

**ASSESSING THE CONTRIBUTIONS OF INTERNALLY GENERATED
FUNDS IN THE DEVELOPMENT OF METROPOLITAN ASSEMBLIES IN
GHANA: A CASE STUDY OF THE KUMASI METROPOLITAN ASSEMBLY**

By

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DECLARATION

I hereby declare that this submission is the result of my own work towards the programme, and that to the best of my knowledge, this study contains no material neither published by another person nor submitted for the award of any other degree of the university, except where acknowledgement has been duly made in the text. Any opinion or view expressed and errors found in the work, however, entirely are my responsibility and do not necessarily represent the organizations or individuals who have been cited in this work.

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ABSTRACT

This research was undertaken to assess the contributions of the Internally Generated Funds in the development of Metropolitan Assemblies Ghana, with Kumasi Metropolitan Assembly (KMA) as a case study. The objectives of the study was to examine the various sources of revenue to the Kumasi Metropolitan Assembly, challenges facing revenue generation, strategies for revenue mobilization and the contributions the Internally Generated Funds helps the Assembly meet its developmental needs. Areas considered under the challenges that KMA face included; insufficient IGFs, lack of data for items to be taxed, poor tax education, under declaration of revenue by revenue collectors among others. The conclusion drawn from the research indicated that insufficiency of the available IGF sources for ever increasing expenditure demand has brought the Assembly in huge debts to suppliers and contractors. It was also seen that collection of revenue has not been that effective and that KMA has not been able to fulfill its socio-economic obligations to the people of the metropolis. A number of recommendations were made to KMA and these recommendations suggested strategies be taken to improve the revenue base of KMA. The research however recommended that KMA should invest in shuttle transport, mortuary services, funeral services, and other profitable joint ventures so as to increase the revenue base of the Assembly. Kumasi Metropolitan Assembly should devise a strategic plan to lead the activities of IGF. The plan should include the targets, objectives, strategies and disaggregated to the lowest level possible. The Assembly

should however recruit more revenue collectors and train them to collect revenue for the Assembly.

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DEDICATION

This thesis is dedicated to my Divine Parents, Mr. George Owusu and Madam Theresa Boakye who spent their whole life for the betterment and success of my life through their commitment to my education. May God bless you forever for your immersed love and contributions to my life.

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LIST OF ABBREVIATIONS

CAGD-	Controller and Accountant General's Department
CBD -	Central Business District
DAs -	District Assemblies
DACF -	District Assembly Common Fund
DDF -	District Development Fund
GIFMIS -	Ghana Integrated Financial Management Information System
HIPC -	Highly Indebted Poor Countries
IGF -	Internally Generated Funds
KMA -	Kumasi Metropolitan Assembly
LGA -	Local Government Authorities
MCD -	Metropolitan Coordinating Director
MCE -	Metropolitan Chief Executive
MMDAs -	Metropolitan, Municipal and District Assemblies
MoFEP -	Ministry of Finance and Economic Planning
PFM -	Public Financial Management
UN -	United Nation
VAT -	Valued Added Tax

CHAPTER ONE GENERAL INTRODUCTION

1.1 Background to the Study

Central Governments worldwide depend so heavily on a nation's Internal Generated Funds (IGFs) as a major source of funds for developmental projects and nation building. In Ghana, the central government in executing its responsibilities effectively has embarked on decentralization mechanisms through its created local governments system in the form of the Metropolitan, Municipal and District Assemblies (MMDAs) and is supported by the 1992 Constitution which serves as the backbone for all successful governments in the country.

A reliable revenue system for local governments is an important requirement for the achievement of fiscal decentralization (Bird 2010). Ghana has shown a strong commitment to the decentralization process by enshrining it in the 1992 Constitution to pool resources with the local governments to generate enough (IGFs) for national development.

The goals of Ghana's decentralization program are: intensification and increasing national democratic system, promoting local societal and economic growth and dropping poverty and escalating the choices of the people. Local Government Act 462, (1993), the prime objectives of decentralization and therefore the organization of MMDAs are to:

- Transfer real power to local people to enable them handle local priorities;
- Create a democratic environment and institutions in Ghana for governance and development at the local level, which facilitate the participation of the grassroots in decision making;

- Improve accountability and effectiveness by bringing political and administrative controls over services to the communities where they are delivered;
- Empower local communities and local officials and to free them from constraints imposed by central government;
- Provide a clear link between payment of taxes and service provision;
- Empower District Assemblies to plan, budget, finance and provide services to their residents and
- Mobilize the mass of the people in the area for socio-economic development at the local level.

(Source: Local Government Act, Act 462 (1993))

The decentralization mechanism is a major factor in responding to the huge responsibilities to central governments all over the world which are mostly away from control. It has the possibility to increase competence in mobilizing and distributing scarce countrywide wealth, to develop the way in which local requirements are known as well as enhance accountability and good authority. The Local Government Act, 1993 Act 462, places several responsibilities on the District Assemblies. Apart from exercising the deliberative, legislative and executive functions, which require substantial revenues, the local governments face challenges in mobilizing the adequate revenue and also assessing the impact of Internally Generated Fund on the Assembly's Development Framework.

For the Local Governments to perform their function well, the Act 463 also gives them the power to be the evaluation power for the district and, subject to any special provisions in the Act or in any other performance, no authority other than the Assembly

shall, despite any traditional law to the reverse, have power to formulate or charge rates in the district.

Metropolitan, Municipal and District Assemblies (MMDAs) are confronted with difficulties in assessing and collection of revenue of which the Act 1993 (ACT 462 Sec 94-119) mandates them to do. Major challenges associated with the ongoing decentralization reforms in Ghana are to find appropriate revenue sources, tax enforcement strategies and assessing the contributions of the IGF to the developmental projects in Ghana by the local government authorities. Some of the factors limiting raising adequate IGF for smooth running of the local governments in Ghana can be attributed to some of these problems: Land owners avoid the fee of property rates, revenue collectors do not declare total revenue collected on time to the Assembly and the absence of proper tracking systems, and inadequate assessment of the contributions of the IGF on all economic activities in the districts rather than the District Assembly Common Fund (DACF).

The Government of Ghana is mandated by the 1992 Constitution, the District Assemblies Common Fund Act, Act 455 (1993) and the Local Government Act, Act 462 (1993) to spread out monies from the District Assemblies Common Fund (DACF) to Metropolitan, Municipal and District Assemblies (MMDAs). The distribution of money is essential because the District Assembly system of governance require enough finances to enable the various Assemblies carry out the various developmental projects in the areas of jurisdiction.

MMDAs depend so heavily on the DACF for their operational, financial and investing activities. Notwithstanding; the DACF alone cannot meet the numerous developmental needs by the MMDAs, hence raising adequate IGF as another major

source for funding projects and mitigating the delays associated with the disbursement of the DACF to the MMDAs in Ghana.

1.2 Statement of the Problem

MMDAs are not able to generate sufficient revenue at the local level for development except that Donor Funds, Grants and District Assembly Common Fund are released by the government to support the various Assemblies.

Medium term metropolitan development forecast process confirms with the intention of following the decentralized development programs at hand seems to be elevated demand and anticipation in favor of an enhanced development on the part of local communities in the metropolis. It is true in economics that resources are limited but human needs are unlimited. The demands and prospect of residents are high whereas the available resources to the Metropolis are low. To prevent or do away with this discrepancy, there is the need to increase the revenue base of the Assembly.

The Assembly has for a long time suffered the problem of persistent nonimplementation of development projects in the Metropolitan's five-year medium term development term plans, mainly due to inadequate funds. Successive medium term development plans have not successfully been implemented leading to the decline in fulfilling the Assembly's mandate to spearhead its entire local level development. It is against this backdrop that this study was embarked to unearth the performance analysis of internally generated revenue mobilization. Though decentralization has different forms, this study concentrated on decentralization of fiscal resources to the local level, which is believed to effect in local government and local service distribution.

The Kumasi Metropolitan Assembly's Internally Generated Fund mobilization is suffering from various challenges which include institutional, economic and legal challenges. The Assembly is however mandated by the Government of Ghana to mobilize revenue that will help the smooth execution of its functions, legal duties and responsibilities. To do away with this discrepancy in internally generated revenue, we need to find out if there is the need to outsource revenue collection to private companies.

1.3 Objectives of the study

This project work looks at the contributions of Internally Generated Funds in the development of Kumasi Metropolitan Assembly and the challenges posed in revenue mobilization. The study specifically seeks to:

1. Examine various sources of revenue to the KMA
2. Examine challenges facing revenue generation in the KMA
3. Examine strategies for revenue mobilization by KMA
4. Evaluate the contributions of the IGF to the developmental projects in the KMA

1.4 Research Questions

To attain the set objectives of the research, these questions were constituted:

1. What is the nature of KMA's revenue collection?
2. What are the challenges confronting KMA's revenue collection?
3. What are the strategies for revenue mobilization by KMA?
4. What are the contributions of the IGF to the developmental projects in the KMA

1.5 Scope of the Study

The research looks at local government revenue collection performance in Kumasi Metropolitan Assembly, focusing on Internally Generated Funds as a tool that had been opted for with an intention of improving the revenue collection process. The scope of the research is geographically limited to Kumasi Metropolitan Assembly.

The results and recommendations of this research may be used for similar Metropolitan, Municipal and District Assemblies in the country.

This study covered a period between 2008 and 2014 where Internally Generated Funds were much operational at Kumasi Metropolitan Assembly. The center of the study looks at Internally Generated Funds of Kumasi Metropolitan Assembly in relation to its contribution to the development of the Metropolis.

1.6 Significance of the Study

The study is very important due to the role Metropolitan, Municipal and District Assemblies play towards the accomplishment of development goals and satisfaction of people more especially the down flattened ones. The vital nature of the expectation of residents in various MMDA's calls for constant look at their accomplishment so as to help them have the backing of constituents. MMDA's financial strength in revenue generation must be periodically looked at since their development effort can only be successful if they have strong financial base. It must be emphasized that local government have so much stake in national development.

The study also benefits all stakeholders including central government, local governments, private revenue collecting firms and the general public. This is achieved by providing them with insights on how to cooperate and improve efficiency and effectiveness in revenue collection, and how to ensure effective accountability for the

collected public revenues. For the academicians, the findings of the study will be a point of reference and a basis for further research in the same field.

