

UNIVERSITY OF CAPE COAST

**INTERNALLY GENERATED REVENUES AND THEIR
CONTRIBUTIONS TO PHYSICAL DEVELOPMENT : A CASE
STUDY OF AHANTA WEST DISTRICT ASSEMBLY**

BY

KWESI BINEY

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation 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 Signature : Date:.....

Name:.....

Supervisor's Declaration

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

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ABSTRACT

The concept of decentralisation as a developmental phenomenon comes with it, financial decentralisation and autonomy in which case the sub-national institutions are enjoined to generate their own revenues for their developmental activities within their geographical areas. The study was to find out to what extent the Ahanta West District Assembly prosecutes its service delivery functions with its own internally generated revenues, and to examine the potentials and the challenges in the area of increased revenue mobilisation.

The study used focus group discussions and interview schedules, applying both the probability and non-probability sampling techniques for a total of 250 respondents drawn from the six Area Councils of the District. In addition, 14 revenue collectors and 12 key informants were also administered with questionnaires.

The main findings are that the Assembly's recurrent expenditure far exceeds its internally generated revenues and therefore leaves no surplus to support service delivery functions. The main conclusions are that the Assembly is not making enough savings from its revenues internally to complement central government grants thus making it overly dependent on central government for funds. This is due in part to increasing recurrent expenditure which whittles away any gains in the growth of internally generated revenues. It is recommended, *inter alia*, that conscious efforts are made by the Assembly to extend its revenue collections into areas that have been ignored in the past such as micro economic activities in very difficult communities.

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DEDICATION

To my late grandmother, Madam Afuah Anuah of Blessed Memory.

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ABBREVIATIONS

CBRDP	:	Community Based Rural Development Programme
CIDA	:	Canadian International Development Agency
DACF	:	District Assemblies' Common Fund
DANIDA	:	Danish International Development Agency
EU	:	European Union
GETFund	:	Ghana Education Trust Fund
GPRTU	:	Ghana Private Road Transport Union
GREL	:	Ghana Rubber Estates Limited
GTZ	:	German Technical Co-operation
HIPC	:	Highly Indebted Poor Country
IBRD	:	International Bank for Reconstruction and Development
IGR	:	Internally Generated Revenue
NGO	:	Non Governmental Organisation
SPSS	:	Statistical Product and Service Solutions
UNICEF	:	United Nation's Children's Fund
USAID	:	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

Background to the study

Physical development globally in the area of infrastructure entails huge capital outlay. Nations have spent fortunes in the construction of roads, hospitals, schools, railway lines, and airports as the basis of their social and economic development. The huge capital outlay involved in the provision of physical development requires varied sources of funding which can be obtained from both internal sources through taxation and externally through trade and other supports from multi and bilateral institutions. For instance in the U.S.A, revenues to the Federal Government in the year 2002 were as follows: Individual income tax constituted 49.2%; Corporate Taxes 10%; Social Insurance and Retirement receipts 33.1%; Excise Taxes 3.4%; Estate and Gifts taxes 1.3%; and Miscellaneous Receipts 2% (Encarta Encyclopedia, 2004).

Ghana's physical development in the area of infrastructure has depended on cocoa, gold, timber and other raw natural resources (Ministry of Finance and Economic Planning, 1963 – 1970). The Government of Ghana's budget statement for the years 1980-81 attempted to improve internally generated revenue when it noted that 'the role of government in the provision of a complex range of services have increased in recent years. However, financial resources to ensure the continued provision of these services have

not increased as much. This fact emphasises the need for all Government Agencies to step up their revenue collections” (Ministry of Finance and Economic Planning, 1980: 32). The trend continued into the 1990s when the over-dependence on external sources of funding as a result of declining export revenues affected the economy. The government was compelled in its Financial and Budget Statement in 1993 to make reference to the significant shortfalls recorded in virtually all sources of traditionally known revenue collections - cocoa export, import duties, corporate and excise duties, due in part to the shrinking of the taxable base itself and in part also to a general slackening in tax collections (Ministry of Finance and Economic Planning, 1993).

In the subsequent year, that is 1994, the situation was no better because projected internally generated revenue could not meet the expenditure outturn. This compelled the Minister of Finance to hint that the revised 1993 budget aimed at achieving a small overall surplus of ₵9.6 billion, which together with the anticipated level of net foreign borrowing by Government, was to enable the repayment of ₵83.6 billion in domestic debt owed to the banking system. According to him, however, provisional estimates indicated that this fiscal objective was not realized. He went on to say that revenues amounted to ₵672.9 billion compared to the original estimates of ₵667.4 billion, while expenditures amounted to ₵791.1 billion compared to the original figure of ₵652.1 billion. Thus the year under review ended with a deficit of ₵118.2 billion (Ministry of Finance and Economic Planning, 1994). In 1996, Parliament was told that the national budget was characterized by a heavy bias toward recurrent expenditures. About three quarters of government spending

was taken up by recurrent expenditure. Of this, about 60% was allocated to wage and wage-related payments (Ministry of Finance and Economic Planning, 1996).

From the above, it is clear that physical development suffers in the scheme of things at the national level if that huge budget allocation is for 'consumption', leaving just 25% for physical development in the critical areas of health and educational infrastructure, roads and other social services like water and energy. Just as internally generated revenues were dwindling at the national level, the situation in more cases than not, was worse at the district level.

Act 462 of 1993 gives the District, Municipal and Metropolitan Assemblies the powers to collect such revenues as levies, basic rates, property rates, market tolls etc as sources of revenue for their developments. These sources of revenue, all things being equal can be maximized under reasonably good economic environment. The District Assembly, by provisions of sections 4-5 of the local Government Act 462 of 1993, is an important institution of Ghana's decentralisation structure and it is a process meant to catalyse efficient administration, management and governance at the district level.

It is a fact, however, that fiscal administration in local government is a major issue in the financial management policies of most countries particularly in the developing world. It must be noted also that such considerations are based on effective and efficient policies for the distribution of national resources among national government and institutions, local governments and the mobilisation of local financial resources, as well as the allocation and management of such resources. The ability of the district assemblies to

achieve their service and development delivery objectives, and by inference, the sustainability of the entire decentralisation programme is contingent among other things, on the amount of financial resources they can mobilise at any given time, and how judiciously such resources are allocated and managed.

The Ahanta West District is one of the districts created in 1988 and it is one of the most naturally endowed Districts in the country, particularly in the area of tourism as exemplified by the beautiful sandy beaches that span across the District from New Amanful in the East, through to Princess Town in the extreme West. Out of the total of eight forts in the Western Region, the district can boast of four. The District also has large tracts of rubber plantations managed by Ghana Rubber Estates Limited (GREL), as well as large oil palm plantations previously owned by the State Farms Corporation, and now privatised to a Norwegian Company, the Norpalm. GREL processes raw latex into unprocessed rubber, while Norpalm also processes oil palm into palm oil for industrial use. Until the crisis in the 1990s in the timber industry, the district could also boast of almost a dozen timber firms, most of which have either collapsed or are on the verge of collapse. These industrial concerns are sources of revenue to the district.

The indigenous people are predominantly farmers and fisherfolks whose produce end up at the Agona-Ahanta market, the biggest and most nationally patronised market in the Western Region. Even though the people are by and large peasant farmers, their major cash crop is in the area of oil palm and rubber productions. A lot of commercial activities take place at the

market daily but peaks on Wednesdays. These are the major sources of revenue to the district.

Section 34 of the Local Government Act 462 of 1993 empowers the District Assembly to charge fees and generate other forms of revenues for both its recurrent expenditure and physical development programmes. The section states that ‘subject to such guidelines in respect of the charging of fees as may be prescribed by the Minister by Legislative Instrument, a District Assembly may charge fees for any service or facility provided by the Assembly or for any license or permit issued by, or on behalf of the Assembly’ (Local Government Act 462, 1993).

Aside fees, licenses and other charges for services rendered by the Assembly, property owners and businesses also pay annual rates and fees to the Assembly. Other forms of internally generated revenue to the District Assembly are royalties that come from Stool Lands and development permits within the geographical and administrative area of the district. Section 10 of the Act 462 of 1993 is very explicit about the functions of the District Assembly. Clause (1) of section 10 entrusts planning, budget formulation, development of basic infrastructure and management of settlements to the District Assembly. The above functions require resources to be able to perform them successfully. These resources could come from various sources and prominent among them are the District Assemblies’ Common Fund (DACF), central government ceded revenues and the periodic releases of the HIPC accrued funds.

Some quasi-governmental and non-governmental organisations, such as the Ghana Education Trust Fund (GETFUND), the Social Investment Fund

(SIF), the Community Based Rural Development Programme, UNICEF, DANIDA, CIDA, USAID and the European Union, also make substantial amounts of investments in the social, economic and physical development of the Ahanta West District.

Problem statement

The Ahanta West District Assembly has since 2001 continued to record low levels of internally generated revenues from all its local sources relative to grants from the central government. These include basic rates, fees and fines, licenses, rent, investment and some miscellaneous sources. In 2001, total internally generated revenue mobilised by the Assembly amounted to ₵360,645,608.00. This figure decreased slightly to ₵360,296,950.00 in 2002 and subsequently improved to ₵739,138,752.00 in 2003 and ₵1,166,263,146 in 2004. It however, dropped to ₵885,542,537.00 in 2005, and rose to ₵1,121,490,000 and ₵1,524,800,000 in 2006 and 2007 respectively. On the other hand, the receipts from central government through the District Assemblies' Common Fund for the same period amounted to ₵1,356,670,605.00 in 2001, ₵1,956,748,331.00 in 2002, ₵3,713,732,573.00 in 2003, ₵4,438,541,183 and ₵4,811,058,233 in 2005 and ₵4,036,230,000 and ₵4,332,480,000 respectively as seen in Table 1. (Ahanta West District Finance Office, 2007).

The annual growth in internally generated revenue (IGR) does not match the annual growth in grants from the central government and other interventions. In 2001, the internally generated revenue of ₵360,645,608.00 represented 26.6% of total grants of ₵1,356,670,605.00. The 2002 internally

generated revenue of ₵360,296,950 also represented 18.4% of the total grant of ₵1,956,748,331.00. The 2003 figures of ₵739,138,752.00 represented 19.9% of the total grant, while the internally generated revenues of ₵1,166,263,146.00 and ₵885,542,537 00 of 2004 and 2005 represented 26.27% and 18.4% respectively of the total grant for the respective years. This indicates that as the Common Fund increases in real and percentage terms, the internally generated revenues crawl in their progression.

Table 1: Summarised IGR and DACF

Year	IGR (₵)	DACF (₵)
2001	360,645,608.00	1,356,670,605
2002	360,296,950.00	1,956,748,331
2003	739,138,752.00	3,713,732,573
2004	1,166,263,146.00	4,438,541,185
2005	885,542,537.00	4,811,058,233
2006	1,121,490,000.00	4,036,230,000
2007	1,524,800,000.00	4,332,480,000

Source: Ahanta West District Assembly Treasury, 2007

In the year 2000 for example, the estimated District Assemblies' Common Fund to the Assembly was ₵1,475,000,000. The actual receipts from the Administrator of the District Assemblies' Common Fund was ₵720,837,295. This affected the execution of programmed projects. In fact, programmed projects like the expansion of electricity to Apowa Clinic, construction of a culvert and drain at Dixcove market, the construction of an aqua privy toilet at Agona, supply of school furniture which had been

programmed in the capital expenditure of the year's budget were not executed because the expected grant from the central government did not meet the expectations of the Assembly. This affected the service delivery responsibility of the Assembly in that particular year.

Research objectives

The general objective of this study was to examine the internally generated revenues and their contributions towards physical developments in the Ahanta West District.

The specific objectives of the study were to:

- Examine the trend of IGR mobilisation since 2001
- Identify the potential sources for revenue mobilisation
- Examine the challenges that impede internal revenue mobilisation in the District.
- Determine the extent to which internally generated revenues contribute toward physical development in the District.
- Suggest ways of improving revenue mobilisation in the District.

Research questions

In order to address the above objectives, answers were sought for the following questions.

- What is the trend of IGR since 2001?
- How can potential sources be tapped for increased internally generated revenues within the district?
- What challenges face the district in its revenue mobilisation drive?

