experience.

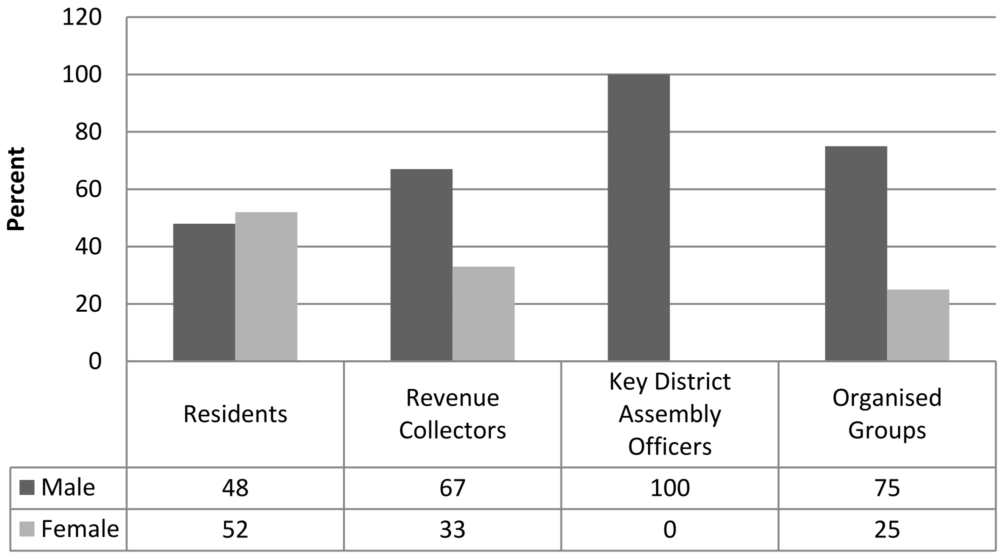


Figure 4: Sex of respondents

Source: Author's Field Survey, 2012

Figure 4 reports on the sex of the various categories of respondents for the study. It indicates that no female was among the key District Assembly officials selected for the study. This was as a result of no female heading any key position in the District Assembly during the period of the study. However, the residents recorded a balanced blend between female and male respondents. Revenue collectors had 67 percent males and the organised groups recorded 75 percent males.

Table 3 presents the age distribution of the various categories of respondents for the study. Residents recorded 44 percent for age group 31-40 years and 8 percent for the age group of 51 years and above. The age group 18-30 years recorded 29 percent. Revenue collectors recorded 62 percent for the age category 31-40 years. 18-30 years and 41-50 years age category recorded 19 percent each. Key District Assembly officials selected were all between the ages of 31-40 and 41-50 years. The age category 31-40 years recorded 60 percent and 40 percent for age group 41-50 years. Chairmen of selected organised groups also recorded 50 percent for age group 31-40 years and 25 percent each for the age groups 41-50 and 51 years and above.

Table 3: Age distribution of respondents

Respondents	Age group	18-30	31-40	41-50	51+	Total
Residents	No.	29	44	19	8	100
	Percentage	29	44	19	8	100
Revenue Collectors	No.	4	3	4	-	21
	Percentage	19	62	19	-	100
Key District Assembly Officials	No.	-	3	2	-	5
	Percentage	-	60	40	-	100
Organised Groups	No.	-	2	1	1	4
	Percentage	-	50	25	25	100
Total	No.	33	2	6	9	130
	Percentage	25	48	20	7	100

Source: Author’s Field Survey, 2012

In all, the 130 respondents recorded 25 percent for age group of 18-30 years, 48 percent for 31-40 years, 20 percent for age category of 41-50 and finally 7 percent for age category of 51 years and above (see Table 3). Education provides a basis for intellectual development. The study reveals that 12 percent of the residents had attained Senior High School, 21 percent had primary education and 20 percent had no formal education. The low level of education of residents limits their understanding of paying revenues to the District Assembly. The educational attainment displayed in Table 4 is similar to the educational statistics from the Medium Term Development Plan of Abura-Asebu-Kwamankese (2009).

Table 4: Highest educational level attained by respondents (%)

Educational level	Residents	Revenue Collectors	Key District Assembly officials	Organised Groups
No Formal Education	20	-	-	-
Primary Education	21	-	-	-
Junior High School	47	90	-	25
Senior High School	12	10	-	75
Tertiary	-	-	100	-
Total	100	100	100	100

Source: Author's Field Survey, 2012

Additionally, 90 percent of the revenue collectors had Junior High School certificate and 10 percent for Senior High School certificate holders. Key District Assembly officials were all University degree holders, hence, 100 percent for tertiary. The educational levels of chairmen of selected organised groups were 25 and 75 percent for Junior and Senior High School certificate holders respectively.

Table 5: Marital status of respondents (%)

Status	Residents	Revenue Collectors	Key District Assembly Officials	Organised Groups
Married	68	80	100	75
Single	10	15	-	-
Widowed	5	-	-	25
Divorced	12	5	-	-
Co-habitation	5	-	-	-
Total	100	100	100	100

Source: Author's Field survey, 2012

Table 5 presents the marital status of respondents. All the Key District Assembly officials interviewed were married. Organised groups recorded 25 percent for widowed whiles 5 percent of residents recorded co-habitation. For co-habitation, the respondents implied they were staying together but not legally married or performed the necessary marital rites.

The study reveals that sole proprietorship otherwise known as one-man business dominates the types of business ownership in the district. Out of the 100 residents interviewed, 84 percent operated their own businesses under sole proprietorship. The major factors contributing to high percentage recorded for sole proprietorship was lack of trust and high rate of illiteracy among the residents. However, sole proprietorship has been considered as a major setback to resource accessibility, especially credit. The enterprises relied solely on the limited skill of the owner, cannot single-handedly employ all the modern management techniques such as accounting, costing, financial and planning among others. Government workers had 16 percent of the sampled residents. The major divisions of these economic activities have been provided in chapter three (study area). The result indicated a large pool of tax payers for the District Assembly. This can be seen from 84 percent recorded for own business operators.

On years of business operation (Figure 5), 10 percents of the residents had operated their business for less than five years; where as 50 percent had operated their business from 6 to 10 years. The rest, representing 40 percent had operated their business for more than 10 years. On records keeping, it was realised that 90 percent of the residents who operated their own business do not keep records (book keeping) due to illiteracy or the cumbersome nature in keeping records. High levels of illiteracy and the low level of education among residents resulted in poor record keeping making accounting and auditing procedures difficult for taxation purposes (World Bank, 1999). Others residents considered book keeping as unnecessary since they claimed they own the business and were not accountable to anyone. 10 percent was recorded for those who kept records. However, some replied they do not use the records for anything at the end of the day. Some of the records they kept included debtors, daily sales, shortage products / goods, details of major suppliers and customers.

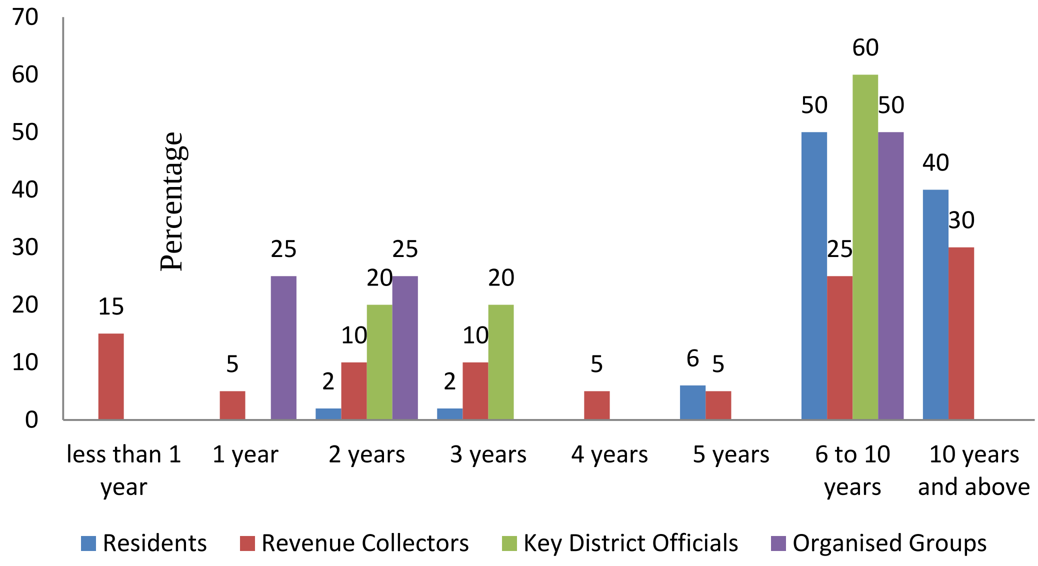


Figure 5: Years of work experience of respondents

Source: Author's Field Survey, 2012

The structure of Abura-Asebu-Kwamankese District Assembly's revenue

The revenue structure of Abura-Asebu-Kwamankese District Assembly is assessed to determine the significance of the sources in generating the requisite resources for local development (Tables 7 and 8). Revenue sources for Abura-Asebu-Kwamankese District Assembly from 2005 to 2010 were collected and analysed (Table 6). Table 7 further looks at the percentage contribution of each source.