1.7 Organization of the Study

The study is organized in five chapters. Chapter one basically looks at the introduction of the concepts of Internally Generated Funds in relation to impact on revenue collection to Kumasi Metropolitan Assembly's development framework and sets out the problem of the study, objectives and research questions. The chapter again looks at the significance of the study and organization of the study.

Chapter two reviews various literatures on the study by looking at both the theoretical and empirical literature and attempt to relate it to how Internally Generated Funds are been adopted currently.

Chapter three describes the various methodology employed for the study including data collection techniques, research design, the need to mobilize research instruments and data analysis. The profile of the Kumasi Metropolitan Assembly is also included in this chapter.

Chapter four deals with data presentation, analysis and further discussed the collected data.

Chapter five ends the study with the summary of findings, conclusions and recommendations for improved performance of the phenomenon under study and a statement of the way forward.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter presents a variety of knowledge from various persons and authorities related to the subject under study. It however presents a review of literature pertinent to the research.

Literature review discusses ideas already in books, journals or websites that throws more understanding on the topic under research. The review serves as the framework that guides the study. Areas captured under the review include the decentralization concept, assemblies' revenue collection practice, the public-private partnership concept and its associated benefits and challenges.

2.1 The Concept of Decentralization

The United Nations (1962) provided a definition of decentralization. It defines decentralization for instance "the transfer of authority on a geographic basis whether by deconcentration of administrative authority to field units of the same department or level of government or by political devolution of authority to local government units, or by delegation to special statutory bodies".

Decentralization refers to "the transfer of political power, decision making capacity and resources from central to sub-national levels of government" (Walker, 2002). Rondinelli also defines decentralization to be "the transfer of the responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area wide, regional or functional authorities, or nongovernmental private or voluntary

organizations” (Rondinelli 1989). Rondinelli classified the forms of decentralization in to four: specifically deconcentration, devolution, delegation and privatization.

Decentralization became an important policy objective between the 1970s and 1980s as governments in developing countries sought to create more socially equitable pattern of economic growth to meet the basic needs of the poor. A lot of countries are decentralizing fiscal, administrative and political responsibilities to lower- level governments, the private sector and non- governmental organizations.

There are number of rational justifications for decentralization. Among others, decentralization policy is pursued because of its important effects on resource mobilization and allocation, macroeconomic stabilization, service delivery and equity, which affect local economic development and poverty reduction. It is this development potential that gives the greatest appeal to decentralization policies in most developing countries decentralization policies in developing countries (Ikeanyionwo 2001, 9). According to Reagen (1993) decentralization has two main objectives namely promotion of popular participation in decision making and a more efficient locally based administration. These may however result in making development plans more responsive to local conditions and resource mobilization for self sustained local development.

Walker, 2002, also states that Decentralization has various definitions because it means different things to different people. In the company of various definitions of decentralization, there are some that are commonly accepted decentralization explanation. The United Nations (UN) concept of decentralization which appeared in the UN report was “Decentralization for national and local development (1962)” has become the standard and has been advanced since then by various scholars and authors.

United Nations (UN) however defined decentralization as “the transfer of authority on a geographic basis whether by de-concentration (i.e. delegation) of administrative authority to field units of the same department or level of government or by political devolution of authority to local government units, or special statutory bodies.”Decentralization refers to the transfer of political power, decision making capacity and resources from central to sub- national levels of government (Walker, 2002).

The World Bank divides decentralization into four main categories which is political, market, administrative and fiscal decentralization. There are various forms of decentralization but the research looked at fiscal decentralization since decentralized units if carry out their responsibilities effectively there would be adequate level of revenue and financial responsibility is a foundation component of decentralization. Fiscal decentralization refers to the transfer of financial resources from the central government to the local government unit taking into consideration the responsibilities allocated to these local units. The distribution of revenue to local government by the Central government, the mobilization and management of resources to these units and revenue sharing formula are clear indicators of fiscal decentralization.

2.2 Local Government Revenue Collection Systems

Bahl and Bird (2008) identify two key types of modern revenue for Local Government Authorities (LGAs) in Africa: (a) own revenue which includes taxes, user fees and various licenses and (b) transfers from central or regional levels, usually in the form of revenue sharing and grants (Bahl et al. 2003). Some countries however give MMDAs the right to borrow to finance investments in local capital infrastructure (Yatta and Vaillancourt 2010, Bahl and Smoke, 2003).

Other revenue sources may exist in sub national levels and an example is an external financial contribution which provides considerable funding to the various local governments in some countries. These funds are spearheaded by aid projects or programmes funded by a mix of foreign or international nongovernmental organizations, bilateral and multilateral donors (Yatta and Vaillancourt, 2010). Usually, the local government has very little or no knowledge of such projects both in terms of planning and execution and completion stages. In most rural areas, diverse forms of self- help activities contribute to the maintenance of public services such as village roads, primary schools and health facilities. Currently, constituency development funds and social action funds operating outside the local government budgets are essential funding sources of social and economic development projects at the local levels in some countries especially in Ghana, Malawi, Kenya, Uganda and Tanzania (Baskin, 2010).

2.3 Local Government Revenue Instruments

Local Government revenue systems are usually characterized by a huge number of revenue instruments. The key sources of the Assemblies own revenues come from property rates in the urban councils, business licenses, market fees and the various charges, often in the form of sub charges for services provided by or on behalf of the local government authority. According to McCluskey and Franzsen (2005), experiences from a number of African countries show that revenue instruments have serious shortfalls. For example, property taxes can be very expensive to administer, and the enforcement of user fees has resulted in widespread resistance to pay the poorer segments of the urban population in some countries (Fjeldstad et al, 2005).

Sander (2003) also adds that complex business licensing systems have become major obstacles for the start- up and expansion of especially micro and small enterprises.

According to Pimhidzai and Fox 2011, experiences from other regions shows that when well administered, these revenue instruments can provide substantial and reliable revenues for urban municipalities.

2.3.1 Property Tax

Property tax commonly is a local government tax, levied mainly in urban areas. McCluskey and Franzsen (2005) citing other literature on revenue assignments between various levels of government suggests that few fiscally significant taxes are more appropriate to local administration than property taxes. They allude to the bases that real property is visible, immobile and a clear indicator of one form of wealth. Therefore in principle, property tax is difficult to avoid and if well administered, it can represent a non-distortional and highly efficient fiscal tool.

Sander (2003) disputes the fact that many countries in Africa face a major challenge if property taxes provide a reliable and adequate source of revenue for municipalities. In some countries, the rationality and administrative feasibility of property tax policies and current legislation are even questioned.

2.3.2 Business Licenses

In most African countries the standardized approaches for mobilizing revenue from businesses have been licensing. Even though the original intent was regulatory, local business licensing has increasingly become in short a revenue source in most places. Business licenses naturally generate between 5% and 30% of local government own revenues in urban councils. Many countries however have their system quite unsatisfactory, often quite inequitable and has imposed huge costs on business, while generating little money (Sander, 2003).

Local business taxes are normally levied in one of the two ways (Devas and Kelly 2001) either as a fixed amount, which usually varies by location, size or type of the business, or as a percentage of profits or turnovers. Considering the profitability or turnovers, it is however difficult both in relation to small businesses which often do not maintain proper records and to large businesses with multiple premises across various jurisdictions. Local business taxes often use proxies for profitability or turnover such as the type of business, the size of the premises, number of employees, installed electricity power among packed of other factors.

2.4 Local Government Tax Collection Practices

Local Government Authorities usually encounter problems in collecting taxes, fees and charges. Thus, there are many experiments being carried out to find solutions to make tax collection more revenue productive. Practices for collection of local taxes range from cases where local government authorities collect the taxes themselves to cases where tax collection is outsourced to private agents, semi- private partners and the central government. Market cooperatives and private companies collecting tax on behalf of the local government are examples.

Some taxes and fees are collected by the government and channeled back to the local government. Revenue collection is outsourced to a variety of various and different types of agents within the council. Evidence is open to doubt whether outsourcing has led to better revenue administration performance compared to tax collection remaining a function of local government officials. Outsourcing however can establish a platform where change can be facilitated, but its initial impact and longerterm successful performance depend on the strength and quality of the management of the local government authority. Political commitment to support the reform and transparency

reflected in the provision of accessible and updated information to the general public on the tendering process and bids received, as well as data on the revenue potential and actual collection (Fjeldstad et al 2010).

A foremost dispute facing privatized revenue collection in local government authorities is to access the revenue potential for various tax bases. Generally, revenue assessment is performed on an ad hoc basis, often based on the previous year reported collection. Extensive underestimation of the revenue potential may imply that actual collection by the agent is substantially higher than what is seen in the contract. As a result of this, there is the tendency of ending up in a case where the agent keeps the highest portion of revenues collected, which already seems the case in some council.

2.5 District Assembly's financial resources

District Assemblies in Ghana have three major sources of financial resources: IGF, Inter-governmental Fiscal Transfers, and other Financial Arrangements. These sources are explained in detail as follows.

2.5.1 Internally Generated Funds of Districts in Ghana

Internally Generated Funds are the self financed revenues in the District Assemblies. Internally Generated revenue as per the Sixth schedule of the Local Government Act, 1993, Act 462 consists of funds collected exclusively by or for sub national governments. These revenues can be grouped into tax and non tax sources. Tax revenues are the obliged payments and include taxes chargeable on the incomes of self-employed persons, businesses and properties. The non taxable revenues on the other hand the voluntary payments or contributions paid by specific beneficiaries of the district services and they include user fees or charges, licenses, permits and royalties. The Ministry of Local Government and Rural Development is responsible for issuing

guidelines for levying rates. Based on the guidelines, fee-fixing resolutions are passed by MMDAs upon which revenues are collected.

A study conducted by the World Bank in 2000 discovered some identified problems. These issues include the legislative provisions, implementation strategies and designs, funding relationships as well as issues about economic efficiency and accountability which determine the extent of revenues to be generated in the District Assemblies.

Even though ample legislation has been instituted to enable District Assemblies (DAs) to harness internally generated funds, there are four serious design problems that DAs face (Inanga and Osei-Wusu, 2004). First, the tax bases of local governments are stagnant because of weak databases for determining revenue potentials. Areas within the districts where revenue could be generated are not well identified and therefore the revenue collection level is most favorable. Second, there are complex structures in terms of planning for revenue collection in some districts. Again, mechanisms for collecting internal revenues are ineffective. For instance, revenue collections from property rates are low because properties have not been properly valued. In addition, there are inadequate revenue collectors in most districts.

The last design problem is the absence of appropriate sanctions or punishments for tax defaulters and thereby making residents especially not obliged to pay taxes.