- How and to what extent do internally generated revenues contribute toward the physical development of the district?

Scope and significance of the study

The study looked at internally generated revenues, recurrent expenditures and Central government grants to the Ahanta West District in its developmental efforts as a sub-national government. The study was 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 Ahanta West District 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.

Study organisation

The study is presented in five chapters. Chapter One contains discussions on the background of the study, scope, significance and the organisation of the study. In Chapter Two, views of various authors relating to internally generated revenues in particular and sources of revenues generally for sub-nationals are discussed, while Chapter Three treats the methodology used for primary data collection for the study as well as the secondary data and their sources. The fourth chapter contains analysis and discussions of the study outcomes with the fifth and final chapter containing the summary of findings, conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

Introduction

The topics under review in this chapter are development, physical development, and internally generated revenues. The chapter also looked at the challenges that confront efforts at increasing internally generated revenues as well as the potentials for increasing internally generated revenues and the conclusion.

Development

Lewis (1966) defines development as the rapid accumulation of knowledge and skills and stock of capital which enhance the provision of services and goods that improve the lives of people and is made up of a web of key concepts as poverty reduction, increased production and the notion of the principle of equality before the law. He sees development as the availability of physical infrastructure which impact positively on the everyday life of the citizenry. MacNamara (1970) agrees with Lewis on the issue of high growth or increased stock of capital which enhance the provision of services and goods that improve the lives of people but argues that these in themselves did not bring satisfactory progress in development and that it requires something more than gross measures of economic growth to use as a yard stick for measuring development.

Esteva (1993) generally describes development as a process through which the potentials of an object or organism are released until it reaches its natural complete fully fledged form, noting that in modern global thinking, development is seen as a process of gradual but guided change and perceived as a definable path of economic growth passing through stages. Sen (2000) also broadly defines development as an amalgam of conspicuous progressive changes in the distinct domains of other areas like economics, politics, law, social and cultural practices, science and technology which combine to positively impact on the lives of people. He emphasises his definition by saying that it is indeed an error to think of development merely as a campaign of production, to be fought with budgets and monetary policies and to be measured by indices of output and income, further agreeing with some of the positions of MacNamara and Esteva.

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, (biological and physical), both for the individual and the community has always been expressed and set as goals of life. The incantations and solicitations of the Chiefs in local Ghanaian communities, whether in the solemn atmosphere of the sacred stool room or the openness of the durbar grounds, or at the traditional marriage ceremony, addressed to the spirits or the ancestors are calls for development and progress (Nkrumah, 1992).

The traditional appreciation of development may be viewed in terms of the wealth controlled by the individual in the form of nice and big family

houses, large tracts of cash crop farms of cocoa, oil palm, coffee, coconut or large numbers of cattle and the likes. 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.

Physical development

From the broad definitions above, physical development can be defined as the social and physical infrastructure that directly change the lives of people or aid in the improvement of the standards of living of people. This cannot be delinked from the whole concept of development in its biological, economic, cultural or social forms without which the situation could be described as growth without development (Israel, 1987). In this case the provision of potable water, efficient road and rail networks, power production, good environmental and sanitation as well as efficient communication systems are indispensable components of physical development.

Indeed at the levels of the districts and municipalities, physical development is seen as the growth in the size of the town, physically planned and its attendant provision of the services and infrastructure needed by the people (Nkrumah, 1992). Ahwoi (1992) also intimates that the power to internally generate funds and plan and execute physical projects for the people at the sub-national level is the essence of decentralisation and devolution of power. Bird and Rodriguez (1999) however, dispute the notion that physical development that meets the needs of the people can be delivered at the sub-national level in developing countries, citing institutional weaknesses as

hindrances to the translation of citizens' preferences of physical development by way of social and economic infrastructure into budget outcomes that meet their needs. They further cite the overdependence of sub-national institutions on central governments for the needed resources for the provision of the physical infrastructure required by the citizenry instead of internally generating revenues for the service delivery function.

Internally generated revenues

One of the problems that confront nations in their developmental efforts is the issue of revenue generation to fund the numerous developmental projects which are crucial to enhance the living standards of their citizens (Stren, 1998). The concept of internally generated revenues is as old as the concept of local governance itself. When sub-national and local governments become the agencies that provide services to identifiable recipients up to where the value placed on the last amount of services that the recipients are willing to pay for is just equal to the benefit they receive, then the task of efficiently generating revenues internally to meet the expectations of the recipients of the services also becomes very critical (Bird, 1995).

Revenue generation has been defined as the process of acquiring revenue through investments that bring returns, while revenue mobilisation is also defined as the use of available resources to harness revenues that are by law to be paid by citizens, corporate institutions and quasi-governmental organizations on their operations (Encarta Encyclopedia, 2004). While revenue generation and mobilisation are used interchangeably in this study, revenue mobilisation is the key variable as far as funding for the sub-national

and local governments are concerned. Theoretically, revenues are generated through legal and commercial means to meet expenditures of varied nature both at the personal level and the corporate levels. At the sub-national levels, revenues are derived from residents who engage in one form of economic activity or the other. Revenues like basic rates are derived from citizens of 18 years and above by law irrespective of the type of economic activity they are engaged in.

Adedeji (1970) blames the ineffectiveness of local government administration primarily on low funding. Adedokun (2004) adds to Adedeji's assertion when he notes that local government taxes are minimal and, therefore, limit their ability to raise independent revenues, thus making them so dependent on allocation from the federal account.

Many developed nations, through efficient data collection and efficient taxation systems and effective enforcement, have succeeded in internally generating considerable funds to meet their development needs. The situation is the opposite in many developing nations where dependence on foreign multi-lateral and bi-lateral support to meet the funding of developmental challenges has become the norm. Central governments of these developing nations have not put in place effective measures and laws to generate reasonably enough internal revenues, and since the local governments are the creations of State governments in the sense that localities derive their taxing and spending powers from the State to meet their developmental objectives (O'Sullivan, 2000), the sub-national institutions of these nations always suffer the virus of inadequate funding to meet their developmental objectives as stated by Adedeji (1970) and Adedokun (2004).

The need for aggressive internal revenue mobilisation by sub-national institutions has become very essential in view of the fact that local authorities have the responsibility to provide services to their respective geographical areas. In this case, effective financial planning which requires continual review of how the resources of the local authorities are generated, how they are allocated to services and predicting the benefits gained from those services in addition to efficient revenue generation strategies, needs to be put in place (Ebel & Vaillancourt, 1998).

The main problem of local government finance is how to raise the money necessary for the provision of local government services without being too dependent upon central government for funds and, on the other hand, without imposing an intolerable burden upon ratepayers within their jurisdictions (Nsarkoh, 1994). Nsarkoh states further that the ability of the local governments in the face of low internally generated revenues to run the local administration, and the ever increasing demands of citizens for services has tasked, and for a long time to come, will task the energies of academics and local governance practitioners.

This requires that realistic financial plans which go beyond just a forecast of the likely revenue and committed expenditure should be pragmatically formulated to re-align the revenue and expenditure sides (Stren, 1998). Stren goes on to say that the financial plans should also reflect policy considerations and local circumstances that merge the availability of locally generated funds and the services that need to be provided.

A good revenue source is the one that is not only adequate but also elastic. In other words, a good revenue source should be adequate to meet the

costs of service provision. Similarly, taxes must show elasticity; “that is their capacity to yield additional revenue should respond to the same pressures as the increasing demands upon public expenditure, and that the tax base should grow automatically when prices rise, the population increases, the economy expands” (Arko,1994: 22).

The assertion by Arko seems to be supported by Nsarkoh (1994), who writes that the ability of a local government to achieve its services and development goals is dependent on, inter alia, the amount of resources it can muster and on how the available resources are spent. Nsarkoh identifies the main problem of local government as how to raise the money necessary for the provision of local government services. Both Arko and Nsarkoh admit that the myriad of demands for services by people within the jurisdiction of local authorities require funding which must be raised, by and large, from local sources. While the authors see funding for service provision at least from local sources as indispensable, they are equally cautious as to how much taxes should be imposed on the people such that their situations are not worsened. This then also raises the question as to how much tax is enough to meet the services demanded by the people.

Prud’homme (1995) argues against fiscal decentralisation on the grounds that it can increase disparities in financial resource allocation to sub-nationals, jeopardize stability, undermine efficiency and encourage corruption. He maintains that local authorities have few incentives to undertake stabilization policies, and that the instruments of monetary and public revenue policies are better handled by the central government. Oates (1996) opines a view that is contrary to that of Prud’homme when he notes that, other things

being equal, more public revenue decentralisation was associated with rapid growth in GDP, and that the principle of centralisation is costly because it leads to the government providing public goods that diverge from the preferences of the citizens in particular areas.

Well – functioning local governments have the potentials and are better placed to access some tax bases more readily than a central government can. That local governments comparatively have advantage in the areas of property taxation particularly in the identification of the tax roll and collection (Bird, 1995) seems to lend credence to the position of Oates that more public revenue decentralisation was associated with GDP growth. Rates, licenses, fees of various kinds and from various activities of commercial, industrial, manufacturing and others within the geographical areas of a district constitute the sources of internally generated revenues (Stren, 1998).

A general rule in public finance is to charge for services whenever direct beneficiaries can be identified. User charges and fees have a particularly appropriate role in infrastructure financing, particularly in local authorities (Ebel & Vaillancourt, 1995). In the same vein, Ebel and Vaillancourt (1995) acknowledge that business taxes are less well suited to sub-national governments, arguing further that in order to minimize potential distortions in the flow of factors and goods within a nation, a high degree of national uniformity is desirable for levies such as the corporate income tax and the Value Added Tax. That obviously accounts for the reason why the central government must always support the local governments financially. The fact also that resources and investments are not equally distributed within geographical areas of local governments offers the central government the

opportunity to equalise resource allocation from the centre to increase funding to the local governments, a position that is similar to that of Prud'homme (1995). These issues of natural and investment inequalities are challenges of revenue mobilisation by sub-national and local governments to meet their service delivery responsibilities.

Challenges to increasing internally generated revenues

Challenges, conceptually defined in this study are the impediments, weaknesses, disincentives or difficulties that do hinder the maximization of revenue collections internally at the sub-national and local government levels (Oduro-Mensah, undated). He writes further that challenges could 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. Indeed, all nations the world over are confronted with one form of challenge or the other in the controversial but indispensable task of collecting revenues both at the national and sub-national levels.

Ebel and Vaillancourt (1995) once again 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. 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 tax efforts. In Tanzania

for example, central government contributes 70% of financial resources in the form of grants to Tanzanian local authorities, and the lack of alternative sources of considerable revenue leads to a lack of autonomy and inhibits delivery performance autonomy (Boachie-Danquah, 1996).

Boachie-Danquah further maintains that even in the so-called developed countries of Europe and North America, local authorities are under pressure to mobilise their own resources to meet the costs of implementing development objectives and service delivery. He 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) also notes that the revenue performance of developing countries in the last decade has been disappointing, admitting however that country experiences have varied and in most cases have been stagnant or have declined, citing such declines in sub-Saharan Africa, Asia and the Pacific. He adds that even though empirical testing of the relationship between revenues and foreign aid is fraught with difficulties, the results of the test suggest 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.

While some of the challenges above which understandably impede internal generation of revenues may be 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.

Some scholars have also argued, at least since the early 1960s, that recipient countries view loans as different from grants because they carry the burden of future repayment. This induces policymakers to use funds wisely and to mobilise taxes or at least to maintain current levels of revenue collection (Clement, Sanjeev, Pivovarsky & Tiongson, 2004). In contrast, according to the scholars, grants are viewed as free resources and could therefore substitute for domestic revenues. In this case, the inflows from central governments themselves have become a disincentive rather than an encouragement for increased revenue mobilisation at the sub-national levels. It is also admitted that taxable activities are unevenly distributed throughout any country. Some parts of a country could be very much naturally endowed than others and do attract investments and other economic activities which consequently generate more taxes than other parts of the same country. This is where central government grants attempt to even out the disparities.

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. In countries where stringent laws are in place and enforcement has been very vigorous, payments of taxes and fees have not been met with much

resistance. Citizens are very conscious of their tax obligations to the state and honour those obligations as and when they are due.

