

**An Assessment of Internally Generated Fund and Its Contribution for District
Development Expenditure:
A Case of Asutifi District, Ghana**

By

KNUST

Maeregu Habtemariam Kazentet

B.A. (Hons) Economics

**A Thesis Submitted to the School of Graduate Studies, Kwame Nkrumah University of
Science and Technology, Kumasi, in partial fulfilment of the requirements for the degree of**

MASTER OF SCIENCE

Development Planning and Management

College of Architecture and Planning

May 2011

DECLARATION

I hereby declare that this submission is the result of my own work towards the MSc. Development Planning and Management programme, and that to the best of my knowledge, this study contains no material previously 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.

KNUST

Maeregu Habtemariam Kazentet

(PG 4394810)

(Student's Name and ID)

Signature

Date

Certified by:

Dr. Kessey K.D.

(Supervisor's Name)

Signature

Date

Certified by:

Dr. Imoro Braimah

(Head of Department)

Signature

Date

ABSTRACT

During the 1990s, fiscal decentralization and local government reform were among the most widespread trends in most developing countries like Ghana. As part of this process a number of policy instruments were developed to empower district assemblies. DAs in Ghana are entitled to mobilize resources locally for their expenditure needs. Internally Generated Fund (IGF) of the sub-national governments is basically the own-sourced revenues of 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.

Taking the past eight years data, this research assessed and examined the role and contribution of internally generated fund for the development of the district in response to the existing challenges and problems of the district. A case study approach is used as this approach is strong in external validity and will enable for extrapolation of the research results to general populations with similar characteristics. Secondary and primary data were used for the study from field sample surveys and documentations.

Statistical tools such as correlation and regression analysis are used to find the linkage between IGR and development expenditure for the past eight years (2003_2010). For the major components and revenue zone of IGR further analysis is carried out using additional statistical tools such as distribution quotient. Cost benefit analysis, as a tool is deployed to measure the efficiency of the established system in the district.

The trend analysis revealed that the IGF and development expenditure of the district have a positive and strong relationship. Both IGF and development expenditures have improved through time. However the change in IGF has mainly accrued due to land royalty from gold mining

companies since their establishment in the district. Insufficient revenue base, existence of two independent institutions working for IGF, poor organizational structure and revenue administration mechanism, gap on knowledge and understanding of revenue, weak voluntary compliance, revenue leakage/corruption and weak participation of important stakeholders are some of the key findings of the study. The study further noted that the district planning, monitoring and evaluation system is poorly designed. It is also noted that the district spends higher cost to raise IGF from the different sources excluding land royalties.

Policy level and operational recommendations are forwarded to improve IGF mobilization and thereby to strengthen the fiscal decentralization program. These include restructuring of the organization, expanding the revenue base and capacity building programs are few to mention.

Although IGF mobilization trend in the district has shown improvement over time, critical review indicates that these changes are mainly associated with the emergence of gold mining industries such as Newmont Ghana, that pay land royalty of which the district gets most of its IGF. Considering the question of sustainability of this source, it is recommended much effort is needed to improve the overall performance of the system. Committed and qualified leadership and personnel along with strong policy and legal backing are needed to restructure the prevailing challenges.

ACKNOWLEDGMENTS

I would like to express my deep gratitude and respect to my thesis supervisors Dr Kessey K.D. for his constructive criticism and dedicated support and follow up. His matured experience and knowledge has broadened my understanding on the subject. Dr Dan Inkoom and Dr Agyman also deserve special thanks for their effort in coordinating our workshops and linking me to the study district.

I wish to express my heartfelt thanks to the Asutifi district Assembly and their staffs for providing me most of the necessary data on the right time.

I would like to appreciate and thank my wife Tiyyint Fikre and my two little daughters Areyate and Meklit for their constant love, inspiration, patience and encouragement. I would also like to thank my father Habtemariam KAZENTET and my siblings for their support and follow up.

Friends such as Dr Petra Zimmermann, Dr Retta Menberu, Tsegaye Mamo, Gezahegne Adgehe, Sintayehu Tesfaye and many others deserve special thanks for what they have contributed to the overall success of this paper and the entire SPRING program.

I am indebted to DAAD and the people of Germany as this program may not be accomplished without a scholarship from DAAD and NRW. Thank you very much.

DEDICATION

This thesis is dedicated to my lovely late mother, Weinhareg Teklehaymanot who spent the whole her life for the betterment and success of her family and unfortunate to collect the ripen fruits. Almighty God may keep her soul in peace.

KNUST



Table of content

Title	Page number
Declaration	i
Abstract	ii
Acknowledgements	iv
Dedication	v
Table of content	vi
List of figures	x
List of tables'	xi
Acronyms	xii
CHAPTER ONE: INTRODUCTION & METHODOLOGY	1
1.1 Introduction	1
1.2 Problem statement and research questions	2
1.3 Research Objectives	3
1.4 Scope of the study	4
1.5 Justification/ Rational	4
1.6 Theoretical framework	6
1.6.1 Decentralization	6
1.6.2 Fiscal Decentralization	7
1.7 Research Methodology	8

1.7.1	Basic concept	8
1.7.2	General approach of the study	9
1.7.3	Variables and major data requirements	10
1.7.4	Sources of data	11
1.7.5	Sampling and sample size determination	11
1.7.5.1	Sample of Tax Payers	11
1.7.5.2	Sample of Tax Collectors	12
1.7.5.3	Sample of Tax Officers	12
1.7.6	Data processing and Analysis	13
1.8	Structure of the study	14
1.9	Limitations	15
 CHAPTER TWO: LITERATURE REVIEW		 17
2.1	Decentralization	17
2.2	Fiscal Decentralization	19
2.2.1	Arguments for fiscal decentralization	21
2.2.2	Arguments against fiscal decentralization	22
2.3	Fiscal Decentralization in Developing Countries	23
2.3.1	Trends of Fiscal Decentralization	26
2.3.2	Elements of a Good Fiscal Decentralization Program in Developing Countries	27
2.4	Fiscal Decentralization in Ghana	28
2.5	District Assembly's financial resources	31
2.5.1	Internally Generated Revenues of districts in Ghana	31

2.5.2 Inter-governmental Fiscal Transfers	32
2.5.2.1 The District Assemblies' Common Fund (DACF)	33
2.5.2.2 Recurrent Expenditure Transfers	33
2.5.2.3 Ceded Revenues	34
2.5.3 Other Financial Arrangements	34
2.6 Conceptual framework	35
 CHAPTER THREE: DISTRICT PROFILE AND ANALYSIS	 37
2.7 District profile	37
2.7.1 Location and Size	37
2.7.2 Topography and Mineral Resources	38
2.7.3 Climate and Vegetation	39
2.7.4 Crops	39
2.7.5 Demography	40
2.7.6 Occupational Distribution	40
2.7.7 Revenue performance	41
2.8 Legal Framework & Institutional Arrangements	42
2.8.1 Legal Framework in Ghana	42
2.8.2 Institutional arrangement for IGF	43
2.8.2.1 District Assembly IGF unit	43
2.8.2.2 Branch of Office of the Stool Land Administration	44
2.9 Summary of sample surveys conducted	45
2.9.1 Tax Payers	46

2.9.2 Tax collectors	48
2.9.3 Tax officers	50
3.4 Indicators and Trend Analysis of IGF mobilization performance in the past 8 years(2003_2010)	52
3.4.1 Revenue Performance Indicators	52
3.4.2 Internally Generated Fund (IGF) Analysis	53
3.4.2.1 Planned versus actual IGF in relation with total district revenue	53
3.4.2.2 IGF by components/types	55
3.4.2.3 IGF by major settlements (revenue zones)	60
3.4.3 Expenditure Analysis	63
3.4.3.1 Annual Approved Budget versus Annual Actual Expenditure	63
3.4.3.2 Total Actual Expenditure by Sources	64
3.4.4 Regression analysis between IGF and Total actual Expenditure	66
3.4.5 Cost Benefit Analysis	68
CHAPTER FOUR: KEY FINDINGS, RECOMMENDATIONS & CONCLUSION	71
4.1 Key findings	71
4.2 Recommendations	76
4.3 Conclusion	79
Appendixes	
• References	81
• Research formats and Questionnaires	84

List of Figures

Figure	Page
Figure 2.1 Conceptual Framework	35
Figure 3.1 Asutifi District Map	38
Figure 3.2 Organizational Structure Asutifi District Assembly IGF Unit	44
Figure 3.3 Asutifi Planned versus Actual IGF (2003_2010)	55
Figure 3.4 Asutifi District Average Annual IGF by components (2003_2010)	57
Figure 3.5 Asutifi District IGF by components/types excluding Land (2003_2010)	60
Figure 3.6 Asutifi District Annual Capital and Recurrent Budget and Expenditure	64
Figure 3.7 Asutifi District Actual IGF versus Total Actual Expenditure (2003_2010)	66
Figure 3.8 Asutifi District Total Actual Expenditure by Sources (2003_2010)	68

LIST OF TABLES

Table	Page
Table 1.1 Sample Size for different groups of respondents	13
Table 3.1 Summary of IGF for the years 2006_2009	41
Table 3.2 Sampled tax payers	47
Table 3.3 Asutifi District IGF and total district revenue (2003_2010)	54
Table 3.4 Asutifi District IGF by major components/types	56
Table 3.5 Asutifi District IGF by component/type excluding Land (2003_2010)	59
Table 3.6 Asutifi District IGF by revenue zones (three years average 2008_2010)	61
Table 3.7 Asutifi District Distribution Quotient	62
Table 3.8 Asutifi District Annual Capital and Recurrent Budget and Expenditure	63
Table 3.9 Asutifi District Total Actual Expenditure by Sources (2003_2010)	65
Table 3.10 Actual IGF versus Actual Development Expenditure (2003_2010)	67
Table 3.11 Asutifi District IGF Cost versus Benefit (2010)	69

ACRONYMS

DA	District Assembly
DACF	District Assembly's Common Fund
DFO	District Finance Office
DQ	Distribution quotient
ERP	Economic Recovery Program
Eg.	Example
FAA	Financial Administration Act
FAD	Financial Administration Decree
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy
GTZ	German Technical Cooperation
ICT	Information Communication Technology
IGF	Internally Generated Fund
MMDAs	Metropolitan/ Municipal/District Assemblies
MTDP	Medium Term Development Plan
NDPC	National Development Planning Commission

NGGL	Newmontt Ghana Gold Ltd
NGOs	Non Governmental Organization
OASL	Office of the Administrator of Stool Land
OECD	Organization for Economic Co-operation and Development
SAP	Structural Adjustment Program

KNUST



CHAPTER ONE

INTRODUCTION & RESERCH METHODOLOGY

1.1 Introduction

The pool of district financial resources in many developing countries might come from seven main sources: independent revenue sources or own sources (if any) assigned to the district (receipts from these sources accrue directly to the district), central government financial transfers to the district (which can have different forms), voluntary contributions by community or beneficiary groups, profits from public enterprises or rents from public properties etc, financial assistance from donor agencies, short and long term loans and other sources like penalties, selling property, etc (Kroes, 2008).

Following the decentralization process, District Assemblies in Ghana now have the responsibility to plan and implement their own projects or programs. The Asutifi District largely depends on internal sources for the day-to-day running of the district administration. These include rates and receipts, royalties from lands, fees and tolls, licenses, rent, investments and other miscellaneous activities that accrue as a result of its own effort at revenue mobilization and generation. Externally, revenue also comes to the District Assembly from the Central Government in the form of Grant-in-aid and the District Assemblies' Common Fund (Asutifi District medium term 2010_2013 draft plan). However Kessey and Kroes (1992) have noted that financing local development programs in Ghana has become so problematic that the survival of the decentralized development process, in operation, appears to be threatened (K.D. Kessey and Gunter Kroes, 1992).

According to the district medium term draft plan (2010-2013) poor data base on revenue/ratable items, inadequate qualified revenue collectors, inadequate and poor marketing facilities, high rate of tax evasion, inadequate logistics to promote education on the need to pay taxes, lack of permanent internal auditors/local government inspectors, inadequate revenue mobilization capacity and weak tax/revenue collection mechanism are the major problems of the district revenue mobilization. Hence this research examines the trends, role and contribution of internally generated fund for the development expenditure of the district in the broader framework of fiscal decentralization program of the country.

1.2 Problem statement and research questions

Medium term district development planning process shows that following the decentralized development programs there seems to be high demand and expectation for an enhanced development on the part of local communities in the district. It is an economic reality that resources are limited and human needs are unlimited. The district resources envelop are limited and the demands and expectations on the part of the community are high. To solve or minimize such a gap one can think how the resources envelop can be increased. In such a situation, finding possible and efficient ways of mobilizing local resources such as IGF is equally important as that of looking for external sources such as central government subsidies.

As indicated above, the internally generated fund mobilization in Asutifi district is suffering from various institutional, legal and economic challenges. On the other hand, the district is expected to mobilize internal revenue that could enable the smooth implementation of its functions, legal duties and responsibilities. In order to minimize such gaps and challenges a thorough investigation is believed to be necessary.

Accordingly the following research questions are derived from the above problem statement:

- What are the legal, institutional and administrative arrangements and gaps for IGF?
- What is the contribution of IGF in the district development in the past two medium term plans? Is there any correlation between IGF and development expenditures? If yes how does it look like?
- What are the bottlenecks and short comings of the existing legal, institutional and administrative system of IGF?
- What lessons and recommendations can be drawn from the experience so far in order to strengthen IGF and its contribution to local development?

1.3 Research Objectives

This research examines the role and contribution of internally generated fund for the development of the district in response to the existing challenges and problems of the district. Therefore the general objective of the research is to assess the contribution of internally generated revenue to the various development expenditures of the district.

The specific objectives of the study are:

- To examine the legal, institutional and administrative arrangements and gaps of internally generated fund
- To find out the correlation and linkage between internally generated revenue and district development expenditures
- To identify bottlenecks and short comings of the internally generated revenue generation and mobilization

- To make recommendations that may help in improving the performance of the district in relation with IGF and over all development programs.

1.4 Scope of the study

Geographically the scope of the research is limited to Asutifi district of the Brong Ahafo region of Ghana. The findings and recommendations may be used for similar districts of the country. The study will be carried out on data of the past eight years. The focus of the subject area of the study is internally generated revenue of the district in relation with its contribution to the development expenditure of the district.

1.5 Justification/ Rational

Following the decentralization program, districts in Ghana have taken various governmental roles and responsibilities. The district councils were made the focal points of local government with administrative and executive power for local level development and governance. The nature of decentralization in Ghana, which encompasses political decentralization (devolution), administrative decentralization and fiscal decentralization has made districts to plan, implement, monitor & evaluate and co ordinate their own development programs under the broader national framework or guideline. District development programs and plans which may have been initiated by the local communities or their representatives require sufficient amount of financial resources. The major sources of finance available for districts in Ghana comes from Central Government transfers, internally generated fund (IGF), grants and loans.

It is a common planning practice that every year a number of projects may be initiated by the local communities and only few are taken to be part of the district plan. This is mainly because

the available resources for plan implementation are so limited as compared to the demand for development projects. It is logically reasonable to think and thoroughly investigate the various sources of finance that the district has at hand.

It is under the above premise that this study is initiated to assess the performance of internally generated fund of Asutifi district, as one of the major source of revenue for the district development plans and programs. The study has examined the policy environment, institutional and administrative set ups of IGF taking into account a time series data of the past eight years of IGF performance of the district. The study has forwarded possible ways and means that may help to improve IGF & the implementation of decentralization program for better governance at local level.

The research may benefit the Asutifi district assembly by further clarifying the existing challenges and problems of mobilizing IGF in the district. The recommendations can be used by the district to improve IGF. The finding of the study may not be limited to Asutifi district and hence it can be utilized by other districts of the country. Stakeholders involved in mobilizing IGF at local level may benefit from the findings and recommendations of the study as the study has clarified their role and coordination for improved functioning of the sector.

Central government, donors, loaners, NGOs and other development partners may use the output of the study as it may give them an insight how the district is mobilizing its local revenue and what efforts are being exerted. The above partner organizations may use the study to shape and strengthen their relationships with the district.

1.6 Theoretical framework

1.6.1 Decentralization

The United Nations (1962) provides a standard definition of decentralization. It defines decentralization as “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”. Rondinelli defines decentralization as “the transfer of the responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations” (Rondinelli 1989). Rondinelli classified the forms of decentralization into four: namely deconcentration, delegation, devolution and privatization.

Decentralization became an important policy objective since the 1970s and 1980s as governments in developing countries sought to create more socially equitable pattern of economic growth and to meet the basic needs of the poor. Many countries are decentralizing fiscal, political and administrative 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, all of 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 (Ikeanyionwo 2001). (Further literature review on concepts follows in the next chapter)

1.6.2 Fiscal Decentralization

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

The emphasis of fiscal decentralization is to strengthen sub national finances and thus their capacity to provide public goods and services. The idea is to give local governments some revenue powers and expenditure responsibility, and allow them to decide on the level and structure of their expenditure budgets. In this way, the local people will be able to articulate their needs and preferences, and participate in governing their affairs.