2.5.2 Inter-governmental Fiscal Transfers

Studies have shown that locally own-sourced revenues do not cover local government expenditures responsibility in Ghana. Inter-governmental fiscal transfers are therefore needed to cover this fiscal imbalance. It is observed that there are considerable variances

in terms of the extent of revenues generated by District Assemblies due to differences in revenue generating potentials.

Therefore, inter-governmental exchanges can be utilized to meet national redistribution goals to balance the financial limit contrasts among sub-national governments. What's more inter-governmental monetary exchanges could be utilized to support local consumption on products and administrations that display positive externalities. Such exchanges in Ghana are proposed to support poverty reduction and particular exercises in the locale (Inanga and Osei-Wusu, 2004).

Distinctive sorts of monetary exchange systems are utilized worldwide as part of diverse circumstances. In Ghana, three primaries between governmental monetary exchanges can be recognized from legislative provisions (Inanga and Osei-Wusu, 2004). These are the District Assemblies' Common Fund, Recurrent Expenditure Transfers and Ceded Revenues.

2.5.2.1 The District Assemblies' Common Fund (DACF)

Article 252 of the 1992 Constitution of the Republic of Ghana, accommodates the foundation of a District Assembly Common Fund (DACF). The DACF is built up under an Act of Parliament, Act 455 and alludes to the assignment of at least 5 for each penny „total national revenues“ to MMDAs. The trust is circulated to all MMDAs on the premise of a formula sanctioned by Parliament, payable in quarterly portions and managed by the Administrator of the DACF. The DACF is planned to energize local use on particular merchandize and administrations, for example, those owing to poverty mitigation programs.

2.5.2.2 Recurrent Expenditure Transfers

Since 1995, the Government of Ghana has accepted obligations regarding salaries and additionally pensions of district staff if they fell inside of the affirmed manpower ceilings of the Assemblies. Other operational and authoritative costs of the Assemblies are likewise borne by the Government of Ghana.

2.5.2.3 Ceded Revenues

Revenue sources which hitherto had a place the Central Government, yet which have now been ceded to District Assemblies are considered as ceded revenues. These incorporate stimulation obligations, clubhouse revenues and pay tax on the enlistment of exchange, businesses, professions and in addition rates and duties on harvests other than cocoa, coffee and cotton.

2.5.3 Other Financial Arrangements

The two sources of revenues accessible to District Assemblies are Internally Generated Revenues and the Inter-governmental financial exchanges. While these sources of revenue are vital in financing use, there are other financial arrangements that could back districts' capital use.

Inter-governmental value contemplations recommend that capital investments ought not to be financed through local taxes on the grounds that the long growth of profits from such investments accumulates at a future date. the welfare of future era would be enhanced when capital investments are completed today and they ought to therefore pay for these administrations under value contemplations. Also, the issues associated with getting sufficient funds from own sources and monetary exchanges make a requirement for funds from other sources (Inanga and Osei-Wusu, 2004). Such financial

arrangements could come either from statutory provisions, or associations with other organizations, and or self- managing activities of the District Assemblies.

Four fundamental systems have been recognized as a conceivable financial game plan for districts capital investment needs in Ghana:

- Grants from national governments and donors
- Proceeds from investment funds, and
- Non- monetary arrangements such as communal labor, community self- help projects and contributions from organizations and individuals.

2.6 Revenue Instruments for Local Governments

Olowu and Wunsch (2003) state that sound revenue framework for local government is a crucial pre- condition for the achievement of financial decentralization. Shahs (1998), as well as Oates (1998), include that local revenue mobilization has the possibility to cultivate political and authoritative responsibility by the engaging group.

Then again, solutions getting from the theory and from great international practice force gigantic limitations on the decision of revenue instruments for local governments. Bahl et al (2003), classify local government revenue into two fundamental classifications for local authorities in Africa. These are the Internally Generated Funds which incorporates taxes, user fees and different licenses and exchanges from the Central or territorial levels, more often than not as grants and revenue sharing. In a few countries, Municipalities, Districts and other local authorities are permitted to obtain cash for capital investments infrastructure. In Ghana, the laws make purchase of value shares by local authorities illicit.

2.7 Revenue Sources available to Local Governments

According to Lutaya 2009, using the Ugandan experience, states that there are various types of levies under four major sources as shown below:

(a) User Fees and Charges

- Hotel Tax
- Trading Licenses
- Parking Fees (cars. Motor cycles, etc)
- Market duties
- Fish Monger Permit
- Tender Application Fees
- Tourist License fees
- Registration fees for certificates of birth, marriage, death and political party registration

(b) Property Revenue

- Rent on commercial buildings and land
- Ground Rent
- Building Plan approval and inspection fees
- Sale of boarded assets
- Land search and registration fees

(c) Revenue from specific Trades

- Slaughter fees
- Traditional Healers Practice fees
- Brewing and sale of Alcohol
- Transportation of charcoal and wood
- Lumbering

- Permits for stage plays and public entertainment

(d) Revenue from Persons in gainful employment

□ Local Service Tax is applicable to artisans, businessmen and commercial farmers

2.8 Reforming Local Government Internally Generated Funds (IGFs)

Fjeldstad et al (2000) place a widely found characteristic for local authorities' IGF in Africa is the immense number of revenue instruments utilized for revenue mobilization.

In numerous countries, local governments appear to raise whatever taxes, fees and charges they are fit for raising, often without agonizing exorbitantly over the financial distortions and appropriation impacts that these instruments may make.

Bardhan and Mookherjee (2002), contend that muddled and straightforward local government revenue framework is expensive to regulate and it encourages debasement and blunder.

Besides, numerous local taxes have a distorting impact on asset portion choices and along these lines, a repressing impact on the start- up of new enterprises and the accomplishment of financial development.

Sander (2003) says these impacts happen when successful rates change extraordinarily between diverse products that are exchanged; and when permit fees are situated too high for start- up small scale enterprises to survive.

Fjeldstad and Semboja (in the same place) watch that the levels and sorts of local revenue instruments independent from anyone else can bring about the tax weight falling more on the poor than on the rich. This is predominant because of the basic outline of the local revenue framework and the way revenues are gathered.

Regardless of the numerous exhaustive central government tax reforms amid the last decade, local government revenue systems in Sub-Saharan Africa have remained to a great extent unaltered as of not long ago. By and large, a basic necessity when updating local revenue systems is more prominent emphasis on the expense viability of revenue collection, considering the immediate expenses of revenue organization, as well as the general expenses to the economy, including the consistence expenses to taxpayers. Also, misfortunes through debasement and evasion should be diminished. Unmistakably, enhanced revenue organization cannot make up for terrible revenue plan.

Accordingly, reforming the revenue structure ought to go before the reform of organization since there is very little legitimacy in making an awful revenue framework work to some better degree, Fjeldstad (2001).

- Recently, Tanzania conducted a comprehensive reform of its local government revenue system. The main elements of this reform were: Abolition of unsatisfactory local revenue instruments, which were costly to collect from administrative and political perspectives and
- Improvements to remaining bases by simplifying rate structures and collection procedures.

The Tanzanian reform demonstrates that radical changes of the local government revenue system are possible, although it is too early to assess the longer-term impacts of this reform on local government revenues.

2.9 Strengths and weaknesses of major local government IGF Instruments

As noted above, the internally generated revenue systems across Africa are often described by a colossal number of revenue instruments. However, the fundamental sources of internally generated revenues in urban councils are normally property rates, business licenses and different uses charges, often as surcharges for administrations given by or in the interest of the region.

Nevertheless, encounters from various African countries demonstrate that these revenue instruments have genuine setbacks.

For instance, property taxes can be exorbitant to control (Brosio, 2000, p. 20), and the enforcement of user fees has brought about widespread resistance to pay from the poorer segments of the urban population in few countries (Fjeldstad, 2004; Fjeldstad et al., 2005). Besides, complex business authorizing systems have ended up being major hindrances for the start up and extension of particularly micro and small enterprises (Devas and Kelly, 2001; Sander, 2003).

Be that as it may, international confirmation demonstrates that when all around directed, these revenue instruments can give substantial and solid revenues to urban municipalities.

2.9.1 Property Tax

Property tax is a major wellspring of revenue in a few urban councils (Mikesell, 2002). In the 1990s, property taxes represented 40 for each of all sub-national taxes in creating countries (Flying creature and Slack, 2002,p.6), yet less in numerous African countries; for instance 10-30 for each penny in urban councils in Tanzania (Fjeldstad et al., 2004), and around 20 for each penny in South Africa (Bahl and Smoke, 2003).

It likewise has the possibility to turn into a critical revenue source in semi-urbanized focuses in district councils. Reading materials on revenue assignments between different levels of government contend that few monetarily huge taxes are more suitable to local organization than property tax. This is because of the way that genuine property is obvious, and an unmistakable indicator of one form of riches. Consequently, on a fundamental level, property tax is hard to stay away from and if very much regulated it can speak to a non-distortional and exceptionally proficient monetary tool.

Property tax can be administered by both local and central governments. At the point when local governments direct the tax, they are in charge of keeping up property and possession records, deciding taxable property estimations, figuring and disseminating property tax bills, overseeing receipt installment, and applying tax enforcement against non-payers (Mikesell 2002, p.22). In other cases, local governments have the organization of the tax performed by the national revenue authority. In a few countries, including Malawi, property valuation is finished by the Central Government, while local authorities set rates and handle collection.

As indicated by Brosio (2000), West African French-speaking countries as a rule depend on the conventional French model, in which the property tax is controlled and gathered by the Central Government, whereas East and Southern African countries depend on local organization. This is typically prescribed in the writing that anxieties that taxes ought to be controlled by the government that is qualified for their revenue. Be that as it may, blended results win in both cases in Africa.

Master conclusion wanders on the most proficient method to enhance property taxation in creating countries. A few specialists accuse the intemperate centralization of property tax strategy, which bars setting higher rates. Others accuse what they consider the

verging on total political agitation getting from local government opportunity in this field. There is additionally argument about tax organization. Unquestionably, property taxes have numerous attractions as local bases, however they likewise have a few undeniable shortcomings that should be thought seriously about before overwhelming dependence is put on them. Often the ability and limit of the region are insufficient to administrative the property tax requiring little to no effort (McCluskey et al., 2003). These authoritative shortcomings are showed in issues of valuation and intervention in tax assessment and enforcement. In theory, assessment of property estimation and revenue collection are straightforward; conduct a cadastral overview that assesses the market or site estimation of every plot of land or property and send a tax bill to every proprietor. By and by, nonetheless, cadastral studies are lavish and time intensive (Bahl et al., 2003, p. 79).