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). Zanu further notes that analysis of the tax or revenue sources reserved for District Assemblies in Ghana, for example, shows that they are very low yielding and difficult to collect. He states, for example, that the cost of collecting the basic rate of ₵1000 per annum per adult is expensive and not worth the effort. Additionally, he states that 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) confirms the assertion of Zanu when he states 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. He 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. A fee fixing resolution is then brought before the General Assembly for approval without any scientific basis for arriving at the fees so fixed. He notes that in many instances, 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. There are also so many sources of potential revenue which have been ignored in the past. Efforts aimed at bringing these sources into the tax net are met with serious resistance with its attendant political upheavals and blackmail.

Though the items on which the local authorities have power to collect levies and taxes are extensive and varied, collection rates are disappointing, a

situation which may be attributed to the low caliber of staff who handle finances at the local level and the problem of non-accountability. Tax compliance is related to perceived benefits by the taxpayers. 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. There is also the challenge on the part of the local authorities to ensure prudent management of revenue over expenditure to ensure a surplus to support development.

Another challenge also has to do with revenue collectors themselves. 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. With a grim future confronting them, they brighten that future in ‘making hay while the sun shines’. Poverty has also been cited as the major challenge to the efforts at increased revenues. One of the most common complaints of local government officials is a shortage of funds; ‘poverty’ is the common cry of local governments in all developing regions of the world (IBRD/World Bank, 1989).

Just as nations are not equally endowed, there are some sub-nationals that have very low economic activities that do not empower the citizenry to make good their financial obligations to the local authorities (Dilinger, 1989).

In some cases large industries are non-existent, commercial and agricultural activities are at the peasant levels, incomes are so low to attract any form of taxation or levies. He notes further that taxes that are assigned to the local levels, property rates and minor retail business tax reflect only parts of the local tax base and often fail to portray differences in taxpayers' ability to pay. In Ghana for example some local authorities are richly endowed in resources such that royalties derived from those resources are far more than their total District Assemblies' Common Fund in any given year (The Administrator, DACF, 2004), a situation which supports the observations of Dilinger (1989) .

The Ministry of Local Government Rural Development and Environment (1994) further strengthens the above assertions when it cites timber royalties, minerals development fund and grants-in-aid from agencies and companies operating in areas of jurisdiction as sources of specialized funding for some District Assemblies. The Ministry observes that since there are natural disparities in natural resource allocation geographically, the disparity poses serious challenge to some local authorities which are not so well endowed in their quest to increase their internally generated revenues from those sources to support developments. Districts which are endowed with such mineral resources as gold and timber for example, benefit from specialized revenues which when properly harnessed would be the fulcrum of their developments.

Dilinger (1989) also notes that taxes collected by central government and passed directly to local governments will be considered a particular administrative solution to the problem of local tax administration. He emphasises that inter-governmental transfer is aimed at shifting resources to

poor regions of the country. He however makes the point that the existence of economic disparities do not automatically justify a compensating grant, and that subsidies to local governments in poor regions have to compete against many budget priorities.

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 though they may borrow domestically (Adedokun, 2004).

Potentials for increasing internally generated revenues

Potentials, conceptually, can be defined as reasonable expectations into the future. It is an expected future social or financial benefit (Abuodha & Bowles, 2000). Potentials in this study can be seen as the latent opportunities for generating more revenues that have not been explored and exploited. They could be expectations into the future investments which could alter the economic terrain of the area, improved revenue collection systems, the outcomes of education for the public and training and effective monitoring of revenue collections that maximize the potentials.

Oates (1993:240) believes that effective decentralisation in all its facets can potentially increase revenues at the sub-national levels. According to him, there is a great relationship between decentralisation and economic growth and behaviour for economic fundamentals within the decentralised jurisdiction. Emenuga (1993) also notes that a study on public revenue mobilisation in Nigeria has shown a high degree of centralisation, accusing the federal government of not adhering to the expenditure requirements of the tier

system of revenue distribution. He believes that with effective decentralisation of revenues, local authorities in Nigeria for example, have the potentials to increase their internally generated revenues. Kayode (1993) confirms that public revenue mobilisation is one of the most keenly contested issues in Nigeria, contending and supporting Emenuga's position that a comprehensive review of reports of commissions on national revenue mobilisation and sharing would put more resources to local authorities.

Kanfra (1994) examines potentials for increased internally generated revenues from administrative point of view where efficiently designed formats that set actual collections against targets are monitored and effectively implemented. He states that for this to be achievable, data on rateable property must be available and constantly updated. Nsarkoh (1994) supports the above assertion when he stresses the need to gather and document data on revenue sources and the rates adjusted periodically to their real economic demands.

Manasan (1995) writes that in the Philippines, revenue performance at the local level has the potentials of growth with the degree of urbanization and industrialisation. He opines that this may be due to the fact that the informal sector is smaller in more urbanized areas thus making it easier to collect taxes not only from the sector but also the sprawling property buildup. Ayee (2004) is also of the view that prospects for improved internally generated revenues could be in areas of expansion in the revenue sources, blocking the loopholes, improving the caliber of revenue collectors and motivating them as well as entering into virgin areas of collection. He states that there are still 'virgin' areas that need to be tapped by the local authorities but notes also that most local authorities have limited their activities of internally generated revenues

to the most easily accessible and payable like market tolls, park fees and property rates.

Aboagye (2004) also observes that local governments possess the potential capacity to generate sizeable revenue but a lot of the ripe avenues like market tolls, the park fees and property rates never score even 40% collection rate. Even the ripe sources of revenue collections as identified by Ayee and Aboagye are under collected.

What this means is that if there happens to be effective revenue mobilisation even in respect of the known areas that have been ceded to the District Assemblies, so much can be generated at the local levels to support development, particularly when adequate systems of financial supervision of revenue collectors and the issue of low remuneration of collectors have been addressed with moral support from the District Assemblies. Aboagye (2004) further believes that effective and efficient data base which enhances planning of revenue mobilisation as well as efficient management and methods of property valuation, billing, collection, accounting, controlling and usage would go a long way to increase revenue for the local authorities. He notes also that the creation of a data-base which is continuously updated for revenue collections and the presence of a proper format for revenue reporting and an in-built monitoring and evaluation mechanism, are reliable ways to check abuses, a view expressed and shared by Musgrave (1995).

Oduro-Mensah, (undated) seems to be in agreement with Manasan above when he observes that some local authorities, which in the past suffered the absence of investments, today may be attracting investments in various forms because the land is virgin and available for investors. In fact, many

already endowed districts are choked to the point that there are overflows of the 'booming' economic activities into the hitherto deprived and 'virgin' districts that are very close to them. Oduro-Mensah contends that these situations have the potentials of increasing internally generated revenue which in the past had not been available to some of the districts. Since these overflows expand economic activities, increase migration of skilled labour, increase personal incomes and its attendant increase in consumption, levy and rate payments by individuals and small and medium scale businesses of varying nature are enhanced.

Oduro-Mensah (undated) further identifies interventions that aim at the sensitisation of the people on the need for them to honour their tax obligations to the local authorities as another source of improving the revenue situation. He indicates that development partners like DANIDA, GTZ, SNV, the EU and other NGOs have made numerous attempts to help improve internally generated revenues and efficient revenue management through general and specific interventions. He explains that when the literacy level of the revenue collectors is also improved, it also helps in the revenue collection activity. He goes on to state that a literate revenue collector with effective communications skills, well trained in revenue collection techniques with good human relations has the potential of increasing revenues above the ordinary.

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

deliver the social and infrastructural needs of the people. 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 that exceeds the recurrent expenditure in order to generate surplus to meet part of capital budget, if not all, and therefore, impact positively on the developmental efforts of the sub-national government. While it is crucial that local governments the world over need to generate more resources to be able to deliver on their responsibilities, the challenges that confront many of them, particularly those in the developing world, seem to weigh them down, making them more dependent on central authorities and, in the process, lose part of their autonomy and risk re-centralisation.

The challenges notwithstanding, there are still immense opportunities for local governments to be themselves financially sound if the internal and external bottlenecks that impede their efforts at financial self-sufficiency are tackled with all the seriousness, and new areas of potential revenue generation are explored and exploited.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter looks at eight areas which constituted the study methodology. They are the study area, the study design, the study population, the sampling methods, instrumentation, field work, field challenges as well as data processing and analysis.

The study area

The Ahanta West District in the Western Region of Ghana was carved out of the then Sekondi-Takoradi Metropolitan Authority (STMA) in 1988. The District covers an area of 591 square kilometers representing about 2.5 percent and 0.26 percent of the Western Region and Ghana respectively with a population of 114,961 people (Ghana Statistical Service, 2005). The District is located at the southernmost part of the country with Cape – Three Points being the southernmost tip. It shares boundaries with STMA to the east, Nzema East to the west, Wassa West and Mpohor Wassa East to the north and the Gulf of Guinea to the south. It has six Area Councils, each with its number of unit committees and membership as seen Table 2.

The economic activities of the people in the various Area Councils are by and large the same, varying from peasant agriculture endeavours to commerce and transport, artisanal activities like spraying, carpentry,

mechanics, brewing and sale of alcoholic beverages. There are also small and medium scale industries in the wood sector, agro-industries like the oil-palm processing factories as well as rubber processing facilities. The District has the potential to increase the existing hospitality facilities to attract more tourists in the because of the beautiful sandy beaches across the coastal stretch of the district. The Busua Beach Resort and the African Raybow Hotel are examples of hospitality facilities dotted on the sandy beaches.

Table 2: Unit Committees and the membership of the six Area Councils

Area Council	Unit Committees	Memberships
Agona	15	67
Dixcove	19	138
Busua	11	92
Ewusiejoe	16	113
Abura	16	113
Apowa	18	127

Source: Ghana Statistical Service, 2005

Study design

The study is both explorative and descriptive and aims at going beyond existing information and delving into the unknown to bring to the fore what indeed the problem is and possibly identify the causes and how they could be addressed. Polger and Shane (2000) write that an exploratory study is conducted on a small scale and it is expected to be of short duration. The variables under the study are not manipulated for any reason since the research is intended to be non-interventional.

The choice of an exploratory and descriptive study in this work is based on the fact that concerns have been expressed in academia and by operators of the decentralisation programme about the problem of internally generated revenues and how those revenues should or can be the major source of funds for development in the various districts. The exploratory study is important on the grounds that even though the problem of low internally generated revenue at the sub-national levels has been a subject of lamentation, it seems sometimes that the problem is being addressed only at the surface and in the process, not much in-depth attention has been paid to it with the view to finding out the causes and finding solutions to them. The exploratory study would then give way to a vivid description of the variables based on the observations made out of the 'exploration' and the relevant recommendations and suggestions aimed at finding answers to the problem, would then be made.

Study population

The study population comprised residents of the district, drawn from organised groups such as Beauticians Association of Ghana (hairdressers and seamstresses), GPRTU officials, Local liquor brewers who were purposively organised into focus group discussions separately as well as officials of the District Assembly who were administered with questionnaires. The leadership of the organised associations like the GPRTU, for example, is drawn from the various Area Councils, thus offering a district wide representation. Traditional authorities and individual citizens in the business community and the general public were also randomly sampled and interviewed in the various Area Councils. The populations of the six Area Councils that make up the Ahanta

West District as shown in Table 3 are Apowa Area Council, with a population of 32,760, Abura Area Council, 25,395, Agona Area Council, 19,924, Dixcove Area Council 16,192, Ewusiejoe Area Council 14,270 and Busua Area Councils with 6,420 respectively.

Table 3: Ahanta West District: populations of six Area Councils

Area Councils	Population	Sample size
Apowa	32,760	70
Abura	25,395	55
Agona	19,924	40
Dixcove	16,192	35
Ewusiejoe	14,270	30
Busua	6,420	20
Total	114,961	250

Source: Ghana Statistical Service, 2005

Sampling methods

The study is a district – wide activity and, therefore, opinions from all the six Area Councils namely Agona, Abura, Apowa, Busua, Dixcove and Ewusiejoe Area Councils were sampled. Owing to the population differences among the various Area Councils, the sample population was shared on the basis of the population sizes. Apowa Area Council had a sample size of 70, Abura had 55, Agona had 40, Dixcove had 35, followed by Ewusiejoe and Busua which had 30 and 20 respondents respectively as shown in Table 3. The research used the non-probability and probability sampling techniques. In the use of the non-probability sampling method, purposive sampling technique

was used to identify key informants for one on one question and answer sessions.