The trial balance reports from 2005 to 2010 of Abura-Asebu-Kwamankese District Assembly shows that income receipt comes from four main sources, namely: internally generated revenues (IGR), share of the District Common Fund (DACF); which included Member of Parliament's (MPs) Common Fund, specific grants (comprising ceded revenues, salaries, HIPC grants, relief grant and education grant) and others (made up of donor support fund and fund from Non Governmental Organisations). The DACF and the specific grants together constituted the central government transfers to the Abura-Asebu-Kwamankese District Assembly.

The analysis of revenue structure of Abura-Asebu-Kwamankese District Assembly together with the topic of the study (which places particular emphasis on internally generated revenue) made it imperative for further analysis using the internally generated revenue for the District Assembly for the same period (2005-2010). The structure of internally generated revenue for Abura-Asebu-Kwamankese District from 2005 to 2010 was addressed in this chapter using the internally generated revenue mobilisation levels from 2005 to 2010.

Table 7 reports the percentage contribution of revenue sources to Abura-Asebu-Kwamankese District Assembly's expenditure from 2005 to 2010. The worse performing year for IGR was in 2005. The District Finance officer attributes the low performance (1.87% for IGR) to laxity and over dependence on DACF on the side of the District Assembly. A careful look at the year by year percentage contributions of IGR and DACF clearly depict overdependence on DACF. High percentage of DACF's contributions to expenditure matched low contributions of IGR to local development expenditure. For example, the year 2005 recorded the highest DACF (78.53%) whereas IGR for the same year recorded the lowest (1.87%). The following year (that was 2006), DACF declined from 78.53 percent to 62.57 percent. This decline manifested in an increase in IGR value from 1.87 percent in 2005 to 5.80 percent in 2006 (Table 7). The trend continues from 2007 to 2010. Lastly, the highest IGR value was recorded in 2010 (31.18 percent). At the same year (2010), DACF recorded the worse value of 18.87 percent.

The pattern discussed on DACF and IGR relationship supports the study conducted by Bandie (2003) on three Northern Region Districts (Sissala, Nadowli and Bolgatanga districts). Bandie, statistically established the relationship between DACF's introduction to District Assemblies in 1994 to IGR collection efforts for the three district in the Northern Ghana. Bandie concludes that the introduction of DACF has created laxity in IGR collection effort and has created a dependency syndrome for the Districts Assemblies under study.

Table 6: Revenues by sources and level for AAKDA (GH ¢)

Source	2005	2006	2007	2008	2009	2010
IGR	12,402.50	49,662.66	50,077.20	87,864.70	77,507.00	1,240,128.00
DACF	520, 590.09	536,064.08	446,918.02	308,175.86	477,105.52	750,543.47
GOG GRANTS	129,908.33	263,208.55	296,945.11	110,429.5	0.00	1,368,607.87
OTHERS	0.00	7,835.25	44,456.86	319,833.04	271,541.31	618,064.40
Total	662,900.92	856,770.54	838,397.9	826,303.5	826,153.83	3,977,343.74

Source: Abura-Asebu-Kwamankese District Assembly's Annual Trial Balances (2005-2010)

Table 7: Percentage contribution of revenue sources (%)

Source	2005	2006	2007	2008	2009	2010	Annual Average
IGR	1.87	5.80	5.97	10.63	9.38	31.18	10.50
DACF	78.53	62.7	53.31	37.30	57.75	18.87	54.87
GOG GRANTS	19.60	30.2	35.42	13.36	0.00	34.41	19.07
OTHERS	0.00	0.91	5.30	38.71	32.87	15.54	15.57
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Abura-Asebu-Kwamankese District Assembly's Annual Trial Balances (2005-2010)

Table 8: Actual IGR by item for AAK District Assembly (GH ¢)

Item	2005	2006	2007	2008	2009	2010	Total	Average	
Rates	2758.38	8931.27	6304.73	34714.20	33673.28	36138.10	119761.50	20419.99	9.6
Lands	299.00	5711.85	6369.32	5846.00	5576.00	6231.00	29734.17	5005.53	2.4
Fees & Fines	2552.50	3231.00	4637.10	6681.60	13484.20	11419.80	39453.70	7001.03	3.2
Licenses	3362.62	11091.44	11497.30	10286.80	13371.10	14498.60	60745.20	10684.64	4.9
Rents	162.80	183.90	1330.10	5080.75	7983.90	5081.20	19659.85	3303.78	1.5
Investment	5.00	20111.40	18657.30	24200.00	594949.40	1275.50	659193.50	109866.42	53.2
Miscellaneous	3262.19	401.80	1281.38	1055.37	305978.50	2862.87	311579.90	52473.68	25.1
Total	12402.50	49662.66	50077.20	87864.70	975016.30	77507.00	1240128.00	208755.06	100

Source: Abura-Asebu-Kwamankese District Assembly's Annual Trial Balances (2005-2010)

Table 8 presents the structure of internally generated revenue. It provides an item-wise analysis of the internally generated revenue figures from the year 2005 to 2010. The Local Government Law, Act 462, (1993) gives the District Assemblies the authority to make and levy sufficient rates to provide for that part of the total estimated expenditure to be incurred by the Assembly during the period in respect of which the rate is levied (section 94). The District Assemblies, in line with this law, collects Basic Rate and Property Rate, which include rate on private and government property. They also operate special rates. The Basic Rate or Poll Tax, first introduced in 1852, is still a local tax levied on "all persons of or above the age of eighteen years who reside in the area" (Section 94:4). The property rate is levied on immovable property at a specified rate per cedi on the ratable value of the said property.

The Local Government Service (2010) document went a step higher by addressing the constituents of internally generated revenue for all District Assemblies in Ghana including Abura-Asebu-Kwamankese District Assembly. The document further states internally generated revenue to comprise of own revenues from tax and non tax revenue sources such as rates, lands, licenses, fees, investment, rent and miscellaneous sources (Figure 2). Tax revenue sources are the compulsory payments and include tax chargeable on the incomes of self-employed persons, businesses and property. The non-taxable revenues are voluntary payments or contributions paid by specific beneficiaries of the District Assembly's services. These include user fees/ charges, licenses, permits and royalties. The Ministry for Local Government and Rural Development is responsible for issuing guidelines for levying rates. Based on the guidelines, fee-fixing resolutions are passed by MMDAs upon which revenues are collected (Adom, 2000; Local Government Service, 2010).

Rates consisted of basic and property rates. Lands consisted of cemeteries fee, building permit and revenue from concessions. Fees and fines consisted of market tolls, slaughter house, pounds and stray animals, lorry park tickets, conveyance, marriage and divorce, entertainment, kiosk fees, sand/ stones winning, illegal parking and court fines. Licenses also consisted of palm wine and "pito" brewing fees, "akpeteshie" sellers and distillers, beer bar operators, artisans, kiosk permit, private clinics, "chop" bars, trading stores, sawn millers, sawn board dealers, corn millers, bakers, contractors, hotels, herbalist, drug stores, "susu" operators, traditional birth attendant, lotteries, petroleum, health certificate, chain saw operator, block makers, bicycle, bill board, burial permit, hawkers, sale of tender forms and student levy. Rents were paid on market stores/ stalls, assembly building and IT services. Investment was derived from the sale of tender forms, interest on fixed deposit, canopy and tractor rental and tipper trucks. Lastly, miscellaneous was derived from unspecified receipt, commission, interest on common fund and conservancy.

To describe the structure of the internally generated revenue, there was the need to study the flows of each item of internally generated revenue over some period (in this case from 2005 - 2010). Table 8 indicates that, investment was the leading revenue item source recording 53.16 percent. A year by year comparison of revenue mobilised for investment depicted an improvement in 2005 and 2006.

From Table 8, investment recorded GH¢5.00 in 2005 and GH¢20,111 in 2006, representing over 402,000 percent increase. The reason for this upward performance, according to the District Coordinating Director, was the provision of a tipper truck to the District Assembly by the Ministry of Local Government and Rural Development. The tipper truck (which is the only item under investment) since its introduction in the year 2006, has been the only single revenue item under investment leading all the internally generated revenue for District Assembly.

Private real estate developers also demand the service of the District Assembly's tipper truck to supply sand, stones and other building material for building projects in the district. All these factors had led to an increased performance for investment. Supervision mechanisms for the use of the District Assembly's truck and tractor played an important role for the effective performance of investment.