The task is often past the financial and specialized capacity of numerous local governments. Tax offices in numerous sub-saharan African countries are short on assessors, on the off chance that they have any by any means (Farvacque- Vitkovi and Godin, 1998). In Uganda for instance, there are eleven ensured land and property valuers in charge of esteeming three million bundles (McCluskey et al., 2003)

2.9.2 Business licenses

Local business taxes are by and large required in one of the two ways (Devas and Kelly, 2001, p. 384) either as a settled sum, which for the most part shifts by sort, size, or area of the business, or area of the business, or as a rate of turnover or profits. Assessing turnover or profitability on the other hand, is troublesome both in connection to small businesses, which often don't keep up legitimate records and to substantial businesses with different premises crosswise over different jurisdictions.

Therefore, local businesses taxes often utilize intermediaries for turnover or profitability, such as the measure of premises, sort of business, number of representatives and so on.

As indicated by Devas and Kelly (2001) on the same page, in Francophone Africa, local governments impose a tax called the Patente was initially based on the French Taxe Professionnelle. In Cote d'Ivoire, the Patente was the biggest single local revenue source in the 1990s, financing around 17 for every penny of the local government spending plan, and more in the capital Abidjan. The estimation of this tax, then again, is truly mind boggling, including the estimation of the premises, number of representatives, turnover and hardware utilized, introduced vitality limit and other size intermediaries. Additionally, inside of this formula, rental estimation of premises is by a long shot the biggest factor, so that the tax begins to look like a property tax.

As point out by Devas and Kelly (2001), in Anglophone Africa, the standard components for mobilizing revenues from businesses have been through permitting. Despite the fact that the first aim was regulatory, local business permitting has increasingly turned out to be just a revenue source in many spots. Normally, business licenses produce between 5 for every penny and 30 for

Each penny of the local government own revenues in urban councils.

In numerous Anglophone countries, then again, the framework has been unsatisfactory, often truly discriminatory. It has forced immense expenses on businesses while creating moderately minimal expenditure. A typical protest from

Small and Medium Enterprises in most African countries has been that they don't comprehend what to pay, and to whom. The regulatory aspects of the permit framework have been a great extent abandoned.

Also, poor arrangement plan and powerless organization imply that permit scope; assessment, collection and enforcement rates are low, prompting poor revenue era. Getting a permit ordinarily includes numerous visits to different offices, at times more than a few days, with associated travel costs. Inability to give the right permit receipts may bring about conclusion of the premises. Thus, the framework is often filled with rent looking for and defilement.

Aranjou- Bonjean and Chambas (2003), state that poor organization often implies that numerous businesses are excluded in the permit framework because of absence of fitting business registers.

Furthermore, frail financial administration will often infer that collection and enforcement provisions are seldom enforced. This dissolves the tax base and brings disparities into the framework.

Along these lines, numerous current business permit systems crosswise over Africa contain genuine imperfections.

According to Devas and Kelly (2001), these include:

- High compliance costs to businesses due to multiple licensing and complex procedures;
- Tariff structures that are complicated and do not reflect ability to pay;
- A process loaded with ineffective regulatory requirements, which provide opportunities for rent seeking;

- Poor administration and evasion, which reduces the tax base and generate inequities; and
- A revenue source that generates relatively little income for local governments.

2.9.3 User Fees- Linking payment and service delivery

Bahl et al (2003) contend that taxes are not the best for coordinating demand and supply of open administrations. Better connections can be accomplished through expense recuperation charging systems, which is tie the sum paid straightforwardly to the sum expended. Additionally, numerous African countries have a long custom of giving basic open administrations through self help exercises, religious and other locally based organizations, as well as through systematized, long haul connections between state offices and sorted out gatherings of residents as co- creation. By giving a more straightforward connection between nationals' contributions and administration conveyance, such systems may get to be compelling intends to recuperate the expenses of administration procurement, and to advance effectiveness in the utilization of the administration. Most spectators like Bahl et al (on the same page) contend that user fees ought to assume a conspicuous part in local government account.

Fjeldstad et al (2005) say that the primary monetary justification for user charges is not to deliver revenue, but rather to support the effective utilization of resources inside of general society sector.

In the perspective of these authorities when appropriately outlined, user charges give information to open sector suppliers on the amount of customers are willing to pay for specific administrations and by guaranteeing that what the general population sector supplies are esteemed by natives. Free or subsidized administrations may bring about

over-utilization of such administrations. Additionally, it may demonstrate hard to focus on the recipients of free administrations.

2.9.4 Implications for policy

Bahl and Smoke (ibid) state that one major administrative problem today for several urban councils in Africa is their inability to collect fully the revenue due them. In many municipalities, there are huge gaps between actual and budgeted revenues. This is due to:

- Poor administrative capacity to assess the revenue base;
- Poor administrative capacity to enforce the payment of taxes;
- Explicit and intentional tax evasion and resistance from taxpayers;
- Corruption, including embezzlement of revenues by revenue collectors;
- External pressure on the local finance department to provide optimistic projections in their budgets;
- Political pressure on the local tax administration to relax on revenue collection especially during election period.

According to Bahl and Smoke (ibid) fundamental issues to be addressed in the context of local government fiscal reforms are to redesign the current revenue structure and to strengthen financial management. Moreover, measures are required to enhance taxpayers comply with bye laws and to improve the accountability of revenue collectors and elected councilors. This however cannot be achieved without substantial and consistent political support from the government. They suggest that intensified public education and improved information supplied to the public on budgets, revenue mobilization and accounts may improve the opportunities for citizens to exercise their voice and demand accountability from local authorities.

2.10 Problems of Local Government Tax Mobilization in Nigeria

Adedokun (2007), has identified these problems as inhibited in tax mobilization in Nigerian local government.

➤ Shortage of Trained Personnel

Shortage of well trained and qualified personnel who are supposed to serve as tool for collection of taxes at the local level, even the few available are not properly trained in efficient budgetary and financial management systems. Also most of the local governments are short staffed to carry out their duties.

➤ Lack of capacity to attract and retain personnel

Local governments lack the capacity to attract and retain the right caliber of staff to articulate plans and execute programmes and projects in order to transform the lives of the grassroots people.

➤ The dependence syndrome

Despite the fact that there are constitutional provisions for statutory allocations and internally generated funds, local governments are tightly controlled and subordinated by state governors through sundry mechanisms, including manipulation of the disbursement of financial transfers to them. Local governments in Nigeria mobilize their funds solely from external sources. The external sources include Federal and State governments financial transfers like grants, statutory allocations, share of Valued Added Tax (VAT), receipts and loans. These external sources introduce a dependency syndrome in local government revenue mobilization effort. Any setbacks from the external sources have adverse effect on the administrative machinery and execution of some local government viable projects. This also has weakened their internal revenue mobilization capacity.

➤ **State control over Local Government Budget**

Another constraint that is imposed on local government revenue mobilization capacity is state control over local government budget, which is made to pass through many levels of approval in the hands of the state. Even after approval, post budget controls still impose further restrictions on what local governments do. The delay in the passage of annual budget for local governments pose great problem in the sense that budget sometimes take three (3) months before approval.

➤ **Corruption**

In addition, insincerity of council staff on field assignment poses greater problem because most of them usually divert collected council fund for their personal usage thereby denying the council of the needed funds for its operations. Some local government chairmen deposited local government's subventions into savings and loans companies in which the local governments had no account. Some however use this as an avenue to divert council's funds for personal use.

Factors that affect low revenue

According to Arye (2003), factors that account for low revenue mobilization in MMDAs include the following;

- ❖ Poor administrative capacity to assess the revenue base and enforcement payment of taxes.
- ❖ Explicit and intentional tax evasion and resistance from taxpayers.
- ❖ Corruption, including embezzlement of revenue by collectors
- ❖ External pressure on the local finance department to provide optimistic projections in their budgets.

- ❖ Political pressure on the local tax administration to relax on revenue collection especially during elections.
- ❖ Poor budget formulation and implementation

Strategies for Effective IGFs

To generate enough IGFs, Korkor made these suggestions to MMDAs:

- Public education on payment of rates, fees, licenses among others by corporate bodies, traders, owners etc.
- Revaluation of immovable properties to reflect the true earnings values of such properties
- Introduction of new business operating permits
- Engagement of private revenue collectors
- Use of task force and the police to enforce payment of fees, licenses, etc.

2.11 Public Sector Financial Management

Public Financial Management is a legal or administrative organizational structures, systems and procedures for managing public sector resources.

Public Financial Management (PFM) is usually seen as the complex of activities related to budget preparation and execution, control, accounting, reporting, monitoring and evaluation (Allen et al. 2004). However, this umbrella term also includes activities related to taxing, spending and debt management of government, which influence resource allocation and income distribution (Rosen 2002).

Responsibilities of the Public Financial Management include the following: Ministries as well as Municipal, Metropolitan and District Assemblies (core civil service),

Departments, boards, agencies, authorities etc. (mainly, non-profit/self-accounting public services), State-owned enterprises or SOEs (mainly profit-making Government business entities).

Public Financial Management activities cover:

- Preparation of budgets and estimates and formulation of fiscal/financial accounting policies
- Recording transactions: through accounting, internal control/auditing & procurement processes
- Financial accounting: preparing Public Accounts-Government (sub-national, central & general and self- accounting entities Reporting- publication of audited financial statements

Public Financial Management is currently underway in the country to eliminate corruption and enhance efficiency in the public sector financial management.

GIFMIS includes the move from manual handling of some major open sector financial exchanges to a centralized electronic platform that will be utilized across the country by Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) to transform these exchanges.

The financial tools being coordinated into a solitary platform incorporate Accounts Payable, Accounts Receivable, General Ledger, and Purchasing and cash management.

There are four factors that characterize the Public Financial Management in Ghana:

- Transfers to sub national government remains largely embedded with the government's budget. The DACF, a statutory fund and representing a little over

7% of primary expenditure, along with HIPC transfers are the only disaggregated element of inter-government fiscal transfers. Substantial personnel emolument payments, some administrative charges, counterpart fund contributions and mineral fund transfers add another 5% of primary expenditure that is transferred in a non predictable or transparent way. This has impacts on decentralization policy formulation; the budgetary performance of the MMDAs and also on such MDAs as the CAGD, Ministries of Chieftaincy Affairs and Local Government and Rural development whose budgets embed such transfers.