Key informants who were purposively sampled included key district officers, namely, the District Budget Officer, District Planning Officer, District Finance Officer, District Coordinating Director, Chairman of the Finance and Administration sub-committee of the Assembly, one Revenue Inspector each from the six Area Councils and the Revenue Superintendent. Fourteen Revenue Collectors who have day-to-day responsibility for revenue mobilisation were also sampled from all the Area Councils. Two Revenue Collectors were selected from each of the Area Councils except the Agona Area Council where four Revenue Collectors were selected because of the huge market. This was intended to generate relevant information useful to the research, bringing the total sample size to 276. The Development Planning and the Budget Officers are responsible for planning and budgeting for proposed development programmes of the district. The two key officers therefore made serious inputs into this study as to what goes into their planning and budgeting activities and whether set targets are achieved to meet the developmental objectives.

Some of the other target groups like the GPRTU, Beauticians Associations of Ghana (which comprises Hairdressers and Seamstresses), Distillers of Local Liquor (Akpeteshie distillers) and key informants 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. For the general population, a total sample size of

250 respondents drawn from the six Area Councils through simple random sampling techniques were selected from their areas of work. With a population of a little over 100,000, a sampling size of 384 (Kirk, 1995) would have been very appropriate, but the rural and difficult and sometimes inaccessible nature of parts of the district necessitated the random sample size of 250 for the whole district shared on the basis of the population size of the six Area Councils, in addition to 12 key informants and the 14 Revenue Collectors. The 250 were selected via the lottery method using the house numbers as the sampling frame.

Instrumentation

The data collection for the study was made up of the primary source and the secondary source. The primary data were collected by the use of interview schedule, questionnaire and interview guide(see Appendixes 1,2 and 3) while the secondary data were gathered from both the District Assembly and the Office of the District Assemblies' Common Fund Administrator.

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 while the questionnaire was designed for the key informants and the interview guide was directed to help with the focus group discussions.

Field work

Both closed and open-ended questions were suitably combined to ensure that sufficient data was derived from the 250 randomly selected respondents, from the six Area Councils. It took 9 days between November 12 – 21, 2006 for the completion of the interviews. The key officers of the Assembly were interviewed with respect to their areas of operation in as far as revenue mobilisation, expenditure, planning and budgeting are concerned. It was within the same month of November, 2006. Fourteen revenue collectors, two each from the Area Councils with the exception of Agona area council which had four because of the market size and the economic activity, were interviewed from November 24 to 26, 2006. Secondary data spanning several years were collected from the District Assembly in 2007 – 2008.

Focus group discussions were also conducted with the leadership of the various commercial and unionised associations within the business and commercial sectors of the District. A guide was developed to facilitate the conduct of the focus group discussions. Since the leadership of the groups were drawn from the various Area Councils, they expressed the needs of their respective associations as well as the developmental concerns of the various Area Councils where they come from. There were ten Hairdressers and 12 Seamstress (who represented the Beauticians Association of Ghana), 12 from the GPRTU, and 13 from the Distillers of Local Liquor (Akpateshie distillers) who took part in the group discussions at various times. In all the discussions, the interviewer was the lead discussant in a crescent-shape grouping. The participants actively participated because there was no master-apprentice relationship among them, a situation which encouraged all the participants and

made them feel equal and, therefore, expressed their views in a frank and open manner.

There were separate discussions on three separate days and times. The first day was with the Beauticians Association of Ghana, which comprised ten Hairdressers and 12 Seamstress which was done separately on the same day, the GPRTU represented by 12 people, and 13 people for the Akpeteshie distillers (Distillers of Local Liquor) on the second and third days respectively. These took place from December 5 – 7, 2006. The issues discussed revolved around the formation of the various associations, the aims and objectives of the associations, the obligations of their membership towards the associations and what sanctions await defaulting members. We also discussed what obligations they owe the Assembly, and whether or not they meet those obligations and what their expectations of the Assembly are, collectively and individually.

The hairdressers were represented by females only, while the seamstress had two males among them. The GPRTU members were all males. In sum, the data collection was in the forms of answered interview schedules, recorded responses from interviewed respondents as well as the recorded responses from focal group discussions.

Field challenges

During the interviews, many of the people who were initially approached to answer questions were not comfortable and therefore not cooperative. No amount of persuasions and explanations would change their minds. However, because of the closeness of households in rural communities, there were a few instances where other people from the same households

offered themselves to respond to the interviews when they had not been asked to. They had to be politely stopped. Other people who originally were not part of the target group were interviewed in place of those who refused to be interviewed in order to make up the sample.

The biggest challenge was the timing of the interviews in the communities. In the mornings, the potential respondents were too busy preparing to go to their farms or embark on their normal activities, and in the evenings, they were too busy with their household chores and other activities as well. Waiting too deep into the night, also posed transportation problems for interviewers. However, it was more convenient for the interviews to be done in the evenings for the sake of the people in the communities.

There was also the suspicion of talking to ‘government people’ particularly when the subject matter relates to local revenues that include taxes. However, a little more explanation and the fact that their names were not going to be part of the report allayed their fears and they cooperated. Consequently, their initial reactions did not affect the quality of the data gathered.

Data processing and analysis

The data that were collected were cleaned in order to remove inconsistencies in answers given by respondents. In processing the data, confounds were avoided to maximize the internal validity while effective editing was also done to ensure precision and clarity. The responses were coded and analysed using Statistical Product and Service Solutions (SPSS) version 12 software.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The survey covered selected respondents from the Ahanta West District, and in all, 250 respondents from the six Area Councils, in addition to 14 commissioned revenue collectors and twelve key staff of the Assembly who were administered with interview schedules while focused group discussions took place with selected members of trade associations and organised bodies. The first part of the results cover the background characteristics of the respondents. The subsequent parts of the results were focused on the substantive objectives of the study.

Background of respondents

The background characteristics of the respondents, males and females, as captured in the interview instrument, ran through their ages, marital status, educational background, number of children of the respondents, places of residence, how long they had lived in those places, how long they had been engaged in the economic activities they are in and other related matters.

In the study, 37% of the 250 respondents were between the ages of 14 and 18 years, those between the ages of 19 – 49 formed 48.4% of the respondents while those of 50 years and above constituted 14.6%. This indicates that more of the sampled respondents fall within the ages of 14 – 49

years, the most economically active population. This breakdown is reflected in Figure 1.

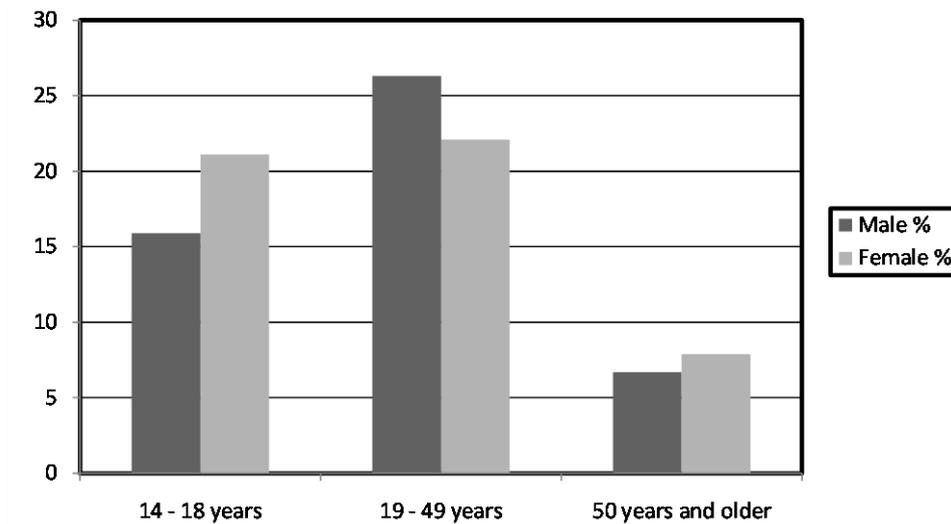


Figure 1: Age distribution of respondents in the study

Source: Field Survey, 2006.

Female respondents constituted 51.1% and male respondents make up 48.9% of the total sample size. This is because most of the people in the sampled respondents were in the commercial and the artisanal sectors of the economy which are female dominated. As regards the marital status of the respondents, 78% of them were married, 10% were divorcees and 12% single while 82% had children.

Fifteen percent of the respondents did not have children, 10% had two children each, while 25% had three children each. Another 15% had four children each, 20% with six children each and the remaining 15% having eight children each. About 46% of the respondents had lived their lives in the District, while the rests had lived in the District from between five to 20 years.

With the length of period of economic activities they had been engaged in, 15% said they had done what they were doing since their adult lives, the remaining 85% of them indicated they had been doing other activities prior to their current activities.

From the analysis, 59% of the 250 Area Council respondents had one form of formal education or the other and therefore can read and write (the national literacy average is 57.9% and the regional average is 58.2%) while 41% have no formal education. Even though the majority of the respondents can be described as being literate, the 41% of them who can neither read nor write is an indication that illiteracy among the adult population is high making it difficult for total appreciation of the fact that the district depends on taxes from the citizenry to be able to provide the necessary services and infrastructure to improve their lives. The breakdown of the interviewed respondents is presented in Table 4.

Table 4: Various categories of respondents

Respondents	Frequency	% membership
Revenue Collectors	14	5.07
Key District Assembly staff	12	4.35
Individuals	250	90.58
Total	276	100

Source: Field Survey, 2006.

During the focus group discussions, it emerged that members of their associations have financial obligations towards the associations, some of them

are paid monthly and others annually. They noted that sanctions await members who fail to meet their financial obligations without acceptable reasons which include dismissal from the association or forfeiting whatever rights such members are entitled to. On the question of their expectations of services from the Assembly, the groups expected to have good hospitals, good transportation services, and police stations for their security and schools and good houses for their families.

The trend of IGR mobilisation

The trend in the Ahanta West District as far as internally generated revenues are concerned since 2001 has been upward but not sufficient enough to contribute to infrastructure development in the district. As shown in Table 5, in 2001, total internally generated revenues mobilised by the Assembly was ₵360,645,608.00. This figure declined marginally to ₵360,296,950.00 in 2002, and jumped to ₵736,138,752.00 in 2003. In 2004 and 2005 the Assembly mobilised ₵1,166,263,146.35, and ₵885,542,537.59, while 2006 and 2007 recorded ₵1,121,490,000 and ₵1,524,800,000 respectively.

On the other hand, grants from the District Assemblies' Common Fund grew from ₵1,356,670,605.00 in 2001 to ₵4,332,480,000.00 in 2007, representing a growth rate of 362.17%. The above differences in revenue sources for the Assembly defeats the principle that the internally generated revenue base of local governments should be responsive to the real economic expansion and the social, infrastructure and service needs of the people.

Pursuant to the provisions of the 1992 Constitution of the Republic of Ghana, the Local Government Act (Act 462) provides the legislative

framework and the basis for the revenue sources to District Assemblies. Among the identified sources of internal revenues are power for joint commercial activity, power to charge fees, development charges, investment funds, duty to raise sufficient rates-basic, property and special rates, trading services, levies on serviced lands and betterment fees on urban land and property. Indeed, the over reliance on the traditional sources of revenues and the low revenue growth rate and potentials of some of the sources which yield zero rates relative to the administrative cost of collection, account for the huge differences in the growth rates of the grants and the internally generated revenues.

