

Local Revenue Mobilization Mechanisms: Evidence from the Abura-Asebu-Kwamankese District in Ghana

Ernest Opoku¹ Christian Kyeremeh^{2*} Daniel Odoom³

^{1,3}Institute for Development Studies, University of Cape Coast, Cape Coast, Ghana

²School of Business and Management Studies, Sunyani Polytechnic, Sunyani, Ghana

* Email of the corresponding author: kriskopap@gmail.com

Abstract

This paper examined the local revenue mobilization mechanisms in the Abura-Asebu-Kwamankese District in Ghana. A total of 214 respondents made up of 20 officials of the Assembly and 194 tax payers were involved in the study. The study demonstrated that despite the availability of other sources of local revenue, the Assembly was yet to take advantage of them. The strength of the Assembly's local revenue collection measures included revenue collectors' inclusion in tax decisions, house-to-house collection, and database. However, the weaknesses included poor taxpayer participation in tax decisions, inadequate personnel for revenue mobilization and poor cash management systems and accountability mechanisms at the Assembly. Some of the challenges the Assembly faced in improving local revenue generation were unwillingness on the part of the taxpayers to meet tax obligation, low pace of development and political considerations. It is recommended that the Assembly should put in place strong monitoring and supervisory mechanisms to check the revenue collectors, sanctions defaulting collectors, and also create room for private participation in local revenue collection.

Keywords: Decentralization, revenue mobilization, subsidiarity principle, fiscal decentralization

1.0 Introduction

Development seeks to bring about quality improvement in the lives of the citizenry. Its outcome is not merely growth in the economic sense but is closely related to the notion of quality of life (Ruttan, 2001). It is a dynamic process which empowers people and promotes important changes in their lives. However, for development to occur, it requires an educated population, physical and financial resources. In pursuance of this, governments, all over the world, have initiated several approaches aimed at improving the wellbeing of its people. One such approach is the adoption of centralisation which focuses all political power and government responsibility into the hands of a single authority (Falleti, 2005). The apparent deficiencies of centralised delivery system including waste of resource, low productivity as well as inadequate personnel pushed the need to look for other approach to development, hence the idea decentralisation (Government of Tanzania, 2009).

As an approach, decentralisation which is theoretically rooted within the principle of subsidiarity devolves administrative, political, and financial responsibilities to sub-national governments to deliver improved public services to the people in an efficient and accountable manner (Gibson, 2005; Stigler, 1957). The subsidiarity principle, as Gibson (2005) submits, advocates that when governance is brought to the lowest units of government undertakings, people better participate in the very process that ought to enhance their own wellbeing. The principle gains even greater prominence in an era of globalization which keeps increasing the gap between the very rich and the very poor among and within nations as material and human resources continue to flow from the poor to the rich (Pablong, 2006).

The need to ensure financial autonomy at all levels of government is the basis of fiscal decentralisation (Parker, 1995). Fiscal decentralization is about empowering people to actively influence the decisions made within their own community (Inter-American Development Bank, 1997). Theoretically, fiscal decentralization advocates that each public service must be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision. This enables the local governments (LGs) to have enough resources to be able to deliver meaningful services that improve the lives of the people (Ebel & Yilanmaz, 2001). In the views of Tetteh (2006), District Assemblies (DAs) are expected to identify revenue structures which can provide sufficient financial resources necessary for effective local service delivery. The three main sources of revenue for the DAs are the local revenue, transfers from higher-level institutions, and loans and grants (Ahwoi, 2010).

According to Asibuo (1998), the DAs need revenue to be able to provide schools, hospital, and a healthy socio economic environment for development. From the standpoint of public finance theory, governments are expected to use revenues generated to provide services that the citizens value. Thus, when the DAs are able to carry out development projects to all their areas they tend to receive the cooperation of the citizens in terms of revenue

mobilization (Atakora, 2006; Ndulue, 2005). With more revenue sources available to them, the assemblies can improve and increase their revenue mobilization to facilitate development (Armah, 2003; Ndulue, 2005). Quality internal mechanisms will help bring about proper identification, information, collection, recording, management and monitoring of the respective tax base registers system for tax compliance (Kelly, Montes, Maseya, Nkankha and Tombere, 2001).

Following Ghana's transition into democracy in 1992, Articles 240 (c & e) and 245 (a & b) of the 1992 Constitution endorsed the fiscal decentralisation policy in Ghana which led to the establishment of the LG systems, provided legal backing for their sound financial base, and also mandated DAs to mobilize revenues for development through levies, taxes, rates, fees and fines (Ghana Government, 1992). The 1992 constitution of Ghana therefore enjoins the DAs to ensure an adequate financial base to facilitate the delivery of development programmes and projects (Fynn, 2011).

1.1 Statement of the problem

The LG Act 1961 (Act 54) gives authority to the DAs to mobilize and manage revenues locally to fund their developmental projects and other operations. In support, the Ministry of Local Government and Rural Development (MLGRD, 2008) indicates that Internally Generated Funds (IGFs) are the only funds which the DAs have total control over. It is believed that since the District Assemblies Common Fund (DACF) and most development partner funds are targeted toward development and cannot be used for recurrent expenditures, the ability of the assemblies to maintain existing, new and on-going infrastructure has become more difficult (Fynn, 2011). This necessitates the need to improve upon IGFs. Despite several workshops and seminars organized with the aim of improving the assemblies' local revenue capacity, most of the DAs, according to Tetteh (2006), continue to experience huge gaps between reported and projected local revenues over the years. Funding has therefore become one of the most crucial factors hampering successful implementation of the decentralization policy in Ghana simply because functions allocated to DAs units do not often correspond to their financial resources (Yankson, 2008).

The effect of this problem in some districts including the Abura-Asebu-Kwamankese has been the delay in the implementation of development programmes and projects which has serious implications on the standard of living of the people (Central Regional Coordinating Council [CRCC], 2009). Egbenya (2010) lists inadequate funds as a factor responsible for low level of development of the AAK District Assembly. The situation in the AAK District compels one to question the mechanisms the Assembly has put in place to mobilize revenue locally for development. There is also the need to appreciate the challenges the Assembly faces in its attempt to improve upon its local revenue generation. This study, therefore, focused on examining the local revenue mobilization mechanisms of the AAK District Assembly in order to suggest measures for improvement. The specific objectives were to determine the various sources of revenue available to the AAK District Assembly; examine the local revenue mobilization measures at the Assembly; and ascertain the challenges the Assembly faces in terms of local revenue generation.