Fiscal decentralization as a means of achieving local development is based on two main arguments namely economic efficiency and local revenue mobilization (Bahl and Linn, 1992; Oates 1993). Detailed explanation of these concepts is examined in chapter two (literature review).

1.7 Research Methodology

1.7.1 Basic concept

Research methods may be understood as all those methods or techniques that are used for conducting a research. In other words, all those methods which are used by the researcher during the course of studying his research problem are termed as research methods. Research methods can be categorized in to the following three groups: those methods concerned with the collection of data, those statistical techniques used for establishing relationships between variables and those methods which are used to evaluate the accuracy of the results.

Whereas research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It has many dimensions and research methods do constitute a part of the research methodology. When we talk of research methodology we are not only talking of the research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others.

Why a research study has been undertaken, how the research problem has been defined, in what way and why the hypothesis has been formulated, what data has been collected and what particular method has been adopted, why particular technique of analyzing data has been used and a host of similar other questions are usually answered when we talk of research methodology. It is on this conceptual frame work that this paper is prepared.

1.7.2 General approach of the study

As this research will be seeking to describe the pattern of relationship between IGF and its contribution to district development expenditure, a case study approach is used. A case study is suitable since the research will be carried out in the natural setting where the researcher has little control over the events and will also allow the use of random probability sampling where every member of the population under study will have equal chances of being selected as a sample.

Apart from the fact that the phenomenon under investigation is a contemporary issue, the use of case study will enable for extrapolation of the research results to general populations with similar characteristics. The result may be used for similar district of the country.

A better understanding of how the District has been performing in terms of IGF mobilization and generation is sought and therefore historical or time series research is used. This has allowed for studying of trends over the past eight (8) years from 2003 up to 2010.

The three common approaches to conduct research are quantitative, qualitative and mixed methods. Researcher typically select quantitative approach to respond to research questions requiring numerical data, the qualitative approach for research questions requiring textual data, and the mixed methods for research questions requiring both numerical and textual data.

Quantitative research method involves a numeric or statistical approach to research design. This approach maintains the assumption of an empiricist paradigm. Data is used objectively to measure reality. Quantitative research seeks explanations and predictions that will generate to others. The intent is to establish, confirm, or validate relationships and to develop generalizations that contribute to practice and theory.

On the other hand qualitative approach is a holistic approach that may involve discovery. It occurs in a natural setting that enables the researcher to develop a level of detail from high involvement in actual experiences. In qualitative approach social phenomenon is being investigated from participants view point. It is mostly common approach in social science researches.

In examining the contribution of internally generated fund for district development in Asutifi it is believed that a mixed approach is a suitable approach of the study. The research examines the quantitative contribution of IGF for the overall development of the district. Here numerical data on plans and performances are used for trend analysis. Whereas the analysis on the system of IGF administration has been carried out through collection of textual data from the participants of the system: such as the tax payers, tax collectors and officials of the tax sector.

1.7.3 Variables and data requirements

The major variables of data requirement are the annual amount of internally generated revenue from different sources, development expenditures with sources, the number of tax collectors and tax payers, number of settlement and their respective tax collections, views and opinions of participants in the system etc. The numerical data especially those of the amount of IGF and annual expenditures is assessed for the past eight years. Both the IGF and development expenditure data are further disaggregated in to their components in order to find the relative importance of the different components. Further disaggregation and analysis of data is carried out to revenue zones of the district.

1.7.4 Data Sources

The main source of information used for the study are secondary sources of data such as the district annual and medium term plans and reports, district financial balance sheet, related legal documents, central government budgetary allocation etc. To substantiate secondary source of data, primary data is also collected through a structured interviews from selected tax payers, tax collectors (commissioned and permanent staff) and tax sector officials.

1.7.5 Sampling and sample size determination

A sample is a small part of something intended as representative of the whole. Sampling is that part of statistical practice concerned with the selection of an unbiased or random subset of individual observations within a population of individuals intended to yield some knowledge about the population of concern, especially for the purposes of making predictions based on the sample frame. Within this context a sample survey had been carried out to back up the secondary sources of data. Three different but interrelated sample surveys are carried out.

1.7.5.1 Sample of tax payers

The first one is intended to find the views, expectations and recommendations of major tax payers of the district. This survey is carried out through stratified sampling technique. Tax payers are classified based on the type and amount of tax they pay. And each group is represented proportionally and individual sample units are selected from each group randomly. As it has been difficult to know the exact number of tax payers in different categories the sample size is determined by intuition approach through consultations with the district authorities. 60 tax payers from three revenue zones were selected randomly as a sample.

1.7.5.2 Sample of Tax collectors

In order to understand and forward recommendations on the system of IGF collection it is believed conducting a survey on tax collectors of the district is sought to be important. The survey is intended to find how effective or not the functional system of IGF mobilization, from the tax collectors view point.

$$n = \frac{N}{1 + N(\alpha)^2} \text{ where}$$

.N is the sample frame size

.n is the sample size

. α is the level of significance

It is understood that the number of tax collectors in the district, as a sample frame, is 38. As a result it is believed using a mathematical formula of determining sample size is an appropriate technique. Accordingly at 75% confidence interval or at level of significance 0.25 (α) sample size (n) is determined to be 11. The selection of individual sample units is carried out randomly.

1.7.5.3 Sample of tax officers

The major source of primary text information is the information to be collected from tax officers. The officers who are the operators of tax administration are believed to have the necessary information on the historical back ground, trends and changes, potentials of improving the system and the existing challenges of IGF administration in the district.

Table 1.1 Sample Size for different groups of respondents

Sample group	Number of respondents			Sample frame	% coverage of sample	Remarks
	Male	Female	Total			
Tax payers	35	25	60	Unknown		Sample size determined intuitively
Tax collectors	7	3	11	38	29	
Tax officers	2	1	3	8	37.5	
Total	44	29	73			

Source: Author, 2011

With this intension a sample survey interview is conducted with selected tax officers. The total number of tax officers in the district is known to be eight. Taking in to account the available time and number of sample frame a sample size of three is determined intuitively. The chief tax officer of the district IGF unit is selected purposively and the remaining two officers randomly. The summary of sample surveys is presented in Table 1.1.

1.7.6 Data processing and Analysis

Data collected from primary and secondary sources are processed for analysis. First, editing of the collected data is carried out to eliminate any potential error that may pose a serious challenge to the reliability of the research results. At this stage checking the accuracy, consistency and completeness of the information from the survey and the secondary sources was carried out.

Then, coding process was followed where the answers provided were classified in terms of the research questions and objectives. This is carefully done to ensure that all data collected are taken into consideration while also ensuring that information is coded on mutually exclusive and exhaustive groups.

Finally, the data has then been transformed into usable format such as tables, charts and diagrams with respect to frequencies and percentages. Microsoft excel application is used for data processing.

Statistical tools and techniques such as measures of central tendency, correlation and regression analysis are used to find the linkage between IGF and development expenditure. For the major components of IGF further analysis is carried out using other statistical tools such as distribution quotient to find out the contribution and share of each major revenue zone. For example measures of central tendency such as arithmetic mean is deployed in explaining the average IGF performances and district expenditures. Correlation and regression analysis is a very important statistical tool to find relationships and trends. It also helps in forecasting the future based on the past performances. Distribution quotient, which is adopted for this research purpose, is utilized to know the concentration and contribution of the different IGF components in selected major settlements of the district. Cost benefit analysis is also carried out to measure the efficiency of the revenue administration system.

1.8 Structure of the study

The report of this thesis is structured into 4 chapters, in addition with an abstract as executive summary and different attachments including references at the end. The first chapter deals with mainly introducing what the research is all about. It includes the research objectives, questions,

rationale of the study, scope and limitations. It also provides an insight to the basic theoretical concepts of the study. This chapter also presents the general approach and detailed methodological aspects of the study. In this regard it examines why the study has chosen a case study and used both qualitative and quantitative approaches. It further examines the unit of analysis, the data requirements, sources of data, sampling technique used & methods of analysis.

The second chapter focuses on literature review. This chapter examines what is written about the subject and assumed to expand the knowledge base of the study in advance. It begins with the general concept of decentralization and fiscal decentralization and goes down to the case of Ghana and further examines what IGF is all about under the Ghanaian context. It also presented the conceptual framework of the study.

The third chapter is left for data processing and analysis of the study. Information gathered through interviews, questionnaires and usable formats are processed and analyzed in this chapter. Edited and coded field data are presented in different forms such as tables and graphs. The time series data is analyzed using different statistical tools such as central tendencies, correlation analysis and cost benefit analysis.

The last chapter presents the findings, recommendations and conclusion of the research. Based on the analysis, the researcher's observations are summarized and forward at the end.

1.9 Limitations

This thesis may have the following limitations;

1. Data gap – the study is based on a time series data of the past eight years IGF and expenditure of Asutifi district. Relevant and detailed data were not readily available. It

was relevant to check and cross check the secondary data from district assembly with the relevant departments and from the regional level. The primary information gathering was also designed to fill such gaps. Still there are few data gaps that may need further clarity.

2. Limited time and lack of background knowledge of the district – The final version of this thesis was prepared in less than two months time. Given this and the researcher being a foreigner it was difficult to adequately address the socio-cultural issues that related with the research objectives. This can be considered as a gap on the comprehensiveness of the study.
3. Cooperation on the part of stakeholders – As this study is being carried in one of the sensitive sectors of the district assembly, cooperation in providing the necessary information was somewhat not smooth. There was a sense of fear on the part of tax payers and tax collectors to openly disclose information. Efforts have been made through triangulation to minimize these gaps.

CHAPTER TWO: LITERATURE REVIEW

2.1 Decentralization

The United Nations (1962) provided a definition of decentralization. It defines decentralization as “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 defines decentralization as “the transfer of the responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or nongovernmental private or voluntary organizations” (Rondinelli 1989). Rondinelli classified the forms of decentralization in to four: namely deconcentration, delegation, devolution and privatization.

Decentralization became an important policy objective since the 1970s and 1980s as governments in developing countries sought to create more socially equitable pattern of economic growth and to meet the basic needs of the poor. Many countries are decentralizing fiscal, political and administrative 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 (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 result in making development plans more responsive to local conditions and resource mobilization for self-sustained local development.

A number of arguments have been advanced to support decentralization. Hadingham (2003) summarizes these as;

- *Allocative efficiency:* Local authorities are more sensitive to local priorities and needs, and can modify service provision to reflect this;
- *Information provision:* Local government can keep people informed as they are in direct contact with users of services;
- *Responsiveness:* The proximity of local government to service users means that they can be more responsive to local needs than central government;
- *Local revenue maximization:* Local authorities can optimize local sources of revenue by levying local taxes, fees and user charges and using the income locally; and,
- *Accountability:* Local communities are better placed to influence politics and policy at the local level than at the national level. Communities can put direct pressure on local authorities if they are unhappy with the delivery of services.

However, decentralization is not without its risks (Hadingham 2003):

- *Elite capture:* Local elites may capture the benefits of decentralization and are not necessarily more pro-poor than national elites;

- *Revenue minimization:* Local government may have limitations in their capacity to mobilize local financial resources, or be unwilling to do so;
- *Corruption:* More people have political influence under decentralization and consequently the risks of corruption may be higher;
- *Weak administrative and management systems:* The transfer of responsibilities and resources to local government requires effective and efficient administrative and management systems, which may take a while to develop at the local level;
- *Lack of participation:* The decentralization of resources and authority will not automatically result in more participatory and inclusive processes and top down approaches to development may continue regardless;
- *Poor human resource base:* Professional staffs are often unwilling to live and work in remote areas. Staffs that are available are often poorly trained, lacking in motivation and have low levels of capacity.

The way in which decentralization is undertaken and the impact that it has is heavily dependent on the context in which it takes place. Consequently, it is not easy to generalize about what makes the implementation of decentralization successful. And hence it is quite difficult to generalize on the extremes.

2.2 Fiscal Decentralization

The most common theoretical rationale for decentralization is to attain allocation efficiency among different local preferences for public goods and services (Musgrave, 1959; Oates, 1972). Financial responsibility is a core component of decentralization. If decentralized units are to carry out their responsibility effectively, they need to have adequate level of revenues – raised

locally and/or transferred from the central government or from other sources – as well as the authority to make decisions about expenditures. This process of distribution of public finance and responsibilities to the various levels government is usually referred to as fiscal decentralization.

The theoretical case for fiscal decentralization dates back from 17th and 18th Century philosophers, including Rousseau, Mill, de Tocqueville, Montesquieu and Madison. Central governments were distrusted and small, democratic governments were seen as the principal hope to preserve the liberties of free men (Gill 2000).

The emphasis of fiscal decentralization is to strengthen sub national finances and thus their capacity to provide public goods and services. The idea is to give local governments some revenue authority and expenditure responsibility, and allow them to decide on the level and structure of their expenditure budgets. In this way the local people will be able to articulate their needs and preferences, and participate in governing their affairs.

Fiscal decentralization as a means of achieving local development is based on two main arguments namely economic efficiency and local revenue mobilization (Bahl and Linn, 1992; Oates 1993). The efficiency argument is that fiscal decentralization moves government nearer to the people and makes local governments more responsible for decisions about the level and mix of taxes and expenditure, thus increasing welfare.

The revenue mobilization argument for fiscal decentralization centres on the fact that a decentralized tax structure might actually lead to an increase in the overall rate of revenue mobilization. Typically central governments collect taxes with a high threshold, which leaves many individuals and small firms outside the tax net. What this means is that a significant

proportion of taxable capacity is left out of the tax base because of central governments lack the familiarity with the local tax base, which makes it difficult to identify small taxpayers and maintain tax toll. Secondly, the revenue gains from bringing small taxpayers into the tax net are small and negligible compared with the mobilization costs. However, local governments do have familiarity with the local tax base because of a variety of licensing and regulatory activities in property and land based transactions. Also, the potential revenue yield from these local taxable activities may be a sizeable part of the local government budget. Therefore, local governments might be able to reach these small payers through local taxes, rates and user charges for the provision and maintenance of local public services at lower cost than the central government.

2.2.1 Arguments for fiscal decentralization

The modern case for decentralized government was articulated by Wolman (in Bennet, 1990). Wolman divided the proponents' arguments of fiscal decentralization under two headings: Efficiency Values and Governance Values.

Efficiency Values

Efficiency is an economic value seen as the “maximization” of social welfare. The public sector does not contain the same price signals as the private sector, to regulate supply and demand. However, within any political jurisdiction, some people will prefer more, some less, public services. As a result there is a “divergence between the preferences of individual community members and the tax and service packages reflecting the aggregate community preferences”. Since such divergence reduces social welfare, it is desirable to hold those to a minimum and they will be less in smaller communities (e.g., municipalities) than in larger, more heterogeneous areas (the nation).

Governance Values

Governance values include responsiveness and accountability, diversity, and political participation (Wolman, 1997). Decentralization places allocational decision making closer to the people. This fosters greater responsiveness of local officials and greater accountability to citizens. This is because we expect local decision makers to be more knowledgeable about the problems and needs of their local area than centralized decision makers. Further, to the extent that there is accountability through local elections, those elections are more likely driven by issues of local allocation, whereas national elections are seldom focused on local service delivery. Diversity in public policy is a second governance argument for fiscal decentralization. It is valued because it offers citizens a greater choice in public service and tax options when they are deciding where to reside (Tiebout, 1956). In addition, it helps to create “laboratories” for innovation and experimentation, which sometimes serve as models for later implementation by the central government or by example to other local governments. While there is no theoretical reason why a central government could not be diverse in its solutions, there is great pressure on the central government towards uniform policies and procedures. Finally, fiscal decentralization is thought to enhance political participation at the local level. This has the potential to enhance democratic values and political stability at the local level. It provides a forum for local debate about local priorities, and can be a proving ground for future political leaders.

2.2.2 Arguments against fiscal decentralization

While the international political movement towards fiscal decentralization is strong, there have been some cautionary notes that need to be considered (Hommes, 1996; Tanzi, 1995,). Tanzi

summarizes this critique by raising a number of situations or conditions, especially in developing countries, where fiscal decentralization may lead to less than an optimal result:

- Taxpayers may have insufficient information or no political power to pressure local policymakers to make resource-efficient decisions.
- Local politicians may be more corrupt than national politicians or at least find themselves in more corrupting situations.
- The quality of national bureaucracies is likely to be better than local bureaucracies.
- Technological change and increased mobility may reduce the number of services that are truly “local” in nature.
- Local governments often lack good public expenditure management systems to assist them in their tax and budget choices.
- Fiscal decentralization may exacerbate a central government’s ability to deal with structural fiscal imbalances.

Such arguments are difficult to counter because most people would tend to agree that at least some of these problems exist in a significant number of developing countries. But a counter argument could be that these conditions may not exist in all developing countries and the elaboration of these problems relates to mainly short-term macroeconomic issues. Even if these concerns are real, it is important to consider whether they are eventually offset by potential microeconomic gains that justify decentralization in the fiscal federalism model.