Table 5: IGR, recurrent expenditure and the District Assemblies' Common Fund (2001-2007)

Year	IGR (¢)	Recurrent Expenditure (¢)	DACF (¢)	Proportion of IGR to DACF (%)
2001	360,645,608	193,914,971	1,356,670,605	26.58
2002	360,296,950	298,857,107	1,956,748,331	18.41
2003	739,138,752	1,267,400,252	3,713,732,573	19.90
2004	1,166,263,146	1,145,756,544	4,438,541,185	26.28
2005	885,542,537	1,694,194,098	4,811,058,233	18.41
2006	1,121,490,000	1,769,960,000	4,036,230,000	27.79
2007	1,524,800,000	2,461,640,000	4,332,480,000	35.19
Total	6,158,176,993	8,831,722,972	24,645,460,927	

Source: Ahanta West District Treasury, 2007

Table 5 shows that the growth of internally generated revenues do not match the growth of grants from the central government to the Assembly. Additionally, the table further shows that recurrent expenditures grew faster than the internally generated revenues in most periods under the study. In a situation where major expenditure items like fuel for running of vehicles, stationery for the office and labour cost on the Assembly's payroll keep experiencing huge percentage increases as against slow and economically unrealistic increases in revenue rates and collections, the disparities between internally generated revenues and recurrent expenditures will continue to widen and create deficits. It must be noted that examples of expenditure items above must be met with internally generated revenues and not from the DACF.

Table 6: Proportion of IGR to total revenues (2001 – 2007)

Year	IGR	Total revenue	Proportion of IGR to
	(¢)	(¢)	total revenue (%)
2001	360,645,608	1,550,585,576	23.29
2002	360,296,950	2,255,605,436	15.97
2003	739,138,752	4,981,132,825	14.84
2004	1,166,263,146	5,584,297,729	20.88
2005	885,542,537	6,505,252,331	13.61
2006	1,121,490,000	5,806,190,000	19.32
2007	1,524,800,000	6,794,120,000	22.44
Total	6,158,176,993	33,477,183,897	18.4

Source: Ahanta West District Treasury, 2007

Table 6 shows the proportion of the internally generated revenue to the total revenues to the Assembly which is made up of grants and internally generated revenues. The table shows that through the years under study, IGR did not contribute even 30% to the total revenues of the District Assembly in any given year. The best performance of IGR towards the total revenue was in the year 2001 when it contributed 23.29% to the total revenue.

Table 7: Proportion of IGR to recurrent expenditure (2001 – 2007)

Year	IGR	Recurrent Expenditure	Proportion of IGR to
(¢)	(¢)	(¢)	Recurrent Expenditure (%)
2001	360,645,608	193,914,971	185.98
2002	360,296,950	298,857,107	120.56
2003	739,138,752	1,267,400,252	58.31
2004	1,166,263,146	1,145,756,544	101.79
2005	885,542,537	1,694,194,098	52.27
2006	1,121,490,000	1,769,960,000	63.36
2007	1,524,800,000	2,461,640,000	61.94
Total	6,158,176,993	8,831,722,972	69.72

Source: Ahanta West District Treasury, 2007

Table 7 shows a pattern of instability in the relationship between IGR and recurrent expenditure. In the years 2001, 2002 and 2004, IGR exceeded recurrent expenditures. However, the remaining four years saw recurrent expenditures rising above IGR.

Even though Table 8 shows that there was growth in IGR, by and large, in most periods between 2001 and 2007, developments in the

inflationary performance were not stable enough to guarantee a 100% real annual growth in IGR. In the year 2001, end of year inflation was 21.3% (as against 40.5% in the year 2000), 2002 recorded 15.2%, 2003 was 23.6%, 2004 recorded 11.8% and 2005 and 2006 recorded 14% and 8.8 % respectively and 12% for the year 2007. Practically, the rate of growth in the IGR for the Assembly was higher than the rate of inflationary growth in most of the respective years.

Table 8: Growth in IGR and inflationary rate

Year	IGR (¢)	% of IGR growth	% of inflationary rate
2001	360,645,608	-	21.3
2002	360,296,950	-0.09	15.2
2003	739,138,752	51.25	23.6
2004	1,166,263,146	36.62	11.8
2005	885,542,537	- 31.7	14.0
2006	1,121,490,000	21.04	8.8
2007	1,524,800,000	26.45	12.0
Total	6,158,176,993	-	-

Source: Ahanta West District Treasury, 2007 & Ministry of Finance and Economic Planning Annual Budget Statements, 2001 – 2007

Table 9 shows that with the exception of the year 2004 which recorded a negative growth in recurrent expenditure, all the years saw consistent growth in the recurrent expenditure, the least being 4.47% in 2006, and the highest recorded in 2003 as 324.08%.

Table 9: Growth in recurrent expenditure

Year	Recurrent Expenditure (¢)	Annual % growth
2001	193,914,971	-
2002	298,857,107	54.11
2003	1,267,400,252	324.08
2004	1,145,756,544	-9.60
2005	1,694,194,098	47.86
2006	1,769,960,000	4.47
2007	2,461,640,000	39.07
Total	8,831,722,972	459.99

Source: Ahanta West District Treasury, 2007

Potential sources for internally generated revenues

Potentials, conceptually, can be defined as reasonable abilities and expectations into the future. It is an expectation of good things of the future, socially, financially and economically (Abuodha & Bowles, 2000). Potentials in this study can be seen as the latent opportunities for generating more revenues that have not been explored and exploited. They could be expectations into future investments which could alter the economic terrain of the area, an improved revenue collection system, the outcomes of education for the public as well as training of revenue collectors and effective monitoring of revenue collections.

Revenue mobilisation at the local government level is a function of a myriad of factors some of which are beyond the control of the local authorities. Given the tax administration capability of local authorities, policy

makers essentially consider two main variables, that is, the tax base and the tax rate to influence the amount of revenue they collect (Manasan, 1995). The Ahanta West District, as stated earlier, is a rural district with an agrarian economy. In many agrarian economies, incomes are either too low to be taxed or that the people just live from hand to mouth and cannot pay any direct taxes at all.

The District, by its geographical location, is attracting migration from the twin city of Sekondi-Takoradi, the administrative and economic capital of the Western Region. This takes the form of middle class residents of Sekondi-Takoradi who are putting up personal houses in the district, business entities which are setting up their operations in the district because of the availability of virgin lands and the nearness of the district to the port city of Takoradi, the springing up of property of varying sizes and values will offer reliable inflow of property tax to the district annually. The businesses will have to pay their operating license fees as well and those who get jobs will be in a position to honour their tax obligations to the district. The district will move from the traditional sources of revenue some of which have zero growth or even negative contributions to the revenues to a more commercial and industrial based sources of revenue.

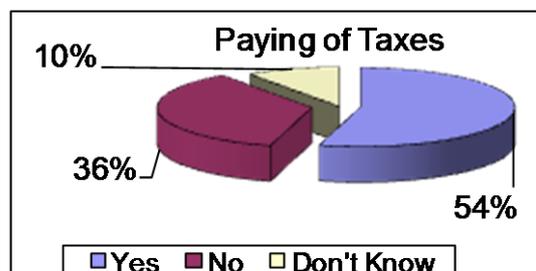


Figure 2: Tax paying respondents

Source: Field Survey, 2006

Figure 2 shows that 54% of the 250 respondents actively pay one form of tax or the other to the Assembly depending on their economic activity, while 36% of the respondents do not pay any direct taxes to the Assembly claiming that they do not engage in any meaningful economic activity that warrant the payment of direct tax to the Assembly, and the remaining 10% are not sure whether they pay direct or indirect taxes. This means that 46% of potential tax payers do not pay taxes to the Assembly.

Potentially therefore, even without increasing existing rates, fees and taxes, if the Assembly could reach out to the 46% to honour their tax obligations, as well as go beyond the most easily accessible and payable taxes and improve the coverage (Ayee, 2004), revenue mobilisation would increase significantly. Abuodha and Bowels (2000) also believe that many local authorities rely heavily on individual persuasions to mobilise revenues rather than utilizing the various enforcement mechanisms available through legal processes. They cite the lack of political will which involves, among others, leadership and a reasonable enforcement of the local bye-laws, the building of a consensus around local public sector finance and service objectives to meet set revenue targets. Since most taxpayers would not want to willingly honour their tax obligations, efficient mechanisms aimed at enforcing the laws is a potential tool for getting people to pay their taxes.

About 49.7% of the respondents were of the view that the Assembly had been a source of improvement in terms of the provision of physical infrastructure in their communities. While 65% of the respondents believed that many of their needs had to be provided by the Assembly, they conceded that government alone could not provide those amenities without other

organisations and individuals. Kelly (1995) believes that citizens all over the world would not want to pay taxes voluntarily but opines that when the people are involved in the service delivery needs and the laws are also enforced, the potential for increased revenues are high.

In order to generate adequate funds to meet its service delivery function, 78.9% of the sampled respondents in the study were of the view that the Assembly should embark on income generating activities like farming to generate more money instead of depending solely on taxes collected from the already poor people. The finding is that the potential tax payers will be willing to contribute to revenue generations in the district provided that becomes a shared responsibility between them and their Assembly itself instead of the Assembly depending solely on them to generate the needed revenues. Potentially, the existence of two major agro-processing companies in the district whose raw materials are oil palm and raw rubber can be an opportunity for the Assembly to invest on a large scale to generate sustainable incomes in those sectors to increase its internally generated revenues.

Recent oil finds in commercial quantities in the region offer potentials of expanding economic activities that will open up the Ahanta West District in particular and therefore the tax base. Records from the Town and Country Planning and the Building Inspectorate Divisions of the Ahanta West District indicate that the number of applications from many commercial and industrial concerns to begin the construction of one facility or the other moved from a peak of 87 applicants in 2006 to 198 in the first half of 2008. This is because many new investors and property owners are moving towards the district since they are unable to acquire suitable commercial lands in the commercial and

industrial towns of nearby Sekondi-Takoradi for their activities. An oil refinery for instance, as well as a cement factory is to be set up in the district.

The process of securing building permits and other approvals from the Assembly before the construction of the facilities, as required by Act 462 of 1993, obliges the applicants to pay assessed fees before construction begins as well as payment of business operating licenses and property rates when construction is completed and the companies begin operations. The revenues that will be generated from these concerns aside, there will surely be other peripheral economic activities that will expand the tax base and the tax rate to increase revenue generation. The commercialisation and industrialisation of the district will reduce the agrarian economy and improve the personal economies of individuals and families (Manasan, 1995) to enable them meet their basic tax obligations to the Assembly.

In addition to the above, the key informants in the study were unanimous in their responses that a credible data base upon which rates, fees and taxes are imposed do not exist as stated by Nsarkoh and Aboagye (1994), as a result of which potential rate payers are not easily identified for the purposes of budgeting collections. The key informants also identify the lack of political will to enforce bye- laws which ensure that tax and rate defaulters are 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 much more difficult areas for the purposes of revenue collection as noted by Appeah (2003) were also identified as means to improve revenues as well.

The key informants further identified adequate financial plans for the major sources of revenue like market tolls, development permits, property rates licences for selected commercial activities, and a good forecast of a likely revenue which is elastic enough to cater for the increasing service demands, as a potential tool to generate sufficient internal revenues to meet the physical infrastructural needs of the people, thus confirming the position of Arko (2004). They were of the view that if discussions on fee-fixing by the Finance and the Administrative Sub-Committee of the Assembly and the final passage of the fee fixing resolution by the general Assembly were done dispassionately, taking into account the mounting cost of service delivery and other cost elements in the fee collections itself, realistic taxes would be put in place to increase the revenues to meet the service delivery activity of the Assembly, just as Stren (1998) postulates.

The key informants identified inadequate capacity to do an initial assessment and periodic revaluation of taxable property as a means of charging economic rates on taxable property and avoiding under billing of property whose values keep on appreciating by the day as a challenge. They were also of the view that the challenge of effective monitoring and regular accounting of receipts and periodic and regular auditing of the revenue collectors in the area of market toll collections, renewal of licences and development permits would go a long way to improve revenue collections for the Assembly.

The various commercial and business associations operating in the District who were involved in the focus group discussions identified inadequate education for some of their members as far as the payment of rates

and taxes were concerned. They also noted that since not everyone who operates in the industry is a member, they were not in a position to educate and compel them to honour their tax obligations to the Assembly. They suggested a much more broader public education for operators in the industry as well as a vigorous campaign to identify many such operators who operate from their residence and are unknown to the associations and the Assembly. They called for more consultations and participation in the Assembly's annual rates and tax fixing activities. Some of the potential sources of revenue that emerged from the group discussions are indicated in Table 10.