According to the District Planning Officer, the Transport Office uses vehicle log book which tracked vehicular movements and also records the level and the amount of fuel in the vehicle before and after embarking on a trip, the name of the driver, the time the vehicle moved out and the time it came in, the initial mileage before a trip and after a trip etc had improved the monitoring of the operations of the drivers of these vehicles. The amount charged for renting these vehicles were made directly to the District's Accounts Office. All these mechanisms had improved the control on the use and supervision of these vehicles, thus its performance in the district's internally generated revenue efforts.

Effective monitoring issues on revenue mobilisation, in the case of Abura-Asebu-Kwamankese District Assembly's tipper truck, supports the works of Nicol (2005), Zanu (1994) and Appeah (2003). Nicol's assertion that supervision and surprise field visitation plays an important role in local revenue mobilisation levels. Nicol (2005) further states that without them (supervision and control), intensifies corrupt practices among revenue collectors and finally results in low revenue mobilisation.

To Zanu (1994) the structures that serve as checks and enhance efficient revenue collections are very weak. Zanu further states that in some cases the revenue collectors collect less than they are expected (targeted amounts) to collect from revenue payers and in return, no receipts are issued for the payments, thus making accounting very difficult. Making accounting difficult in the sense that revenue targets are always hard to meet. There are indeed programme design problems in revenue collections, implementation problems and above all attitudinal problems.

Appeah (2003) confirms that revenue collections are open to serious abuse and corruption in many developing countries. The leakages, under-declarations and other blatant acts of official misconducts are a great challenge to efforts at increasing internally generated revenues. Appeah (2003) further notes that District Assemblies in Ghana do not have any systematic machinery or format for monitoring revenue collections because the data that will guide the preparation of that format is not available. Revenue collectors account for their collection a week or more after the collections, a situation that is subject to abuses. Reasons are cited for their inability to render accounts as and when they are expected to do so. The presence of no designated bank for making payments, no vehicle to transport the collector to the nearby bank; especially those who are in charge of difficult to access parts of the district.

Miscellaneous (includes unspecified receipt, over payment receipt, commission, interest common fund, conservancy) recorded the second leading item on the internally generated revenue source for the District Assembly (Table 8). From the trial balance of the District Assembly over the years under study, unspecified receipt through donations to the District assembly has been the only revenue contributor to the miscellaneous category. Jointly, investment and miscellaneous pulled 78.3 percent of the total internally generated revenue for the District Assembly over the study period (2005-2010). Rates, lands, fees and fines, license and rent jointly pulled 21.7 percent of the total internally generated revenue for the District Assembly.

A common feature for miscellaneous and investment items is that its mobilisation does not employ the use of revenue collectors. This implies the District Assembly exercises full control over its mobilisation. There was also virtually no cost involved in its mobilisation. The issue of middle men is lost as the District Assembly does not employ and train any revenue collector(s) to do the collection on its behalf. These features ruled out the need for supervision, since the system in itself has its own in-built supervision mechanisms and checks. The others (rates, lands, fees and fines, license and rent) though lucrative, do not have in-built monitoring mechanisms and so were prune to low mobilisation levels.

However, the blame cannot be directed towards the revenue collectors alone, since they also face special challenges in the mobilisation of revenues. Some of these challenges are the generally low revenue compliance rates in the district due to low levels of voluntary compliance and low understanding to pay revenue to the District Assembly. Others were high rate of business collapse. It can also be attributable to the complete lack of benefits from the payments of revenue to the residents. The study reveals that the residents believe that the officials are corrupt and that revenue mobilised were not spent on developments projects, as they (District Assembly Officials) claim. The only revenue van for the collection of revenue, according to the revenue collectors, was not always available to be used for revenue collection purposes especially in the most difficult to access areas in the district. This supports Aboagye's (1994) observation which matches revenue payments compliance to perceived benefits derived from the payment of revenue by residents.

Description of the structure of internally generated revenue led us to the performance analysis of internally generated revenue for Abura-Asebu-Kwamankese District Assembly. This was to measure the performance of the current structure adopted by Abura-Asebu-Kwamankese District Assembly in mobilising revenue for the district's development needs. Figure 6 gives a graphical presentation of the structure of the District Assembly's internally generated revenue. Figure 6 shows that the District Assembly was performing well in mobilising non-tax internally generated revenue sources compared with the taxable components of internally generated revenue.

Non-tax (investment and miscellaneous) internally generated revenue sources accounted for 78.3 percent, whereas the taxable items accounted for 21.7 percent of the total average internally generated revenue for the District Assembly for the fiscal years from 2005 to 2010 (Table 8). It was realised from Figure 6 that, rates, licenses, fees and fines, lands and rents (which constitutes the taxable items of internally generated revenue) were leading in order of importance. The answer to the reason for investment leading averagely, according to the District Finance Officer, was that supervision for investment was good due to the presence of District Transport Officer, who employs measures such as log book (which records mileage covered by vehicles, time difference between time vehicle moved and time back and fuel consumption to track the use of Assembly's truck and tractor). This made it difficult for corrupt practices to occur in this source of internally generated revenue.

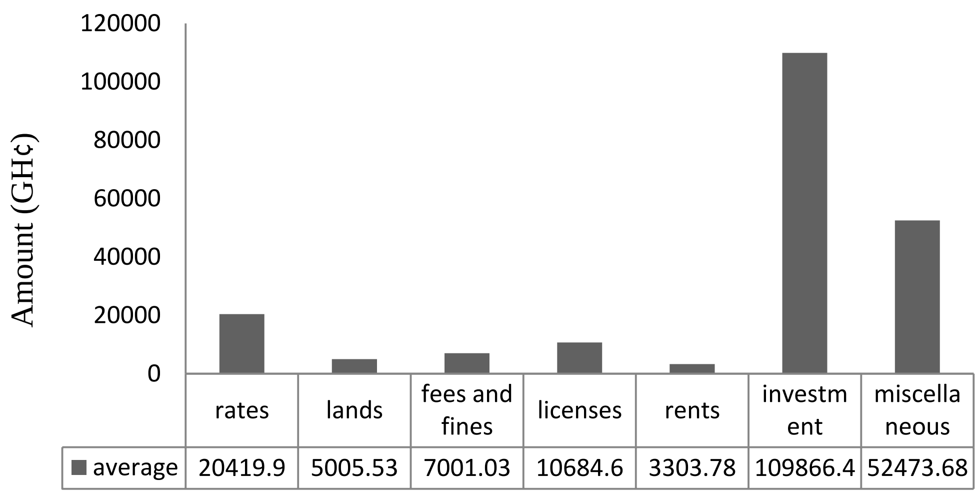


Figure 6: Average internally generated revenue by item

Source: Abura-Asebu-Kwamankese District Assembly's Annual Trial Balances (2005-2010)

Performance of internally generated revenue mobilisation

Performance analysis implies degree of precision and a lack of ambiguity. Performance analysis of internally generated revenue for District Assemblies' finances is very important as it helps to determine the efficiency and effectiveness of the revenue collection system (Bandie, 2003: 161). Performance analysis of internally generated revenue of Abura-Asebu-Kwamankese District Assembly for the period 2005 to 2010 was done using the following indicators. These indicators are: planned versus actual internally generated revenue mobilised in relation with total revenue, financial capability of Abura-Asebu-Kwamankese District Assembly, relationship between estimated and actual levels of internally generated revenue mobilisation, percentage contribution of internally generated revenue to total development expenditure, trend of actual total revenue and internally generated revenue. All these methods were considered appropriate since a single method or approach cannot be used to judge the effectiveness of the revenue collection system. Therefore, collective methods were considered appropriate.

The three main indicators used in the study were actual internally generated revenue / development expenditure, actual internally generated revenue / internally generated revenue estimated in the budget and the financial capability ratio. Internally generated revenue / development expenditure is a readily available indicator that gives a sense of the fiscal pressure. Comparing internally generated revenue to local development expenditure ratio of Districts Assembly with similar economic and revenue structures gives a sense of the relative effectiveness of the revenue administration. However, this indicator needs to be used with caution, because internally generated revenue raised in a district is a function of spending choices, expenditure needs and the availability of resources from other sources. Nevertheless, times series data on internally generated revenue to development expenditure ratio, for a given revenue administration, adjusted for changes in revenue rates and the revenue base, is useful in determining changes in its effectiveness over time (Gill, 2003).

Actual internally generated revenue / estimated internally generated revenue indicator, on the other hand, shows whether the revenue administration is able to meet the revenue targets set in the budget. However, optimistic revenue estimates, often resulting from political pressures, are a common problem in many countries and suitable allowances need to be made for this tendency.

Planned versus actual IGR in relation to total revenue

Table 9 presents the estimated and actual performances of total revenue and Internally Generated Revenue (IGR) for the period (2005- 2010). The actual total revenue for the District Assembly had steadily improved from GH¢662,900.92 in the year 2005 to GH¢1,446,114.90 in the year 2010. Mean while the actual Internally Generated Revenue, as part of the total revenue of the District Assembly had increased from GH¢12,402.49 in 2005 to as high as GH¢77,507.40 in 2010. Planned versus actual internally generated revenue analysis was considered appropriate because it brought out the actual performance of revenue collectors in achieving their set targets. When actual mobilisations are compared to total district development revenue, it tell us how internally generated revenues are contributing toward total local development expenditure for the District Assembly.