2.3 Fiscal Decentralization in Developing Countries

The reform of economic systems in developing countries during the 1980s focused largely on increasing the role of the market and improving the environment in which it operates. For some

years, there was a preoccupation with the private sector, such that the potential role of the public sector in promoting development received little attention. In recent years, there have been widespread attempts to both redefine the role of the public sector in developing countries and improve its performance. An increasingly important goal of these reforms is the decentralization of government functions (Paul Smoke 2001). During the 1990s, fiscal decentralization and local government reform were among the most widespread trends in development (World Bank, 2000).

In the 1980s, just prior to the emerging fiscal decentralization trend, local governments in *Organization for Economic Co-operation and Development* (OECD) countries accounted for, on average, 11 per cent of total public employment, and in some countries as much as 25 per cent. In contrast, local governments in developing countries accounted for an average of 4.5 per cent of public employment, ranging from 2.5 per cent in Africa to 8 per cent in Asia. Public expenditure data from the late 1980s and early 1990s indicate that the local government share of total government spending averaged 32 per cent in the industrialized countries versus 15 per cent in the developing world (Bahl and Linn, 1992).

In evaluating the suitability of fiscal decentralization, it is important to consider the historical basis for fiscal centralization and the factors that have been undermining it (Smoke 2001). Traditional systems in some parts of the world, particularly in Asia, have been highly centralized for centuries. Local governments were introduced in many developing countries through colonization and development assistance, often taking a form that neither met their intended purpose nor gained acceptance from the local people. Post-independence leaders were left with an institutional framework that was not consistent with their culture and needs, commonly used

local governments for administrative and control purposes rather than to promote self determination, democratization and economic development.

Early development economists also discouraged the development of local government by advising officials of developing countries that they could maximize growth by centralizing control over the economy. Development strategies were based on central planning, large-scale technology transfer, industrialization and spatial centralization to capture economies of scale and promote growth (Mills 2000). Thus, development responsibilities were concentrated at the centre, and local authorities were largely neglected. In many developing countries, a general lack of managerial and technical expertise has precluded— or been used as an excuse to avoid—the formation of local government institutions and an effective working relationship between the central and local governments (World Bank 2000). Given the limited pool of human resources and the scarcity of training and educational facilities, some central governments feared competition for qualified staff if decentralized governments were strengthened.

The most important reason local governments have been neglected in developing countries is that strong central governments often oppose decentralization (Rondinelli 1990). Some reasons for this reluctance are legitimate, such as the need for nation building in ethnically fragmented societies and central macroeconomic control in fragile economies. Equally important, however, is the reality that the governing elite, who may be dominated by particular ethnic groups, fear the loss of power and wealth inherent in meaningful decentralization (Paul Smoke 2001). In addition, central ministries and/ or political parties that control substantial resources rarely want to share them with autonomous local governments.

2.3.1 Trends of Fiscal Decentralization

Although many developing countries are likely to remain fairly centralized in the near term, a few emerging realities have collectively generated a growing interest in developing or reviving local government (World Bank, 2000). First, economic planning by central governments has not been successful in promoting adequate development. Although there have been periods of strong economic performance in the developing world during the past few decades, particularly in Asia, many countries have faced a variety of economic problems that central governments have been unable to cope with.

Second, changing international economic conditions and structural adjustment program designed to improve public sector performance have created serious fiscal difficulties for developing countries. Growing service demands and underperforming economies resulted in large budget deficits, which were financed primarily by external borrowing. Over time, interest payments claimed an increasing share of public resources, and a vicious cycle of borrowing and overspending ensued. In response, central governments are trying to reduce their role in managing development and to rely more on local governments, which are often underutilized and may have considerable untapped revenue potential.

Third, changing political climates also encourage the development of local governments in developing countries. As people become more educated, better informed through improved communications and more aware of the problems of central bureaucracies, they desire to bring the control of government functions closer to themselves. In numerous developing countries, there has been movement toward greater democracy as military regimes and dictatorships are forced to relinquish power and institute political reforms (Manor 1998). This sets an example for

other countries and emboldens people to push for further changes, including efforts to decentralize.

2.3.2 The Elements of a Good Fiscal Decentralization Program in Developing Countries

According to Paul Smoke (Smoke 2001) key elements that should be included in a good fiscal decentralization program are: an adequate enabling environment; assignment of an appropriate set of functions to local governments; assignment of an appropriate set of local own-source revenues to local governments; the establishment of an adequate intergovernmental fiscal transfer system; and the establishment of adequate access of local governments to development capital. Now let us see in a little detail two of the elements which are more important for the research at hand: an adequate enabling environment and assignment of an adequate set of local own-source of revenues.

a) An adequate enabling environment

An enabling environment for fiscal decentralization can begin with constitutional or legal mandates for some minimum level of autonomy, rights and responsibilities for local governments. This provides a foundation on which to build decentralization, but it does not by any means guarantee successful fiscal decentralization. There are many countries with constitutional clauses and laws on local government that have not managed to decentralize successfully. A good example is Indonesia, which became more fiscally centralized after a major decentralization law was passed in 1974 (Smoke and Lewis, 1996). On the other hand Ethiopia and Uganda, two often-cited cases of recent good performance (Bahl 1997 and World Bank 2000). First, in both countries, emerging political conditions have led to a strong national will to decentralize, second, both countries have recently developed unusually robust and clearly

defined constitutional and legal provisions to support decentralization and the strengthening of decentralized levels of government, third they established institution to oversee and co-ordinate decentralization and local government reform and fourth both Ethiopia and Uganda recognized that effective local governments must have adequate resources to meet their responsibilities under decentralization.

b) Assignment of appropriate revenues to local governments

Central governments generally attempt to assign local government's revenue bases that are relatively immobile and should therefore not lead to serious spatial efficiency effects, which do not compete seriously with central tax bases and so on. Paul Smoke (2001) identified four particularly problematic concerns on the revenue side. First, assigned revenues are almost never adequate to meet local expenditure requirements. This means that central government transfer programs are inevitably required. Second, local governments often use too many unproductive revenue sources that barely cover the costs of collecting them. Third, the same lack of attention and capacity to implementation also plagues the revenue side. Fourth, individual local revenue sources suffer from some serious design problems, such as static bases, overly complex structures and ineffective collection mechanisms.

2.4 Fiscal Decentralization in Ghana

Local governments were introduced in Ghana as a result of colonization and development assistance requirements. The earliest attempts at local administration during the colonial era were with the native authorities, which centered on a chief or some unit of local royalty, which was not well defined. These native authorities were not democratically elected but handpicked to represent the interests of the British Colonial Government as well as to administer law and order

(Inanga and Osei-Wusu 2004). According to Inanga and Osei-Wusu subsequent steps towards decentralization were purposely for administrative and control purposes. These, among others include the Municipal Ordinance of 1859, which led to the creation of municipalities in the coastal towns of the Gold Coast, as Ghana was then known. Over the years, various attempts have been made to establish decentralization in Ghana. After independence the Local Government Act, Act 54 of 1961 was enacted. The features of these efforts include a central government body, which dealt with national issues and the local authorities as central government agencies. Decision making at the local level, however, took much time because most issues had to be referred to the ministerial levels. The effects are the stifling of local autonomy, democratization, economic development and self-determination (Inanga and Osei-Wusu 2004).

Some challenges to the earlier efforts in decentralizing the machinery of government from the centre to the local levels included the lack of personnel with professional skill and expertise as well as financial resources to meet obligations. These factors, among others such as the increased demand for infrastructure and services, necessitated the institutioning of the current decentralization policy. The economic policies adopted in Ghana during the 1980s focused mainly on an aggressive program of stabilization and economic liberalization. The main features include, first, the Economic Recovery Program (ERP) and the Structural Adjustment Program (SAP). These programs emphasized a private sector-led growth with limited role of governments. The other issue was the creation of a market friendly environment. In the decade that followed, annual GDP growth averaged 5 per cent and physical and social infrastructure was rehabilitated. However, the role of the public sector in development seems to have been ignored as at 1988. There were thus increased economic and political pressures to decentralize the functions of government (Inanga and Osei-Wusu 2004).

There are five main implementation aspects in Ghana's decentralization policy. These are political, administrative, planning and programme implementation, management of public/private partnerships and fiscal decentralization. Most of these policy aspects have experienced tremendous strides. This includes the formation of local government institutions that have been empowered to exercise deliberative, legislative and executive functions at the sub-national level of governments. In Ghana, there are three levels of government, namely, the national, regional and the metropolitan/municipal or district levels. The sub-national government structure comprises ten Regional Coordinating Councils, 170 Metropolitan/ Municipal/District Assemblies (MMDAs) and Town/Area Councils and Unit Committees (Inanga and Osei-Wusu 2004).

Main features of the current decentralization program, which has implications for the management of finances, include:

- the composition of the district assemblies: appointed and elected members;
- re-demarcation of districts to create more manageable and viable local government units and district assemblies as non-partisan local government bodies;
- empowerment of district assemblies as the legislative, administrative, development planning, service delivery, budgeting, and rating authorities; to promote participatory decision-making and implementation;
- establishment of a National Development Planning Commission to co-ordinate decentralized development planning;
- the non-partisanship of the district assembly to promote consensus building though functioning in a politicized environment;
- the capacity for bottom-up planning and the effective resourcing of such plans;

- transfer of responsibility for 86 statutory functions of state to local government bodies with jurisdiction over demarcated geographical areas;
- restructuring of resource allocation and establishment of resource sharing between central and local governments;
- Redefinition of the roles, functions and structures of government institutions at the national (policy formulation), regional (co-ordination) and local levels (implementation).

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 Revenues of districts in Ghana

Internally generated revenues of the sub-national governments are basically the own-sourced revenues of 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 could be grouped broadly into tax and non-tax sources. Tax revenues are the compulsory payments and include taxes chargeable on the incomes of self-employed persons, businesses and property. The non-taxable revenues are voluntary payments or contributions paid by specific beneficiaries of the districts' services. These include user fees/charges, licenses, permits and royalties. The Minister for Local Government and Rural Development is responsible for issuing guidelines for levying rates. Based on the guidelines, fee-fixing resolutions are passed by MMDAs upon which revenues are collected.

According to a study by World Bank (2000) the following major problematic concerns were identified. These issues include the legislative provisions, implementation strategies and designs, funding relationships as well as issues about economic efficiency and accountability which determine the magnitude of revenues to be generated in the District Assemblies’.

Although adequate legislation has been instituted to enable DAs to harness internally generated revenues, there are four serious design problems that districts face (Inanga and Osei-Wusu 2004).. First, tax bases of local governments are static 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 not optimal. Second, there are complex structures in terms of planning for revenue collection in some of the districts. Third, mechanisms for collecting internal revenues are ineffective. For instance, revenue collections from property rates are low because properties have not been properly valued. Furthermore, there are inadequate revenue collectors in most districts. The fourth design problem is the absence of appropriate sanctions or punishment for tax defaulters. Most residents, especially traders, do not feel obliged to pay taxes.

2.5.2 Inter-governmental Fiscal Transfers

Studies have revealed that locally own-sourced revenues do not cover local government expenditure responsibilities in Ghana. Intergovernmental fiscal transfers are therefore needed to cover this fiscal imbalance. It is observed that there are significant variances in terms of the magnitude of revenues generated by DAs due to differences in revenue-generating potentials. Thus, intergovernmental transfers can be used to meet national redistribution objectives to offset the fiscal capacity differences among sub-national governments. In addition intergovernmental

fiscal transfers could be used to encourage local expenditure on goods and services that exhibit positive externalities. In Ghana, such transfers are intended to support poverty reduction and specific sector activities in the districts (Inanga and Osei-Wusu 2004).

Different types of fiscal transfer systems are used worldwide in different circumstances. In Ghana, three main inter-governmental fiscal transfers can be identified from the 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, provides for the establishment of a District Assembly Common Fund (DACF). The DACF is established under an Act of Parliament, Act 455, and refers to the allocation of not less than 5 per cent of 'total national revenues' to MMDAs. The fund is distributed to all MMDAs on the basis of a formula approved by Parliament, payable in quarterly installments and administered by the DACF Administrator. The DACF is intended to encourage local expenditure on specific goods and services such as those attributable to poverty alleviation programs.

2.5.2.2 Recurrent Expenditure Transfers

Since 1995, the central government has assumed responsibilities for salaries as well as pensions of district staff provided they fall within the approved manpower ceilings of the assemblies. Other operational and administrative expenses of the assemblies are also borne by the central government.

2.5.2.3 Ceded Revenues

Revenue sources which hitherto belonged to the central government, but which have now been ceded to the district assemblies are considered as ceded revenues. These include entertainment duties, casino revenues and income tax on the registration of trade, businesses, professions as well as rates and levies on crops other than cocoa, coffee and cotton.

2.5.3. Other Financial Arrangements

The two sources of revenues available to the DAs are internally generated revenues and the intergovernmental fiscal transfers. While these sources of revenue are crucial in financing expenditure, there are other financial arrangements that could finance districts' capital expenditure. Intergenerational equity considerations suggest that capital investments should not be financed through increased local taxes because the long gestation period of returns from such investments accrues at a future date. The welfare of future generation would be improved when capital investments are carried out today and they should therefore pay for these services under equity considerations. Additionally, the problems associated with obtaining adequate funds from own sources and fiscal transfers create a need for funds from other sources (Inanga and Osei-Wusu 2004). Such financial arrangements could come either from statutory provisions, or partnerships with other institutions, and/or self-sustaining initiatives of the various DAs.

Four main mechanisms have been identified as a possible financial arrangement for districts capital investment needs in Ghana:

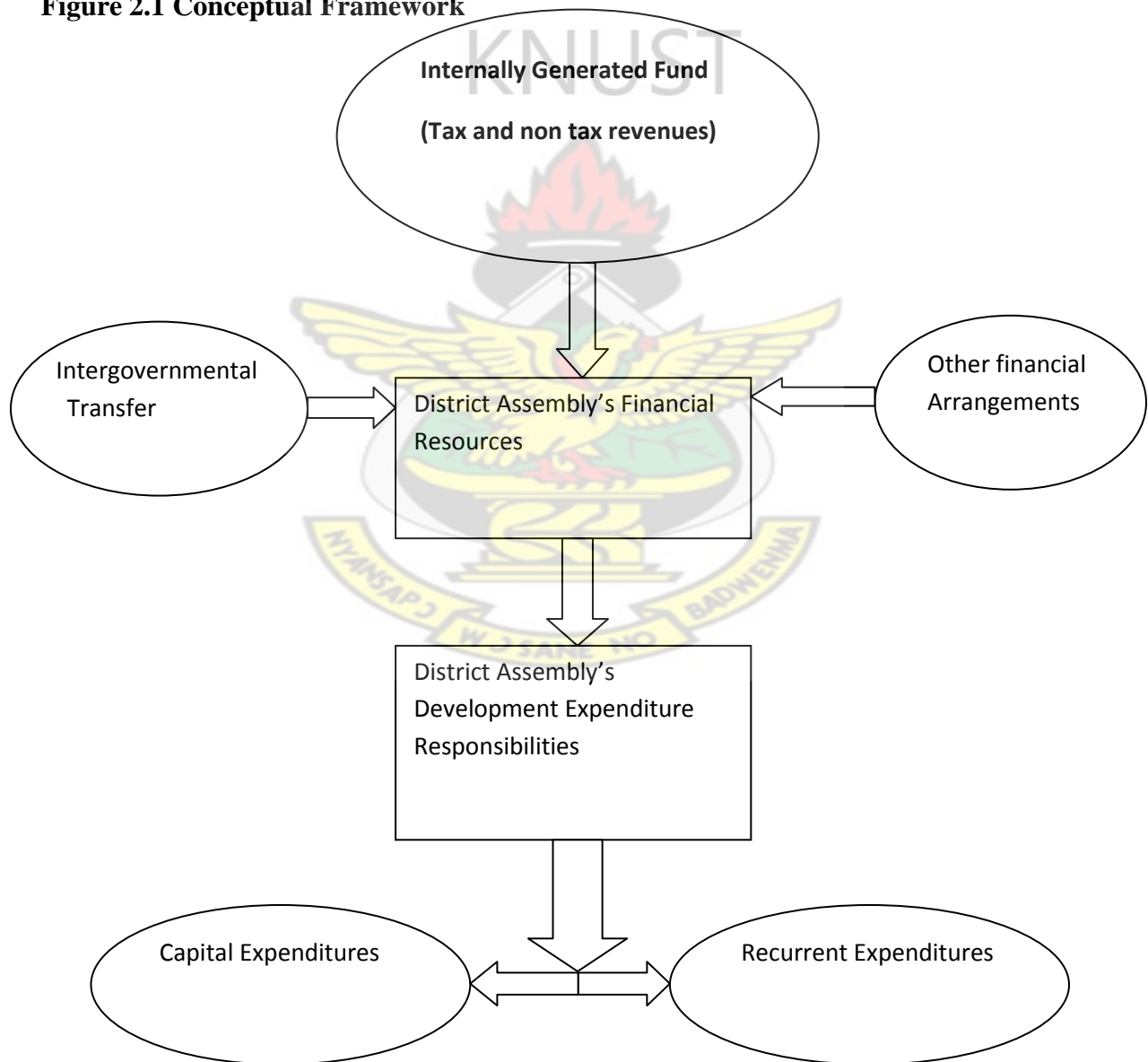
- grants from national governments and donors;
- borrowing from financial markets;
- proceeds from investment funds; and

- Non-monetary arrangements such as communal labor, community self-help projects and contributions from organizations and individuals.