Table 10: Potential sources of revenue mobilisation

Group	Potential sources
GPRTU	Sticker sales to members
Beauticians (hairdressers and seamstress)	Identification of those who operate from their residences without paying tax
Akpeteshie distillers	Issuance of Permits and receipts to distillers
Key informants	Set realistic targets and provide the necessary logistics for the revenue collectors, ensuring effective monitoring and supervision of collectors.

Source: Field Survey, 2006.

The GPRTU expressed appreciation to the Assembly for offering them a modern Lorry park to enhance their operations and suggested to the Assembly to sell Lorry stickers to their members who operate within the District to generate revenue for the Assembly. They also called for periodic interaction

with the union so they can discuss issues of mutual interest for both the union and the Assembly. Some of the members of the Akpeteshie Distillers Association said they did not know that the laws of the Assembly require them to obtain permits before any oil palm tree would be felled, and assured the Assembly of their preparedness to abide by the laws.

They also asked for regular education and interaction between the Assembly and their members about what they were expected to do. They however, cautioned the Assembly about the activities of its own revenue collectors some of whom sometimes collect the 'revenue' in kind and do not issue receipts to cover up.

The survey also disclosed that most revenue collectors had been on their present job for between 2 to 10 years and there existed mutual respect between them and the taxpayers, a situation which if well managed and sustained would increase revenue mobilisation. A total of 89.6% of the revenue collectors interviewed believed that those from whom they collected taxes saw them as friendly and responsible towards their work. This is an opportunity which when well managed and improved upon would increase revenue collection in the district.

Most local authorities have limited their activities of revenue collections to the most easily accessible and payable like the market tolls, lorry park fees and property rates (Ayee, 2004), but if the collectors are motivated and resourced to move into other areas, they are likely to improve their collections. Indeed, the study showed that even the ripe sources of revenue collections do not attain 40% of their potentials.

Challenges that impede increased internally generated revenues

The study sought to generate data on those actions and inactions both of human and institutional nature which hinder the maximisation of the potentials that exist for increased internally generated revenues. Increased economic activities in the district come with increased pressure on existing social facilities and the demand for new ones.

- unreliable database for revenue collections
- lack of political will by the Assembly to deal with tax defaulters
- tendency to over concentrate revenue collections from big commercial and industrial entities to the neglect of other traditional sources of revenue
- challenge of marching anticipated growth in the service delivery functions and the growth of internally generated revenues
- the expectations and thinking of majority of the respondents to the effect that the social infrastructure should be provided by government is a challenge
- the responds from the study that the needs of the people have not been met by the Assembly is a challenge
- revenue leakages and under-declarations impede revenue collections
- neglect of areas considered difficult for revenue collections in preference to easily accessible areas
- weak internal supervision of revenue collectors
- insufficient motivations for revenue collectors

Manasan (1995) notes that internally generated revenue performance is not only determined by the size of the economic base but also by other economic variables indicating the overall level of economic development like the degree of urbanisation and the degree of industrialisation. In order to benefit from urbanisation and industrialisation, there is a need for reliable data base backed by enforceable laws to ensure that taxes are efficiently collected to meet the social and infrastructural demands on the local authority. One of the challenges that came out in the study as far as revenue mobilisation efforts is concerned is the absence of reliable data base which will ensure accurate billing, levying of fees and imposition of taxes in the Ahanta West District. A key informant in the study disclosed that the absence of reliable data is reflected in the absence of records of numerous kiosks around markets, in the communities and unregistered small – scale businesses whose data do not exist in the Assembly records as identified by Oduro-Mensah (undated) and therefore makes it difficult to bring them into the budget collection.

As big commercial and industrial entities also emerge in the hitherto deprived district, the tendency for the local authorities to concentrate their revenue collection activities on the property rates and the business operating licences of the huge entities which are easily accessible and payable, to the neglect of other traditional sources of revenue also remain a challenge to the efforts to increase internally generated revenues (Ayee, 2004). The study revealed the poor performance of certain revenue items as disclosed by the Revenue Collectors. The inability of the Assembly to take advantage of the new sources of revenue without neglecting the old sources of revenue is identified as a challenge in the study.

Manasan (1995) writes that industrialisation and commercialisation of an area hasten the rate of urbanisation which comes with its attendant problem of population growth and adds that such a situation obviously increases demand for services and the supporting physical infrastructure. Data on service delivery requirements today and in the future, particularly in the expectation of increased economic activity, is a key ingredient in the overall planning and budgeting for internally generated revenue.

The study revealed the challenges of the capacity of the district to fashion out a programme that addresses the relationship between the growth in the internally generated revenues as a result of the urbanisation and commercialisation of the district and the anticipated growth in the service delivery function of the Assembly. That situation, if not addressed, will likely create a deceptive sense of excellent performance in the revenue generation function when increased revenues are not related to the growth in population and service delivery as espoused by Manasan (1995). This is evidenced in the findings as gathered from the key informants in the way revenue targets are prepared.

The internally generated revenues must move at a pace that will cater for the growing recurrent expenditure on the part of the Assembly in an industrialised environment, and at the same time leave a surplus to finance physical development that will support the new economic environment. In other words, taxes must show elasticity relative to the growth in prices, population and growth in service demands (Arko, 1994). It is a test of ability on the part of the District Assembly as managers of funds to efficiently manage such funds that accrue to them while tax payers are also expected to

uphold their civic responsibilities if the Assembly is to continue improving its service delivery function.

Government workers make up 39.4% of the respondents, while 40.6% were self-employed with the remaining 20.0% being workers with the formal private sector. These figures indicate that direct tax or rate payments to the Assembly comes from 40.6% of the working population in the informal sector residents in the district to meet the needs of all the residents, with the remaining and most attractive and easy to collect going direct to the central government. This confirms Ebel and Vaillancourt's (1998) position that local governance in many countries are characterized by dependence on the central government on transfers and shared taxes. This situation however, can only be addressed through legislation.

The study shows that 85% of the 250 respondents link their benefits from the Assembly to the provision of loans and other financial interventions to support their economic activities rather than the physical infrastructure that should benefit the whole community. This thinking, the study finds, influences some of the people's unwillingness most of the time, to honour their financial obligations to the Assembly because they believe that the Assembly has not met their expectations.

The survey also shows that 95.0% of the 250 respondents expect to have good hospitals, good transportation services, police stations, schools and good houses for their families in response to physical infrastructure development responsibility of the Assembly. Most of them, however, have the view that the government and, for that matter, the District Assembly should be able to provide their needs without taxing them too much, thus challenging

Nsarkoh's (1994) position that the myriad of demands for services by people within the jurisdiction of local authorities require funding which must be raised by and large from local sources. The thinking of the respondents poses a challenge to the Assembly in its revenue mobilisation efforts to meet its service delivery function since what the Assembly may consider as economic rate or levy might be considered by the rate payers as being too much.

In terms of the Assembly's service delivery function, 50.3% of the 250 respondents were of the view that the Assembly was not doing enough. They believed that their infrastructure needs had not been met. This is in line with the thinking of Aboagye (1994) when he said that if the tax payers believe that they do not benefit from the taxes they pay, they are not likely to comply with tax payments. This puts the Assembly in a weak position in its internally generated revenue drive since majority of the respondents think that they are not enjoying any benefit from tax payments.

The leakages, under-declarations and other blatant acts of official misconduct as noted by Appeah (2005) impede the efforts of the District Assembly to improve on its revenues on a regular basis, an act which was confirmed during the focus group discussions with the Akpeteshie Distillers Association. About 59% of the respondents also did not notice significant changes in the level of taxes that they pay in respect of annual or periodic increments since, according to them, payments of those taxes depended on the sales they made at particular times. About 42.9% of the respondents operating in varied fields of endeavour do not belong to any trade or commercial associations even where those associations exist, a situation which was echoed during the focus group discussions. This impedes revenue

mobilisation efforts since these groups of people are not under the control of any organised bodies whose rules and regulations which may include the regular honouring of tax obligations to the Assembly. It becomes difficult to reach out to these groups of people especially when it comes to stakeholders' meetings to discuss the fixing of rates and fees and other educational programmes aimed at improving mutual understanding of the Assembly and taxpayers generally.

The study further found that while the length of period of work by the collectors made them knowledgeable and experienced in the work, the old adage of familiarity breeding contempt could also be a hindrance to the effective and stringent enforcement of the rules and regulations in the job. Zanu (1994) and Appeah (2005) assert that the structures that serve as checks and enhance efficient tax and rate collections are weak thus creating room for some collectors to turn opportunities which should go to increase revenues for the Assembly, into opportunities for the collectors on the basis of an unwritten agreement that exists between the collector and the taxpayer, in which case the tax payer under pays and is not issued with official receipts.

It was found that market perimeters hosted majority of the revenue collectors. Collectors also prefer to operate within the lorry and taxi ranks for their activities. This means that the collectors assign to themselves, limited and easily accessible areas of collection to the neglect of what they consider more difficult but potentially good sources of revenue, thus affirming the position of Ayee (2004) that most local authorities have limited their activities of internally generated revenues to the most easily accessible and payable. Their reasons are that it is easier to collect revenues from the lorry parks and

the markets than some of the other sectors because they generate more revenues on a daily basis than having to walk long distances to chase other revenues. The concentration on the market and lorry park collections also increases the commissions for the commissioned collectors as against other revenue sources which also leads to the neglect of other areas like local liquor brewers in the rural areas, the artisans who operate in small corners in the communities outside the view of the collectors are not sought for as well as the many tailors, seamstresses, liquor bar operators in the distant villages for the purposes of tax collections.

About 71.6% of the revenue collectors interviewed were of the view that the Assembly's internal supervision of their work (the collectors) needed to be strengthened. They complained about inadequate supervision by the senior revenue officers to offer them guidance and direction in the growing challenges in revenue collections. All the revenue collectors want the Assembly to increase their remunerations and provide them with basic means of transport that will make them accessible to very remote and difficult areas of their operations. They also think that the Assembly is too soft on tax defaulters and that when defaulters are reported to the superior officers, they do little or nothing about it, a situation Oduro-Mensah (undated) cites as a major hindrance to improved revenue generation and which the revenue collectors consider very demoralising,

With respect to tax obligations, 84.2% of the revenue collectors think that taxpayers are very unwilling to honour their tax obligations and that it always requires a certain amount of persuasion and to the extreme, the use of force to get them to pay what they know they have to do as a matter of course.

The survey indicates that most taxpayers complain of non-performance of the District Assembly and therefore see no need to pay taxes while 53.2% use the excuse of poor sales to default in the payment of taxes.

On the issue of target setting, about 65.2% of the revenue collectors are of the view that the Assembly is not realistic when it comes to setting targets for them. They think the Assembly sets unattainable targets for them daily, monthly and quarterly. The group of the revenue collectors concede the low performance in terms of revenue mobilization for the Assembly and advocate strong and mutual respect between the top hierarchy of the Assembly and the collectors for better co-operation, and request that their inputs into the fixing of the fees be sought and also urge the Assembly to constantly embark on education for the public towards the need to pay taxes.

The key respondents from the Assembly namely, the District Finance Officer, the District Budget Officer, the District Planning Officer and the Revenue Supervisors gave indications of the difficulties that confront the Assembly in its efforts at increased internal revenue mobilisation. They discussed problems associated with the fixing of economic rates which is expected to generate enough revenues to support service delivery to the people without at the same time overburdening them with excessive taxation. They explained that the calibre of Assemblymen/women who sat on the various committees that did the initial discussions and the fee fixing for approval by the General Assembly were sentimental rather than economic realists in their decisions. The key respondents concurred with the position of Aboagye (1994) who intimated that the process of fixing rates and fees to be paid is moribund and unscientific in that the technocrats prepare revenue and expenditure

estimates for the fiscal year in close collaboration with the Finance and Administration sub-committee of the Assembly where a fee fixing resolution is brought before the General Assembly for approval without any scientific basis for arriving at the fees so fixed.

According to the key informants, stakeholders meeting to discuss the fixing of fees and rates are either poorly attended or not adequately represented. Even decisions as to how much has been agreed upon as the rate or tax for a particular year with representatives of the stakeholders, are not relayed back to their entire membership. So when the new fee becomes operational and the revenue collectors go to the field they are confronted with resistance by the same people who technically were part of the decision making.