The percentage share of internally generated revenue (IGR) in total actual revenue for the District Assembly had been less than 10 percent for the first four years (that is from 2005- 2008) under study. The share reached 97.82 percent in 2009 and fell again in 2010 to 5.36 percent. The worse figure was recorded in 2005; where the percentage share was 1.87 percent. This indicates the extent and the importance of externally generated revenue to the district's development expenditure.

Table 9: Actual and estimated IGR and total revenue of the District Assembly (GH¢)

	Total Revenue			Internally Generated Revenue			
Year	Estimated	Actual	% (RCR)	Estimated	Actual	% (RCR)	Share of IGR in total actual revenue (%)
2005	1,052,560	662,900.92	62.98	26760	12402.49	46.35	1.87
2006	1,052,560	856,770.3	81.40	26760	49662.5	185.59	5.80
2007	1,402,180	2,019,323.40	144.01	66180	50077.20	75.67	2.48
2008	1,402,180	923,694.48	65.88	66180	87864.65	132.77	9.51
2009	1,207,890	996,782.75	82.52	93890	975016.30	1038.50	97.82
2010	1,207,890	1,446,114.90	119.72	93890	77507.40	82.55	5.36

Source: Abura-Asebu-Kwamankese District Assembly's Annual Trial Balances (2005-2010)

The Revenue Collection Index (RCI) concept was used to develop the percentages in Table 9. This was used to assess the effectiveness and efficiency of the revenue collection systems of Abura-Asebu-Kwamankese District Assembly. It measured the ratio of actual revenue collected to the estimated budget of the District Assembly. The higher the RCI (that is close to unity; that is, 1 or above), the higher the collection effort and for that matter the effectiveness of the system and vice-versa (Bandie, 2003). When RCI is expressed as a percentage, one gets the revenue collection rate (RCR).

The Revenue Collection Rate (RCR) records for the internally generated revenue have been presented in Table 9. Revenue Collection Rate for internally generated revenue in Table 9 indicates that the District Assembly collected revenues beyond its set target in 2006, 2008 and 2009. The best performing year was 2009, where the revenue collected was ten times higher than the target. The District Finance Officer attributed the performance to injunction placed on the DACF (*Mattjack Ltd V. Abura-Asebu_Kwamankese District Assembly*, May 12, 2009). The District Assembly had no option than to intensify local revenue collection. The situation brought up the question which has become a national debate. The question is “has DACF affected revenue mobilisation ability of the District Assemblies?” Bandie (2003) in a quest to find answer to this question statistically established a position that DACF has reduced the revenue collection ability of Sissala, Nadowli and Bolgatanga District Assemblies. The Assin District financed as much as 94.1 percent of her total expenditure from local sources in 1993 but this started declining in 1994 when the common fund was introduced

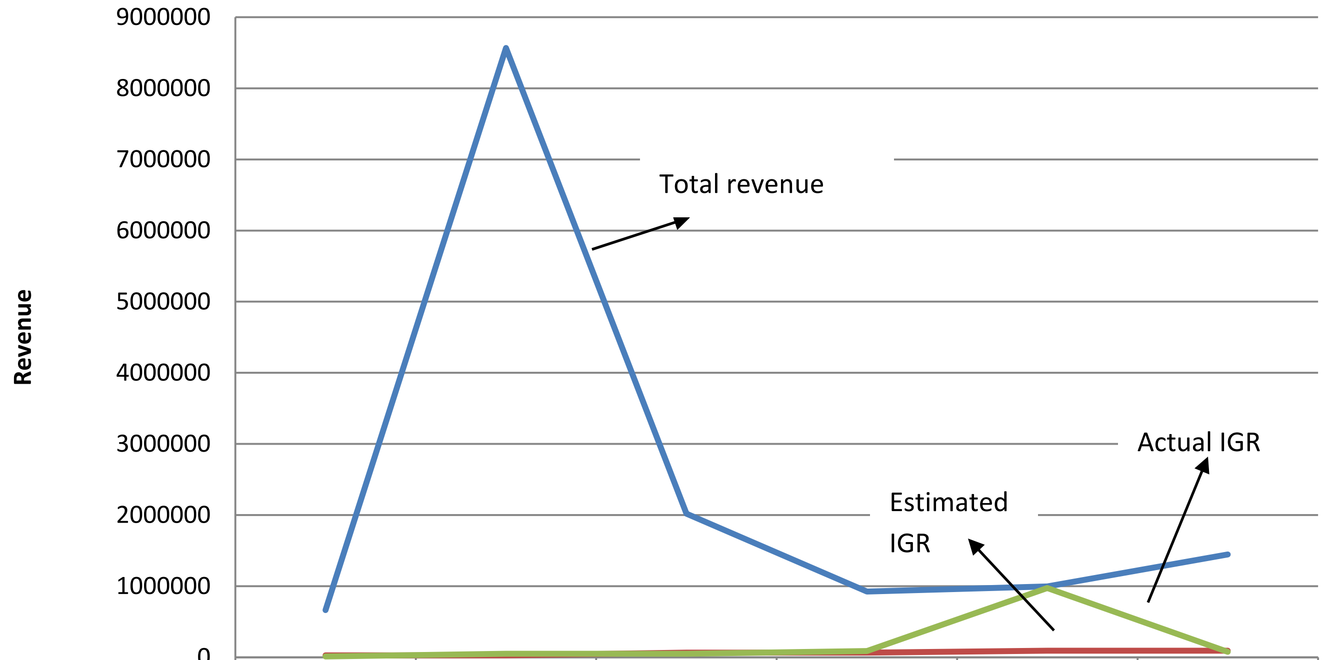
(Ayensah, 2009). Assertions by Bandie and Ayensah supports the observation made in this study in the year 2009.

The second best performing year was 2006; where the IGR was collected in excess of 85.59 percent and lastly 2008; where collections exceeded by 32.77 percent. However, the years where revenue collections did not meet targets were 2005, 2007 and 2010; which recorded 46.35, 75.67 and 82.55 percent respectively.

Trend analysis was a statistical tool used to analyse data. This tool was used to analyse the changes of a variable(s) over time. Its relevance in this study as a tool of analysis was to establish the changes in total revenue and internally generated revenue (IGR- both actual and estimated) patterns of Abura-Asebu-Kwamankese District Assembly. Figure 7 depicts the trend in total revenue and internally generated revenue (estimated and actual) for Abura-Asebu-Kwamankese from 2005 to 2010.

From Figure 7, the relationship between actual and estimated internally generated revenue had been closely related. The trend remained similar from 2005 to 2008. With this result, it can be said that the gap between actual internally generated revenue and estimated internally generated revenue amounts was not wide, until 2009, where the gap between them became wide and came back to normal in 2010. The reason attributed to the wide gap experienced in 2009 was the injunction placed on the District Assembly Common Fund (DACF) for the District Assembly and failure on the side of the District to attract external source of funds from development partners. There was therefore the need to intensify the mobilisation efforts of internally generated revenue to cater for local level development expenditure for that particular year. It was also attributable to the change in District Revenue Superintendent for the District Assembly during the period, according to the District Planning Officer.

The year 2009 experienced the best performance for actual internally generated revenue mobilisation (Figure 7 and Table 9). The reason for this performance, according to the District Finance Officer, was due to the following factors; a change in revenue superintendent and a judicial court ruling which placed an injunction on the District Assembly Common Fund (DACF) to settle debt of a contractor who rendered service to the District Assembly. The District assembly was therefore compelled to increase IGR collection so as to execute its local level development roles. According to the District Assembly's trial balance report, the year 2009 recorded zero for Government of Ghana grant (GOG grant) in the form of highly indebted and Poor Country fund (HIPC fund) and Assembly grant. Only the District Assembly Common Fund was available and was later used to settle debt in accordance with the court ruling. The District Assembly had no other choice than to intensify internally generated revenue to execute local level development projects.



	2005	2006	2007	2008	2009	2010
total revenue	662900.92	8566770.53	2019323.4	923694.48	996782.75	1446114.9
estimated	26760	26760	66180	66180	93890	93890
actual	12402.5	49662.7	50077.2	87864.7	975016	77507.4

Figure 7: Trend of actual total revenue and internally generated revenue

Source: Derived from AAK District's Annual Trial Balances (2005-2010)

The situation in Figure 7 reflected overdependence on District Assemblies' Common Fund (DACF) and other forms of external sources of revenue such as NGO grants for local development. In a study of selected sub-Saharan Africa, Asia and the Pacific countries, Bird (2003) notes, at the national level, that revenue performance in the last decade has been disappointing. Bird adds that even though empirical testing of the relationship between revenues and foreign aid is fraught with difficulties, the results of the test suggests that an increase in foreign aid and grants to most developing nations cause overall domestic revenues in those developing nations to decline, a situation Boachie-Danquah (1996) describes as deceptive prosperity. However, what is true at the national level is true at the District Assembly level. Bird (2003) and Boachie-Danquah's (1996) observations were similar to that the study observed for Abura-Asebu-Kwamankese District Assembly.