2. Literature Review

2.1 Revenue sources for District Assemblies in Ghana

At the heart of intergovernmental matters in all countries, including Ghana is adequate funding. Local governments will therefore be useless unless they possess the relevant financial capacity to support the onerous responsibilities devolved to them (Ayee, 1996). It is from this backdrop that various governments take steps toward revolutionising the financial viability so as to accelerate development at the local level. The Provisional National Defense Council (PNDC) government, under the Local Government Law 1988, took a step to strengthen the financial arrangements of the DAs in order to smoothen local-level development. Articles 245 and 253 of the 1992 Constitution of Ghana and Section 34 (parts vii, viii, ix and x) contain the financial provisions for the DAs. Revenue from these sources may be grouped into two, namely central government revenue transfers and locally generated revenue (Kodobisa, 2008).

Central government revenue transfers are revenues transferred from the national or central government to LG units (Nkrumah, 1992; Nsarkoh, 1992). In Ghana, central government revenues transferred to LGs include recurrent expenditure transfers, ceded revenue, the DACF and the District Development Fund (Zanu, 1996). The recurrent expenditure involves the responsibility in the forms of salaries, operational and administrative expenses of civil servants and other remunerations, including pensions of staff of the DAs and the payments of the wages of locally recruited staff like revenue staff (MLGRD, 2002). Ceded revenues are derived from some selected revenue sources which initially were tapped by the national government through the Internal Revenue Service.

But as part of strengthening decentralization, central government has ceded this revenue source to the DAs. Included in this source are Entertainment Duty Act 1962 (Act 150), casino revenue under the Casino Revenue Tax Decree, 1973(NRCD 200), Income Tax Law 1986 (PNDCL 177) and advertisement tax under the Advertisement Tax Decree, 1976 (SNCD 50).

The Ghana Constitution of 1992 established the District Assembly Common Fund (DACF) under which provision was made for five percent of government revenue to be transferred to the DAs for development. The amount is paid to the DACF in quarterly installments (Ghana Government, 1992). The DACF serves as a channel to encourage the DAs to mobilize revenues locally. But only about a quarter of district revenue is locally generated with the rest coming from the DACF and other external sources. External financial sources available to DAs include special transfers such as stool land and timber royalties, mineral development funds, and revenues from lotto operators derived from the Weekly Lotto Amendment Law, 1990 (PNDCL 233). Other agencies operating in the districts sometimes pay gratuity as a mark of good corporate relationship with communities (Bandie, 2003; Ghana Government, 1993). In his view, Tetteh (2006) asserts that at DA levels reform of property taxation coupled with increasing discretion over user charging may provide sufficient enhancement of local accountability. By far the greatest scope for increasing fiscal independence lies, however, with the substitution of surcharges for shares of personal income tax. This might be particularly suitable for upper tiers of local government which generally lack taxing power at present (Atakora, 2006).

Locally generated sources of revenue are derived from six main sources, namely rates, land, fees, licenses, trading services, and miscellaneous sources. But Ahwoi (1992) believes that the major local revenue sources in Ghana have been the basic rates, user charges, grants and loans. The local revenue sources appear to be erratic and undependable. This leads to low level of development at the local level (Smoke, 2001). To strengthen the revenue generation powers of the DAs in Ghana, Articles 245 and 252 of the 1992 Constitution designate DAs as the sole rating authorities at the local level and empower them to levy and collect taxes. The criterion for rating, types of properties to be rated and the general sources of revenues mandated to be raised locally by the DAs are provided in the 6th Schedule of Act 462 (Ghana Government, 1992; 1993). MMDAs are therefore to mobilise revenue in the form of fees and taxes, rents, royalties, registration and licenses for local level development. In the views of the Institute of Chartered Accountants Ghana (2002), rates especially property rates, licenses and fees contribute the greater proportion of local revenues of MMDAs while fees, especially market fees and licenses, yield the greater part of local revenue collected by the DAs (Bandie, 2003; Resource Watch Agenda, 2009).

2.2 *Systems and measures for District Assemblies local revenue mobilization*

A number of mechanisms and strategies are crucial in ensuring effective local revenue mobilization. For instance, the DAs are mandated to create revenue generation sub-committees and establish rating assessment committees (Ayee, 1996; Buhari, 1993). The DAs are also expected to recruit permanent and commission earning revenue collectors as well as revenue supervisors to help mobilize revenues to undertake development services in the district. In Ghana, the staffing situation of revenue collectors differs from one district to another. Unlike other DAs, assemblies with huge financial muzzles recruit more revenue collectors and supervisors to maximize revenue generation (Ahwoi, 2010).

In order to deal with the difficulty associated with getting the commitment of revenue collectors and supervisors, the Office of the Head of Civil Service (OHCS) requested all the DAs in Ghana to provide particulars on projected revenue for the past three years, revenues actually collected for the same period, and the proportion of revenue collected by collectors on salary (Nkrumah, 1992). The Office also requested the DAs to provide proportion of revenue collected by collectors on commission basis, and the number of revenue collectors on commission and those on salary (Korda, 1992; Tettey, 2006). Notwithstanding these arrangements, Nkrumah (1992) believes that issues of staff qualification and training have been a challenge at the DAs. Besides, staff motivation, capacity development, monitoring and supervision are all fraught with a myriad of problems. Also, the assemblies often organize workshops to sensitize and equip their revenue collectors about new strategies for enhanced revenue collection (Mensah, 2005). Antwi, Analoui and Cusworth (2007) found that in most cases the issues of poor staff motivation at the DAs leads to corrupt practices which are detrimental to successful decentralization. Besides, effective revenue mobilization depends on the tax base of the assembly and the extent to which the tax objects captured on the tax rolls is monitored (Kelly et. al, 2001). Where it is difficult to determine information on property or businesses operating in the jurisdiction or there is incomplete, outdated and or uncoordinated tax base, data on these operations becomes limited (Allers, de Haan & Sterks, 2001).