2.6 Conceptual framework

Literature review on Ghana's fiscal decentralizations reveals that districts in the country have been assigned to play critical roles at local level development.

Figure 2.1 Conceptual Framework



Source: Author, 2011

These responsibilities require sufficient amount of capital and recurrent expenditures. And these spending are expected to be in line with the national guide lines and contribute to the attainment of the successive medium term development plans of the country.

As it can be seen from figure 2.1 the district's revenue envelope mainly comes from three different sources. The first source is the Intergovernmental transfers which include District Assembly's Common Fund (DACF), Recurrent Expenditure Transfers and Ceded revenue. The second source is Internally Generated Fund (IGF) which comprises own revenues from tax and non tax sources such as rates, lands, licenses, fees, investment, rent and miscellaneous sources. In fact this is the major concern of this study. More over districts have additional source of finance from other financial arrangements for their capital investments. This can have different forms such as borrowings, investment fund and non monetary arrangement that include community contributions.

The financial resources from the different sources are channeled to the district expenditure responsibilities either in the form of capital expenditure or recurrent. This is usually based on the district priorities and needs which are reflected on the medium term plans.

Based on the above conceptual framework, this research gives emphasis on assessing and analyzing the internally generated fund, its different components and its contribution to the expenditure responsibilities of Asutifi district. As the flow in figure 2.1 indicates, the contribution of IGF to the total revenue and then to the total expenditure of the district budget will be analyzed using a time series data of the past eight years.

CHAPTER THREE: DISTRICT PROFILE AND ANALYSIS

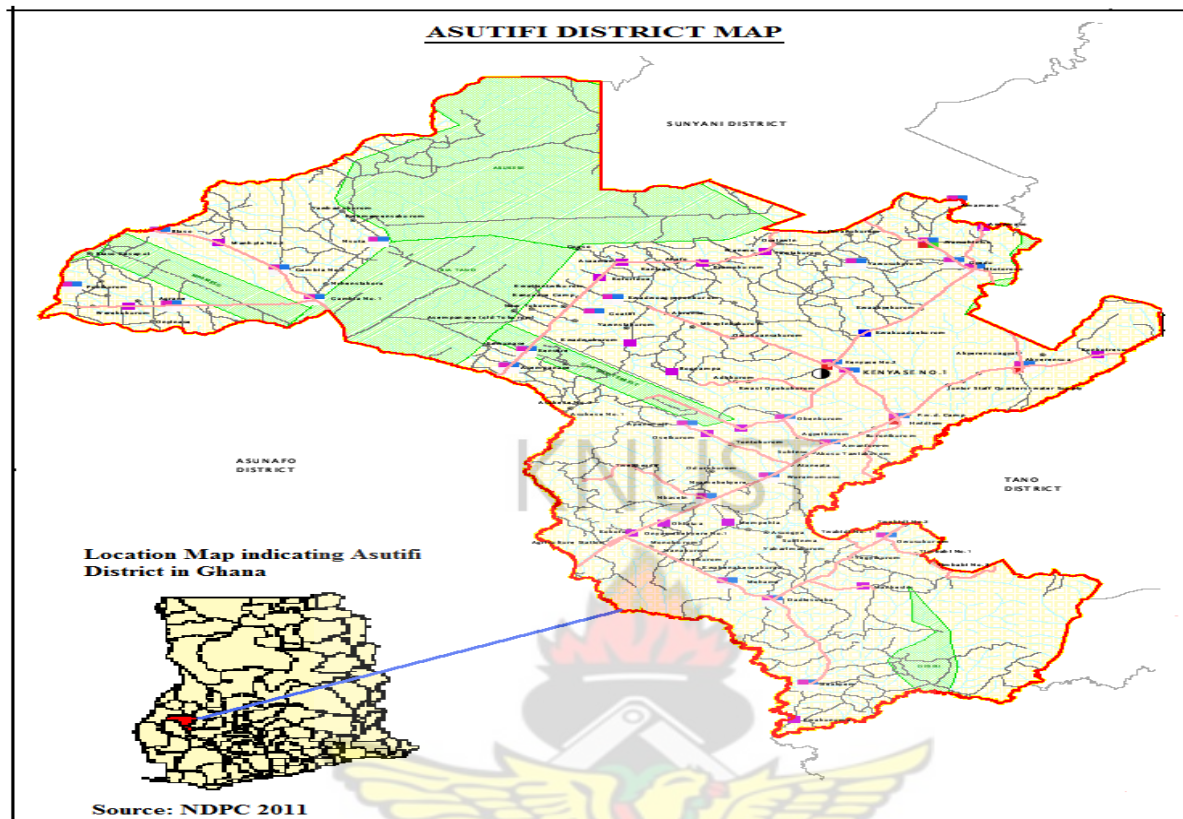
3.1 District Profile

The Asutifi District was created in 1988 out of the Colonial Ahafo Region and is classified by the Ministry of Local Government as deprived. The district economy is mostly agrarian and agriculture is in the hands of peasant farmers who still depend on rudimentary methods for production. As a result, output is low, soil is fast depleting and environmental degradation is setting in to disturb the once ecologically balanced semi-deciduous forest. Household incomes are generally low and poverty is widespread (District Assembly MTDP, 2006_2009).

3.1.1 Location and Size

Asutifi District is one of the Twenty Two (22) districts in Brong Ahafo region of Ghana. It is located between latitudes 6°40' and 7°15' North and Longitudes 2°15' and 2°45' West (District Assembly MTDP, 2006_2009). It shares boundaries with Sunyani in the North, Tano South District to the North East, Dormaa District to North West, Asunafo North and South Districts in the South West and Ahafo Ano South and North Districts (Ashanti Region) in the South East. With a total land surface area of 1500 square kilometer, the district is one of the smallest in the Brong Ahafo Region. There are a total of 117 settlements in the district and four towns, namely: Kenyasi No.1, Kenyasi No.2, Hwedien and Acherensua. The district capital is Kenyasi, which is about 50km from Sunyani, the regional capital.

Figure 3.1 Asutifi District Map



Source: NDPC

3.1.2 Topography and Mineral Resources

The district lies within the forest dissected plateau physiographic region with average height of about 700 feet above sea level. The lowest part is about 650 feet above sea level found along the river basins whilst the highest point is found within a chain of mountains in the north east reaching a height of 1400 feet above sea level. These mountains form water shed for the many tributaries of the Tano river and other streams.

Asutifi district is known for its rich mineral deposits. Currently gold is being mined by Newmont Ghana Gold Limited one of the biggest mining companies in the world. These areas include

Kenyasi No. 1 & 2, Ntotroso, Gyedu-Wamahinso and other smaller communities. However other exploration activities are on-going in other communities within the district. Diamond is discovered at Wamahinso. There is also a widespread deposit of sand and clay in the district. The district also has high potential of iron and bauxite.

3.1.3 Climate and Vegetation

The district lies within the wet semi-equatorial zone marked by double rainfall maxima; June and October with a mean annual rainfall between 125cm and 200cm. The first rainy season is from May to July (maximum) and the second rainy season is from September to October (minimum) when the district comes under the influence of the Wet Maritime Air mass. There is a sharp dry season between the two rainy seasons, the main one coming between November and March. Relative humidity is generally high ranging between 75% to 80% during the two rainy seasons and 70% to 80% during the rest of the year (District Assembly MTDP, 2006_2009).

The district has extensive forests stocked with timber which has given rise to lumbering on a large scale. The District Assembly gets its highest Revenue from Stool lands. The forest and forest reserves in the district have fauna and varied flora of high economic value. The semi-deciduous forest vegetation covering the district is gradually but steadily giving way to derived wooded savanna through the indiscriminate felling of trees for timber, farming, charcoal, fuel-wood and other activities.

3.1.4 Crops

A variety of crops ranging from cash to food crops grow well in the district. The major crops cultivated in the district include cassava, maize, cocoyam, oil palm, cocoa, vegetables legumes

and plantain. The district is one of the leading producers of plantain in the nation. The area in addition has great potential for the cultivation of sugarcane and rice. Coffee and oil palm could also be grown on a large scale.

3.1.5 Demography

The population of the district was estimated to be about 84,475 in 2000 (National Population and Housing Survey 2000). From the National population Census of 1984 and 2000, the Population of Asutifi changed from 54,891 in 1984 to 84,475 in 2000 giving a population growth rate of 2.8% per annum (District Assembly MTDP, 2006_2009).

Based on the national population growth rate 3% for the period 1984 to 2000, the population of the district is estimated to be 114,029 in the year 2010 and 117,502 in 2011. About 50.4% of the estimated population is female. A large proportion of the population 54.7% falls within the working age group (District Assembly MTDP, 2006_2009).

The main tribes in the district are the Ashantis and the Bonos constituting about 54.3% of the surveyed population. Among the minor tribes in the district are the northern tribes (Wangara, Dagombas, Kusasis) forming about 19.4%. Others include the Fantes and Ewes. In terms of religion, about 73.3% are Christians, 23.8% Moslems and 2.9% practice traditional religion (District Assembly MTDP, 2006_2009).

3.1.6 Occupational Distribution

The predominant occupation in the District is subsistence agriculture which engages 66.7 per cent of the economically active labor force. The next occupation after agriculture is the service

sector, which takes up 27.1 per cent and the remaining active labor force is engaged in small scale industries and mining activities.

3.1.7 Revenue Performance

The Asutifi DA largely depends on internal sources for the day-to-day running of the district administration. These include revenue that accrues as a result of its own effort at revenue mobilization/generation. These include rates and receipts, royalties from lands, fees and tolls, licenses, rent, investments and other miscellaneous activities. Externally, revenue also comes to the District Assembly from the Central and Local Governments in the form of Grant-in-aid and the District Assemblies' Common Fund.

Table 3.1 Summary of IGF for the years 2006_2009 (in Ghana Cedis)

ITEM	AMOUNT GENERATED				RANK			
	2006	2007	2008	2009	2006	2007	2008	2009
Rates	2752	23770	22957	24737	4 th	2 nd	3 rd	3 rd
Lands	63540	294805	622842	757732	1 st	1 st	1 st	1 st
Fees/Fines	7548	16062	15256	14840	2 nd	3 rd	4 th	4 th
Licenses	4105	5648	8416	8365	3 rd	5 th	5 th	5 th
Rents	-	522	3442	946	-	6 th	6 th	7 th
Investments	1776	23	-	1702	5 th	7 th	-	6 th
Miscellaneous	1469	6455	50402	48562	6 th	4 th	2 nd	2 nd
Total	81221	347285	723316	856886				

Source: Asutifi District Assembly, 2010

The revenue generation trend over the years reveals that lands are greatest source of revenue for the district as it has placed 1st in ranking over the period 2006 to 2009. Rates and Fees/Fines have also generated substantial revenue over the years. There was a continuous improvement on the total annual internally generated funds from 2006 to 2009. The main cause of this upward trend was lands as a result of the inflow of mineral royalties from NGGL. Revenue from lands increases from a low amount of GH¢63,580 in 2006 when there were no mineral royalties to GH¢294,805 in 2007 when the district initially started receiving mineral royalties.

3.2 Legal Framework & Institutional Arrangements

3.2.1 Legal Framework in Ghana

The local Government act, (Act 462), 1993 regulates the local government system in Ghana. It empowers the districts which were in existence before the 1992 constitution to remain as such. The local government service act (Act 656) 2003 established local government service to provide for the objectives, functions and management of services. The objective of the service is to secure the effective administrative and management of local government in the country. It is also to provide technical assistance to MMDAs in order to perform their functions effectively.

Four legal provisions have regulated fiscal decentralization in Ghana. They are the Financial Administration Decree (FAD) 1979, which makes the Ministry of Finance the primary authority for the preparation, publication and control of national budget. Financial Administration Act (FAA) 2003, which makes the controller and Accounts General Department with offices in all MMDAs, principal disbursement agency of government. Financial Memorandum for Municipal and Urban Councils 1961 which provides control mechanisms of revenue and expenditure of local government units.

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 could be grouped broadly into tax and non-tax sources. Tax revenues are the compulsory payments and include taxes chargeable on the incomes of self-employed persons, businesses and property. The non-taxable revenues are voluntary payments or contributions paid by specific beneficiaries of the districts' services. These include user fees/charges, licenses, permits and royalties. The Minister for Local Government and Rural Development is responsible for issuing guidelines for levying rates. Based on the guidelines, fee-fixing resolutions are passed by MMDAs upon which revenues are collected.

3.2.2 Institutional arrangements for IGF

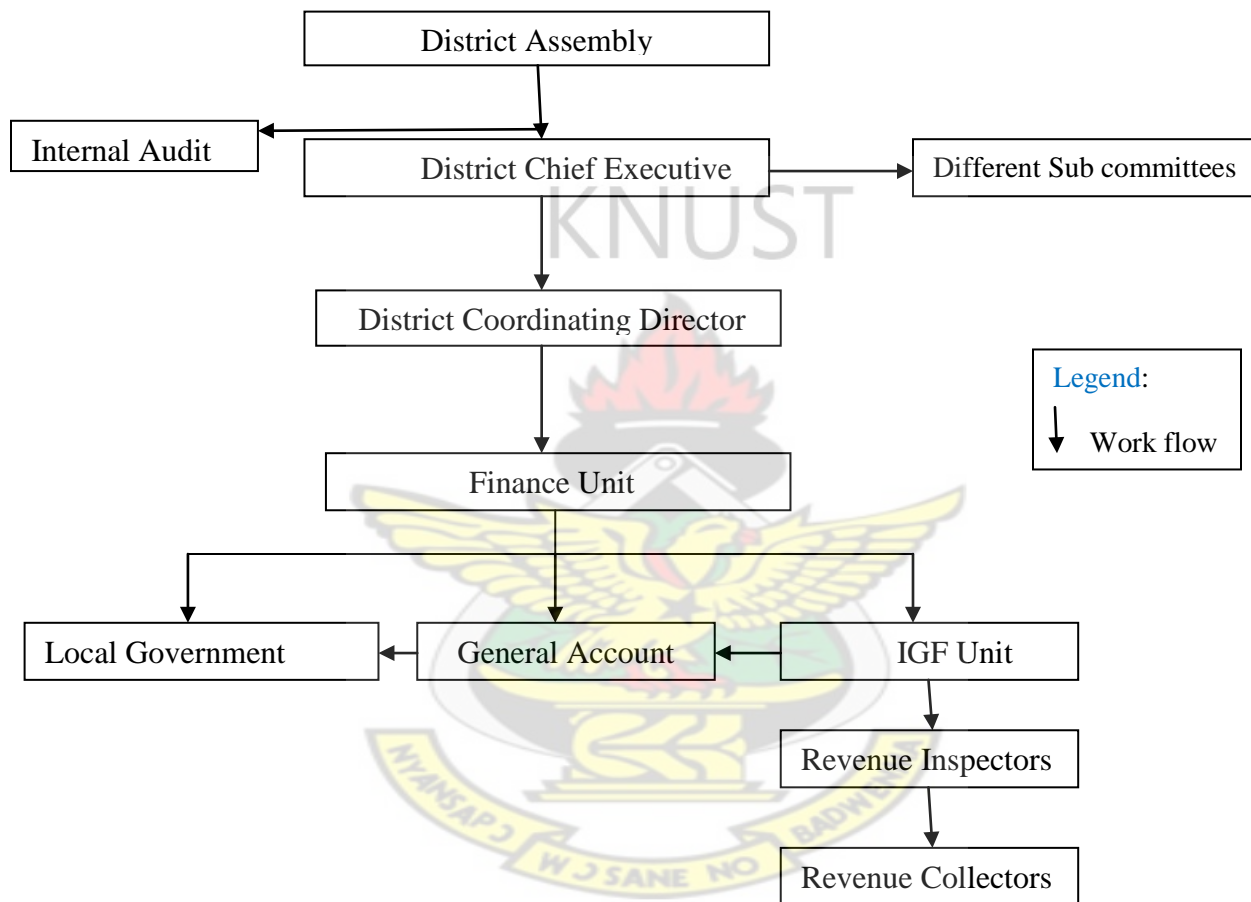
3.2.2.1 IGF unit

Asutifi district assembly has a structured institutional arrangement. The revenue section of the assembly is one of the functional sections in the assembly. It is headed by the revenue superintendent who in turn is accountable to finance officer. The district has arranged its major settlements in to eight zones based on convenience and economic rational. The eight major settlements have revenue supervisors who monitor and follow up the day to day activities of permanent and commissioned tax collectors. The revenue mobilization task force, as part of the finance subcommittee, at the assembly level is established for major decision such as fee fixing, mass mobilization and monitoring of the IGF administration process.

Revenue collectors at community level collect IGF from liable tax payers and submit to the station officer (tax supervisor or officer). The station officer who pays monies collected to banks and pay in slips are brought to the district revenue superintendent for recording. Then the records

are transferred to the district accounts section. It is learned that, this institutional arrangement and IGF mobilization mechanism works for all IGF components except revenues from land.