Financial capability of Abura-Asebu-Kwamankese District Assembly

Financial capability is a measure of the ability of Abura-Asebu-Kwamankese District Assembly to finance its local level development expenditures from own source revenues. It is measured by comparing the growth rate of internally generated revenue with the growth rate of total local level development expenditure of Abura-Asebu-Kwamankese District Assembly. The assumption here is that, all the revenues mobilised from internally generated revenue goes into local level development expenditure. The ratio of the two growth rates is the financial capability index (Kokor, 1991). The local income used in this calculation is the internally generated revenue accruing to the district at the end of the year.

The compound annual growth rate (CAGR) was used to calculate the growth rates for both the expenditure on local level development and the internally generated revenue for Abura-Asebu-Kwamankese District Assembly from 2005 to 2010 (Appendix F). Using the values of internally generated revenue and total expenditure values, the financial capability index obtained was 0.38 for Abura-Asebu-Kwamankese District Assembly. This indicates that annual growth rate of local level development expenditure is faster than that of internally generated revenue growth rate. For Abura-Asebu-Kwamankese District Assembly the internally generated revenue growth rate is 38 percent of local level development expenditure growth. The indication was that of a relatively weak financial capability for the District Assembly, a situation that was likely to create a dependence on central government and other externally generated revenues for the provision of local level projects. This situation weakens the financial autonomy of Abura-Asebu-Kwamankese District Assembly.

In a similar calculation, Ayensah (2009) observes a similar growth rate of 37 percent for Assin District from 1993 to 1997. The implication was that Assin District revenue growth rate is 37 percent of its expenditure growth. The implication is that the Abura-Asebu-Kwamankese District Assembly’s financial capacity index is equal to that of Assin District from 1993 to 1997.

Relationship between estimated and actual IGR and expenditure

District Assemblies were set up within the decentralised framework to provide local services, infrastructure and other facilities because the Central Government was far too remote and might not be able to appreciate these local needs. If District Assemblies are going to serve their purpose, they must be financially viable. Its revenue, especially internally generated sources of funds must exceed its expenditure outlays on an annual basis. In this case, the revenue - expenditure ratio should be more than one. This section looks at two main issues: estimated and actual internally generated revenue relation and internally generated revenue - expenditure relationships in Abura-Asebu-Kwamankese District Assembly. These analyses were done to determine the financial ability of Abura-Asebu-Kwamankese District Assembly.

The examination of the revenue mobilisation performance therefore focused on the extent to which the assembly is able to accurately predict the revenue. This is done by comparing the annual estimates in the budget with the actual revenues as presented in the trial balances of the District Assembly for the various years. Since there is no single solution to a problem in the real world, the study employed different tests to assess the performance of internally generated revenue mobilisation in Abura-Asebu-Kwamankese District Assembly. To assess the efficiency of internally generated revenue mobilisation unit of the District Assembly in achieving the set targets, an independent sample t-test was used at an alpha (α) of 0.025 (Thus $\alpha/2 = 0.05/2 = 0.025$, two tails). The choice of t-test was informed by the fact that the study wanted to explore differences, against the hypothesis "is there any statistical difference between the targeted and actual internally generated revenue mobilised for the district?" Additionally, it was also considered appropriate due to the small number of sample (sample size, N is less than 30) for the study. On that note, a null hypothesis, which states there is no statistical difference between the target and actual internally generated revenue levels mobilised was tested.

Table 10 presents the data used for the test. The result of the test was 0.36 against an alpha (α) of 0.025 ($\alpha/2 = 0.05/2 = 0.025$). The result proved that the: $0.025 < 0.36$; thus we, therefore, accept the null hypothesis that there is no statistical significant difference between actual and estimated internally generated revenue mobilisation for the District Assembly. The implication of the result is that the internally generated revenue unit of the District Assembly has really done well in achieving its sets target. This is so because, the test reveals that the estimated and actual internally generated revenue mobilised were statistically the same.

The reliability of the result from the t-test conducted (Table 10) was supported with Figure 7. It was observed that the difference between the two line graphs (representing the trend for actual and estimated revenue from 2005, 2006, 2007 and 2008) were almost the same (see Figure 7). The major difference was recorded in the year 2009 and the trend finally closed up in 2010.

The relationship between actual and estimated internally generated revenue gave way for the analysis of the relationship between internally generated revenue and total expenditure for Abura-Asebu-Kwamankese District Assembly from 2005 to 2010. There were various ways of looking at the relationship between revenues and expenditures of a local government. One way is to look at total revenue accruing to the local government as a ratio or percentage of the total expenditure of that local government.

The relationship between actual internally generated revenue and actual total local level development expenditure was examined to ascertain the percentage of total local level development expenditure financed from internally generated revenue. Internally generated revenue as a percentage of total local level development expenditure measures how financially autonomous Abura-Asebu-Kwamankese District Assembly is. Table 11 illustrates the percentage contribution of internally generated revenue to local level development expenditure for the Abura-Asebu-Kwamankese District Assembly within the period under study. The period from 2005 to 2007 and 2010 recorded less that 10 percent contribution to total local level development expenditure. However, the situation got better in 2008 and 2009; where internally generated revenue contributed close to 10 percent in 2008 (Table 11). The best performance was recorded in 2009 (97.8%).

Revenue collectors attributed the less performance in internally generated revenue mobilisation to logistical problems such as inadequate vehicles for revenue mobilisation especially in inaccessible parts of the district such as Nkwantanan, Akokokrom, Pitsiwbiw. The residents of these towns in an interview made it clear that they do not pay any property tax for their buildings to the District Assembly.

Table 10: Actual and estimated IGR from 2005 to 2010

Year	Estimated revenue	Actual revenue
2005	26760	12402.49
2006	26760	49662.65
2007	66180	50077.20
2008	66180	87864.65
2009	93890	975016.30
2010	93890	77507.40

Source: AAK District's Annual Trial Balances (2005-2010)

The situation supports the findings from a study conducted by Bird in 2003. Bird identifies poor internally generated revenue performance as a problem to most local governments in developing countries. Nicol (the administrator of District Assembly Common Fund) in speech organised by the National Association of Local Authorities in Ghana (NALAG) 2005 emphasised the need for District Assemblies in Ghana to intensify internally generated revenue collection. Nicole (2005), further attribute to challenges in internally generated revenue collection to factors such as lack of credible revenue database, overreliance on DACF, logistics such as vehicles, low salaries of revenue collectors and lack of training for revenue collectors.

The result in Table 11 confirmed the assertions of low levels of internally generated revenue mobilisation levels in most literature on sub-national governments' own generated revenue sources. This supports Smoke's (2001) assertion that most sub-national governments are confronted with the problem of small internally generated revenue. Thus, this internally generated revenue is simple not enough to finance the enormous development roles given them by the central government.

Ebel and Vaillancourt (1995) supported this assertion by admitting that the system of financing local governance in many countries is characterised by dependence on the central government on transfers and shared revenues and almost complete lack of robust generation of internally generated revenue. As long as this situation prevails, it will not be possible for local governments to contribute to their nation's fiscal health unless they increase their own revenue efforts.

Table 11: Percentage contribution of IGR to total expenditure (GH¢)

Year	Actual expenditure	Actual IGR	Percentage
2005	662,900.92	12402.49	1.87
2006	856,770.53	49662.65	5.80
2007	2,019,323.40	50077.20	2.48
2008	923,694.48	87864.65	9.51
2009	996,782.75	975016.30	97.82
2010	1,446,114.90	77507.40	5.36

Source: Abura-Asebu-Kwamankese District's Annual Trial Balances (2005-2010)

Revenue collection performance and its implication for development

The information from the revenue collection performance indicators used indicates both positive and negative variations of actual revenue from the estimated revenue. This implies, in some cases, Abura-Asebu-Kwamankese District Assembly was able to collect internally generated revenues above its set target and in other cases, below its set target. This is a disturbing situation, because the estimation method used was unable to properly predict the size of revenue. This could create very serious planning problems for the District Assembly. In one case, revenues were being over-estimated. The estimation methods used were ineffective since they fail to yield non-zero cumulative errors. Another likely implication of the revenue situation is the limited availability of locally mobilised funds to enable the District Assemblies to undertake local level development.

On the other hand, the over dependence on externally generated revenues (such as DACF, NGO grants, etc) to meet the development finance needs of the District Assembly puts the Assembly in a dependency syndrome cycle. Any shock from these externally generated revenues will put the District Assembly in financial crises and finally inability to provide development at the local level. Another likely implication of the revenue situation was the limited availability of locally mobilised funds to enable the District Assembly to undertake local level development projects.