- The narrow interpretation of CAGD financial reports to only reflect consolidated fund transactions; this limited interpretation of the FAA, 2003 has led to consolidated financial reports reflecting only a piece primary expenditure and excluding expenditure out of retained IGF. Further, it has meant excluding the reporting of expenditure on development partner funded projects and programmes. It has also meant that in some cases financial figures reported are offset by those amounts that are not considered strictly emanating out of the Consolidated Fund, whereas the budget documentation do not necessarily make those distinctions. The upshot of this has been a reduction in the transparency of financial reporting, a weakening of the reconciliation mechanism as it has introduced a dual expenditure reporting system for MDAs with possible opportunity for overlap. It also increases expenditure management complications with respect to having to setting up dual commitment and establishment controls to be applied separately to Consolidated Fund expenditure as distinct from retained IGF expenditure.
- The hybrid budget classification system: The budget classification

incorporates both line item and activity based budgeting. This, it appears, has required the implementation of a dual warrant and budget release mechanism; one to address the line item classifications (Item-1 and Item-2 carried out by the Controller and Accountant General's Department (CAGD) and the activity budget classifications (Item 3 and Item-4 carried out by Ministry of Finance and Economic Planning (MoFEP).

- The expenditure management remains manual: The Budget and Public Expenditure Management System includes a commitment control module, but has not been rolled out across all cost centers. Consequently, expenditure management including the issuance of purchase orders (commitment control), invoice verification (goods, services and works received note) and payment vouchers remain manual.

CHAPTER THREE METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 Introduction

This chapter provides an outline of research methods that were used for the study. It gives information on the participants, that is, the criteria for inclusion in the study, who participants were and how they were sampled. The research explained the research design that was chosen for the intent of the study and the choice behind. The instrument that was used for data collection is also described and the procedures that were followed to carry out this study are included. The chapter also discusses the methods used to analyze the data. Finally, the profile of Kumasi Metropolitan Assembly was also looked at in this chapter.

3.1.1 Research Design

The study is a descriptive research set out to assess the contribution of Internally Generated Funds in Metropolitan, Municipal and District Assemblies in Ghana, a case study of the Kumasi Metropolitan Assembly. According to Pilot and Hurgler (1995), descriptive survey aims predominantly at observing, describing and documenting aspects of a situation as it naturally occurs rather than explaining them. The design has an advantage of producing good amount of responses from a wide range of people. At the same time, it provides a more accurate picture of events at a point in time.

3.1.2 Research Population

The entire population of the study consists of revenue collectors, management and staff of KMA especially staff from the Metropolitan Finance Office, Budget Office and the Internal Audit unit being the most vital part of the research population.

3.1.3 Sample and Sampling Technique

Sampling was used to choose a portion of the population to represent the entire population. The methods or techniques selected for the study was based on both probability and non-probability sampling. The two main methods that were employed in selecting sample from the population were purposive and simple random sampling techniques.

Purposive non-random sampling technique was used to select respondents from the Finance and Administration Office, Budget Office and the Internal Audit unit due to the fact that, they have requisite information about the issues involved in the study.

Simple random sampling was considered important to the study since the study was intended to ensure some randomness and representativeness in the sample. This selection of respondents for the study required non- probability procedure. The research

however sampled the core management of KMA which consists of the mayor and all departmental heads comprising a total of thirteen (13) respondents.

3.1.4 Sources of Data

Data was obtained from both primary and secondary sources using varied techniques. Primary source of data was gathered through interviews, observations and focus group discussions. The secondary sources of data were from various publications, reports, documents, records, annual financial statements and annual budgets.

3.1.5 Research Instruments

Interviews, observations and telephone conversations were designed for the respondents. The interviews were conducted to capture the critical areas spelt out in the research objectives.

3.1.6 Data Analysis

The data collected were coded using SPSS and Microsoft Excel. Since the study is quantitative in nature, the findings were presented in simple descriptive statistics involving some tables and charts.

3.2 KMA Profile

Kumasi is located in the transitional forest zone, about 270km north of the national capital, Accra. It covers a total land area of 254 square kilometer, stretching between latitude 6.35°- 6.40° and longitude 1.30°- 1.35°, an elevation which ranges between 250 to 300 metres above sea level. Kumasi is bounded to the north by Kwabere District, to the east by Ejisu Juabeng District, toward the west by Atwima Nwabiagya District and the south by Bosomtwe- Atwima Kwanwoma District.

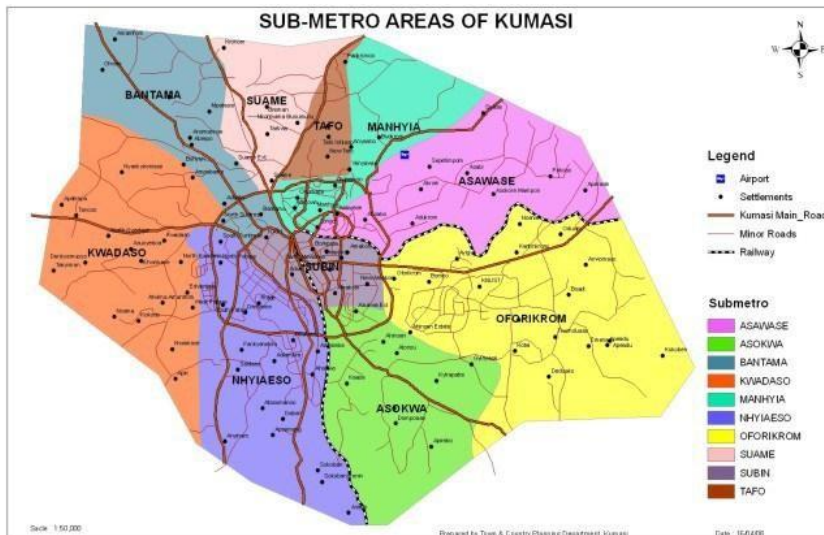
Kumasi Metropolitan Assembly's wonderful format and greenery environment has accorded it the honor the Garden City of West Africa. Kumasi has developed in a concentric structure to cover a range of pretty nearly ten (10) kilometers in radius. The direction of growth was originally along the arterial roads due to the accessibility they offered resulting in a radial pattern of development.

The city is a quickly growing one with a yearly development rate of 5.47 for every penny (Regional Statistical Office, Kumasi). It envelops around 90 suburbs, a large number of which were retained into it as a consequence of the procedure of development and physical extension.

The 2000 Population Census kept the populace at 1,170,270. It was however projected to 1,610,867 in 2006 and has further been projected to be 1,889,934 by 2009 (www.ghanadistricts.com/districts1on1/kma)

Compared to the regional population density (148 for every sq. km) of Ashanti Region, the Metropolis is to a great degree under pressure. This sensation mostly clarifies the reason for the cause of traffic congestion in the Metropolis and the charging of extreme rents for accommodation which has a conceivably negative impact of diminishing inhabitants' capacity to save as a means of capital formulation for sustainable productive employment creation. The large difference in the density of the metropolis and the region is an indication of the generally rural nature of the region due to the presence of many rural areas in the region which is characterizes by low densities.

Fig 3.1 Map of Sub metros in Kumasi Metropolitan Assembly



3.2.1 Metropolitan Decentralized Department

The new Local Government system mandates Assemblies to build up departments to perform various functions, which were beforehand being performed by the Central Government. These are called Decentralized Departments and are responsible to the Assembly and give specialized guidance to encourage the consultations of the Metropolitan Coordinating Director, who is the bureaucratic leader of the office of the Metropolitan Assembly.

3.2.2 Units of the office of the Metropolitan Assembly

The Central Administration of the Metropolitan Assembly, which comprises of core secretariat of the Assembly, is composed of the following:

- Finance and Administration
- Internal Audit
- Public Relations and complaints unit
- Local Government Inspectorate
- Budget Unit
- Planning Unit
- Environmental Health Unit

- Urban Roads
- Legal Department
- Waste Management
- Engineers Unit
- Procurement Unit

3.2.3 Institutional composition of the Kumasi Metropolitan Assembly

The Metropolis is portioned into nine sub metropolitan district councils. They are Asokwa, Bantama, Manhyia, Subin, Nhyiaeso, Kwadaso, Oforikrom, Old Tafo and Suame sub metropolitan district councils.

There are twenty- four town councils in the Metropolis and 150 unit committees.

3.2.4 Revenue and Expenditure Status of KMA

(i) Revenue

The role and capacity of government to raise taxes for the purpose of financing economic development have preoccupied economists and policy makers for a long time. Government Revenue incorporates all amounts of money received from sources outside the government entity. These sources include taxation, fees, fines, intergovernmental grants or transfers, securities sales, mineral rights and resources rights and any sales that are made. The income from these sources is appropriated for the payment of the public expenses in provision of public infrastructure and services. The inflows of financial resources into the coffers of KMA have their sources from:

- Internally Generated Fund
- District Assemblies Common Fund
- Central Government and Donors

- Highly Indebted Poor Countries
- District Development Fund

The authority to generate revenue from the Metropolis by KMA is established in the Local Government Act, Act 462 (1993). Among others, the section 86 of the Act gives a list of things on which the Assembly could impose local taxes and levies.

The Assembly has developed a fiscal structure for mobilizing Internally Generated Fund (IGF). Notable revenue sources that have experienced significant changes are license, fees and fines. This significant contribution by license, fees and fines as well as the increase in the contribution of other sources of revenue highlight the strenuous efforts put in by the Assembly in mobilizing resources.

It is worth noting that the accentuation has dependably been on the Internally Generated Fund (IGF).

This is because the Assembly has little or no control regarding the timely release and the quantum of funds expected from the other sources of funds which are often regarded as grants to the Assembly and these include the District Assemblies Common Fund (DACF), Central Government and Donors and Highly Indebted Poor Countries Initiative among others.

This suggests that the inflow of monetary assets is directly related to revenue collection effort of the Assembly. Hence, failure of KMA to introduce effective machinery and strategies for revenue collection internally means low cash to the Assembly.