Figure 3.2 Organizational Structure Asutifi District Assembly IGF Unit



Source: Author developed from the DA's structure

3.2.2.2 Branch of Office of Stool Land Administrator

Land revenue which is considered to be part of district IGF is administered by a separate central government institution called Office of the Administrator of Stool Land. The office became operational since 1996. Article 267(2) of the 1992 Constitution of the country and the Office of

the Administrator of Stool Lands act, 1994 (Act 481) give the OASL the mandate to collect stool land revenue and distribute the same to the beneficiaries.

Revenues from stool land includes ground rents, annual rents for timber or mineral concessions, farm rents, mineral royalties, timber royalties, compensations and other revenue sources such as dues, charges and fees. Based on the 1992 constitution and Act 481 apportionment of stool land revenue determined as OASL retains 10% to cover administrative expenses and the remainder is treated as 100% and apportioned to beneficiaries. District assembly within the area of authority of which the stool lands are situated gets 55% and the remaining 45% goes to traditional authorities (25% for maintaining the stool land for sustainable use).

The office has a branch at the district capital Kenyasi. It is mainly engaged at collecting ground and farm rents and concessions. The branch has two officers and 4 field level commissioned land revenue collectors. Mineral royalties are handled by a regional branch and/or by head offices.

3.3 Summary of sample surveys conducted

Gill (2000) has defined revenue administration as the process of administering the various direct and indirect taxes in an economy with the objective of generating revenue. By Gill's definition tax administration, customs administration and land administration are captured. The concept has also been defined as the implementation of tax laws and policies (Kessey & Kroes, 1992).

Bird (2004) defines an effective revenue administration as the one that establish an environment in which citizens are induced to comply voluntarily and efficient revenue administration as one that requires minimum cost to ensure voluntary compliance.

Gill (2003) and Kessey (1995) have noted the important activities for successful administration of revenue: human resource management, budgeting, purchasing and supplies, accounts,

research, planning, monitoring, auditing and internal control, risk analysis, tax payers services (including education), tax assessment and collection.

However certain activities within this framework are central and directly linked with revenue generation (Gill 2003). These core tasks are

- Identification of tax payers
- Provision of tax services and education
- Assessment of tax liabilities
- Auditing and monitoring
- Collection
- Enforcement

Based on the above theoretical under pinning forwarded by Gill (2003) and Kessey (1995) three different but interrelated interview questionnaires were designed for three major actors of IGF mobilization: tax payers, tax collectors and tax officers. The main objective of this analysis is to find out the views and perception of the different actors on the overall functions of the IGF mobilization system in the district. The outcomes are summarized as follows.

3.3.1 Tax or revenue payers of the district

Although some of the tax collectors do have the list and number of tax payers in their jurisdiction, the district IGF unit does not have a clear picture of the number of tax or revenue payers in the district. The available data are poor and are not filled properly. This made sample size determination using mathematical formula very difficult. Looking at the contribution of each IGF component and using the knowledge and experience of the district tax officials the sample

size for tax payers is determined intuitively. As indicated in the research methodology in chapter one, 60 tax payers stratified in to the four major IGF sources and individual respondents were selected randomly. Then samples were distributed to the randomly selected major settlement proportionally to the population size of the settlements. The following table shows their distribution.

Table 3.2 Sampled tax payers

Type of revenue payers	Number in the sample			Sample in major settlements		
	Male	Female	Total	Kenyasi	Hwedium	Acherensua
Rates payers	17	8	25	13	7	6
Land tax payers	12	3	15	8	4	3
Fees payers	2	13	15	8	4	3
Licenses payers	4	1	5	3	1	1
Total	35	25	60	32	15	13

Source: Author, 2011

The balloting method was used to identify each respondent. 90% of the respondents have been tax payers for more than 5 years. Only 10% were tax payers for less than three years.

Only 10% of the respondents have said they have an idea of what taxation or government revenue is and why they are paying. Almost all the respondents unanimously confirmed that they do not know where their payment is spent. Contrary to this view 95% of the respondent said they pay their tax obligations fully and timely. None of the respondents have said he/she is paying so because of his/her civic responsibility as a citizen. Rather they said, they pay their obligations because they do not want confrontation with officials, be taken to court or face a close up of their

business. About 75% of the respondents do not believe that their contribution as revenue is used for development program in their district.

This clearly indicates lack of confidence and voluntary compliance of tax responsibility by the residents. All the respondents confirmed that they had no education or training on revenue. 95% of the respondents considered lack of knowledge as a major problem and recommended a well designed tax education program.

Except one respondent, all the rest feel that the revenue administration system is exposed to corruption and misuse. They further argue by saying that corrupted officials, tax collectors and even tax payers have not been legally punished for their illegal acts, rather officials prosecute tax payers who do not have the capacity to pay. Two third of the respondents believe that the revenue system is unfair when comparing the level of income from different sources and the amount of revenue paid.

3.3.2 Tax collectors

There are total of 38 tax collectors in the district; 36 of them are commissioned tax collectors and 2 permanent staff of the district IGF unit. Eleven tax collectors: two permanent employees of the district and the remaining commissioned tax collectors were selected from 3 major settlements, randomly.

On average all are more than 45 years of age and served for more than 12 years as revenue collectors. In terms of their educational background all of them are middle school graduates. They do not have a complete list of registers of their respective tax payers and hence do not exactly know their revenue payers fully. They collect revenue from property rates, artesian fee, stores and kiosks, rates from bars and restaurants, and market tolls. They use a fee fixing manual

to collect revenue. They also use a property valuation list that was carried out in 1994 until today. They all agree that, the property valuation is too old and that there is a need for new valuation that may give a better opportunity for district income and a fairer revenue assignment. They hand over the amount they collected to their respective tax supervisor every 2 to 3 days.

The entire respondents agree that they do not have stakeholders at the community level. Area council leaders, community leaders and traditional leaders (Chiefs) do not have any role and contribution in the revenue mobilization process.

Selected tax collectors have an idea on what taxation is all about. However their concept and understanding is limited to the role of taxation as mobilization of resources for development programs. They do not have a clue on the role of taxation on redistribution of income and as fiscal policy instrument. About 90% of the respondents had only a three days workshop last year in their entire service period. Their understanding about what they perform daily is fully dependent on their experiences.

The average monthly salary of the two permanent staffs is 161 Ghana Cedis. The respondents are commissioned tax collectors who are earning on average 100 Ghana Cedis per month (20% of what they collect), which actually fluctuate from month to month depending on the amount of revenue they collect. All of them have additional income from other sources such as farming and small business. Except one, the rest are happy and satisfied with their job and remuneration they are making out of it.

All the respondents have never been involved in the district IGF plan preparation. They do not have annual plan for their jurisdiction. They do not have a target how much they are planning to

collect in a year or in a particular month. They simply move around and collect whatever they get. Their performance is not measured against any preset plan or target.

All the respondents confirmed that there is a regular monitoring and follow up by the district chief tax officer, DFO and district IGF task force. However there is no clear monitoring indicator used for the process. In addition all have confirmed that the presence of regular auditing by internal auditor of the district assembly and by external auditors.

According to about 90% of the respondents, most of their tax payers are reluctant and try to evade their tax obligations. About 70% of the respondents agree that tax payers in their area do not understand the purpose of taxation, their responsibility as tax payer and as a result they do not want to pay their tax obligations fully, timely and voluntarily.

Contrary to the views of tax payers, all tax collectors felt that the tax administration system in their district does not have loopholes for corruption and misuse. Again they believe that tax payers in their particular area do show love and respect to them. They also believe their institution has a very good reputation before the public.

3.3.3 Tax officers

The district has eight tax officers or supervisors including the chief IGF officer. Two are female. The district chief IGF officer purposively and two other officers randomly are selected as a sample. Two-third of the respondents were male and their average age is over 50 years. They have more than 20 years experience in the sector. All the respondents are middle school graduates including the chief revenue officer.

They are mainly engaged in day to day routines of follow up and support to their tax collectors, deposit the collected money to bank, register the bank pay in slips at district level and participate in the revenue campaigns. Their role in fee fixing, plan preparation etc is very limited. They do not use ICT to support the process of IGF mobilization with technology. None of the officers has a basic knowledge on computer application. Like tax collectors 66.7% of the respondent only had a three days workshop in their entire service years. All the respondents urged for a well designed training on revenue administration.

At district level the IGF unit has the following stakeholders or partners. The DA provides support and guidance, the district finance committee monitors and follows up their activities through its task force, and GTZ and Civil service provided training and material support. Area council representatives and traditional leaders have no role in the IGF mobilization.

All the respondents strongly agree that majority of tax payers in their district do not understand the purpose of taxation, their civic responsibility as citizens and as a result they are not willing to pay their tax obligation fully, timely and voluntarily.

Both at district and major settlements level there is no list of revenue or tax payers per each of the IGF items. As a result, the exact number of tax payers in the district is not known. It made the planning practice more difficult.

The district does not have a separate strategic or medium term plan for IGF. Two third of the respondents do not know how the district IGF plan is prepared and they have never been involved at any stage in the process. Even the district chief revenue officer does not have a full picture of the planning process. They all refer to the DFO and planning officer. The respondents

do not know whether there is any guide line used for the preparation of IGF plan or not. Each of them does not have annual set target and detailed plan for their respective settlements.

Respondents fully agree on the existence of a strong support from DA and they said it is satisfactory. They also noted that there is no periodic evaluation on the sector's performance.

Against the view of tax payers and in line with tax collectors, all tax officials believe that the IGF administration system does not have any loophole for corruption and misuse. They consider the regular follow up and task force monitoring programs as important tools of the system.

3.4 Indicators and Trend Analysis of IGF mobilization performance in the past 8 years (2003_2010)

3.4.1 Revenue Performance Indicators

Gill (2000) has identified some of the important revenue performance indicators. These include:

- **total revenue against GDP** which is used for 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 three of the above performance measures or indicators are used in the analysis. These are actual IGF collected against estimated or planned revenue/IGF, tax payers' perception (summarized above at 3.3,1) and cost benefit analysis. In addition statistical tools such as regression analysis and quotient of distribution are employed in the analysis.

3.4.2 Internally Generated Fund (IGF) Analysis

3.4.2.1 Planned versus actual IGF in relation with total district revenue

Table 3.3 presents the planned and actual performances of total revenue and IGF for the study period. The actual total revenue of the district has dramatically improved from just below half a million in the year 2003 to close to three million in the year 2010. Mean while the actual IGF, as part of the total revenue of the district has also shown a similar trend. It improved from just below 40 thousand in the year 2003 moved to above 1.3 million in 8 years time.

Table 3.3 Asutifi District IGF and total district revenue (2003_2010) in Ghana Cedis

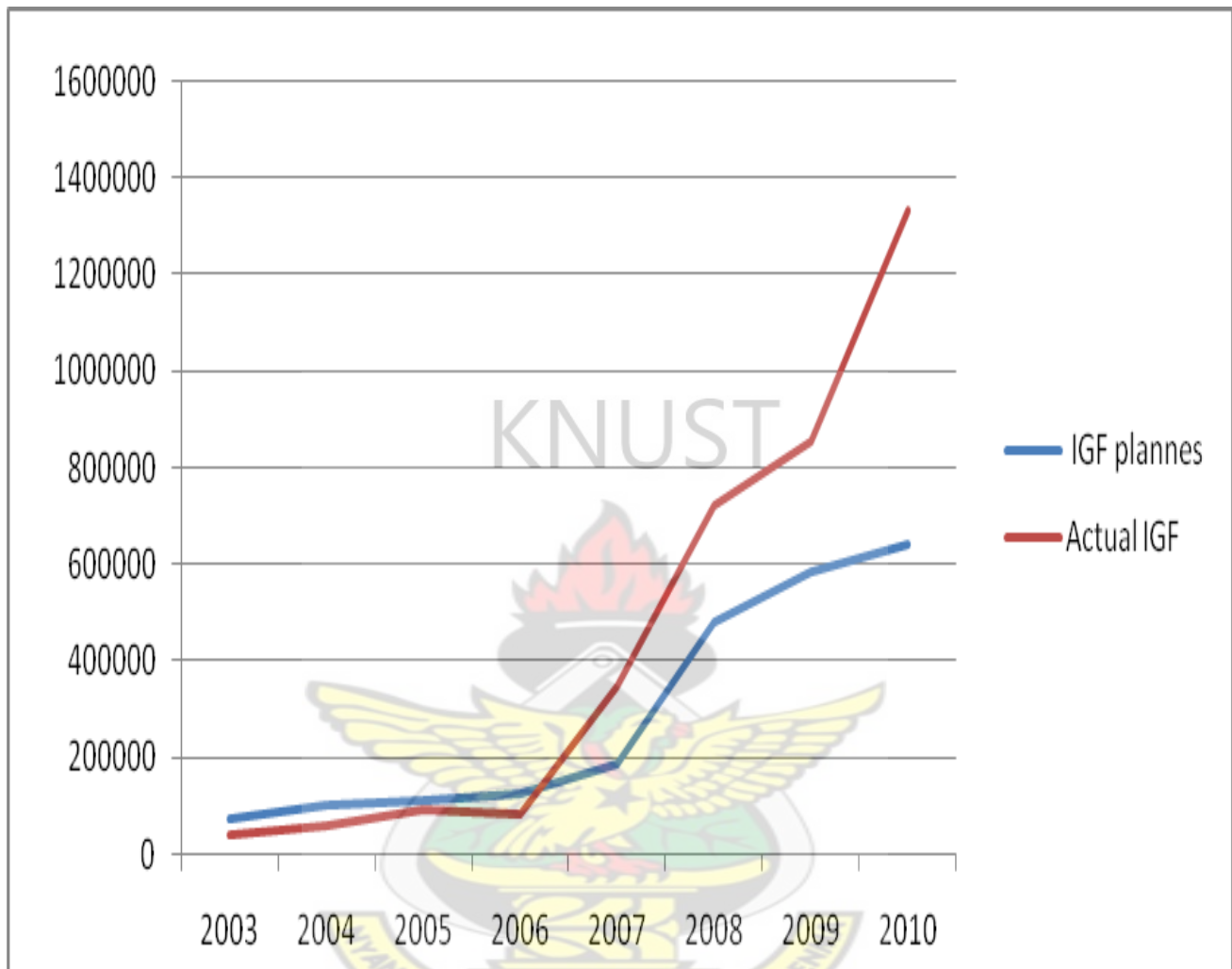
Year	Total Revenue			Internally Generated Fund			% share of IGF in total actual revenue
	Planned	Actual	% performance	Planned	Actual	% performance	
2003	469187	495002	106	74260	39609	53	8
2004	666184	783582	118	101015	59418	59	8
2005	1016179	947916	93	111802	90082	81	10
2006	1407529	1064099	76	128152	81341	63	8
2007	1411854	1044270	74	185877	347285	187	33
2008	671742	920709	137	479050	723316	151	79
2009	2546890	2025976	80	582160	856886	147	42
2010	4310909	2870583	67	639970	1334620	209	46

Source: Asutifi district DFO, annual trial balances 2003_2010

However, the share of IGF in the district total revenue stayed below 10% for the first four years and has shown improvement in the last four years, and even reached to its maximum (79%) in 2008. The later phase of the analysis will show how and why this happened.

Figure 3.2 illustrates the trend of IGF planned versus actual performance of Asutifi district. For the first four years (2003_2006) the IGF performance of the district was below the target plan. However, since 2007 actual IGF exceeded what had been planned. As the figure illustrates the gap between planned versus actual IGF is widening in the successive years.