Challenges of internally generated revenue generation and mobilisation

The study generates data on those actions from human and institutional nature which hindered the maximisation of the potentials that existed for increased internally generated revenues. Challenges, in this study are the impediments, weaknesses, disincentives or difficulties that do hinder the maximisation of revenue collections internally at the sub-national and local government levels. Challenges take the form of inadequate personnel to undertake the difficult task of revenue collections in a very rural setting, the absence of clear data that can help in revenue collections, the attitudes of the citizenry towards tax payments generally and how effectively the laws can be enforced or a certain level of overdependence on central government grants (Oduro-Mensah, undated).

High illiteracy levels coupled with lack of record keeping among the residents resulted in a challenge for revenue collectors and Key District Assembly officials from the District Assembly. The challenge according to Key informants (which consisted four chairmen of active organised groups and five Key District Assembly officials) lied in calculating revenue rates for individual residents involved in their own business in the district. District officials from the District Assembly resorted to other unscientific methods such as fixed rate and sometimes intuition methods in determining revenue rate for different categories of economic activities. This instance, according to Nicol (2005), is likely to result in over taxation, as some residents during the survey complained of being over taxed by the District Assembly. The situation will increase revenue payment default and compliance. The study revealed that residents were not willing to pay taxes to the District Assembly.

Ofori (2009) identifies predominance of cash transactions, poor record keeping, high illiteracy rate, little or no barriers to entry, lack of laid down procedures, ignorance of revenue laws and the peripatetic nature of the informal sector as the main factors militating against efficient revenue mobilisation in Ghana. The informal nature of their businesses made it difficult to tax them.

The key informants identified the lack of “political will” to enforce bye-laws which ensured that tax and rate defaulters were sanctioned, as a means of discouraging non-payment of taxes and improve revenue collections in the district. Blocking the loopholes in the existing revenue collecting system, improving the calibre and capacity of the revenue collectors and motivating them to venture into more difficult to access areas for the purposes of revenue collection as noted by Appeah (2003) were also identified as means to improve revenues.

The key informants noted that the revenue office does not have a complete list of revenue payers and hence do not exactly know their revenue payers in full. Lack of credible and reliable database of revenue payers in the district manifested itself in the challenge of tracing revenue defaulters. The challenge in determining the amount of revenue to be generated from a particular revenue zone also cropped up.

The study revealed that revenue collectors pay the amount they mobilise into the District Assembly’s special account for internally generated revenue with specific Rural Banks and hand over the pay in slip to the District Assembly’s

Finance Officer every Wednesday of the week. Some revenue collectors kept amounts mobilised with them in their homes for sometime before the final payment was made to the Rural Bank. This practice made the money prune to dangers of misuse, misplace, loss and leakages.

On the positive side, the practice reduced multiplicity of payment procedure; an act Bandie (2003, p. 120) observed as an avenue for leakages and corruption. Area council leaders, community leaders and traditional leaders (Chiefs) do not have any role and contribution in the revenue mobilisation process. According to the key informants, the involvement of chief and other community leaders results in corrupt practices.

The revenue collectors had an idea on what taxation was all about. However their concept and understanding was limited to the role of taxation as mobilisation of resources for development programmes. They did not have a clue on the role of taxation on redistribution of income and as fiscal policy instrument (Musgrave, 1959). All the revenue collectors had only one day workshop. This was in the form of freshmen / women orientation on the very day they were employed to serve. This implied that those who had worked up to 10 years and above had received only one workshop throughout their service. Their understanding about what they perform daily is fully dependent on their experiences. Such practice affected productivity and finally revenue collection.

The average monthly salary of the permanent staff was Gh¢209.53 whereas the commissioned revenue collectors earned an average income of Gh¢100 per month (representing 20% of the amount they collect as IGR). Their salary fluctuated from month to month depending on the amount of revenue they mobilise. All revenue collectors had additional income from other sources such as farming and small business. Except one, the rest (representing 95.2% of revenue collectors) were unhappy and unsatisfied with their salary. Monetary motivation (salary) is necessary to entice the revenue collectors to perform their duty well especially to mobilise revenue in non-motorable areas in the district where revenue collectors were not able to enter.

The study revealed that revenue collectors were not involved in the district internally generated revenue plan preparation. However, all the revenue collectors stated that they were given revenue target by the District Revenue Superintendent and that collectors who did not meet the revenue targets were punished by deduction from their salary. Revenue collectors confirmed that the District Revenue Task Force sometimes perform surprise field- visit to monitor revenue collection process. However, there was no clear monitoring indicator used for the process. In addition, all revenue collectors confirmed the presence of regular auditing by internal auditor of the District Assembly and by external auditors.

Revenue collectors and key informants confirmed that revenue payers were reluctant to pay revenue and tried to evade their tax obligations. They further attributed such acts to residents' low understanding of the purpose of taxation. As a result they do not want to pay their tax obligations fully, timely and voluntarily. This challenge usually results in insult and fight in the revenue collection process. The reason could be attributed to residents' non involvement in revenue target setting in the District Assembly and low level of understanding for the payment of revenue as a citizen. The study revealed that 80 percent of the residents felt that the revenue administration system in the District Assembly had loopholes for corruption. This also reduced revenue paying compliance and increased default.

In a similar study on informal sector taxation in Ghana, Ofori (2009) identified low understanding of taxation as a major setback in informal sector taxation in Ghana. This supported the claim made by revenue collectors and Key informants.

The key informants made it clear that revenue projections and target settings were hampered as a result of the lack of credible and reliable database of economic activities in the district. As a result, the exact number of revenue payers in the district was not known. It made the planning practice more difficult. Revenue projections and targets were prepared somewhere and imposed on revenue collectors to meet those targets. This non participatory method created problem for revenue collection, thus militating against revenue collection performance.

The key informants attested to the fact that inadequate logistics for revenue collectors, general reluctance of revenue payers in paying taxes (low voluntary compliance) and poor remuneration were significantly affecting the revenue collection efforts of the District Assembly. It was also made clear that the only vehicle available for revenue collection often faced problem of constant break down and sometimes used for other official duties different from the purpose for which it was acquired. Revenue collectors were unable to make wider coverage in their areas of operation, thus, affecting the internally generated revenue collection.

This situation also affected revenue supervision on field too. These factors had reduced the coverage in internally generated revenue collection efforts. Revenue payers were not willing to pay tax because they felt the District Assembly had not been satisfying their local development needs. Inadequate logistics and vehicles for revenue office had limited the revenue mobilisation efficiency of the District Assembly. A similar study conducted by Action Aid Ghana (2002, p. 22) revealed that, internally generated revenue was generally grossly low due primarily to the afore-mentioned factors in five districts in the country.

From Table 12, 23.85 percent of the respondents pointed to reluctant to pay tax as the number one challenge facing revenue collection in the district. Furthermore, 14.62 percent of the respondents showed that there is inadequate logistics for revenue collection. The results show that male respondents perceived reluctant to pay tax followed by lack of political will in that order as the challenges that hinder revenue mobilizations. On the other hand, the female respondents perceived reluctant to pay tax followed by inadequate logistics for revenue collection in that order as the challenges in the revenue mobilization.

Table 12: Cross tabulation of revenue mobilisation challenges by sex

Revenue Mobilization	Male		Female		Total	
Challenges	Freq.	%	Freq.	%	Freq.	%
High Illiteracy Levels	5	7.14	1	1.67	6	4.62
Lack of Record Keeping	4	5.71	3	5.00	7	5.38
Lack of Political Will	11	15.71	3	5.00	14	10.77
Lack of Revenue Data Base	1	1.43	3	5.00	4	3.08
No In-Service Training For Revenue Collectors	7	10.00	8	13.33	15	11.54
Poor Remuneration	9	12.86	5	8.33	14	10.77
Low Participation in determing Revenue rates	3	4.29	8	13.33	11	8.46
Low Monitoring System	4	5.71	5	8.33	9	6.92
Reluctant To Pay Tax	17	24.29	14	23.33	31	23.85
Inadequate Logistics For Revenue Collection	9	12.86	10	16.67	19	14.62
Total	**70**	**100.00**	**60**	**100.00**	**130**	**100.00**

Source: Author’s Field Survey, 2012

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents summary, the conclusions arrived at and the recommendations made for the study. The summary outlines what the study set out to do, the methodology used and the main findings of the study. It draws conclusions on the basis of the objectives and the outcomes of the study, the expected roles of the various respondents and the service delivery responsibility of the Assembly. Recommendations based on the findings are also made to the various response units in the study.

Summary of findings

The task of this study was to investigate the performance and challenges of internally generated revenue mobilisation of the Abura-Asebu-Kwamankese-District Assembly for local level development. The study involves a sample of 130 respondents (comprising 21 revenue collectors, 9 key informants and 100 residents of Abura-Asebu-Kwamankese District selected to cover all the eight urban/ area councils). Questionnaires and interview schedules were used to collect primary data.