Records from the Assembly's finance office show that in some cases, the costs and other administrative expenses involved in the procurement of the various tickets and official receipt books the revenue collectors work with are higher than the revenues derived from the sale of the tickets thus leaving very little or nothing at all for the Assembly. The key informants in the study disclosed for example that the minimum rate of ₵1000 per day for hawkers in the market and other such activities within the District is uneconomical and suppresses revenue in the midst of not only the increasing cost of service delivery, but also increasing demand for services and infrastructure. The key informants also revealed that the Assembly's recurrent expenditure keeps on rising faster than the revenues generated not out of will but out of circumstances beyond its control, citing the rising prices of fuel and stationary as examples.

It also emerged from the key informants that in areas like property rates for both residential and commercial/ industrial concerns, it is difficult to increase the property rates on a yearly basis even though the values of those property keep on appreciating and the rents keep on rising. The difficulty is that the property has to be valued before the rate impost could be determined and since it cannot be done regularly, property owners under pay their rates leading further to loss of economic revenue to the Assembly.

IGR and physical development

The concept of financial decentralisation is founded on the premise that sub-nationals would be in a position to generate enough revenues from their geographical and administrative areas of control to meet the developmental needs of their constituents. As Bird (1995) avers, when sub-nationals and local governments become the agencies that provide services to identifiable recipients, then the task of efficiently generating revenues internally to meet the expectations of the recipients of those services becomes a major challenge to the local governments.

The provision of physical infrastructure and other services require huge capital outlay. All forms of resources from all quarters are required to deliver those services. In many developing countries, such funds have come to the sub-nationals from the central government while in other jurisdictions the sub-nationals have on their own succeeded in internally generating revenues that have been the pivot around which the provision of services and other infrastructure have been delivered. Stren (1998) identifies revenue generation to fund the numerous developmental projects which are crucial to enhance the

living standards of their citizens as one of the major problems that confront nations in their service delivery functions. This study examined the internally generated revenue components of the total funds available to the district to meet its recurrent expenditures in the areas of vehicle running cost, wages and salaries for locally employed staff, stationary among others which necessarily must be paid from the internally generated revenues of the Assembly, and to see whether there has been anything left over the years to be used to finance any infrastructure.

The physical development programme for any particular year is captured in the Assembly's Financial Budget which is discussed and approved by the General Assembly. The Financial Budget consists of expected internally generated revenues and central government grants, all of which are to take care of programmed recurrent expenditure as well as capital expenditure by way of service delivery.

The study found a pattern of inconsistent growth of the IGR from 2001 – 2007 as indicated in Figure 3. Internal revenue generation in 2001 was better than 2002, revenue generations for 2003 was more than double that of 2002, while revenue generations in 2004 performed better than 2003. However, 2005 saw a decline in revenue collections relative to 2004 while revenue generation performances of 2006 and 2007 picked up again and performed much better than the previous years. Such unpredictable revenue performance affect the programmed service delivery functions of the Assembly.

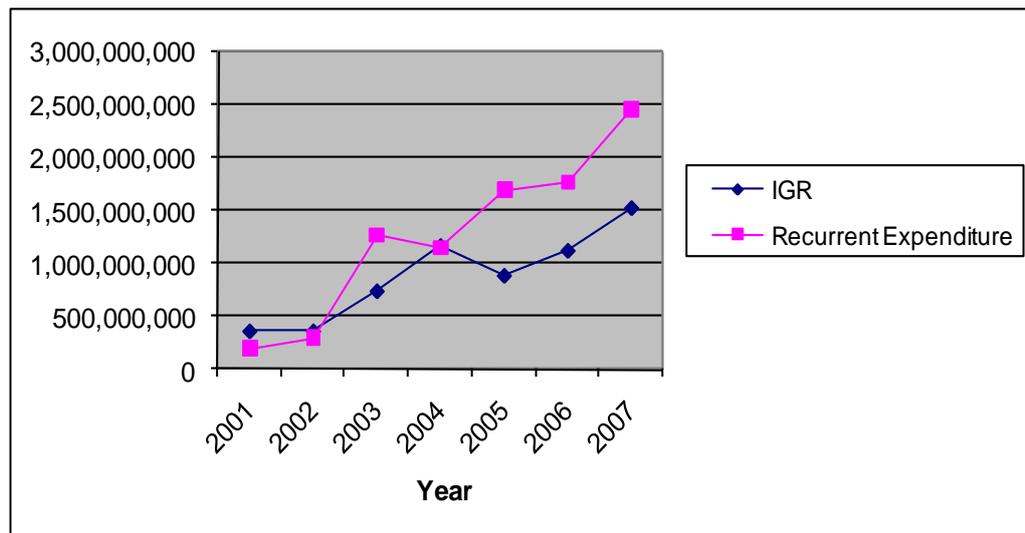


Figure 3: IGR and recurrent expenditure

Source: Ahanta West District Treasury, 2007

It was also found that apart from 2001, 2002 and 2004 when surpluses were recorded in respect of the total IGR collections and total recurrent expenditures, in the 2003, 2005, 2006 and 2007, deficits were recorded between IGRs and recurrent expenditures. This is an indication that no savings were made to fund infrastructure development in the District in those years, thus defeating the aim of financial decentralisation which Emenuga (1993) believes has the potential to generate revenues for local governments to meet their service delivery functions. Even though internally generated revenues progressively grew, they could not, in most periods under the study, meet the growing recurrent expenditure because the cost of running the district, in terms of the day to day expenses, was also growing. This situation could not create surpluses from the internally generated revenues over recurrent expenditure which would have gone to support the central government grants in the physical development delivery function of the Assembly.

The GPRTU, during the focus group discussions appreciated what the Assembly had done for them in as far as their operations were concerned, they also suggested other means which when effected would attract additional revenues to the Assembly as shown in Table 10. The membership of the Beauticians Association of Ghana also asked the District Assembly to identify all members of their trade who operate from their homes and tax them like any of their members, while the Akpeteshie distillers urged the Assembly to keep their eyes on the revenue collectors who take the taxes in kind instead of taking the monies and issuing them with receipts.

Within the same seven year period, the central government grants by way of the District Assemblies' Common Fund grew consistently from year to year from ₵1,356,670,605.00 in 2001 to ₵4,811,058,233.00 in 2005, and dropped slightly to ₵4,332,480,000 in 2007. This shows that in the seven year period, the district depended mostly on the District Assemblies' Common Fund to prosecute its physical development objectives, a situation the GPRTU believes cannot hasten the overall development of the District, during the focus group discussions.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter contains the summary of findings of the study in relation to the set objectives. 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.

The general objective of the study was to examine the potentials and the challenges that confront the District Assembly with regard to its internally generated revenues, while the specific objectives examined the trend of IGR mobilisation, the potential sources for revenue mobilisation and the challenges that impede internal revenue mobilisation in the District.

The study used both primary and secondary sources of data collection. The primary source was through interviews with 250 respondents randomly selected from the six Area Councils, 14 Revenue Collectors, 12 key informants as well as three sessions of group discussions with identifiable trade associations at separate times. The secondary source made use of existing information from the Ahanta West District Assembly and the office of the District Assemblies' Common Fund Administrator.

Summary of findings

The summary of findings is presented in the order of the objectives. The first objective dealt with the examination of the trend of IGR mobilisation in the Ahanta West District from 2001 to 2007 during which period the growth rates generally exceeded the rate of inflation in the study period, the key findings are that:

- Internally generated revenues have over the period 2001-2007 recorded more upward growth in real terms on a yearly basis than decline, relative to the growth of inflation. The year 2002 recorded 0.09% decline in internally generated revenue; the year 2003 recorded a growth of 51.25%, in 2004 growth was 36.62%; the year 2005 saw a 31.7% decline in the internally generated revenue, while in 2006 and 2007, IGR saw 21.04% and 26.45 % growth rates respectively.
- In the year 2002, recurrent expenditure was 54% higher than that of 2001, the year 2003 recorded a recurrent expenditure growth of 324% over that of 2002, the year 2004 saw a recurrent expenditure decline of 10.6% over that of 2003 which was an improvement over the previous year's. In the year 2005, a growth of 48% recurrent expenditure was recorded over that of 2004. The years 2006 and 2007 recorded 8.8% and 39% growth respectively.

The second objective dealt with the identification of the potential sources for revenue mobilisation, and the key findings are:

- The rush by investors into the District for land for purposes of investments in the commercial and industrial sectors to open up the

economy, create jobs, and increase consumption of all manner, all of which will generate direct and indirect revenues to the Assembly,

- Payment of permit fees before construction because of the rush by developers to develop their lands,
- Construction of industrial, residential and commercial houses means increased property rates to the Assembly and other allied taxes,
- Vigorous mobilisation efforts in revenue areas which have for one reason or the other been neglected in the past.
- Periodic valuation of rateable property to ascertain its real economic value for the purposes of property rating.

The third objective in the study also dealt with the challenges that impede internally generated revenue mobilisation and the key findings are:

- The processes of fixing rates and taxes without taking into account the economic cost of service delivery to the people create, imbalances in revenue projections and collections, and the cost of delivering social services and infrastructure,
- Inadequate political will to deal with rate and tax defaulters,
- Inadequate effective supervision and monitoring of revenue collectors,
- The inability of the management of the Assembly to deal stringently with dishonest revenue collectors who short change the Assembly, as well as supervisors and managers of the Assembly's revenues because those whose duties it is to report the wrongdoings to management tend to shield the offenders.

The fourth objective in the study was to determine the extent that internally generated revenues contribute towards the provision of physical infrastructure in the district and the key findings are that;

- The growing recurrent expenditure over internally generated revenues did not make it possible for any significant surpluses to be made to warrant investment in physical development programmes, thus leaving central government grants to take care of development programmes
- In four years out of the seven year period under study, recurrent expenditure exceeded internally generated revenues
- Total recurrent expenditure in the seven year period exceeded the internally generated revenues by about 30%.

Conclusions

On the basis of the summarised findings of the internally generated revenue performance between the years 2001 and 2007, it can be concluded that the internally generated revenues are increasing in real terms but at a rate that is lower than the growth of the DACF. Secondly, the growth rates of the recurrent expenditures within the same period under study, are higher than those of the IGRs, thus whittling the positive gains of the IGRs. Since all recurrent expenditures are to be taken care of with the IGRs, deficits are recorded.

In the area of potentials for increased internally generated revenues, the study concludes that the rush with which developers are embarking on constructional works for industrial, commercial and residential purposes will attract building permits and increase property rate payments, among others, to

the Assembly in future. There still exist areas of tax revenues which have been ignored or down played because of accessibility challenges and low returns, and that, if certain pragmatic measures are put in place by the District Assembly, internally generated revenue collections would improve in such areas.

With respect to challenges, it can be concluded that there are, indeed, challenges of human and institutional nature that confront the District in its revenue mobilisation efforts. These include: limited capacity by the Assembly to determine economic rates and fees that meet the economic cost of service delivery; corruption among some revenue collectors; inadequate education among the tax-paying public; the general apathy towards the payment of taxes by the public and over concentration in limited revenue sources by revenue collectors; leaving other sources described as difficult areas unattended to. The misdirected expectations of taxpayers from the Assembly are major causes of the poor performance of the Assembly in its revenue mobilisation efforts since the payers believe that their needs have not been met by the District Assembly.

The internally generated revenues over the years under study, did not contribute towards physical development of the Assembly. This is because in most of the periods under study, the Assembly recorded deficits as far as internally generated revenues and recurrent expenditures are concerned. Even where surpluses were recorded, they were not enough to effectively support the service delivery function of the Assembly, thus leaving the DACF as the main source of funding for physical development projects.