Figure 3.3 Asutifi Planned versus Actual IGF (2003_2010) in Ghana Cedis



Source: Author constructed based on DFO data

3.4.2.2 IGF by components/types

Table 3.4 shows the Asutifi district IGF by components or types of IGF for the study period. The district Locally Generated Fund (IGF) is derived from basic rates, property rates, fees, licenses, trading services, rent, and special funds such as stool lands, royalties and investment of DA

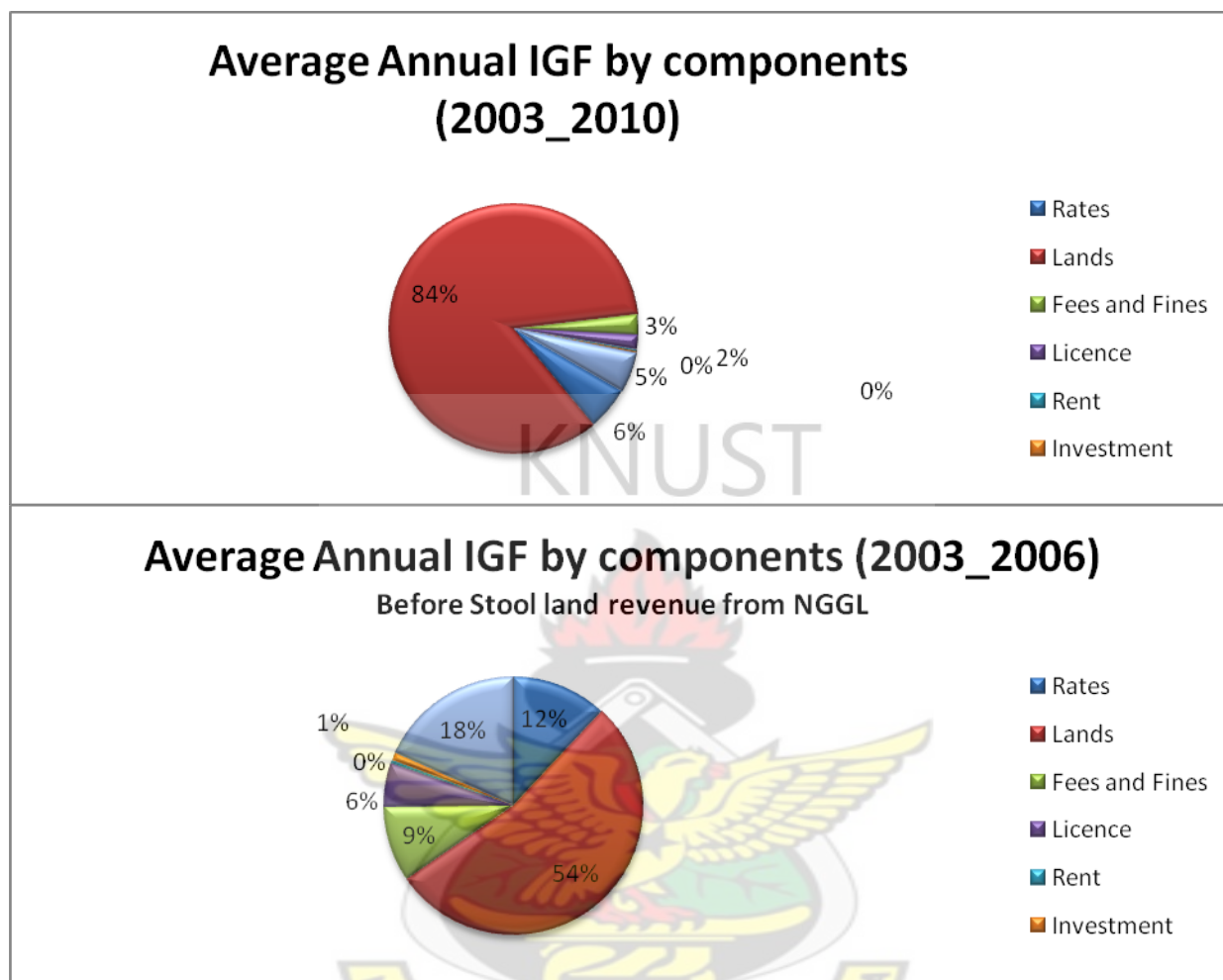
funds. The average contribution of IGF in the past eight years from land is above 84%, all the rest including rates and fees have just contributed less than 16%.

Table 3.4 Asutifi District IGF by major components/types, in Ghana Cedis

Asutifi district Internally Generated Fund, by component											
IGF component	Year								Total	Average	%
	2003	2004	2005	2006	2007	2008	2009	2010			
Rates	2172	4905	22451	2782	23770	22957	24737	93955	197730	24716	5.6
Lands	23661	26173	31133	63591	294805	622842	757732	1155238	2975175	371897	84.2
Fees and Fine	6107	5403	6478	7548	16063	15256	14841	21474	93169	11646	2.6
License	2564	4343	3836	4105	5648	8416	8366	28093	65370	8171	1.9
Rent	464	226	349	0	522	3442	946	2952	8901	1113	0.3
Investment	463	92	312	1846	23	0	1702	4350	8788	1099	0.2
Miscellaneous	4178	18278	25523	1469	6455	50402	48562	28559	183426	22928	5.2
Total	39609	59420	90082	81341	347285	723316	856886	1334620	3532559	441570	100

Source: Asutifi district DFO, annual trial balances 2003_2010

Figure 3.4 Asutifi District Average Annual IGF by components (2003_2010)



Source: Author constructed based on DFO data

The amount of revenue collected from land has significantly improved from 23661 Ghana Cedis ¢ in the year 2003 to more than 1.1 million Ghana Cedis ¢ in 2010. The main cause of this upward trend of revenue from lands was as a result of the inflow of mineral royalties from NGGL. Revenue from lands increased from a low amount of Ghana Cedis ¢63581 in 2006 when there were no mineral royalties to Ghana Cedis ¢294805 in 2007 when the district initially

started receiving mineral royalties. In the year 2010, revenue from lands hit the record point of Ghana Cedis ¢1155238.

Although the absolute values of rates, fees, licenses etc have also shown improvement over the study period, their relative importance has significantly decreased.

It is very important to note that IGF from stool land is mobilized and administered by a central government institution called Stool Land Administration. According to representatives of this institution the district assembly, DFO or district IGF unit does not have any role in the mobilization of this important revenue source. The central government transfer the share of the district based on the stated formula. One may wonder why is it then revenue from land been considered as internally generated fund while the district does not have any contribution in the mobilization. Or why is it necessary to administer IGF by two independent institutions: one of central government and the other of local government, in a country where fiscal decentralization is practiced. This may call for its own separate study.

In reviewing the performance of the IGF mobilization at district level it would be realistic to exclude revenue from land which is mobilized and administered by a different institution. This would give a chance how far has the district improved its IGF mobilization. Figure 3.5 and table 3.5 below shows this fact.

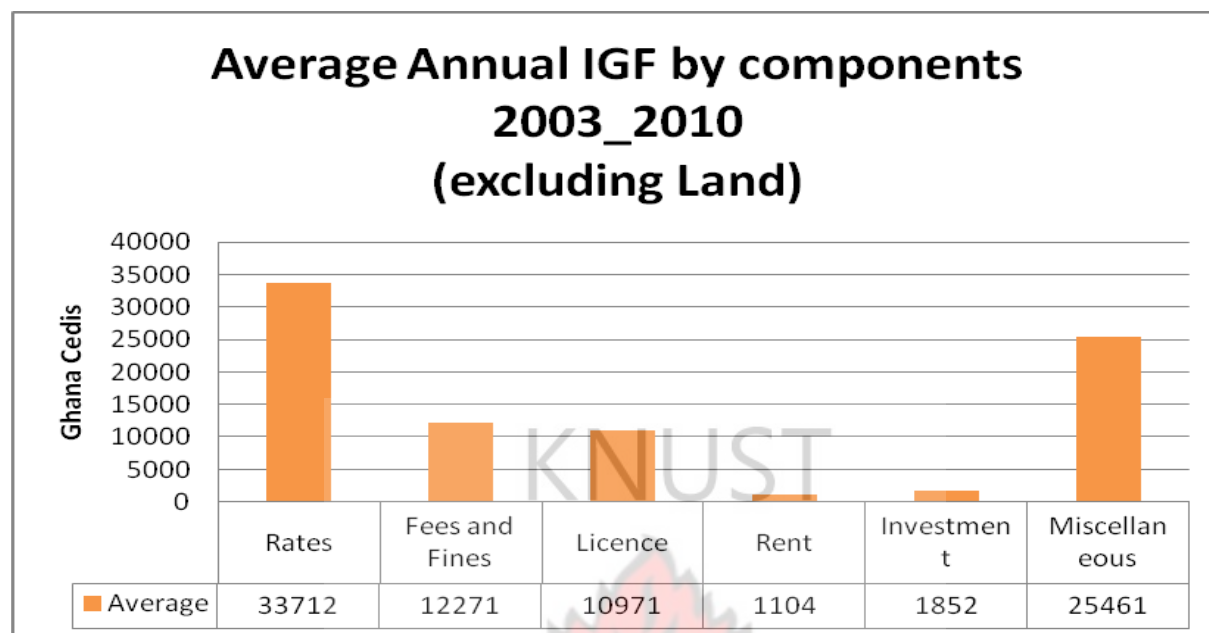
Table 3.5 Asutifi District IGF by component/type excluding Land (2003_2010)

IGF Component	Year								Average	%
	2003	2004	2005	2006	2007	2008	2009	2010		
Rates	2172	4905	22451	2782	23770	22957	24737	93955	24716	35
Fees and Fines	6107	5403	6478	7548	16063	15256	14841	21474	11646	17
License	2564	4343	3836	4105	5648	8416	8366	28093	8171	12
Rent	464	226	349	0	522	3442	946	2952	1113	2
Investment	463	92	312	1846	23	0	1702	4350	1099	2
Miscellaneous	4178	18278	25523	1469	6455	50402	48562	28559	22928	33
Total	15948	33247	58949	17750	52480	100474	99154	179382	69673	100

Source: Asutifi district DFO, annual trial balances 2003_2010

With the exception of land the district revenue has also increased from just about 16 thousands in 2003 to 179382 Ghana Cedis ¢ in 8 years time. The average total IGF administered by the district, in last 8 years is just 69673 Ghana Cedis ¢. Property rate and miscellaneous sources have contributed the highest. The average share of revenue from rent and investment held at the lowest, less than 2000 Ghana Cedis ¢ per year (below 2% each).

Figure 3.5 Asutifi District IGF by components/types excluding Land (2003_2010)



Source: Author constructed based on DFO data

3.4.2.3 IGF by major settlements (revenue zones)

The district assembly has organized its settlements into 8 revenue zones and deployed a revenue supervisor (officer) and a number of tax collectors based on the size and economic rational of each zone. Finding a summarized data on each zone's contribution was a hard job. The weekly registration file at the district Chief revenue officer is used to find the weekly contributions and summed up to find for each year and for each zone. A three years (2008_2010) data set is used for this analysis.

Table 3.6 shows a three year (2008_2010) average IGF collected from different revenue zones.

The 2009 population projection based on 2000 census is used for the analysis.

Table 3.6 Asutifi District IGF by revenue zones (three years average 2008_2010)

Revenue zones	Population 2009	Three years average IGF	% share each zone	Per capita IGF of each zone
Kenyasi	14216	5170	23	0.4
Hwediem	7040	2514	11	0.4
Acherensua	5687	5383	24	0.9
Nkasiem	4705	2024	9	0.4
Dadiesoaba	4627	2901	13	0.6
Gambia	3608	2327	11	0.6
Ntotroso	2340	1402	6	0.6
Goamo	568	336	2	0.6
Total	42791	22056	100	0.5

Source: Author based on data from Asutifi District IGF unit

As indicated above, Acherensua and Kenyasi contributed the highest share of 24% and 23% respectively. While the contribution of Goamo and Ntotroso are the least with 2% and 6% respectively.

Per capita IGF, which is the ratio of IGF to the population of the respective zones, is below one Ghana Cedis ¢ to all the settlements. Keeping the limitation on the completeness of the data, this shows that on average every resident in Acherensua pays 0.9 Ghana Cedis ¢ and residents in Kenyasi pay 0.4 Ghana Cedis ¢ per year as IGF (note that it does not include land).

This can better be explained by using spatial statistical tools called measures of distribution quotient. The concept of distribution quotient is originally used to measure the degree of an activity or a phenomenon in a given physical area. But here the concept is adopted to measure the degree of IGF concentration among population of different zones or settlements. Distribution quotient can be calculated by dividing the percentage of IGF mobilized in a particular revenue zone by the percentage of total population for each revenue zone:

$DQ=Y/X$: where Y is % share of IGF and X is % share of population of each zone.

Table 3.7 Asutifi District Distribution Quotient

Major Settlements	Population 2009	Average IGF	% population (X)	% IGF share (Y)	distribution quotient
Kenyasi	14216	5170	33	23	0.70
Hwediem	7040	2514	16	11	0.69
Acherensua	5687	5383	13	24	1.84
Nkasiem	4705	2024	11	9	0.82
Dadiesoaba	4627	2901	11	13.5	1.23
Gambia	3608	2326	8	11	1.37
Ntotroso	2340	1402	5	6	1.20
Goamo	568	336	1	1.5	1.5

Source: Author based on data from Asutifi District IGF unit

Relatively higher degree of concentration of activity or characteristics can be found in those zones with DQ greater than unity. For example Acherensua with a population of 5687 raised on

average 5358 Ghana Cedis ¢ per year and scored DQ 1.84 indicating the highest level of IGF mobilization. Whereas, Kenyasi in its absolute share seemed to be second is now last but one when measured relative to the size of the population.

3.4.3 Expenditure Analysis

3.4.3.1 Annual Approved Budget versus Annual Actual Expenditure

Before going directly to see the correlation between IGF and total expenditure of the district, it is believed to provide a general overview of approved budget and actual expenditure incurred. Table 3.8 below shows approved annual budget disaggregated into capital and recurrent with that of the actual annual expenditure for the study period.

Table 3.8 Asutifi District Annual Capital and Recurrent Budget and Expenditure

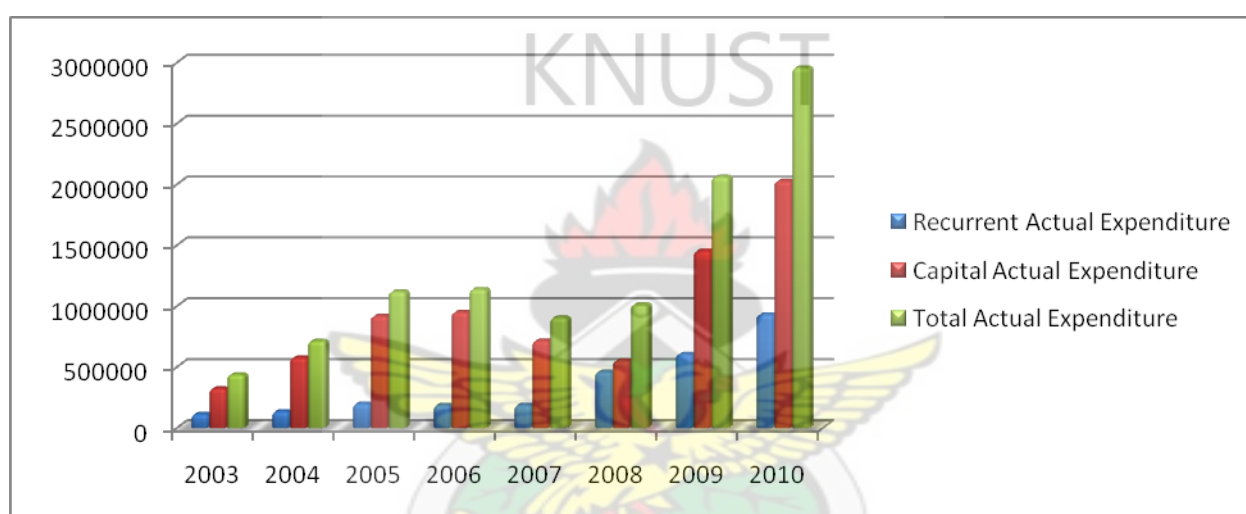
Year	Annual Approved Budget			Annual Actual Expenditure		
	Recurrent	Capital	Total	Recurrent	Capital	Total
2003	121721	670119	791840	113753	323959	437712
2004	162570	428439	591009	136460	577333	713793
2005	180679	835500	1016179	199858	919804	1119662
2006	196243.1	1191500	1387743	188810	951118	1139928
2007	266448	1145186	1411634	188904	717461	906365
2009	435774	2113330	2549104	606648	1455435	2062083
2010	535102	3698444	4233546	931804	2028234	2960038

Source: Asutifi district DFO, annual trial balances 2003_2010,

*2008 not included due to incomplete data

As it can be seen in the Figure 3.6 below that the district total actual expenditure has increased from less than half a million in the year 2003 to almost three million Ghana Cedis ¢ in eight years time. In the same pattern both recurrent and capital expenditure were increased from 113753 and 323959 in the year 2003 to 931804 and 2028234 Ghana Cedis ¢ in the year 2010 respectively.

Figure 3.6 Asutifi District Annual Capital and Recurrent Budget and Expenditure



Source: Author constructed based on DFO data

3.4.3.2 Total Actual Expenditure by Sources

District assemblies in Ghana have three broader sources of revenue: IGF, Grants (DACF transfer) and other sources including borrowings. From the trial balance statements of Asutifi district the following Table 3.9 is summarized. The table indicates the sources of the total expenditure of the district. The district has never used borrowing as its source of financing.