Additionally, Section 116 (1) of Act 462 mandates rating authorities to appoint agents for collection of rates in Ghana. The Act stipulates the contractual obligations of the agent towards the principal (rating authorities) and

mode of remunerations (Ghana Government, 1993). Specifically, section 116 (1) indicates that “without prejudice to section 111 of this Act, a rating authority may by notice in writing, appoint any person holding monies for or from whom any monies are due to any other person or class of persons specified in the notice, to be its agents for collection of any specified basic rates, which is payable by that person or persons of that class (Ahwoi, 2010; Ghana Government, 2010a). In order to enhance efficiency in the collection of local revenues, some LGs in Kenya and Uganda have contracted-out some of the local revenue collection functions to the private sector (Farazmand, 2001).

In their attempt to compare revenue performance between rich and poor countries, Keen and Mansour (2010) contend that not only has there been massively greater volatility of receipts in the former but also tax ratios have increased over recent years in non-resource countries too. The type of business should be recorded, together with the size category, and the amount payable. All businesses, commercial and professional activities that are within the jurisdiction are covered in the database (Keen & Mansour, 2010). The system of issuing receipts and recording money received in a register, with details of the receipt number and date work reasonably well, enabling cash received to be checked against receipts. In addition to the chronological register of cash received, revenue receipts should be recorded in the register specified against the plot number, so that non-payers can immediately be identified (Atakora, 2006; Koranteng, 2006). Ahmed (2010) is of the view that in the case of business tax licences, database and internal control system at the DAs must have a comprehensive list of all businesses in the locality. Ahmed opines further that there must be field inspection to cross-check tax collections against the holding tax register for non-domestic properties.

3. Methodology

The population for the study consisted of the officials of the Assembly and the taxpayers in the AAK District. Taxpayers consisted of persons who pay property rate, license, fines, user charges, royalties, rents, and fees including fishmongers, hairdressers, taxi drivers, property owners and other business operators.

Purposive sampling technique was used to select the officials of the Assembly while quota sampling technique was used to select the taxpayers based on the seven collection zones in the district. There were 20 officials of the Assembly made up of the District Chief Executive, District Coordinating Director, District Budget Analyst, District Finance Officer, District Planning Officer, District Assembly Auditor, Revenue Superintendent, Accountant, and 12 Revenue Collectors.

The total population for the seven revenue collection zones was 12179. According to Cochran (1963), for a population of 12179 taxpayers, 387 should be selected at (5%) error margin with 95 percent confidence level. This formula has also been supported by Krejcie and Morgan (1970). However, due to the nature of the research instruments used for the study, the researcher used 194 (50.13%) of the statistically required sample size. Additionally, time and financial constraints influenced the choice of sample size (Babbie, 2004). In order to ensure a fair representation of quotas within each population sub-group, the researcher ensured that collection zones with a relatively larger population sub-groups had larger quotas than those with a relatively small population sub-groups. In all, a total of 214 respondents made up of 20 officials of the Assembly and 194 taxpayers in the district were involved in the study.

Both primary and secondary data collection methods were used in gathering the relevant data for the study. Primary data were obtained with the use of structured interviews and interview guides. The instruments sought to gather data on the demographic features of the respondents, the sources of the Assembly’s local revenue, local revenue collection mechanisms and the challenges associated with local revenue generation.

4. Results and Discussion

The demographic characteristics of the respondents studied were age, sex, marital status and educational levels. These characteristics were studied to serve as bases for differentiation with regard to the views of taxpayers and the factors that affect local revenue mobilization in the AAK district.

Out of the 214 respondents, 55.2 percent of them were males while 44.8 percent were females. Bird and Smart (2002) argue that differences in demographic factors such as sex in the jurisdiction of the LGs have effects on the base and capacity of local revenue mobilization options. From public finance principle, the higher labour supply elasticities of women suggest that they should be taxed at lower rates than men (Blau & Kahn, 2007; Buhari, 1993). The age distribution of the respondents was informed by section 28 (5) of the 1992 Constitution

of Ghana which classifies adulthood from age 18 and section 9 Act 462 which exempted persons beyond the age of 69 from paying basic and special rates in Ghana.

It can be seen from Table 1 that out of 214 respondents involved in the study, the majority (88.8%) were between 20 and 49 while 11.2 percent were above 50. According to Solé-Ollé (2006), differences in demographic data including age have implications for local revenue mobilization measures. In support, Tampouri (2010) posits that MMDAs' campaigns must be targeted at the adult population in their jurisdiction since they constitute the population out of which DAs can mobilize support through collection of basic rates and special rates to finance their development projects.

Table 1: Age distribution of respondents

Age (Years)	Frequency	Percentage
20-29	27	12.60
30-39	94	44.00
40-49	69	32.20
50-59	15	7.00
60-69	9	4.20
Total	214	100

Source: Field survey, 2013

Knowledge on marital status of residents in the district will provide critical information for planning, budgeting, policy formulation and implementation regarding revenue estimation and mobilization strategies. The study discovered that about 53 percent had married while 34 percent were single as shown in Table 2. Marital status affects the local revenue mobilization in many cases. For instance, in the views of Alesina, Ichino and Karabarounis (2010), married women should be taxed at lower rates than married men. They argue that if a female with children, married or single works, then the household has to pay child care costs. Children also imply a fixed time cost for females because they bear a lot of expenses on them which may fall outside the planned expenditure (Alesina, Ichino & Karabarounis, 2010).

Table 2: Marital status of respondents

Marital status	Frequency	Percentage
Single	72	33.64
Married	113	52.80
Divorced	20	9.35
Widowed	9	4.21
Total	214	100.00

Source: Field survey, 2013

On the issue of educational qualifications of the taxpayers and the revenue collectors, it can be said that 58.25 percent of the taxpayers had MSLC/JHS while 1.5 percent had primary educational qualification as shown in Figure 1. It was also observed that 11 out of the 12 revenue collectors had Middle School Leavers' Certificate (MSLC). Sensitive positions such as revenue collection may require qualifications that are higher than MSLC. The educational qualification of the revenue collectors of AAK appeared inadequate which could affect their efficiency in terms of revenue mobilization because according to Ahwoi (2006) and Ayee (2000), owing to the onerous and sensitive responsibilities entrusted to the DAs, staff of the DAs require high educational qualifications in order to ensure smooth decentralization.