To generate enough IGF, Korkor (2003), suggests the following strategies to MMDAs:

- Intensification of public education on payment of rates, licenses, fees, etc

- Revaluation of immovable properties to reflect the true market values of such properties
- Gathering of data on ratable all items
- Introduction of new business operating permits in the Metropolis
- Engagement of private revenue collectors to collect revenue
- Use of task force and the police at work places and elsewhere to enforce payments of fees, rates, licenses, etc.

ii. Expenditure

Kumasi Metropolitan Assembly's total expenditure is categorized into recurrent and capital expenditure. With regard to the Assembly's recurrent expenditure, it was paid from IGF's. The Assembly's major recurrent expenditure items between the years 2009 to 2014 that constitute the recurrent expenditure are:

- Personnel payments made up of salaries, wages, overtime allowances and social security contributions for employees.
- Operational expenditures with respect to Travel and Transport allowance, per diem, general expenses, utilities, telephones etc.
- Maintenance and repairs costs with respect to vehicles, office equipment, furniture etc. Capital expenditure consists of all expenses incurred with respect to developmental projects within the Metropolis. Capital expenditure is financed mainly from the DACF, HIPC Funds and funds provided by bilateral and multilateral agencies. This implies that, development in the Metropolis is heavily dependent on transfers from the central government and donations. The

dependence is attributable to the weak revenue mobilization strategies used by the Assembly. Capital projects financing in the Metropolis is therefore external support- driven.

Development projects in the Metropolis suffer serious setbacks because of the dependence on donors. This situation gets worse when external financial supports delay, fail to come or reduced in quantum. Although the Assembly desires to spend the amount it has budgeted for the year in carrying its operations and supporting development projects, its inability to mobilize enough IGF has often limited the amount it has to spend.

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS OF STUDY

4.1 Introduction

This chapter presents and analyses the data collected through interviews, observations, focus group discussions, telephone conversations and annual financial statements and annual budget. In using the research instruments, attempts were made to determine correlations that existed among variables.

4.2 The nature of KMA's IGF

The interviewers all stated the following as the main source of IGF to the Kumasi Metropolitan Assembly.

Rates are levied on immovable properties. They include residential, commercial and industrial properties. Temporary structures also attract the rate.

Licenses are based on economic activities at KMA. The license serves as the permit for undertaking any such activity in the Metropolis whilst some of such licenses are paid on annual or quarterly basis a greater number of them are paid on monthly basis and thus increasing the cost of collection.

Land revenue which is considered to be part of KMA IGF is administered by a separate central government institution called Office of the Administrator of Stool Land. They intend pay 55% of the revenue collected from land to the Assembly.

Fees and Fines are charges on tolls paid by the users of the services provided by the Assembly and they include market tolls, lorry park tolls among others.

Rent for KMA includes people who have occupied buildings of the Assembly and they are however required to pay an amount yearly to the Assembly

Other Income of the KMA refers to returns from monetary investment.

Miscellaneous is one-off revenue items which were not budgeted for by the Assembly but subsequently KMA gets from people in the Metropolis for operating a venture in a particular jurisdiction.

The table below presents collected IGF for the past six (6) years

Table 4.1 IGF Components and amount collected from 2009-2014

REVENUE: IGF	2009	2010	2011	2012	2013	2014
Rates	2,059,274.93	2,245,036.81	2,398,293.59	2,597,960.12	2,345,784.55	3,294,728.18
Lands	664,875.15	732,876.50	386,468.72	275,200.00	640,693.40	948,553.42
Fees and Fines	2,303,395.64	3,694,408.79	3,067,179.45	3,598,656.86	3,513,516.34	7,584,013.19
Licenses	2,386,125.56	4,918,968.29	5,570,059.20	5,231,560.21	5,978,845.87	7,058,207.40
Rent	369,480.90	516,759.64	316,271.25	177,618.93	621,359.83	662,776.01

Other Income	384.42	1,385.88	23.70	10.69	0.81	-
Miscellaneous	152,397.63	47,675.83	2,074,778.28	144,616.87	331,049.70	576,640.05

Source: Metropolitan Finance Office, 2015

Figure 4.1 Revenue statistics from 2009 to 2014

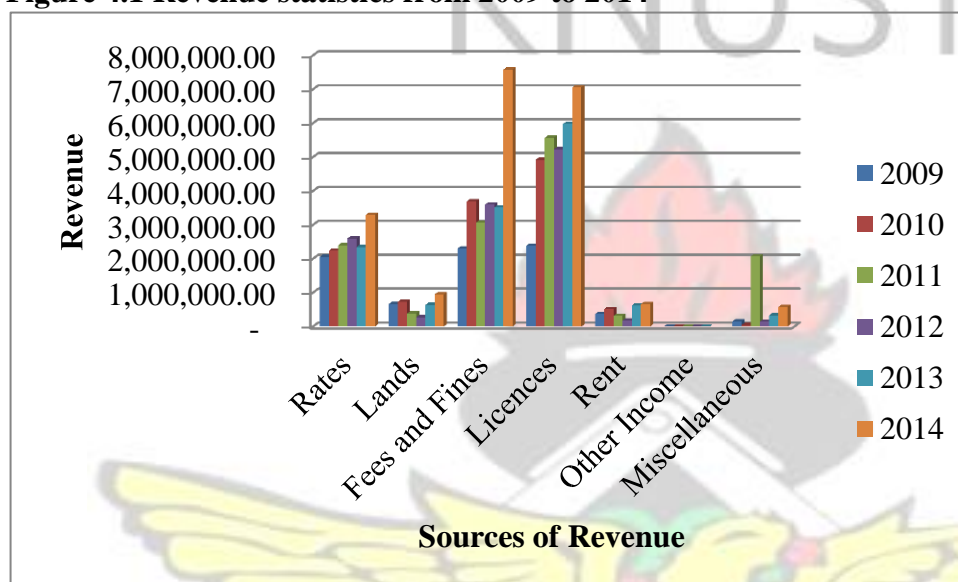
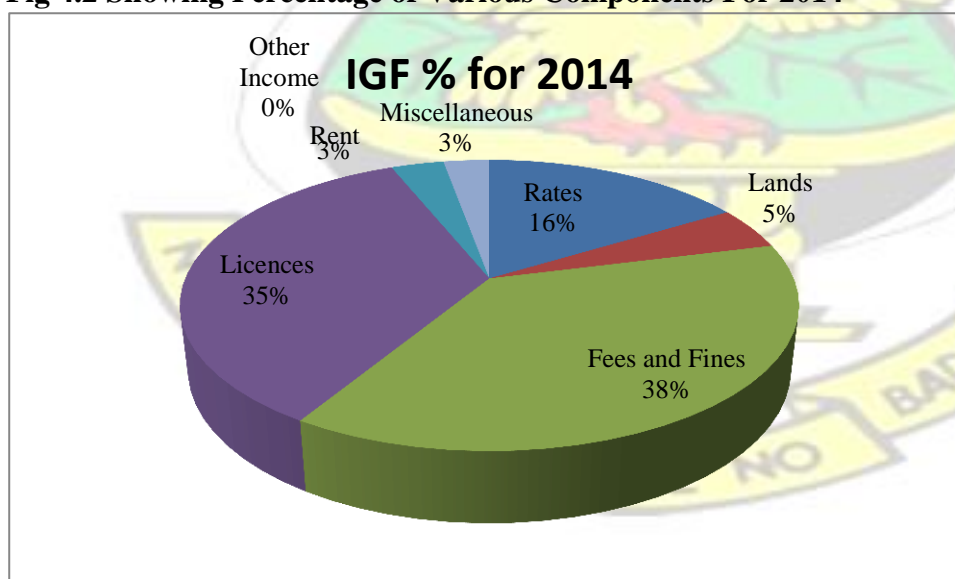


Fig 4.2 Showing Percentage of Various Components For 2014



The table and figure above shows the revenue collected by the Kumasi Metropolitan Assembly. The study indicated that other source of income generated the least to

revenue collection. This was however followed by miscellaneous source of revenue collected. In 2014 for instance, fees and fines contributed the highest revenue to the Assembly at a percentage of 38% (7,584,013.19) followed by license 35% (7,058,207.40) of total revenue to the Assembly. This clearly shows people paid more for fees and fees. This was however evidenced from the fact that the Assembly embarked on decongestion and it forced traders in the metropolis to make payment to the Assembly. License followed because people paid money for operating and doing business within the metropolis.

This data was however provided from the Metropolitan Finance Office and they attested to the fact that the revenue from these components was not enough since the Assembly spends more to educate on radio, hire task force to induce people to pay. The Assembly however cannot depend solely on IGF for developmental projects but also seek support from District Assembly Common Fund (DACF).

It was however found in different written works that IGF has not been stable at KMA because traders, artisans and property owners mentioned they fail to live up to their financial obligations because they do not get the value for money in respect of rates, taxes, licenses. Additionally the Assembly does not give adequate market facilities to enable them sell their wares in order to bring many traders in the tax net. Lastly, the Assembly does not account for all internally generated funds collected each year or even publish its annual accounts for public viewing and thereby makes IGF component unstable in revenue generation.

4.3 Indicators and Trend Analysis of IGF mobilization performance in the past 6 years

4.3.1 Revenue Performance Indicators

Gill (2000) identified some of the important revenue performance indicators and some of these include:

Total revenue against GDP which is used by countries with similar economic and tax structure and gives relative effectiveness of the revenue administration.

Actual revenue against estimated revenue which does not address coverage in terms of potential tax payers but commonly used in Ghana and most developing nations:

Revenue gap that measures the difference between potential and revenue actually collected. With reliable data it may indicate revenue loss due to non compliance and tax evasion.

Amount of revenue paid voluntarily against total revenue collected that indicates voluntary compliance of the tax payers and used to evaluate the perception tax payers of their civic rights and responsibly:

Tax payers' perception which is qualitative indicator and can provide pointers as to the integrity, trustworthiness and efficiency of revenue administration: and lastly

Cost/benefit ratio, that is the ratio of cost of administering the revenue as against revenue generated. Cost benefit ratio is calculated as total annual expenditure of the authority expressed as a percentage of the revenue collected in the given period. It also shows per unit cost incurred against a unit of revenue generated and could be one of the best indicators. It is assumed to be the primary indicator used to estimate efficiency of revenue administration.

Taking in to account the available data and other limitations one of the above performance measures or indicators is used in the analysis. This is actual IGF collected against estimated or planned revenue/IGF and Expenditure patterns of the Assembly.

4.3.2 Internally Generated Fund (IGF) Analysis

4.3.2.1 Budgeted versus Actual IGF in relation with Total KMA Revenue

Figure 4.3 below presents the budgeted and actual performances of total revenue and IGF for the study period. The actual total revenue of the Assembly has dramatically improved from just 7,935,934.23 in the year 2009 to 20,124,918.25 in the year 2014.