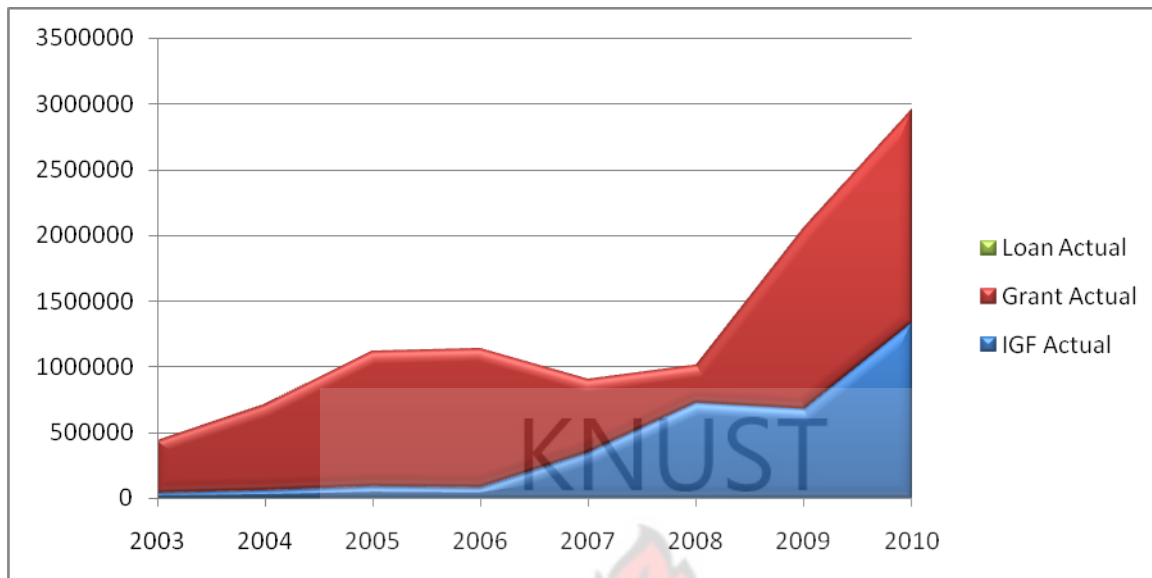
Table 3.9 Asutifi District Total Actual Expenditure by Sources (2003_2010) in Ghana Cedis

Year	Total Actual Expenditure by source				
	IGF		Grant		Total
	IGF Actual	% Share	Grant Actual	% Share	
2003	39609	9	398103	91	437712
2004	59418	8	654375	92	713793
2005	90082	8	1029662	92	1119744
2006	81341	7	1058587	93	1139928
2007	347285	38	559080	62	906365
2008	723316	71	291646	29	1014962
2009	676889	33	1385194	67	2062083
2010	1334620	45	1625418	55	2960038
Total	3352560		7002065		10354625
Average	419070	32	875258	68	1294328

Source: Asutifi district DFO, annual trial balances 2003_2010

The share of IGF in the total spending has increased from 9% in 2003, reached its maximum 71% in 2008 and dropped again to 45% last year. Inversely the share of Grant from central government has shown decrement from 91% in 2003, then reached its lowest 29% in 2008 and improved to 55% in 2010. The following figure demonstrates this explanation.

Figure 3.7 Asutifi District Total Actual Expenditure by Sources (2003_2010)



Source: Author constructed based on DFO data (* no expenditure from loan)

IGF moved from its lowest 39609 Ghana Cedis ¢ in 2003 to as high as more than 1.3 million Ghana Cedis ¢, in 2010. Similarly the absolute spending from central government transfer has also shown a steady upward movement from about 0.4 million to more than 1.6 million Ghana Cedis ¢, in 2010 financial year.

3.4.4 Regression analysis between IGF and Total actual Expenditure

Regression analysis is a statistical technique used to establish quantitative relationship between dependent and independent variables. As IGF is one of the major sources of district expenditure, it is clear that there exist a logical relationship among these two variables. The relationship can be established or a mathematical equation can be formulated for further analysis such as predictions and forecasting. The equation may also indicate the direction and magnitude of the relationship.

Table 3.10 Actual IGF versus Actual Development Expenditure 2003-2010 in Ghana Cedis

Year	2003	2004	2005	2006	2007	2008	2009	2010
Actual IGF	39609	59418	90082	81341	347285	723316	856886	1334620
Actual Expenditure	437712	713793	119662	1139928	906365	1014962	2062083	2960038
% IGF	9	8	8	7	38	71	32	45

Source: Asutifi district DFO, annual trial balances 2003_2010

Looking at the trend from the above table 3.10 and plotting on scattered diagram one can formulate a linear relationship. Taking annual actual IGF mobilized as independent variable (X) and the total actual expenditure as dependent variable (Y) the following equations can be derived:

$$Y = a + bX \dots\dots\dots 1$$

$$\sum Y = aN + b\sum X \dots\dots\dots 2$$

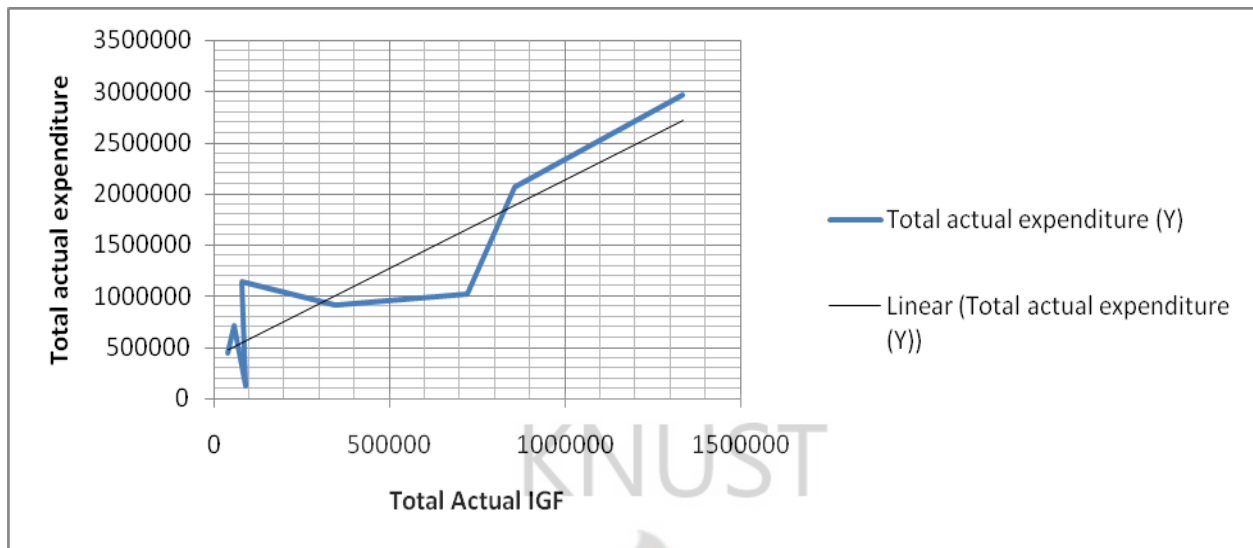
$$\sum XY = a\sum X + b\sum X^2 \dots\dots\dots 3$$

Using the above three equations and substituting the data from Table 3.10 above, the relationship can be statistically be explained as follows:

$$Y = 406032 + 1.73X$$

Figure 3.9 below explains the graphical relationship of the two variables with a best fitting curve that represents the above equation by a straight line.

Figure 3.8 Asutifi District Actual IGF versus Total Actual Expenditure (2003_2010)



Source: Author constructed based on DFO data

The X axis represents total actual IGF for the study period (2003_2010) and Y axis represent total actual expenditure for the same period in Ghana Cedis €. The blue line denotes the actual trend of the two variables and the straight line shows regression of IGF on total expenditure. Furthermore calculating the correlation coefficient (r) from the data above, r is found to be 0.9 positive, indicating the strong direct relationship between IGF and total expenditure of the district. Similarly coefficient of determination, which is the square of correlation coefficient, found to be approximately 0.81 or 81% indicating that 81% of change in total expenditure is explained by change in IGF and the remaining 19% by some other factors.

3.4.5 Cost Benefit Analysis

In this case, cost benefit analysis refers to the analysis of cost of administering revenue. Cost benefit ratio is a ratio of cost of administering the revenue as against revenue generated. It can be calculated as the total annual expenditure of the revenue authority expressed as a percentage of

the revenue collected in a given period. The ratio also shows per unit cost incurred against a unit of revenue generated and could be one of the best indicators of revenue administration (Gill 2003). According to Gill it is a primary indicator used to estimate efficiency of revenue administration.

Table 3.11 Asutifi District IGF mobilization Cost versus Benefit (2010) in Ghana Cedis ¢

Cost	Items	Per month	Per year
	Permanent staff salary	2648.69	32136.28
	Commission for tax collectors	3800.00	45600.00
	Recurrent expenditures		50987.66
	Total cost		128803.61
Benefit	IGF mobilized by district IGF unit		179382
Cost benefit ratio			0.7

Source: Asutifi district DFO 2010 trial balance, pay role, survey data and exp- register

The cost component of IGF mobilization in Asutifi district comprises salary of IGF unit permanent staff, commission paid to field level tax collectors (commissioned tax collectors), and recurrent expenditures such as travel and transport, allowances, general and miscellaneous etc used by the IGF unit. Recurrent expenditures such as stationary, office utilities etc are administered for the whole district assembly all together. This has made difficult to estimate the cost incurred by IGF unit. The benefit is expressed by the amount of IGF mobilized in the given year by the district IGF unit alone. IGF from land which is administered by a different institution

is not included, as the cost for mobilizing revenue from land is not also included. 2010 financial year is selected for this analysis because of the availability of data.

The analysis indicates that the district has spent direct cost of 128803.61 Ghana Cedis in the year 2010 and managed to collect Ghana Cedis 179382. This shows that for every one Ghana Cedis the district has paid more than 0.7 Ghana Cedis as a cost. A note has to be taken here that the recurrent expenditure is under estimated due to lack of data and would have increased the cost and there by the ratio as well.



CHAPTER FOUR: KEY FINDINGS, RECOMMENDATIONS & CONCLUSION

This chapter mainly focused on key finding of the research problem analysis, measures to be taken in order to improve the sector and conclusion of the study. The recommendations are outlined into two broader categories: those that need policy level interventions and operational ones.

4.1 KEY FINDINGS

1. Insufficient revenue base

Paul Smoke (2001), identifying critical concerns on fiscal decentralization argues that assigned revenues are almost never adequate to meet local expenditure requirements in most developing countries. In line with Smoke's argument the district revenue could only cover less than 10% of its expenditure requirement until a huge new source of revenue from land emerged in 2006. This may be taken as one of the indicators for insufficiency of IGF sources. However it should not be taken as the only indicator as the poor performance may also be another reason.

2. Two independent institutions are working for IGF

Internally generated revenues of the sub-national governments are basically the own-sourced revenues of 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 include rates, fees, land, licenses, rent, investment and miscellaneous sources. It is realized that the mobilization of IGF from land is administered by an independent central government institution called Office of Stool Land Administrator. All the rest IGF parts are administered by the district IGF

unit. It is very important to notice that the main task of the branch of OSLA in the district is mobilization of revenue from land, which is apportioned to beneficiaries including the district assembly.

3. Poor organizational structure and revenue administration mechanism

The district has organized its IGF unit on revenue zones. The task of the unit is limited on revenue collection. However Gill (2003) and Kessey (1995) have identified the central aspects of revenue generation and administration. These includes among others, tax payers identification, provision of tax services and education, assessment of tax liabilities, auditing and monitoring, collection and enforcement. The Asutifi district assembly IGF unit organizational structure and the generation mechanism have not fully captured these central issues of IGF generation.

4. Knowledge and understanding of revenue

The knowledge and understanding of tax officers, tax collectors and tax payers on taxation is poor. Qualified, competent and disciplined human resource is very crucial in revenue mobilization. It is noted that most of the revenue staff have no professional background. The team works on experience bases.

5. Voluntary compliance and tax payers participation

The 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 (Gill 2000). Data for measuring this indicator directly

could not be found. However, all most all the surveyed tax payers have said they are paying revenue just because of fear on the outcome not paying. No one has said it is his/her civic responsibility. Even though the district IGF unit is claiming that it participate the representatives of tax payers specially in the determination of fee fixing manual, most tax payers have confirmed that they are considered as passive tax payers on whom the decision of the authority is imposed.

6. Revenue leakage/corruption

According to Kessey (1995) leakage refers to the outflow of collected revenue into private pockets at the lowest level of generation, intermediary stage or tertiary level. Revenue leakages are closely linked with corruption, which generally mean miss use of power. Contrary to the view of the district IGF unit, majority of the surveyed tax payers believe that the IGF mobilization system is exposed to corruption and miss use. Internal auditor of the district, in conformity with tax payers, explained some of the identified cases of corruption and miss use of IGF.

7. Poor data base and unfair property rate and fee

The district as well as the revenue zones do not have data base that is so crucial for IGF administration. Property valuation which is the base of rate determination has been carried out last in 1994. This has not been updated until today. The district might have lost much of its resources due to this. The mater of the fact extends to the unfairness of the IGF system in the district. The majority of tax payers surveyed complained that the fees collection is unfair in a sense that it is not based on the level of individual's income.

8. Weak participation of important stakeholders

Successive guide lines for district assemblies' prepared by NDPC suggests Sub-District structures such as area council and community leaders are required to participate in data collection, mobilize community members, plan preparation etc. However the survey revealed that these structure including traditional leaders do not have any role in the IGF mobilization processes.

9. Planning, monitoring and evaluation

The IGF plan of the district is part of the MTDP of the district. The district IGF unit does not have a strategic plan, which may be considered as an organization's future course of actions. The annual plan which is part of the district MTDP is not further disaggregated to each revenue zones. As a result tax officers and collectors at field level do not have their own plans. It seems plan is not guiding the performance of the sector. The role and participation of tax officers and tax collectors in plan preparation is very poor. The plan is not communicated well even within the IGF unit itself.

The district IGF unit along with the DA's task force periodically conducts monitoring of IGF at field level. However this program of monitoring does not have a clear indicator, regularity and feedback mechanism. Evaluation of the overall performance of the sector has never been conducted.

10. Revenue performance

The district IGF mobilization has improved over time from just below 40 thousand in the year 2003 moved to above 1.3 million in 8 years time. The change, especially in the last four year is so significant. In this period the district has managed to collect IGF above

what it has planned. A thorough insight however indicates that the new trend has emerged since Newmont Ghana and other gold mining companies started to operate in the district since 2007. Revenue from land, mainly of stool land contributed on average more than 84% of the total IGF of the district. The stool land revenue from the mining company is the major source of revenue. At this junction it quite reasonable to question how far this source is sustainable.

The performance of the different revenue zones is quite different. Using different measurement indicators it is realized that revenue zones such as Acherensua have performed better than the others when compared to their potential population size. Perhaps there might be some reasons for this difference; hence further investigation may be required.

11. IGF and development expenditure have a positive and strong relationship

The regression and correlation analysis conducted has shown the existence of strong and positive relationship between actual IGF mobilized by the district and the total actual expenditure (development expenditure) incurred by the district. Both have shown a steady growth over the study period.

12. Cost of revenue raising is high

The cost benefit analysis which is conducted on available data revealed the high cost of IGF generation in the district. Using under estimated 2010 data it is found that the district

spends more than 0.7 Ghana Cedis for every 1 Ghana Cedis IGF. This may pose a question on the efficiency of IGF mobilization system in the district.

4.2 RECOMMENDATIONS

The analysis of IGF and its contribution to district development expenditure in Asutifi district has put forward key findings as summarized above. The recommendations have been categorized into two broader groups. The first one clustered those issues that may need higher level policy interventions and the second group more of the operational aspects of IGF which may be handled at the district level.

1. Policy level interventions

- **Improve the revenue base of district assembly**

Had it not been for huge revenue from land, that comes from land royalties (from gold mining industries), it would not be possible for the district even to cover more than 10% of its expenditure requirements. Like most developing countries, it seems much of the revenue in the country goes to central government. It is recommended a further investigation which can grant district to have better revenue base than now. Keeping those revenues that might have serious distributional effects at central level and providing others taxes such as tax from income that is generated within the districts to district assemblies might be considered.

- **Possibility of merging the two independent institution working on IGF**

Even though the branch office of OSLA has some duties in relation with land administration, the main task of the office is to mobilize revenue from land, which is part of the district IGF. The other tasks of the institution are related with sustainable land management and conflict

resolution. It is believed both institutions are working towards more or less similar objectives. In addition the economic efficiency of raising IGF should be taken in to account. Here the consideration has to emphasis the administrative cost spent on a unit of revenue generated (10% for stool land and 70% for the rest of IGF). As a result it is recommended to reorganize these institutions in such a way that can strengthen the entire decentralization process. This may need a detailed further study as the issues are tightened by different legal mandates including the 1992 constitution.

- **Reorganize the structure of IGF unit**

It is believed that the organizational structure of the district IGF unit is not comprehensive to address key central functions of revenue administration. For comprehensive, integrated and efficient IGF mobilization, it is recommended that the organizational structure should incorporate these key functions: tax payers' identification, provision of tax services and education, assessment of tax liabilities, auditing and monitoring, collection and enforcement. It is also recommended to assign trained and qualified personnel to this structure. Supporting the system with ICT should also be considered. The structure can also consider sub district structure to be assigned an active role and avoid using too many commissioned tax collectors.

2. Operational interventions

- **Capacity building**

One of the major problems of the IGF mobilization system in the district is associated with the existing poor institutional capacity expressed in terms of human, organizational and system limitations. At least to improve the human capacity the district need to design capacity building training programs for tax officials and tax collectors.

- **Update property valuation and develop data base**

Rate is the second largest source of revenue in the district. Property valuation is the base of determining rates. However property valuation is conducted long ago and still used as a base. It is recommended immediate action is required both for improving the IGF from property rates and fairness. Developing data base is also very important for fair, transparent and efficient IGF administration.