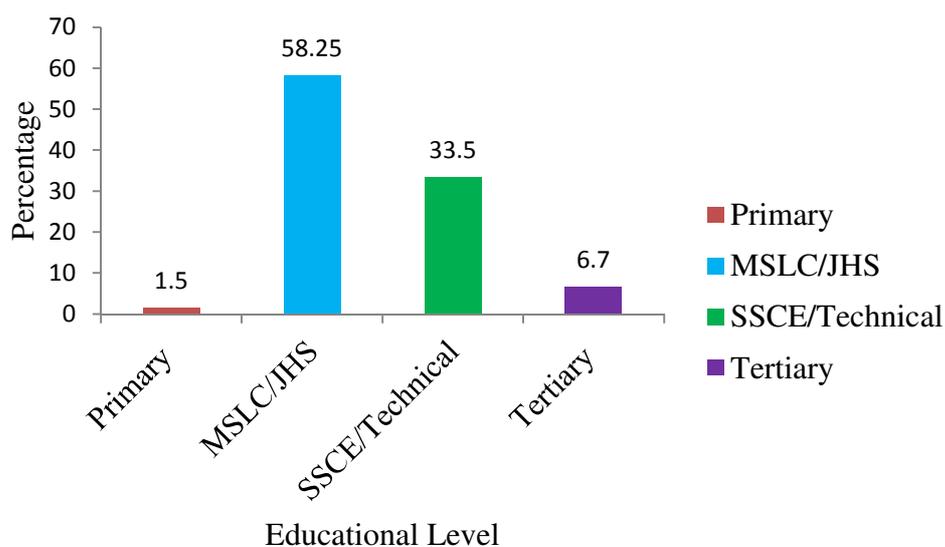


Figure 1: Educational qualification of taxpayers

Source: Field survey, 2013

This study supports Antwi and Analoui (2008) who found that the skills of most staff of the DAs were low which affect the quality of service delivery. The educational level of the revenue collectors is even more necessary in a situation where regular training programs are not organized for the staff. The low level of education can hinder their knowledge and skills in human relations, clients' records keeping, basic accounting and organizational procedures as well as their relationship with taxpayers in the district which could affect their performance in terms of revenue generation.

In line with the fee-fixing resolutions of the District Assembly in Ghana, the internal revenue sources of AAK were grouped into six revenue items. These are fees, licenses, rates, royalty, trading services and miscellaneous sources. This study is consistent with the views of Aye (2000) and Ghana Government (1992) that sources of local revenues in Ghana include fees, rates, licenses, trading services, royalty and miscellaneous sources. It was observed that the basic rates in the district targeted all resident adult population from 18 to 69 years with the exception of students. There were special rates levied over specified areas in the district for the purpose of undertaking special development services approved by the Assembly for those areas. Property rates were levied on immovable properties such as residential, commercial and industrial properties. The kinds of local revenue collected by the Assembly were found to be consistent with the general local revenue sources of MMDAs in Ghana as indicated in Act 461 and Articles 245 and 252 of the 1992 Constitution of Ghana as expressed by Kodobisa (2008) and Tetteh (2006).

Section 86 of Ghana's Local Government Act, 1993 (Act 462) authorizes the various local governments to collect the following: Entertainment duty (Act 150 1962); Casino revenue (NRCD 200 1973); Betting Act (Act 268 1965); Registration of trade, Business profession or vocation (PNDCL 156 1986); and Gambling tax (NRCD 174, 1973) (Ahwoi, 1992). It also includes rates and levies on crops other than cocoa, coffee, cotton and shear nuts; fees on graveyards, conservancy service, advertisement, lorry park; licences such as dog licences, beer and wine cellars, hawkers, taxi cabs, self-employed artisans, birth and deaths as well as miscellaneous revenues including fees for dislodging latrines, community centre receipts, slot machines and collection sand (AAK District Assembly, 2013). The study however, discovered that in pursuance of section 99 (1) (a-e) of Act 462, the Assembly did not include registered burial grounds and cemeteries, charitable organizations, worships centers, public educational institutions and public hospitals and clinics in the payment of property rates.

The scope, levels of fees, levies, among others, and modes of collection vary from one LG administration to the other. Davey (2003) opines that different jurisdictions have different local revenue sources which are administered differently. People in the district engaged in services or businesses including barbering shops, carpentry, masonry, drug stores, and electronics and chop bar operations. Others were fitting, hotel, hair dressing, dressmaking, stationery, rents and petty trading. The respondents had engaged in these services or businesses for varying number of years in the district. For instance, 35.57 percent had engaged in businesses or services between six and 10 years; 33.0 percent had engaged in businesses or services between one and five

years; while 22.68 percent had engaged in businesses or services between 11 and 15 years. What is significant is that 77 percent of the respondents had engaged in their services or businesses in the district for more than five years which could have been an advantage to the Assembly provided they had been paying their taxes all the time. This could help improve the local revenue generation capacity of the Assembly in order to bring about enhancement in respect of financing of development projects. With more revenue sources available to the DAs, they can increase their revenue mobilization to ensure local level development (Buhari, 1993; Kelly et al., 2000; Ndulue, 2005; Uremadu, 2002).

The study further discovered that while 59.80 percent of the taxpayers have been paying their taxes as regularly as possible 39.20 have not. It can generally be said that taxpayers paid their taxes as regularly as possible. However, evidence from the officials of the AAKDA showed that most of the taxpayers did not pay their taxes as expected of them. In the words of a key informant, “The Assembly finds it very difficult to meet its revenue target over the years simply because most people in the district do not pay their taxes as regularly as possible”. Another key informant added that most of the citizens themselves have little appreciation of the whole essence of decentralization. They however conceded that more public education has to be done so as to increase the awareness of the citizens on the objective of decentralization. Atakora (2006) asserts that DAs’ local revenue mobilization is low since not all people pay their taxes as expected of them. With regard to why some of the taxpayers had regularly been paying their taxes, one respondent explained, “The Assembly needs the money to be able to undertake its development projects”. Another taxpayer commented, “They owed it a duty to pay their taxes as required of them”. However, other taxpayers identified a number of reasons for the existing situation including low level of development in the district and the fact that the Assembly only used the revenue to pay its workers. Others indicated that the revenue collectors in the district had not been frequenting their communities. In his work, Tettey (2006) observed that the level of development projects undertaken at the DAs influences people’s attitude towards meeting their tax obligations. The public finance theory indicates that revenues can only be enhanced if the proceeds are put into good use (Buhari, 1993). Beyond this, Atakora (2006) and Ayee (2000) believe that public education given to the local people by the local authorities is low which affects the citizens’ cooperation with the DAs.