Figure 4.3 Revenue Performance of KMA (2009-2014)

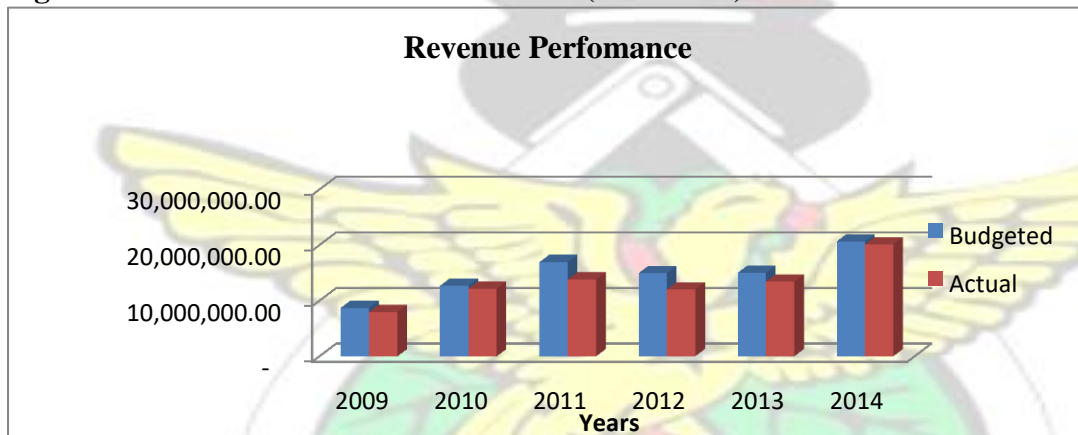
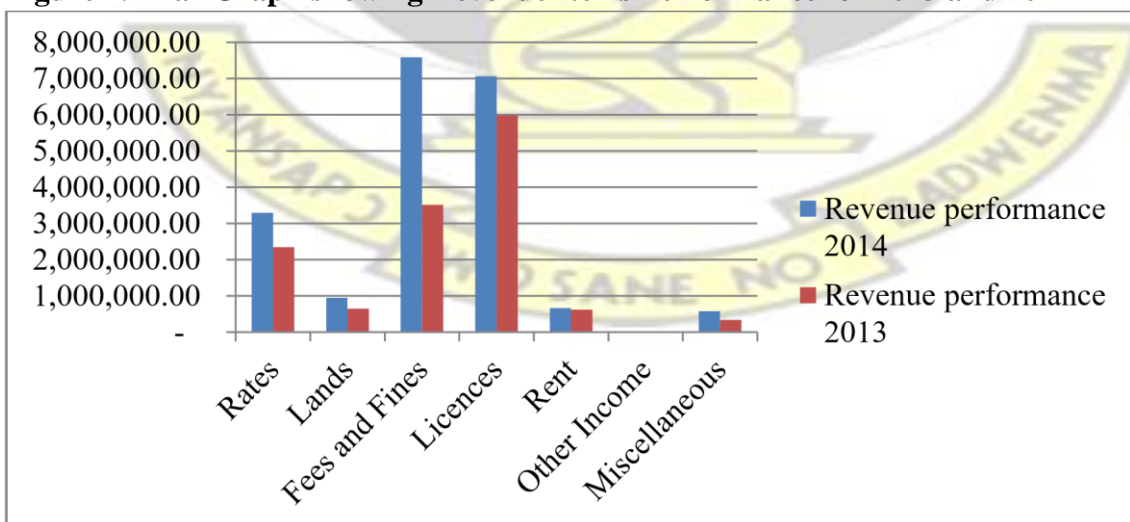


Figure 4.4 Bar Graph showing Revenue Items Performance for 2013 and 2014



The figure 4.4 above shows how KMA internally generates funds for its developmental projects. Revenue performance for 2013 summed up 13,431,250.50 as against 20,124,918.25 in 2014.

The research however is on Internally Generated Fund (IGF) because Kumasi Metropolitan Assembly has little or no control regarding the timely release and the quantum of funds expected from the other sources of funds which are often regarded as grants to the Assembly and these include the District Assemblies Common Fund (DACF), Central Government and Donors and Highly Indebted Poor Countries Initiative (HIPC) among others.

This implies that the inflow of fiscal resources is related directly to revenue collection effort of the Assembly. Therefore failure of KMA to introduce effective machinery and strategies for revenue collection means low inflow of cash to the Assembly.

Korkor (2003), suggests the following to generate enough revenue to MMDAs:

Intensification of public education on the payment of fees, fines, rates, licenses. People in the Metropolis must be educated and well informed to know the relevance of making these payments to the Assembly and the contribution it plays towards the development of the Metropolis.

Revaluation of immovable properties to reflect the true earn values of such properties as this helps the Assembly have an accurate knowledge on all properties to charge.

Gathering of data on ratable all items. There should an accurate and updated data of residents in the Metropolis so as to know the revenue to be collected.

Introduction of new business operating permits in the Metropolis. There should be new business operating permits in the Assembly so as to enhance payment of permits.

The engagement of private entities in the mobilization of financial resources is laudable idea. Private revenue collectors should be brought on board so as to assist the Assembly's revenue collectors.

Use of task force and the police at work places and elsewhere to enforce payments of fees, rates, licenses, etc.

Figure 4.5 Proportion of Revenue Mobilized (2009-2014)

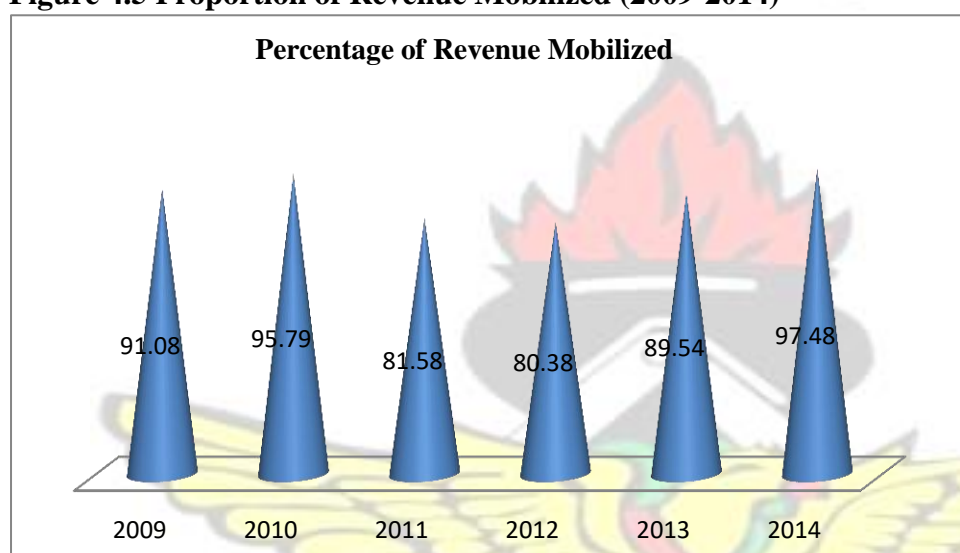


Table 4.2 Proportion of Revenue Mobilized (2009-2014)

Year	2009	2010	2011	2012	2013	2014
Percentage (%) mobilized	91.08	95.79	81.58	80.38	89.54	97.48

Source: Metropolitan Finance Office, 2015

4.3.4 Responsibilities of KMA to the People

Heads of Departments when interviewed were asked to give some responsibilities residents of the Metropolis must enjoy. Below are some of the responsibilities spelt out:

Maintain law and order by involving the police and other security services in the metropolis to enable business persons, corporate bodies, traders, professionals, artisans, to carry out their legitimate businesses in the Metropolis.

Maintain environmental health and sanitation

Stamp out nuisance caused by noise, smoke, dust, etc.

Provide schools, markets, roads, hospitals and clinics, etc

Provide birth, death, funeral and marriage licensing and other services related to estate management and land administration

Provision of municipal services, de-silting of choked gutters, maintenance of parks and gardens, etc.

Views when solicited from the Assembly's Administration, especially from the offices of the Metropolitan Chief Executive (MCE) and the Metropolitan Coordinating Director (MCD), they stated that the Assembly is doing its maximum best given its current financial constraints and the enormity of consumer demands for public goods and services in the Metropolis.

However, it was clear across all departments that the Kumasi Metropolitan Assembly can perform its full responsibilities owed to residents only if residents fulfilled their responsibilities of paying taxes, property and other rates, fees, fines, licenses, etc. voluntarily without the Assembly deploying force to incur additional costs in revenue collection.

4.4 Challenges confronting KMA's revenue collection

As to whether the KMA has challenges, revenue budget targets were compared to its actual revenue.

Table 4.3 On Revenue Performance (2009- 2014)

Year	2009	2010	2011	2012	2013	2014
Budget	8,712,705.29	12,691,684.29	16,931,489.19	14,960,778.99	15,000,886.74	20,644,499.90
Actual	7,935,934.23	12,157,111.74	13,813,074.19	12,025,623.68	13,431,250.50	20,124,918.25
Variance	776,771.06	534,572.55	3,118,415.00	2,935,155.31	1,569,636.24	519,581.65

Source: Metropolitan Finance Office, 2015

The table above clearly shows that KMA has never realized its set target and that they were challenges they encountered in realizing its revenue. When staff of the finance office was interviewed, they gave the following as challenges to KMA revenue collection;

Lack of basic amenities: The Assembly lack inputs to ensure effective collection of revenue.

Poor monitoring on the part of the Finance Office to ensure that all people doing business in the Metropolis are taxed and that the right revenue are collected.

IGF are quite unstable: This was evidenced from the revenue collected for the Assembly. Over the years, the amount collected has not been the same for the following year.

Low caliber of revenue staff: Revenue collectors mostly have attained their Basic education and it does not enhance the nature of work.

Poor tax education: People in the metropolis are not provided on information to pay their taxes. An example of such is the property tax which most people do not have information on period to make payment.

High recurrent expenditure for the Assembly puts the Assembly into making more payment over the month. Examples include salaries and wages, electricity and allowances on work done by staff of the Assembly.

Lack of motivation: Revenue collectors are not motivated enough to induce them to work and this is a challenge to low revenue.

Under declaration of revenue by collectors since they do not give the actual revenue collected.

Poor expenditure control: The Assembly do not have control over the expenses and as such the revenue collected all goes to cater for the expenses.

Lack of data for items to be taxed: There is no accurate data on items to be taxed especially since traders are scattered at the central business district.