The study made use of data collected from both primary and secondary sources. The secondary data were drawn from relevant documents such as the district medium term development plans, district composite budget and the district trial balances. Primary data were gathered from sampled residents, Key District Assembly officials of the Abura-Asebu-Kwamankese District Assembly, chairmen of organised groups in the district and revenue collectors of the Abura-Asebu-Kwamankese District Assembly. Following these, both qualitative and quantitative techniques were employed in the analysis of the data obtained.

The key findings of the study are as follows:

1. For the age group category, 48 percent of the respondents were within the age group 31-40 years. 31-40 years is considered as economically active age. This presents tax opportunity to the District Assembly.
2. The highest level of education indicates that 48 percent of residents recorded no formal education, 90 percent of revenue collectors had Junior High School education, 100 percent of Key District Assembly officials had tertiary education and 75 percent of organised groups had technical education. Low educational level of residents could affects their record keeping practices on their businesses. Low record keeping affects revenue collectors in determining the amount a payer must pay to the District Assembly. Low educational level is also a potential factor to promote low understanding on the need to pay tax to the District Assembly.

3. Married respondents recorded the highest responses from all the various category of respondents for the study. Thus, 68 percent for the residents, 80 percent for revenue collectors, 100 percent for Key District Assembly officials and 75 percent for organised groups.
4. DACF has been the major source of revenue for Abura-Asebu-Kwamankese District Assembly. Averagely, the period 2005 to 2010 recorded 54.87 percent for DACF. Delay in the release of DACF is more likely to affect the performance District Assembly in executing its developmental roles in the district.
5. For the period under investigation (2005 to 2010), investment was the leading contributor to internally generated revenue recording 53.2 percent. Miscellaneous followed with an average percentage of 25.1 percent. Thus, the investment and miscellaneous jointly contributes an average of 78.3 percent of Abura-Asebu-Kwamankese District Assembly's internally generated revenue. Investment's performance was as a result of the acquisition of a tipper truck for the District Assembly in 2006. Since the introduction of the tipper truck, investment has been the highest contributor of internally generated revenue. Miscellaneous was the second leading contributor to the internally generated revenue. Just like investment, miscellaneous component comprises of many items but only unspecified receipt was the single contributor to miscellaneous item.

6. Non-tax internally generated revenue performs better than tax related internally generated revenue items. The non-tax items (investments and miscellaneous) contributes about 78 percent to the total internally generated revenue mobilized from 2005 to 2010. Taxable items, on the other hand, contributed 22 percent. Out of the taxable items (22%), rates contributed almost half of the taxable items while licenses contributed 5 percent.
7. The contribution of internally generated revenue to total local level development expenditure for the District Assembly was less than 10 percent from 2005, 2006, 2007, 2008 and 2010. The situation got better in 2009, where the percentage contribution rose to 97.82. The internally generated revenue is simply not enough to finance the enormous development roles given them by the central government as enshrined in the Act of Local Government, Act 462. This implies the District Assembly has to rely heavily on external sources of funds to support its budget. Overdependence on external sources of revenue leads to dependency syndrome.
8. The Revenue Collection Rate analysis performed shows that the District Assembly has been performing very well in mobilising the needed revenues to meet its target. The District Assembly collected revenues beyond its set target in 2006, 2008 and 2009. The best performing year was 2009, where the revenue collected was ten times higher than the target. The performance in 2009 was attributed to the High Court ruling

in favour of a client who dragged the District Assembly to court for non-payment for service rendered to the Assembly.

9. The relationship between actual internally generated revenue and actual total district revenue depicts overdependence on District Assembly Common Fund (DACF) and other forms of external sources of revenue for local development such as NGO grants. Any shock in these external sources of funds could negatively affect the finances of the District Assembly.

10. Financial capability index indicates that the internally generated revenue growth rate was 38 percent of expenditure growth. The indication is that of a relatively weak financial capability for the District Assembly, a situation that is likely to create a dependence on central government for the provision of local level projects and thus weaken autonomy. This situation therefore calls for strategies to improve internally generated revenue mobilization effort to correct the current state of 38 percent.

11. Revenue target setting for the years ahead are done using the intuitive methods. The major reason for the adoption of this method is the unavailability of credible and reliable revenue database of all taxable economic activities in the district. This makes the process of setting revenue targets unscientific. This method also promotes loss of revenue to the District Assembly since it makes it difficult to monitor field revenue collection of revenue collectors. It promotes corrupt practices.

12. The district as well as the revenue zones did not have credible and reliable database, which is so crucial for internally generated revenue administration. Property valuation which is the basis for rate determination was carried out last in 1994 but has not been updated until today. The district might have lost much of its resources due to this. Residents complained that the tax they pay does not reflect their income, hence unfair.

13. Lack of proper financial records on businesses in the district made it difficult to determine rates based on profit. Revenue collectors resorted to flat rate, which favoured others but did not favour others. To be able to charge realistic taxes, tax payers should be in a position to keep records on their businesses. The records will serve as basis for charging realistic taxes. This will improve compliance rate on tax payment.

14. Weak participation of important stakeholders in the fee fixing resolution. According to the guidelines prepared by the National Development Planning Commission, Sub-District structures such as Area councils and community leaders are required to participate in data collection, mobilise community members and plan preparation. However the survey reveals that these structures including traditional leaders and religious leaders do not have any role in the internally generated revenue mobilisation processes. They are not involved in the fee fixing resolution process. This contributes the rise of non-compliance of tax payment.

Involving key stakeholders is a key for sustained tax payment and will also increase compliance levels in their district.

Conclusions

As part of the fiscal decentralisation programme, District Assemblies in Ghana are legally mandated to mobilise internally generated fund from different sources. The study revealed that there were a couple of issues needed to be considered if there is a real demand for improving the internally generated revenue performance and thereby the entire decentralisation programme.

Insufficiency of the available internally generated revenue sources for ever increasing expenditure demand and overdependence on external transfers were some of the findings of the thesis. Capacity building of staff, introduction of digital mobile accounting device and innovations in developing potential revenue sources were some of the approaches to address the challenges. The issues, lessons learnt and recommendations made will not only contribute to debate on decentralisation in general, but will, to a large extent improve on the operationalisation of fiscal decentralisation in the country.

Recommendations

The following recommendations are therefore made to help improve the mobilisation of internally generated revenue for local level development:

1. Encouraging private-public partnership in local revenue mobilisation collection. Large revenue zones such as Amosima and Moree should

be privatised to increase efficiency and reduce the cost of revenue mobilisation to the District Assembly. There is the need to contract private businesses in the collection of revenues in Amosima and Moree Urban councils.

2. The District Assembly needs to design capacity building training programmes for officials of the District Assembly and revenue collectors.

3. The District Assembly should introduce other sources of revenue to increase revenue available for local development.

4. The District Assembly should update property valuation and develop a reliable and credible revenue database on regular basis. Property valuation is the basis for determining basic rates for buildings in the district. Reliable and credible revenue database is a step to introduce fairness, transparency and efficiency in internally generated revenue administration.

5. Stakeholder participation in setting rates and revenue targets should be encouraged by the District Assembly. This would help in building common understanding, voluntary compliance and trust and confidence in the system.

6. The District Assembly should put in place along the strategic plan, a standard monitoring and evaluation plan that ensure the attainment of the plan.

7. Periodic reshuffling of revenue collectors to the various revenue zones should be organised from time to time by the Revenue Superintendent.
8. The District Assembly should acquire and train revenue collectors on the use of digital mobile accounting device for revenue collection.

Limitations of the study

The following limitations were faced during the study. There was no reliable database on revenue payers in the district. This made it difficult in selecting a sample for the study. The study fell on the population size of each revenue zone to develop a sample size for each revenue zone. Access to revenue record from the District Assembly was not easy. Two letters of introduction were sent to aid access to data. The first letter of introduction got lost in the filling system of the District Assembly and therefore, required a replacement. The second letter aided the released of the necessary documents.

Finance and time constraints also hampered the study. It was difficult to secure funds to finance the field data collection and the hiring of field data collection assistants. The study was purely for an academic purpose and for that matter time was limited, since the institution only offered one year for the study.
The choice of Abura-Asebu- Kwamankese District Assembly for the study limited the study in terms of its application. With this limitation, findings in the study cannot be generalised. The choice of one District Assembly (Abura-Asebu-Kwamankese District Assembly) for the study makes it impossible to generalise its findings and recommendations to other District Assemblies in the country.

Areas for further research

1. Assessment of information and communication technology in revenue collection in Abura-Asebu-Kwamankese District: Prospects and challenges;
2. Enhancing effective participation of key stakeholders in revenue planning and collection in Abura-Asebu-Kwamankese District;
3. An examination of potential sources of internally generated revenue to Abura-Asebu-Kwankese District Assembly; and
4. Strategies to increase tax compliance in the district.