As regards the views of taxpayers and the revenue collectors on the reliability of the various sources of revenue within the district, Figure 2 shows that the taxpayers ranked trading service as the most reliable (40.72%), followed by rate (17.52%), with royalty as the least reliable source of revenue available to the Assembly (3.10%). Licenses were paid depending on the kind of economic activities undertaken by individuals and organizations in the district. They included stores, quarrying, milling, chop bars and drinking sports, as well as private educational institutions.

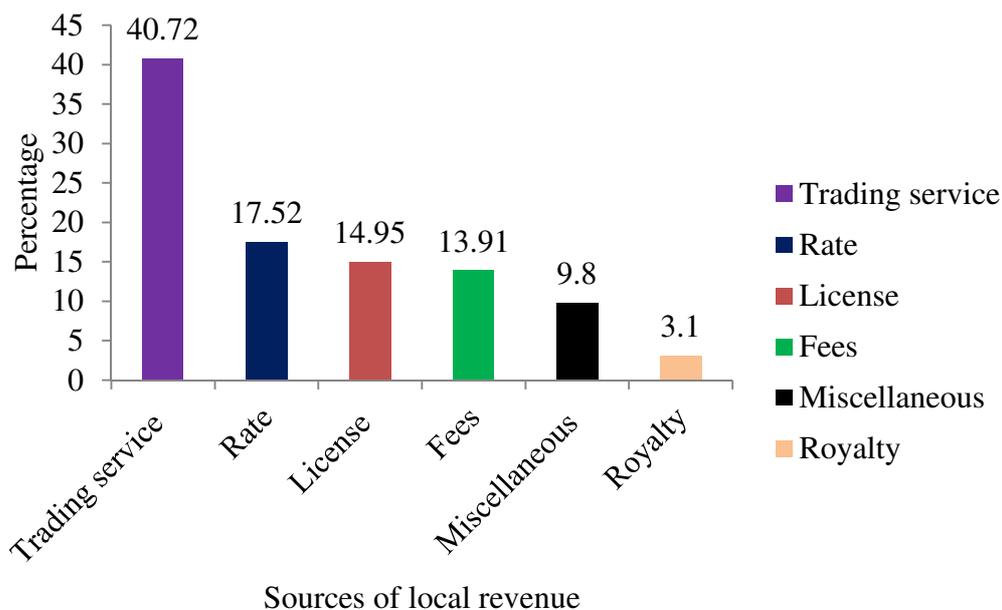


Figure 2: Views of taxpayers on the reliability or otherwise of the sources of revenue in the district
 Source: Field survey, 2013

However, the revenue collectors identified rate as the most reliable (50%), followed by fees (16.68%) with the remaining sources providing the same amount of revenue for the Assembly. The disagreement between the taxpayers and the revenue collectors raises questions on the extent of their individual involvement in tax decisions at the Assembly. Ajam (2001) asserts that the involvement of the local people in the planning of the district activities is of critical importance. Easton (1965) systems theory considers the vital roles individual parts play towards the attainment of the common goal of the entire system. Table 3 presents the trend in the IGFs performance of the Assembly between the period of 2008 and 2012. From Table 3, it is clear that the local revenue performance of the AAK District Assembly between 2009 and 2011 was less than 10 percent of the Assembly's total revenue.

Table 3: Local revenue performance of the AAK District Assembly between the periods 2008-2012

Year	Total revenue	IGF	% of IGF
2008	923,694.48	87,864.65	9.51
2009	1,093,885.59	90,431.75	8.26
2010	1,567,475.93	74,644.17	4.76
2011	2,116,399.49	135,000	6.37
2012	1,135,906.40	132,906.40	11.70
Grand Total	6,837,361.89	520,846.97	7.62

Source: Field survey, 2013

The key informants conceded that the Assembly's IGFs has been poor over the years. In the words of a key informant, "Local revenue mobilization in our district has been very abysmal. Most people do not even know why they need to pay taxes in spite of the public education given to them". However, it was observed that 51.40 percent of the taxpayers believed other sources of revenue existed in the district while 48.6 percent of the respondents had a different belief. The taxpayers mentioned the fact that there were many people in the district who though engaged in businesses and services did not pay their taxes to the Assembly. The revenue collectors also admitted that other sources of revenue existed at the district which the Assembly could capitalize on. They explained further that there were many people in the district who were not paying their taxes because they have not yet registered their businesses. Other officers of the Assembly explained that other collection zones were yet to be established in vastly dispersed locations in order to rope in more people within the tax net. Ahwoi (2010) and Falleti (2005) identify district development fund as another source of LG revenues available to the DAs. In a study conducted in the Nkoranza District by Atakora (2006), it was evident that though many sources of revenue exist in the Districts the Assembly is able to generate revenue from only a few of these sources. Atakora discovered further that although property rate is extensively used by LGs throughout the world, in the Nkoranza District, this source of revenue as well as basic rates, rent, license levied did not yield high amount.

The percentage difference of local revenue performance which occurred in the year 2012 was attributed to the fact that in the said year central government releases delayed which compelled the Assembly to increase its monitoring and supervision of local revenue mobilization in order to generate funds for its development projects. Mensah (2005) argues that with proper monitoring and supervision, DAs can improve their local revenue generation. According to Smoke's (2001), there are low levels of revenue mobilization in most developing countries to perform the enormous development roles given them by the central government. In his study, Bird (2000) found that there exists a decline in the overall domestic revenues in most developing nations. Beyond this, the findings of the study confirm the views expressed by Ullah and Pongquan (2011) that despite several local revenue sources, councils in Bangladesh were yet to take advantage of them so as to ensure optimal revenue mobilization for local level development.