Recommendations

Based on the conclusions, it is recommended that the Assembly should:

- Make conscious efforts to move into difficult areas like Akpeteshie Distilling camps and very rural communities as well as identifying commercial operations in various households and residences. Areas which have been neglected for reason of accessibility challenges and the lack of logistics for the revenue collectors should be addressed because the Assembly cannot overly depend on a few sources of revenue and expect to maximise its potentials to meet its social responsibilities,
- In fixing fees and rates and other categories of taxes, the Finance and Administration sub-committee of the Assembly should critically analyse the real income needs of the Assembly in relation to the cost of service provision by the Assembly. This will help them fix realistic rates to generate economic revenues to meet its physical development needs,
- Put efficient supervisory and accounting machinery in place to prevent completely or reduce to the barest minimum the incidences of receipts suppression and under stating of charges to payers;
- Regularly engage the services of professional property valuers to do proper valuation of property that spring up in the district so that the Assembly can impose the relevant economic rate on those property. When taxable property are not valued in line with its real economic

value, there is the tendency for the property rate to be underestimated and under collected;

- Put in place, structures that ensure effective supervision and monitoring of the revenue collectors.

The management of the Assembly, in its quest to increase internally generated revenues, is advised to;

- Provide the revenue collectors with the necessary logistics like bicycles and motor bikes to improve their mobility to difficult terrains for revenue collections; improve their conditions of work in terms of salaries and motivational allowances to serve as incentives for commitment and dedication to work, as well as reducing the incidences of embezzlement of funds;
- Set realistic and attainable targets for the revenue collectors and hold them to it;
- Establish clear channels of communication between the collectors and the superior officers of the Assembly for the purposes of official appreciation of the challenges of the collectors for speedy solution;
- Enforce punitive measures against erring revenue collectors who engage in suppression of receipts to their advantage and to the detriment of the Assembly,
- Have the political will to enforce the bye-laws in respect of rate and tax defaulters when complaints of such situations are brought before management by the collectors;
- Embark on regular education campaign and interactions with the rate payers as a means of getting them to understand the need for them to

pay their rates regularly and on the other hand get the Assembly to appreciate their difficulties and needs in other that the Assembly addresses them;

- Actively involve the rate payers in the process of fixing the rates so that they can make inputs into it and also appreciate why and how the Assembly arrives at the fees so fixed;
- Create a communication channel between the rate payers and superior officers of the Assembly so that they can channel and report cases of misconduct on the part of some of the collectors;
- Should reach out to the 46% of the potential rate payers who are not captured to increase the number of rate payers without necessarily increasing the tax itself;
- Appoint representatives from the Trade Associations to join the Finance and Administration sub-committee so that they will make contributions to the fee fixing and understand and appreciate the way the Assembly works and its budgetary requirements.

The leadership of the various organised Trade Associations who take part in the various stakeholders meetings on fee fixing should also;

- Try as much as possible to communicate to their membership the outcomes of meetings they have with the management of the Assembly on rates and taxes;
- Show great interest in making contributions into the fee fixing activities of the Assembly so they will have the opportunity to understand the way the Assembly works and its budgetary requirements;

- Also raise questions as to how their taxes are utilised in terms of the service delivery function of the Assembly;
- Be the fulcrum around which taxes can be collected for the Assembly from their members.

The revenue collectors are also advised to:

- Show greater commitment to their duties in the knowledge that the Assembly cannot deliver on its responsibilities without funds;
- Know that there are laws and bye-laws which deal with erring staff who engage in financial malfeasance, and that anyone of them who breaks the law in the cause of his duties risk being sanctioned;
- Improve their relationship with the public from whom they collect the revenues. This will improve their own credibility and enhance the image of the Assembly as well.

Members of the communities are also advised to;

- Be up to their civic and social responsibilities towards the Assembly in terms of their tax obligations;
- Desist from conniving with some revenue collectors to deny the Assembly of revenues that legitimately due the Assembly; and
- Be interested in public education programmes embarked upon by the Assembly so they can also make an input and a claim on the Assembly.

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APPENDIX 1

INTERVIEW SCHEDULE FOR AREA COUNCIL RESPONDENTS

Please this is a study to ascertain the levels of internally generated revenues in the Ahanta West District Assembly since 1998 and whether such revenues have contributed to the physical developments of the district. I would be very grateful if you could spare a little bit of your time to answer a few questions for me. This is an academic research, that all responses will be treated confidentially and anonymously.

Section A: Background characteristics of respondents

1. Sex of the respondent Male () Female ()
2. How old are you?_____
3. How long have you lived in this District?_____
4. Please what work do you do and for how long have you done this job?

5. Do you belong to any trade or professional association?

6. What are your obligations to the association?_____
7. What are your obligations to the District?_____
8. Do you pay any form of taxes to the District Assembly? Yes () No ()
Don't Know ()

9. If yes, what kind of taxes? _____ 10.
If no, why? _____
11. How often do you pay those taxes to the District Assembly?
Daily () Monthly () Quarterly () Yearly () Others ()
12. Do the fees you pay change very often? Yes () No () Don't know ()
13. If yes, how often do the changes come by way of increments or reduction
in fees, licenses or rates? Quarterly () Yearly () Every 5 years ()
Don't know ()
14. What do you think the District Assembly needs to do to improve your life
or your work? _____
15. How do you assess the Assembly in terms of meeting your developmental
expectations to enhance your business? _____
16. How do you assess the Assembly's role in the development of your
community? _____
17. Have you linked the availability of resources to the Assembly to its ability
to provide you with the infrastructure that you require to enhance your
business? Yes () No ()
18. If no, how do you expect the Assembly to provide the infrastructure to
help your business or community? _____
19. If yes, where do you think the Assembly will get the resources to bring the
developments you expect? _____
20. Do you think the sources you expect to provide the resources for
development can do that alone? Yes () No ()
21. If yes, what makes you think so? _____

22. If no, which other sources do you suggest the Assembly should explore to generate more funds for its activities? _____

Section B: Revenue collectors

1. For how long have you worked as a Revenue Collector in the District?

2. What have been your schedules as a Revenue Collector?

3. What is the relationship between you and those from whom you are expected to collect revenue? _____

4. As a revenue collector for the Assembly, what are some of the problems that confront you in the efficient collection of revenue in the areas assigned to you? _____

5. What have you personally attempted to do to deal with the challenges if any? _____

6. What does the Assembly do to help you to deal with the challenges?

7. Do those from whom you collect revenues pay willingly? No () Yes ()

8. If no, what are normally their complaints and reasons for not paying?

9. If yes, what makes it possible for you to collect what you give to the Assembly? _____

10. How does the public see you as a revenue collector?

11. How do you react to the way the public perceives you?

12. What do you think needs to be done to improve public perception about you?_____

13. Has the Assembly set targets for you? Yes () No ()

14. If yes, how will you compare your collections with the targets?_____

15. If no, how do you measure your performance as a revenue collector?

16. If yes, how often is the target varied? Weekly () Monthly () Quarterly ()
Annually ()

17. What do you think can the Assembly do to meet the targets or improve upon your current collections?

18. The challenges aside, what do you think needs to be done to improve revenue collections in the District on your part as a Revenue collector?

19. What you think need to be done by the Assembly to get people to willingly pay their tax?_____

20. Apart from the normal sources of collections, do you see some areas the Assembly can generate revenues but has not touched? Yes () No ()

21. If Yes, what are some of the areas? _____

22. Why do you think such areas have been ignored in the past?

23. Do you link the Assembly's work to the revenues that it collects

Yes () No ()

24. If yes, to what extent do you think revenue collections have supported the work of the Assembly, particularly in the area of development projects? _____

25. If No, how do you think the Assembly does its work?

26. What do you have to say about the supervision of your work by your superiors? _____

27. What suggestions would you offer to the Assembly which when implemented would help improve its revenue generations?

28. How would you want to be motivated to be able to generate more revenue for the Assembly? _____

APPENDIX 2

QUESTIONNAIRE FOR KEY INFORMANTS

Please provide answers to questions where applicable to your department

(A) Type of Respondents: District Budget Officer, District Finance Officer, District Planning Officer and District Co-ordinating Director

1. How often do you achieve your set targets in revenue generation?

2. If you are unable to achieve your targets what have been the challenges?

3. How do you make up for the shortfalls? _____

4. Do the shortfalls impact on your development programmes? Yes () No()

5. If Yes, how does it impact on your development programmes? _____

6. If No, how do you carry through your programmed activities?

7. If you achieve your targets, to what extent do they impact on your programmed activities? _____

8. Without Central Government grants and other support, to what extent can the Assembly carry through its programmed physical infrastructure?

9. What is the dependence rate of the Assembly on external funding for its physical programmes, including those from the Central Government?

10. Are there any prospects for internally generated revenues to be improved beyond what is happening today? Yes () No ()

11. If yes, what do you think needs to be done to improve the situation?

12. If no, how do you see internally generated revenue supporting physical developmental in the District? _____

13. Do you have a reliable data of the revenue heads that guide you in your annual budgetary preparation? No () Yes ()

14. If no, on what basis do you set your expected internal revenue targets?

15. If yes, how often is the data reviewed as a basis for setting your targets?

16. What are the basis for charging the fees paid by the people?

17. Does the Assembly revise its fees, rates and licenses often? Yes () No()

18. If yes, how often does the Assembly revise its fees, rates and licenses

19. If the Assembly rarely revise its fees, rates and licences, how do you programme your internally generated revenues to support your physical development projects? _____

20. How do the payers receive the revisions if you do it at all?

21. What has been the structure of your finances? _____

22. Which of your sources of revenue has been very reliable in terms of support for programmed infrastructure development? _____

23. Which aspects have not been very reliable in terms of inflows and support for programmed infrastructure? _____

24. To what extent have projected internally generated revenues been achieved? _____

25. When the set targets are not achieved how do you manage your finances?

26. What has been the relationship between your revenues and expenditure?

27. How have you been financing your development programmes?

28. What has been the contribution of internally generated revenues towards the Assembly's development programmes? _____

29. Do you think the Assembly can do better than it is doing now in the area of internally generated revenues to support development programmes?
Yes () No ()

30. If yes, what do you think needs to be done to improve upon the present situation? _____

31. If no, what are the challenges? _____

32. How has your outfit been monitoring revenue collections by Revenue Collectors? _____

33. How has the use of resources been monitored? _____

34. How does a Central Government grant influence the collection of internally generated revenue in the District? _____

35. Do you perceive the attitudes of tax payers as a major constraint to increasing internally generated revenues? _____

36. If yes, what are some of the attitudes? _____

37. How would you consider the rates being charged by the Assembly as a cause of evasion by those who are supposed to pay? _____

38. Do you see fertile areas of revenue collections which have not been explored by the Assembly? Yes () No ()

39. If yes, which are some of the areas that can help boost the internally generated revenue base of the Assembly. _____

40. What do you think needs to be done to maximize revenue collections in these areas? _____

41. If no, is that an indication that the Assembly has no other means of further expanding its internally generated revenue base? _____

Thank you.

APPENDIX 3

GUIDE FOR FOCUS GROUP DISCUSSIONS.

Please this is an informal meeting to discuss your associations, when they were formed, the reason for the formation, the obligations of the membership to the association and the benefits that accrue to the members and other related issues. Each and everybody is free to express a view on the issues that will be raised. I also want to assure you that what we are doing is for academic purpose only.

Thank you.

1. What is the name of your association?.....
2. When was the association formed?.....
3. What motivated its formation?.....
4. What is the number of your membership?.....
5. How do you select your leadership?.....
6. Do your membership owe any obligations to the association?
Yes/No.
7. If yes, what are the obligations?.....
8. How regular do you honour those obligations?.....
9. What do your members benefit from belonging to the association?
10. Do you have any formal or informal interactions with the District
Assembly? Yes/No?

11. If Yes, what kind of interaction?.....
12. Do you have any financial obligations towards the Assembly?
Yes/No?
13. If Yes, what type of financial obligation?.....
14. How regular do you honour those financial obligations?.....
15. If you do not have any financial obligations to the Assembly, why?
16. What does your association expect from the Assembly to enhance
your works?.....
17. Has the Assembly met your expectations? Yes/No?
18. If No, what do you expect that has not been done?.....
19. In your own estimation, what account for the Assembly's inability
to meet those expectations?.....
20. Do we agree that for the Assembly to be able to meet our
expectations, they need funds?.....
21. Where do we think the Assembly gets its funding?.....
22. Can the Assembly depend solely on Government for its funding?....
23. What can you do as an association to help the Assembly raise the
funds to meet our expectations?.....

Thank you.