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR KEY DISTRICT OFFICIALS

INTRODUCTION

The aim of this exercise is to obtain information on the performance and the challenges of internally generated revenue mobilisation for local level development. Abura-Asebu-Kwamankese District Assembly was chosen as a case for my MPhil thesis. Please answer all questions as honestly as you can. The information you provide will be treated confidentially. Thank you.

1. Name of department (section)…………………………………………….
2. Rank of respondent. DFO [ ] DCD [ ] DCE [ ] DBO [ ] DPO [ ]
3. Sex: Male [ ] Female [ ]
4. Age ……………
5. Marital Status: Married [ ] Single [ ] Widow/widower [ ] Divorced Co-habitation [ ]

6. How long have you been the head of this department or section?...............
7. Which new internally generated revenue source(s) have you introduced in the last five years?

8. What are the key constraint/challenges to effective local revenue mobilisation in the district? …………………………………….

9. How responsive are the people to taxation? ………………………………

10. What measures have you employed to arouse people's consciousness about their tax obligation? …………………………………

11. What new areas of internally generated revenue will you recommend?

12. What measures have you instituted to overcome existing constraints and improve on internally generated revenue performance?

13. How many revenue collectors do you have?

14. Do you have any problem with the existing staffing position of the Finance Section? Yes [ ], No. [ ]

15. If yes, how is this affecting IGR mobilisation in the district?

16. Who are involved in fiscal policy formulation? List all and their respective responsibilities.

17. How are rates/fees in the district fixed?

18. Who are involved in fee fixing? List all and their responsibilities

19. How are revenues of the ensuing year estimated?

20. What are the problems associated with this method of estimation?

21. Do revenue collectors have set targets?

22. Who are involved in setting the targets?

23. What happens if targets are not met?

24. Are the revenue collectors supervised and monitored?

a. If yes, how? (Give details)

b. If no, why?

25. Who does the monitoring? (List all)

26. How do you assess the Assembly's performance so far as revenue generation is concerned?

a. Very good [ ]

b. Good [ ]

c. Fair [ ]

d. Poor [ ]

e. Very Poor [ ] Give reasons for your answer

27. Do you have revenue check points? Yes [ ] No [ ]

28. If yes, please rate the performance of these check points in revenue mobilization.

a. Very good [ ]

b. Good [ ]

c. Fair [ ]

d. Poor [ ]

e. Very Poor [ ]

Give reasons for your answer

APPENDIX B

INTERVIEW SCHEDULE FOR REVENUE COLLECTORS

INTRODUCTION

The aim of this exercise is to obtain information on the performance and the challenges of internally generated revenue mobilisation for local level development. Abura-Asebu-Kwamankese District Assembly was chosen as case for my MPhil thesis. Please answer all questions as honestly as you can. The information you provide will be treated confidentially. Thank you

1. Sex: Male [ ] Female [ ]
2. Age ………
3. Marital Status: Married [ ] Single [ ] Widow/widower [ ] Divorced Co-habitation [ ]
4. What is your highest level of education attained? ………………………
5. How long have you worked here? ………………………………………
6. Type of employment. Temporal worker [ ], permanent worker [ ], others [ ], please specify…………………………………………………
7. Did you sign any bond with the Assembly towards your employment? Yes [ ] No [ ]
8. Have you had any training since you started working here? Yes [ ] No [ ]
9. If No, why? ……………………………………………………………

……………………………………………………………………………

10. If yes, please complete the table below

Year of training	Type of training received	Who organized the training	Venue of training	Duration of training	Who paid for the training

11. What is your monthly salary? ....
12. Have you received any incentive from the Assembly? Yes [ ], No [ ]
13. If No, why? ……………………………………………………………
14. If yes, please complete the table below

Year	Incentive type	What did you do to receive the incentive	Were you satisfied with the incentive	Has the incentive helped you to improve revenue collection

15. Any recommendation on incentives. If yes, what are they…………………
16. What are the challenges in revenue mobilization in the district?

APPENDIX C

INTERVIEW SCHEDULE FOR RESIDENTS

INTRODUCTION

The aim of this exercise is to obtain information on the performance and the challenges of internally generated revenue mobilisation for local level development. Abura-Asebu-Kwamankese District Assembly was chosen as a case for my MPhil thesis. Please answer all questions as honestly as you can. The information you provide will be treated confidentially. Thank you

Personal data

1. Location of resident (revenue zone) ……………………………………..
2. Sex of revenue payer: Male [ ] Female [ ]
3. Marital Status: Married [ ] Single [ ] Widow/widower [ ] Divorced Co-habitation [ ]
4. Educational level of revenue payer ……………………………………………….
5. Contact of revenue payer (if any) ………………………………………………
6. Do you operate a business Yes [ ] No [ ]
7. If yes, what is the business ownership type: a. Sole proprietorship [ ] b. family business [ ] c. Partnership [ ] d. others, pls specify ……………………..
8. Why this type of business ownership above? …………………………………….
9. Years operating the business………………………………………………….
10. Do you keep records on your daily business? Yes [ ] No [ ]
11. If yes, what type of records? …………………………………
12. If No, why? …………………………………….

13. Type of goods sold or service rendered
………………………………………..

14. How will you rate your willingness to pay tax? High [ ] medium [ ] low[ ]

15. What causes default in revenue collection?...

16. What is the importance of paying taxes to the Assembly?...........................

17. Has the Assembly provided adequately towards the development of your community development? Yes [ ] No [ ]. If yes, please list them……….........

…………………………………………………………………………………

If No, why? …………………………………………………………………...

18. Have you received any tax education from the Assembly?

APPENDIX D

QUESTIONNAIRE FOR DISTRICT ASSEMBLY FINANCE OFFICER

INTRODUCTION

The aim of this exercise is to obtain information on the performance and the challenges of internally generated revenue mobilisation for local level development. Abura-Asebu-Kwamankese District Assembly was chosen as a case for my MPhil thesis. Please answer all questions as honestly as you can. The information you provide will be treated confidentially. Thank you

Please complete the tables below:

Fiscal	Total IGR mobilised (Actual)	IGR (Estimated)	Amount spent on IGR mobilisation	Estimated Budget for the year
2005				
2006				
2007				
2008				
2009				
2010				

IGR item	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Rate						
Land						
Fees & Fines						
Licenses						
Rent						
Total						

APPENDIX E

MATHEMATICAL FORMULA FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

The mathematical method is presented by the formula: $n = N / [1 + N (\alpha)^2]$, where "N" is the sample frame size, "n" is the sample size and "α" is the level of significance (Sarantakos, 2005). Therefore at 10 percent level of significance (that is $\alpha = 0.1$) and "N" to be 114, 260 (for only residents of Abura-Asebu-Kwamankese District), the formula was calculated as follows:

$n = 114,260 / [1 + 114,260 (0.1)^2] = 100$.

APPENDIX F

COMPOUND ANNUAL GROWTH RATE FORMULA FOR DETERMINING REVENUE AND EXPENDITURE GROWTH RATE

The compound annual growth rate (CAGR) is a business term widely used in growth industries or to compare the growth rates of two investments. It is often used to describe the growth over a period of time of some element of the business, for example revenue, units delivered, registered voters, etc

Mathematically, it is presented by the formula:

$CAGR\ (t_o, t_n) = [\ (V\ (t_n) / V\ (t_o)]^{1/(t_n - t_o)} - 1$

Where:

$V\ (t_o)$: start value,

V (tn): finish value

$t_n - t_o$: number of years

APPENDIX G

INTERVIEW SCHEDULE FOR CHAIRMEN OF ORGANISED GROUPS

INTRODUCTION

The aim of this exercise is to obtain information on the performance and the challenges of internally generated revenue mobilisation for local level development. Abura-Asebu-Kwamankese District Assembly was chosen as a case for my MPhil thesis. Please answer all questions as honestly as you can. The information you provide will be treated confidentially. Thank you.

1. Name of your group……………………………………………
2. Sex: Male [ ] Female [ ]
3. Age ……………
4. Marital Status: Married [ ] Single [ ] Widow/widower [ ] Divorced Co-habitation [ ]
5. How long have you been the head of this group?...................
6. What kind of revenue do your group pay to the District Assembly?.........
7. Which new internally generated revenue source(s) have been introduced in the last five years?
8. What are the key constraint/challenges to effective local revenue mobilisation in the district? …………………………………….
9. How responsive are your people to taxation? …………………….

10. What measures have you employed to arouse your people's consciousness about their tax obligation? …………………………………

11. What new areas of internally generated revenue will you recommend?

12. What measures have you instituted to overcome existing constraints and improve on internally generated revenue performance?

13. Does the Assembly involve you in rates/fees fixing? Yes [ ], No [ ]

14. How do you assess the Assembly's performance so far as revenue generation is concerned?

f. Very good [ ]

g. Good [ ]

h. Fair [ ]

i. Poor [ ]

j. Very Poor [ ] Give reasons for your answer