On the issue of the internal mechanisms put in place by the Assembly, the study identified supervision and monitoring of revenue collectors, how records of daily local revenue collections were kept at the Assembly, mechanisms and strategies used in the revenue collection processes, database at the Assembly and how daily collections were accounted for. With respect to supervision and monitoring of the revenue collectors, the study found that there were supervisors who went round the various collection zones occasionally to monitor how collections were done. The key informants admitted that supervision exercise has not been as often and prompting as possible. They explained further that there were times supervisors decided not to visit some of the collection zones because there was no vehicle to commute them. Besides, the supervisors felt that the workload was too much for them to do and that the Assembly ought to recruit more personnel to the existing number of supervisors. Ghartey (2003) observed that workload at the DAs in Ghana is too much which hinders worker

efficiency. Ahwoi (2006) contends that poor logistics was a critical factor that derails effective service delivery at the DAs in Ghana. The present study supports that of Mensah (2005) who posits that inadequate revenue supervisors in most DAs in Ghana have negative implications for monitoring, reporting and accountability at the DAs. The existing situation, in Tetteh's (2006) view, leads to poor revenue assessment, poor revenue collection and unmet revenue targets which eventually derail efforts to effectively undertake development. In his work, Ahwoi (2010) found that in Ghana, the staffing situations of revenue collectors vary from one DA to another. However, the staff situation at the AAK District Assembly is a confirmation of the observation made by Odoom, Kyeremeh and Opoku (2014) in respect of the inadequate human resource at the DAs in Ghana. Odoom et al. (2014) add that most DAs in Ghana do not have the financial muzzle to recruit more well-qualified revenue personnel for improved local revenue generation.

Regarding how records on daily collections were kept at the Assembly, the key informants stated that collected revenues were deposited at the bank and the receipts were presented to the Assembly for consideration. When they were asked why they decided to deposit daily collections at the banks, the collectors commented that they had been instructed by the Assembly to do so. An official at the Assembly remarked, "There were times the Assembly had to bear certain losses because of delayed submission of monies collected. Could you imagine that the collectors felt they could bring the monies they had collected anytime they wanted, forgetting that the Assembly needed the monies urgently?" This means that the Assembly must put in place a cash management office.

The study discovered that internal revenue mobilization mechanisms at AAK included house to house collection (17.65%), public sensitization and educational campaigns (9.80%), building capacity of revenue supervisors and collectors (7.4%), and collection machinery (15.69%). Others were collection machinery (17.65%), road block (17.65%), radio announcements (5.88%), visitation to market centers and business sites (21.57%) as well as the networking with philanthropists (3.92%). This is seen in Table 4. The key informants asserted that direct payment to the Assembly was virtually non-existing because the citizens were not willing to pay their taxes as anticipated by Section 86 of Ghana's Local Government Act 1993 (Act 462). As an alternative local revenue collection mechanism, Tettey (2006) suggested outsourcing of revenue collection exercise to private individuals as done by other DAs such as Accra Metropolitan Assembly and Kumasi Metropolitan Assembly.

Table 4: Local revenue collection measures of the Assembly

Revenue collection measure	Frequency	Percentage
House to house collection	9	17.65
Public sensitization and educational campaigns	5	9.80
Building capacity of revenue supervisors and collectors	4	7.84
Collection machinery	8	15.69
Road blocks	9	17.65
Radio announcements	3	5.88
Visitation to market centers and business sites	11	21.57
Networking with philanthropists	2	3.92
Total	51	100

Note: Frequencies are multiple responses

Source: Field survey, 2013

There were some internal capabilities and resources that helped the Assembly's internal revenue operations and sustained its efforts of generating economic value and competitive advantage over other districts. For instance, the study found that there were cassava processing centers and domestic marketing centers for fish products. According to the key informants, the Assembly had seven revenue collection zones, with the eighth zone created recently but yet to be inaugurated. They added that some of the measures the Assembly had undertaken to improve upon its local revenue generation included organizing seminars and workshops for revenue collectors. The revenue collectors stated that their occasional involvement in decision-making enabled the Assembly to receive the necessary feedback from the various collection zones in the district. The study further discovered that the Assembly had a database in the form of manual documentation of all the taxpayers and their monthly as well as quarterly payments. The Assembly maintained a log of all monies received, the amount received, the name of

the payment and purpose of the payment. Besides, it was found that the taxpayers were given receipts to acknowledge payment and that receipts were pre-numbered and were in two-part. One copy was provided to the payer while the other copy was kept on file. Total deposits could be verified independently by another person by accounting for each sequentially numbered receipt to ensure reconciliation in collection systems. This practice demonstrates the relevance of Kelly et al. (1999) position which shows that revenue reconciliation is essential to improved revenue mechanisms. However, according to the key informants, the existing database cannot ensure proper monitoring and accountability. They stated that they could not be sure whether receipts for payment were given immediately. In the words of a key informant, "We at the Assembly cannot be sure whether revenue collectors are doing what they are supposed to do. What we can at best do is to monitor their activities which we do sometimes". Another key informant intimated, "The revenue collectors are given stamp to endorse payments but there are times they complain that receipts are not stamped because of shortage of the liquid required to facilitate the exercise". The stamp could not indicate the date in which payment is done. In a study conducted by Pablong (2006), it was observed that for LGs to maximize their internally generated funds, it is important for them to put in place certain measures. For instance, Pablong (2006) indicates that there should be a sound database of their clients to make collection and enforcement for payment of the amounts to be paid periodically easier. Pablong adds that the DAs must have very strong collection and recording processes of internally generated funds so as to eliminate the leakages in the collection and recoding processes. In addition, the DAs must set realistic targets based on their local revenue potentials. This will make the targets challenging and achievable.

Direct payment is also an important way of avoiding theft in revenue collections. This can be done by either the taxpayers coming to the Assembly to make payment themselves or the Assembly providing them with mails in which payment could be made. By so doing, Audit and Management Advisory Services Report (2009) establishes that if cash or checks are received regularly in the mail, two persons should be present when the mail is opened. One person should total the remittances and the other, the payments. The totals should then be agreed and the remittances forwarded to the appropriate area for data entry. The Report adds that a deposit slip should be prepared and forwarded with the cash/checks to revenue department. The deposit slips should be reconciled by a third person to the general ledger as expressed by Kelly et al. (2000). Despite the instructions that bank deposits be done on daily basis, the study discovered that there were times this was not done because either there was no easy and close access to the designated bank or time could not permit the revenue collectors to do so. The existing practice is a departure from the position of Kelly (1999) which acknowledges the need for timely deposits. The sooner you deposit cash/checks the less exposure to theft or loss of funds. Ideally, deposits should be made within 24 hours. Duties should be segregated, meaning that the person recording the receipt should not be the same as that making the deposit. Additionally, a person independent of recorder and depositor responsibilities should reconcile the deposit to the general ledger (Kelly & Montes, 2001). One of the key informants was dissatisfied with the way daily revenue collections were accounted for. The reasons given included the huge differences that exist in the amounts of revenue collected by various collectors from the same collection points at different times within the same month. The key informant added that the differences in the actual amount of revenue presented and the value of tickets or receipts issued sometimes also create doubts which made collection mechanisms at the Assembly a suspect. In their study, Kelly and Montes (2001) discovered that the existing administrative procedures must be comprehensive which cover all revenue administration functions-from database maintenance to cash office management. However, the administrative systems in most DAs are outdated, incomplete and complex making it difficult to effectively implement revenue systems which hinders local revenue mobilisation (Atakora, 2006). According to Darison (2011), the introduction of Information Communication Technology (ICT) system will vitally decrease the number of human errors by making it possible to pay tax anytime and anywhere.