- **Active participation of stakeholders**

The majority of tax payers consider themselves as passive payers who do not have any role except paying tax. There is a strong need of incorporating their view and raising their knowledge and obligations. This would help in building common understanding, voluntary compliance and trust and confidence on the system. Ensure that their contribution is not wasted, rather it is invested for their well being. Traditional leaders, area council members, community leaders and different association and religious institutions that could have contributed on the IGF mobilization have been not been utilized properly. Their active participation is very relevant.

- **Develop strategic plan**

A 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. To this end building reliable base and supporting the system ICT support is crucial.

- **Strong monitoring and evaluation system in place**

The existing monitoring system can generally be said to be weak. The district has to put in place along the strategic plan, a standard monitoring and evaluation plan that ensure the attainment of the plan.

- **Improve the performance of revenue zones, revenue from rates, fees**

It is true that the district IGF has improved over the past 8 years significantly. However such improvement is mainly associated with the emergence of gold mining companies in the district. IGF from land contributing more than 84% of the total, it is quite clear that the district IGF is predominantly dependent on stool land royalty. It very important to raise a concern how long can this continue. Gold as non renewable natural resource may end and companies may move out immediately. It should be considered revenue from land may not be sustainable. The district has to diversify and provide equal attention, even more, to revenue sources such as rates, fees, licenses and etc. There is also a need to further evaluate the performance of revenue zones, as the crude data available is indicated a varying level of performances.

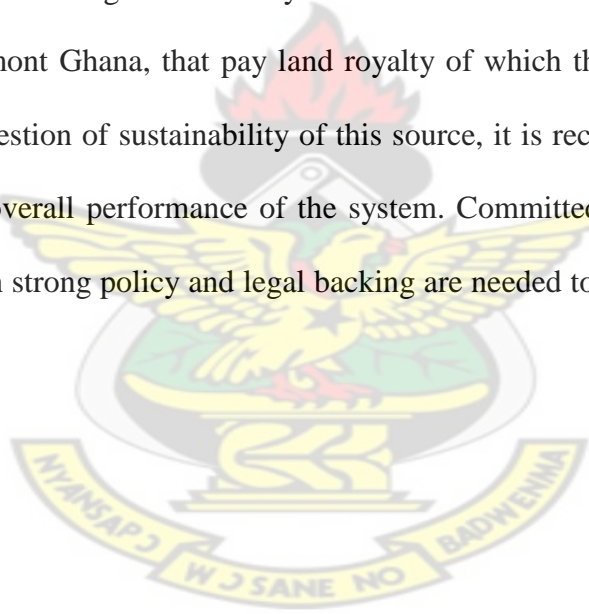
4.3 Conclusion

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 Asutifi District Assembly's government machinery functions as per its design. The assessment conducted

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.

Insufficiency of the available IGF sources for ever increasing expenditure demand, existence of two institutions that are separate but working for common goal, high cost of raising IGF and inadequate organizational structure are some of the findings of the thesis.

Although IGF mobilization trend in the district has shown improvement over time, critical review indicates that these changes are mainly associated with the emergence of gold mining industries such as Newmont Ghana, that pay land royalty of which the district gets most of its IGF. Considering the question of sustainability of this source, it is recommended much effort is needed to improve the overall performance of the system. Committed and qualified leadership and personnel along with strong policy and legal backing are needed to restructure the prevailing challenges.



REFERENCES:

- Bahl, R.W. AND J. LINN, Urban Public Finance in Developing Countries, Oxford University Press, New York, 1992
- Bahl, R.W, Fiscal Federalism in Uganda, prepared for the Public Expenditure Reviews for Ethiopia and Uganda, 1994–1998, World Bank, Washington, DC, 1997.
- Bennet, R. Decentralization, Local Governments and Markets: Towards a Post-Welfare Agenda, Clarendon Press, Oxford, 1990
- Bird R. & Salley W. Administrative Dimensions of Tax Reform, Washington DC, World Bank, 2004
- Chava Frankfort Nachmias & David Nachmias, Research Methods in the social Sciences, Saint Martin's Press International, United Kingdom's, 1992
- Gill J.B.S. The Nuts & Bolts of Revenue Administration Reform, Washington DC, World Bank, (2003)
- Gill J.B.S. Diagnostic Framework for Revenue Administration, World Bank Working Paper 472, 2000
- Gunter Kroes, Financing and Budgeting in District Development Planning and Management, SPRING-Centre Dortmund, TU Dortmund, Germany, 9th revised edition 2008
- Hadingham Decentralization and Development Planning: Some Practical Considerations, Scott Wilson, 2003

- Ikeanyionwu.L, Fiscal Decentralization and Local Development in Nigeria, SPRING Research Series, University of Dortmund 2001
- Inanga and Osei-Wusu, Financial Resource Base of Sub-national Governments and Fiscal Decentralization in Ghana, Institute of Local Government Studies, Accra, Ghana.2004
- Kessey K.D. Financing Local Government in Ghana; Mobilization and Management of Fiscal Resources in Kumasi Metropolis, SPRING Center, University of Dortmund, Germany, 1995
- Kessey K.D. and Kroes G. Local Revenue Administration in Ghana; Practice and Prospect, SPRING Center, University of Dortmund, Germany, 1992
- Kokor J.Y. Decentralized Development Planning in Ghana; SPRING Center, University of Dortmund, Germany, 1996
- Mills E, “The importance of large urban areas—and government’s role in fostering them”, in Yusuf et al., 2000
- Oates, W. Fiscal Federalism, Harcourt, Brace, Jovanovich, New York, 1972
- Paul Smoke, Fiscal Decentralization in Developing Countries A Review of Current Concepts and Practice, United Nations, NY, 2001
- Ranjit Kumar, Research Methodology, A step by step guide for beginners
- London, SAGE Publications, Thousand Oaks, New Delhi, 1996
- Republic of Ghana, Asutifi District, Medium Term Development Plan (2006 2009)
Kenyasi, Ghana 2010

- Republic of Ghana, Internal Revenue Act, (Act 592). Publishing Corporation Accra, Ghana 2000
- Republic of Ghana, Local Government Act (Act 462), Ministry of Local Government and Rural Development, Ghana Publishing Corporation, Accra, Ghana 1993
- Republic of Ghana, The Constitution of Republic of Ghana, 1992, Accra, Ghana, 1992
- Rondineeli D.A. What is Decentralization? World Bank Poverty Reduction and Economic Management Seminar, Washington DC 1989
- Tanzi, V. Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomics Aspects, Proceedings of the World Bank Annual Conference on Development Economics, Washington DC 1995.
- Terkper Seth E. Ghana's Tax Administration Reform (1985-1993) Accra, Ghana 2002
- Tiebout, Charles M. A Pure Theory of Local Expenditures, Journal of Political Economy 1956.
- Tom K.B. Kumekpor, Research Methods and Techniques of Social Research, Son Life Press and services, Accra, Ghana, 2002.
- Walker A. Decentralization; Key Sheet No. 1, Overseas Development Institute, London 2002.
- World Bank, World Development Report 1999/2000: Entering the 21st Century, World Bank, Washington DC, 2000.

Format No 1

Asutifi District IGF plan and performance

Year	IGF plan	IGF performance	Total Revenue Planned	Actual Total Revenue
2002				
2003				
2004				
2005				
2006				
2007				
2008				
2009				

Format No 2

Asutifi District Share of the major components of IGF

IGF component	Year								Remarks
	2002	2003	2004	2005	2006	2007	2008	2009	
Rates									
Land									
Fees									
Licenses									
Rent									
Investment									
Others									

Format 3

Asutifi District share of IGF by major settlements

Major Settlements	Popn 2009	Year							
		2002	2003	2004	2005	2006	2007	2008	2009
Kenyasi 2	9586								
Hwedien	7040								
Acherensua	5687								
Nkasiem	4705								
Kenyasi 1	4630								
Dadiesoaba	4627								
Gambia 2	3608								
Ntotroso	23400								

Format 4

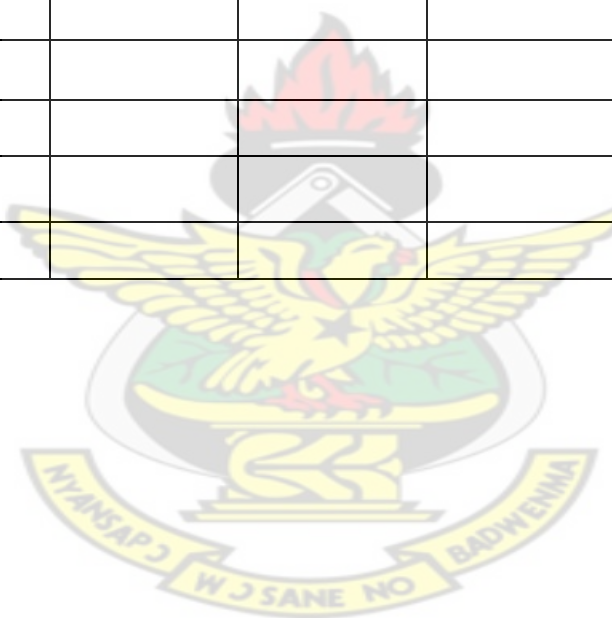
Asutifi District annual Budget and Expenditure (2002_2009)

Year	Annual Budget			Annual Expenditure		
	Capital	Recurrent	Total	Capital	Recurrent	Total
2002						
2003						
2004						
2005						
2006						
2007						
2008						
2009						

Format 5

Asutifi District total annual expenditure by revenue sources (2002_2009)

Year	Total Annual Expenditure	Total district revenue by sources				Remarks
		IGF	Central Government Transfers	Other sources	Total	
2002						
2003						
2004						
2005						
2006						
2007						
2008						
2009						



Interview Questionnaire for randomly selected

Tax Officials of Asutifi District

1. Organizational issues

- How many officials are required for the district tax administration? _____
- How many officials are currently employed? ____Women ____Male ____Total
- How the institution is organized in working team?

- What are the functional working teams of the organization?

- What does the organizational structure looks like?

- How are the working teams coordinating each other?

- What is the role of ICT on the district IGF assessment and mobilization?

- Who are your major stakeholders? What is your relationship with them? How effective is this relationship?

2. Tax Payers Education and Training

- How important is tax payers' education on the district IGF mobilization?

- Do you have a training or education programs designed for tax payers?

- If yes, what are the major objectives of the programs?

- If yes, how many tax payers have been trained or educated in the past 2 years?

-
- Do you have a mechanism of checking the effectiveness of such programs?
-

- If yes how do you assess the effectiveness of such programs?
-

- *“As a result of training and education to tax payers of the district, there is a growing number of tax payers who understand the purpose of taxation, their responsibility as citizens and willing to pay their tax on time.”*

____strongly agree ____agree ____ neutral ____disagree ____strongly disagree

- *Majority of tax payers in our district do not understand the purpose of taxation, their responsibility as citizens and as result they are not willing to pay their tax obligations on time.*

____strongly agree ____agree ____ neutral ____disagree ____strongly disagree

- What is your general impression about tax payers’ education and training in your district?
-

- What problems do you observe on the existing tax payers’ education and training?
-

- What do you recommend to improve and make tax payers’ education and training more effective?
-

3. Tax and non tax revenue assessment

- What are legally mandated revenue (IGF) sources of the district?
-

3.1. Land royalties’

- How many land tax payers do you have? _____
 - How much of the district land is tax payable? _____ square Km _____ %
 - How do you determine the amount and rate of tax one has to pay on land?
-

- Who are your partner organizations in this regard? What is their role and responsibility? Are they playing their intended role responsibly? Please explain.

-
- Do you think the mechanism of assessing and collecting tax from land has some loopholes for corruption and misappropriation? If yes, please describe. If no, please describe what made it so.
-

- What problems do you observe on land tax administration?
-

- What do you recommend to improve the revenue collection from land?
-

3.2. Rates and Receipts

- How many tax payers are known under this category? _____

- Do you have payers register? How often do you update it?
-

- How do you determine the amount and rate to be paid?
-

- Who are your partner organizations in this regard? What is their role and responsibility? How do you coordinate with your partners?
-

- Do you think the mechanism of assessing and collecting tax from land has some loopholes for corruption and misappropriation? If yes, please describe. If no, please describe what made it so.
-

- What problems do you observe on rates and receipts' administration?
-

- What do you recommend to improve the revenue collection from rates and receipts?
-

4. Planning, Monitoring, evaluation and Auditing of IGF

- Do you have a strategic plan on IGF? If yes describe _____
- Do you use any planning manual for preparing the district IGF plans? If yes which guide line? _____

- How participatory is the planning process? Do the staff and other stakeholders actively participate in the process?

- How do you set annual IGF goal or target to be collected? How do you also set each component's target?

- Do you have detailed revenue (IGF) plan disaggregated to months, to each area council and each component? Please explain.

- How is the plan communicated to every staff, stakeholders and decision makers?

- *How do you rate the support and follow up of DA on the preparation of IGF plan, mobilization of IGF and etc?*
_____*Highly satisfactory*_____*satisfactory*_____*neutral*_____*unsatisfactory*_____*highly unsatisfactory*
- Do you a regular monitoring program? If yes what does it looks like?What monitoring indicators do you use? Is there a feedback mechanism on the findings? If yes please explain.

- Do you have annual or medium term evaluation programs on the overall performance of IGF? If yes please explain.

- How is auditing organized? Do you have both internal and external auditing system? If yes please explain how it is carried out.

- Do have a mechanism of auditing the accounts of tax payer for checking their tax regularity? If yes please explain.

Interview Questionnaire Type 2

Interview Questionnaire for tax payers

1. Name (optional) _____
2. Age _____ Sex _____ Address (area council) _____
3. Type of business (es)

4. Are you a tax payer? Which types of tax do you pay?

5. How long have you been as a tax payer? _____
6. Do you know the objectives of taxation? What is it used for?

7. What are your rights as a tax payer?

8. What are your obligations as taxpaying citizen?

9. Have you been informed (in training or in some other ways) about the purpose of taxation, your rights and obligations as a taxpayer...etc? yes or no
10. *If yes how did you find the program?*
____ very good ____ good ____ adequate ____ poor ____ very poor
11. *If no, how do you see the relevance of such awareness creation programs on IGF?*
____ very relevant ____ relevant ____ neutral ____ irrelevant ____ very irrelevant
12. Do you pay your tax obligations fully and timely? Yes or no.
13. Why?

14. How much of your business partners, relatives, friends, family members..etc do you think are paying their tax obligations fully and timely?

___ below 20% ___ b/n 20 and 40% ___ b/n 40 and 60% ___ b/n 60 and 80% ___ above 80%

15. Why do you think that is so?

16. Do you believe your tax payment is used to run various government development programs? Yes or no

17. Some people say that the IGF mobilization system is exposed for corruption and misuse. How far do you agree or disagree with this view?

___strongly agree ___ agree ___neutral ___disagree ___ strongly disagree

18. Some people also say, corrupted official, tax collectors and tax payers usually do not be charged and punished for their conduct. How far do you agree or disagree with this view?

___ strongly agree ___ agree ___neutral ___disagree ___ strongly disagree

19. As a tax payer what problems do you observe in the entire system of IGF mobilization in the district?

20. What do you recommend in order to improve the system?

Interview Questionnaire Type 3

Questionnaire for Tax collectors

1. Name of the respondent (optional) _____
2. Age _____ Sex _____ Address (area council) _____
3. How long have you been working as a tax collector? _____
4. How many area councils and communities do you cover? _____
5. Which types of revenue items are you administering or collecting

6. How many tax payers are there in your area in each of the IGF components?

7. Would you please explain the mechanism how you are collecting revenue at your area?

8. Do you have stakeholders who work with you on IGF mobilization in your area? Who are your stakeholders and what role do they play in revenue collection?

9. Have you had any training on revenue mobilization? If yes when did you train last? How useful is the training for your job?

10. Are you paid for your job as tax collector? Yes or no. What is your term of employment? Permanent, temporary or other. *The payment I receive as a tax collector of the district is sufficient enough as compared to my duties and responsibilities.*

_____strongly agree _____agree _____neutral _____disagree _____strongly disagree

11. Do you have any other supplementary or additional income source for your life? If yes please indicate these sources.

12. Are you satisfied with your job? Please explain.

13. Do you have a work plan and target and target revenue for the year? How is this plan prepared? Who involved in the planning process?

14. How do you describe the monitoring and auditing mechanism? How is the support and follow up from district IGF team?

15. Is there tax evasion in your area? Describe the extent of tax default in your area?

16. What legal actions do you take on tax defaulters?

17. How do describe the effectiveness of the legal provisions and their implementation on tax defaulters?

18. How do you generally describe tax payers in your area? *Tax payers in my area do understand the purpose of taxation, their responsibility as tax payer and as a result they pay their tax obligations fully and regularly.*

_____strongly agree _____agree _____neutral _____disagree _____strongly disagree

19. If you disagree or strongly disagree would you please, explain why this is so? What do you think are some of the reasons which made them not to pay their tax obligations?

20. What do you think is the general perception of tax payers on your area about you as a tax collector and about your institution?

21. As a tax collector in the district what general problems do you observe on IGF mobilization?

22. What do you recommend to improve IGF mobilization system of the district?