4.4.1 Effects of Low Revenue Generation

The staff of KMA attributed the effects of low revenue generation as follows:

Inadequate provision of social amenities and infrastructural facilities

Inability to pay allowances and wages to casual workers at the end of the month

Over - dependence on District Assembly Common Fund (DACF) to carry out infrastructural projects and provision of municipal services and

Indebtedness to contractors and suppliers

The Management of the Assembly said KMA does not generate enough IGF to attract higher grants from the government. According to the Expenditure Accountant, the

Assembly is highly indebted to contractors and suppliers. The interview revealed the Assembly owes contractors and suppliers which date as far back as 2009. And this has made the Assembly un-creditworthy to creditors.

4.5 Strategies to boost revenue mobilization

As to how the Assembly should encourage revenue collection, interviewers gave these measures:

The Assembly should give bonuses and incentives to revenue collectors.

The Assembly should prosecute rate defaulters promptly.

The Assembly should embark on revenue collection education or training for collectors.

The Assembly should establish monthly revenue collection targets for the collectors.

More satellite markets should be built so as to eradicate congestion in the Central Business District (CBD) so as to improve revenue collection.

4.5.1 Forms of Revenue Strategies

The staff of the Metropolitan Finance Office was contacted on the various contributions they employ to mobilize revenue for the Assembly. They gave the following as forms:

Tax Education was where the Assembly employed the services of the media to influence people in the Metropolis to pay their obliged revenues to the Assembly.

Voluntary personal payment was where people especially residents voluntarily made payment on their assigned financial obligation to the Assembly.

Use of Task force: The Assembly at a time engaged the services of the security forces especially soldiers to induce residents in the metropolis pay their due financial obligations to the Assembly.

Use of Road Block persuaded drivers and car owners pay for their licenses in their transport business.

Pay-Your-Tax Campaign involved the Assembly helping the residents understand the need to pay their taxes using door to door campaign, information services in the language they understood so as to make them pay their taxes.

Motivation of Revenue Collectors gave revenue collectors the necessary support to take revenue for the Assembly by providing encouragement and allowances to motivate them.

Capacity Building in Tax Collection involved the Assembly giving training collectors gaining enough knowledge on tax collection.

4.6 Contributions of IGF to Developmental projects in the Metropolis

Per the Local Government Law establishing and regulating the activities of the Metropolitan, Municipals and District Assemblies (MMDAs), the various Assemblies have been mandated to raise revenue from local sources to fund development projects in their areas of jurisdiction. Traditionally, the MMDAs have some sources of revenue that are specified in the Local Government Act. These sources include, raising revenue through the collection of Tolls, Property Rates, Licenses and Permits.

The researcher, in investigating the revenue sources of the Kumasi Metropolitan Assembly sought to discover contribution IGF has played in the development of the Assembly.

The Assembly has embarked on construction of schools, hospitals, roads and embarking on sanitation exercise in the various sub metros. The Assembly also spends most of the revenue to pay salaries to Assembly staff. The Assembly has also granted scholarships to needy but brilliant students to help the educational growth.

The table below shows the Assembly's spending toward the development of the Metropolis.

Table 4.4 Revenue against Expenditure

	2009	2010	2011	2012	2013	2014
Revenue	7,935,934.23	12,157,111.74	13,813,074.19	12,025,623.68	13,431,250.50	20,124,918.25
Expenditure	7,568,486.70	12,100,825.17	13,687,126.11	12,119,217.25	13,416,616.00	20,104,664.05
Variance	367,447.53	56,286.57	125,948.08	(93,593.57)	14,634.50	20,254.20

Source: Metropolitan Finance Office, 2015

The table above shows the revenue collected as against the expenditure of the KMA. It can clearly be seen that the Assembly spends almost all its revenue to develop the metropolis with the exception of 2012 where the Assembly spent more than its revenue to develop the Metropolis. One major factor was a result of delays on the side of Government to disburse the District Assembly Common Fund (DACF) on time to ensure quick payments of expenses related to developmental projects of the Assembly. Also there was a reduction of revenue in 2012 as compared to 2011 whereas the Assembly spent more in relation to its generated revenue.

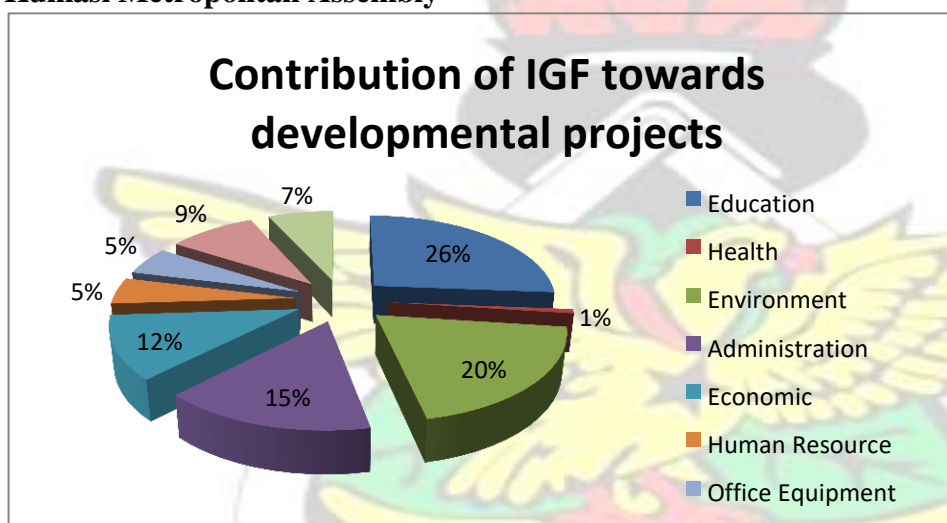
Table 4.5 Showing contribution of IGF to developmental projects as at 2014

Sector	Share
Education	26.24
Health	0.8

Environment	19.72
Administration	15.61
Economic	11.61
Human Resource	4.91
Office Equipment	5.22
Project Management	9.10
Miscellaneous	6.79
Total	100

Source: Metropolitan Finance Office, 2015

Figure 4.6 showing contribution of IGF towards developmental projects in the Kumasi Metropolitan Assembly



The table above shows the percentage of revenue used for developmental projects in the Metropolitan Assembly for 2014. It can clearly be seen that the Assembly uses 26.24% of the total IGF to boost education. This involves building classroom blocks, purchasing computers and other facilities, offering scholarship to students at the basic, secondary and tertiary levels and employees' capacity building. The next on the list happens to be environment, where 19.72% of total revenue for 2014 was used. Here the Assembly spent on sanitation, landscaping and gardening, street lights installation among others. 15.61% of total revenue for 2014 was spent on Administration of the

Assembly. The amount spent for Administration included payment of utilities (electricity, water, internet and telephone charges).

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CHAPTER FIVE SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter finalizes the study and it presents the summary of findings, conclusions drawn and recommendations.

The study investigated the contribution of Internally Generated Funds and the impact on the development in the Kumasi Metropolitan Assembly. The study set out to achieve the following objectives. In first place, the study aimed at identifying the sources of revenue available to MMDAs, particular emphasis of the Kumasi Metropolitan Assembly. Secondly, the study examined challenges facing revenue generation in the KMA. The research also took into consideration the strategies adopted by the Assembly to ensure effective and efficient revenue collection. Finally, this study sought to evaluate the contributions of the IGF to the developmental projects in the KMA.

5.2 Summary of Findings

The research discovered some findings, KMA has insufficient revenue base. Paul Smoke (2001), identifying critical concerns on fiscal decentralization argues that assigned revenues are almost adequate to meet local expenditure requirements in most developing countries. In view of this, it was seen that the assembly had insufficient revenue due to the fact that resident in the Metropolis in their own way wanted to avoid any due payment. Those that wanted to pay also waited in their convenience before they effected any payment. The Assembly had to deploy measures that put the residents on their toes before they make payments.

The result identified some areas that have been outlined by staff of the Assembly as strategies to be adopted to encourage efficient revenue at the Metropolitan Assembly.

These are

- Increased Public Education
- Prosecution of tax defaulters
- Embarking on pay your tax campaign
- Capacity building on tax collection
- Engaging the services of task forces
- Motivating revenue collection staff and commission collectors
- Providing adequate logistics for personnel to work with and
- Embark on on-line payment of taxes

In analyzing the contribution of IGF to the development of the Metropolis, the study found that the Assembly had applied IGF to fund a number of projects in the area. Some of these projects include the construction of markets, cleaning and sanitation, construction and renovation of classrooms, provision of scholarship and educational facilities, provision of street lights and renovation of roads and bridges among others.

5.3 Conclusion

As part of the fiscal decentralization program, district assemblies in Ghana are legally mandated to mobilize internally generated fund from different sources. In this regard the Kumasi Metropolitan Assembly's government machinery functions as per its design. It was however revealed that there are a couple of issues needed to be considered if there is a real demand for improving the IGF performance and there by the entire decentralization program

To ensure that good practices that had been recorded in this study be maintained there should be continuous training for the mobilization team. The study found that revenue collection at the Assembly has been pretty effective and efficient and that though IGF has contributed significantly to the development of the Assembly, it was not enough to meet the development needs of the Metropolis.

Insufficiency of the available IGF sources for ever increasing expenditure demand has brought the Assembly in huge debts to suppliers and contractors as way back as 2009. There is also a high cost of raising revenue for the Assembly.

5.4 Recommendations

The analysis of IGF and its contribution to district development expenditure in Kumasi Metropolitan Assembly has put forward recommendations below:

KMA should devise new methodologies of revenue mobilization. The new systems ought to incorporate investing in shuttle transport, mortuary services, funeral services, and other profitable joint ventures.

A strategic plan has to lead the activities of the IGF system. It is important to have at least a medium term strategy of the IGF unit. The plan should include the targets, objectives, strategies etc and disaggregated to the lowest level possible. For example: each revenue zone needs to have its own plan, the plan needs to be scheduled in time and target of each component/type should be clearly indicated in the plan. More importantly there should be an active involvement of the staff and other stakeholders, and the final plan should be well communicated among them.

The Assembly should recruit more revenue collectors and train them so as to collect adequate revenue for the Assembly.

That a task force or debt collection team should be established to arrest rate defaulters for such rates to be collected for the Assembly.

Embarking on on-line or electronic payment of taxes is also highly recommendable for the Assembly. This will encourage some taxpayers to pay tax at the comfort of their homes and offices without being chased by the Assembly's task force.



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