Regarding the challenges the Assembly faces in terms of local revenue generation, the study discovered that some of the taxpayers were unwilling to pay their taxes (Uremadu, 2008b). For instance, while 68.6 percent stated that they had not been paying their tax willingly, 27.3 percent indicated that they had been doing it willingly. The reason given for their unwillingness to pay their tax was that they knew the monies were supposed to be used for development projects but this did not happen. In the words of an apparently frustrated taxpayer, "The people at the Assembly do not use the money for any development. They just collect the money and share it over there". Though some of the officials stated that the Assembly within the past five years had provided some development projects for the people in the district, they failed to provide a specific account of the number of projects undertaken within the period in question. The key informants admitted that the pace of development in the district has been very slow. Atakora (2006) asserts that revenues generated from the taxes at the DAs should be used to provide projects such as schools, potable water, sanitation, roads and health facilities. This, it

is believed, will boost the morale of taxpayers in the district. In the views of Tetteh (2006), there is a strong relationship between revenue generation and local level development. If revenue generation is effective, the pace of development can be effective leading to a rise in the provision of services and projects and vice versa. The public finance theory expects governments to use revenues generated to provide services that the citizens value (Buhari, 1993; Ndulue, 2005; Uremadu & Nwufor, 2005).

The study tried to determine the views of taxpayers on how convenient or otherwise the time for payment was to them. The result shows that 29.4 percent of the taxpayers believed the time for payment was convenient to them; while 70.6 percent believed the time was not convenient to them. In the words of a taxpayer, "They come at any time to collect the money. They will not even inform us before they come. This is not fair to us." The revenue collectors admitted that there were some occasions they had to urgently move in to collect the taxes without any notification. One revenue collector intimated, "Some of the taxpayers are very smart. They may run away if they hear that we are coming". Despite the views expressed by the revenue collectors, the situation in AAK district departs from the expectation of Adam Smith's cannon of taxation which recognizes the role of time convenience in effective revenue mobilization (Ndule, 2005; Uremadu, 2004). It was again found that while the majority (72.7%) of the taxpayers stated that the amount they were made to pay was not clear to them, while 26.3 had a contrary view. However, 66.7 percent of the revenue collectors were of the view that the amount the taxpayers paid was clear to them while 33.3 percent had a contrary view. According to Adam Smith, the time of payment, the manner of payment and the amount of tax to be paid should be clear to the taxpayer as well as to the taxing authorities (Kelly, 1999; Uremadu, 2000). If the tax paid is clear to the people it becomes easy for them to cooperate.

Taxpayers' level of awareness of how tax decisions are made will help them to cooperate with tax authorities and subsequently contribute towards tax payments and obligations (Tetteh, 2006). Again, the study revealed that the majority (86.6%) of the taxpayers were not aware of how tax decisions in the district were made. When they were asked why they were not aware, the taxpayers indicated that the Assembly did not create any platform for them where they could be made to know what happened in terms of taxes in the district. In the words of one taxpayer, "They don't invite us when they are taking decisions on taxes in the district. Funny enough, they think we are all illiterate and so will accept whatever they tell us without complaining". The taxpayers however, admitted that their awareness could rather help them to understand tax issues and increase the confidence that they might have in tax authorities in the district. This means that the little awareness among taxpayers could lead to poor understanding of tax laws, hence evasion of taxes. This was supported by one revenue collector who bemoaned, "The people don't want to pay their tax. They seem to have little regard for tax laws in the district". Slemrod, as cited in Karin, Dele and Robert (2006), believes that involvement in tax decisions ensures trust and voluntary compliance in tax payment. It also brings about diverse views among local people and may create a sense of ownership and commitment towards local level development (Buhari, 1993; Musgrave, 1959; Uremadu, 2002).

Tax evasion becomes even more serious when sanctions are not given to the defaulters. Given this premise, the study sought to determine whether or not appropriate sanctions were given to tax defaulters in the district. The study further observed that 65.5 percent of the taxpayers stated that tax defaulters in the district were not sanctioned by the Assembly while 35.5 percent said that there were sanctions given by the Assembly. They went on to mention closure of stores, fines and imprisonment as some of the sanctions given by the Assembly. They however said that the sanctions were not properly enforced. The existing situation in the district could generally discourage other taxpayers from fulfilling their tax obligations. In the words of one taxpayer, "Why must I continue to pay when other people who refuse to pay are not punished?" During the interview, all the revenue collectors indicated that sanctions existed for tax defaulters but they admitted that enforcing these sanctions has become a challenge to the Assembly. Further interviews with other key informants revealed that though sanctions existed for non-compliance of tax regulations, they were poorly enforced by the Assembly. One key informant intimated that, "My brother tax issues are of serious political implications for the government. I hope you know that! Even the central government relents in its efforts to enforce tax laws". This means that some of the taxpayers evaded tax for political reasons while the local authorities also failed to sanction tax defaulters for a similar consideration. In their study, Uremadu and Ndulue (2011) found that tax avoidance and evasion exist at the LGs which affect the quantum of local revenue mobilization. They, however, advocate that proper penalties should be meted out to tax defaulters. Political consideration affects tax decisions (Allers et al., 2001; Mogues, Benin & Cudjoe, 2009). Other challenges that the officials of the Assembly identified included inadequate personnel in charge of revenue mobilization, illiteracy and inadequate economic activities in the district. When the officials were asked why had not employed more personnel for revenue generation, they commented that they did not have the autonomy to do so. They explained that the central government usually recruited and

posted personnel to the Assembly. This was a clear violation of the Civil Service Law (PNDCL 327) which enjoins the assemblies to take control of their own human resources.

5. Conclusions and Recommendations

The study demonstrated that the internal revenue collected by the AAK Assembly was consistent with the general local revenue sources of MMDAs in Ghana as indicated in Act 461 and Articles 245 and 252 of the 1992 Constitution of Ghana. However, it was discovered that in pursuance of section 99 (1) (a-e) of Act 462, the Assembly did not include registered burial grounds and cemeteries, charitable organizations, worships centers, public educational institutions and public hospitals and clinics in the payment of property rates. The study showed that despite the availability of many sources of local revenue and the number of years taxpayers had been undertaking their services or businesses, not all the taxpayers have been paying their taxes as regularly as possible for improved revenue mobilization. The strength of the Assembly's internal revenue collection measures included participation of revenue collectors and leaders of associations, capacity building, public education, and database. However, the weaknesses included poor taxpayer participation, inadequate personnel, poor database and poor accountability mechanisms at the Assembly. Some of the challenges the Assembly faced in terms of raising improved local revenue were unwillingness on the part of the taxpayers to meet tax obligation, poor involvement of taxpayers in tax decisions, and low pace of development. Others included poor sanctions of tax defaulters, political factors and inadequate personnel in charge of local revenue mobilization.

The Assembly should institute measures to ensure proper accountability in terms of daily collections. Specifically, the Assembly should put in place strong and adequate monitoring teams to constantly check the revenue collectors, sanctions defaulting collectors, and also employ competent people who have the requisite skills. The Assembly should undertake periodic realistic assessment of the revenue potential using scientific methods and enter into performance contracts with all the collectors. The Assembly should put in place appropriate measures to improve upon the willingness of taxpayers to meet their tax obligation. This can be done by providing adequate public education to taxpayers on the need to meet their obligation to the Assembly, and involve the taxpayers in setting the annual revenue targets. The Assembly should also create room for private participation in local revenue collection, organize taxpayers into groups, and undertake development projects that benefit taxpayers. In order to meet the local revenue targets of the Assembly, the Assembly should involve the more of the revenue collectors and taxpayers in setting revenue targets. This will make them feel that they are actually part of the team in setting the revenue targets and therefore be motivated to work hard to actualize the targets. The Assembly should put in place measures to motivate the personnel in charge of revenue collection. In order to achieve this, the personnel especially the collectors should be adequately protected by the law enforcement agencies against attacks by the clients. The government should effectively collaborate with the Assembly and NGOs in order to establish annual revenue performance awards. These awards can be in the form of cash, motor bikes, fridges, television and scholarships for children. The Assembly should ensure better salaries and conditions of service for the collectors.

References

- Abura-Asebu-Kwamankese District Assembly (2011). *The composite budget of the Abura-Asebu-Kwamankese District Assembly for the 2011 fiscal year*. Abura Dunkwa: AAKDA.
- Abura-Asebu-Kwamankese District Assembly (2012). *The composite budget of the Abura-Asebu-Kwamankese District Assembly for the 2012 fiscal year*. Abura Dunkwa: AAKDA.
- Ahwoi, K. (2010). *Local government and decentralisation in Ghana*. Accra: Unimax Macmillan.
- Atakora, A. N. (2006). 'Decentralization and effective revenue mobilization: A case study of the Nkoranza District Assembly'. *Journal of Leadership, Management and Administration*, 4 (2), pp. 92-124.
- Bird, R. M. (2000). *Inter-governmental fiscal relations: Universal principles, local applications*. Atlanta: Georgia State University.
- Buhari, A. L. (1993). *Public finance*. Ilorin: University of Ilorin Press Ltd.
- Falleti, T. G. (2005). 'A sequential theory of decentralization: Latin American cases in comparative perspective'. *American Political Science Review Journal*, 99, pp. 3-17.

- Government of Ghana (2010a). *Medium-term national development policy framework: Ghana shared growth and development agenda, 2010-2013*. Accra: NDPC.
- Kelly, R. (1999). 'Intergovernmental revenue allocation theory and practice: An application to NEPAL'. *Asian Journal of Public Administrations*.
- Kelly, R., Montes, M., Maseya, E., Nkankha, K., & K. Tombere (2001). *Improving revenue mobilization in Malawi: Study on business licensing and property rates*. Final Report in Lilongwe.
- Kodobisa, I. (2008). *Decentralization in Ghana*. Ho: Ho Municipal Assembly.
- Koranteng, R. O. (2006). 'The politics behind the decentralization policies in Ghana'. *Journal of Leadership, Management and Administration*, 4 (2), pp. 124-161.
- Musgrave, R. A. (1959). *The theory of public finance*. New York: McGraw-Hill.
- Ndulue, J. C. (2005). *The privates sector and generation of tax revenue in the FCT*. Abuja: Abuja J. Adm. Manage.
- Odoom, D., Kyeremeh, C., & Opoku, E. (2014). 'Human Resource Capacity Needs at the District Assemblies: A Study at Assin South District Assembly in Ghana'. *Journal of Sustainable Development*, 7(5), pp. 177-188.
- Smoke, P. (2001). *Fiscal decentralization in developing countries: A review of current concepts and practices*. Geneva: United Nations Research Institute for Social Development.
- Timbergen, J. (1956). *Economic policy: Principles and design*. New York: McGraw-Hill Book Co. Inc.
- Uremadu, S. O. (2000). 'Comparative analysis between liquidity and profitability for three selected indigenous commercial banks in Nigeria'. *Journal of Economics and Allied Fields*, 1(1), pp. 87-99.
- Uremadu, S. O. (2002). *Introduction to finance*. Benin: Mindex Publishing Company Ltd.
- Uremadu, S. O. (2004). *Financial management: Concepts, analysis and application*. Enugu: Precision Publishers Ltd.
- Uremadu, S. O., & Nwufor, C. I. (2005). Domestic money markets in Nigeria: Implications for liquidity and profitability. In the K. I. Dandago & K. I. Hamid (2005) (eds), *Honesty and integrity*. Department of Accounting, BUK, Kano.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:

<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

Academic conference: <http://www.iiste.org/conference/upcoming-conferences-call-for-paper/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

