

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INSTITUTE OF DISTANCE LEARNING**

**KNUST**

**EFFECTIVENESS OF REVENUE MOBILIZATION STRATEGIES OF MMDAs IN  
GHANA. A CASE STUDY OF THE TALENSI DISTRICT ASSEMBLY**

**By**

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**THESIS**

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MASTER OF SCIENCE DEGREE IN ACCOUNTING AND FINANCE**

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## DECLARATION

I have read the university regulations relating to plagiarism and certify that this report in all is my own work towards the award of MSc. Accounting & Finance Degree and it does not contain any unacknowledged work from any other source. I also declare that I have been under supervision for this report herein submitted.

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## DEDICATION

This work is dedicated to my family for their love and support during this course of study

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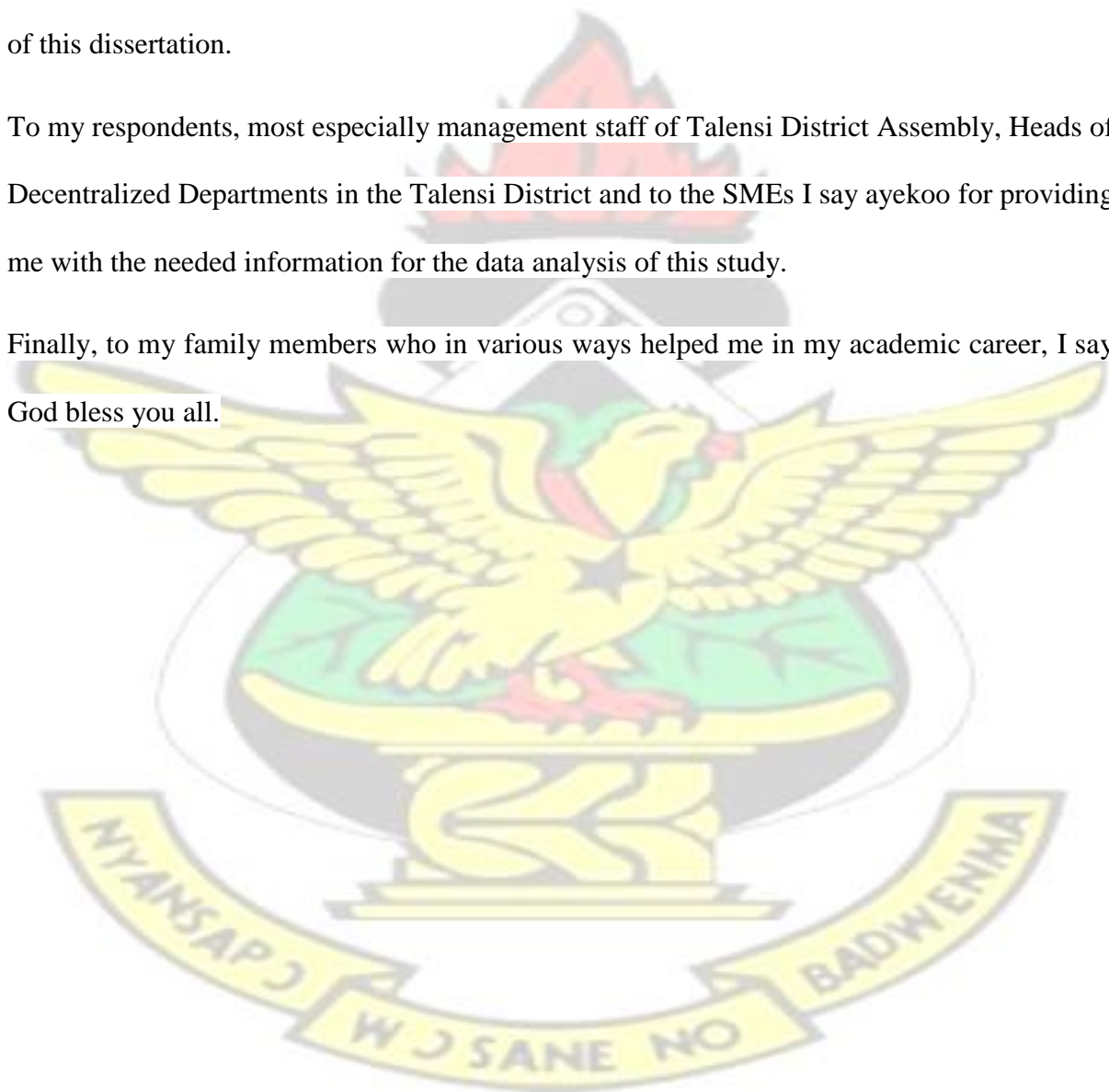


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Finally, to my family members who in various ways helped me in my academic career, I say God bless you all.



## ABSTRACT

Generating financial resources adequate for the provision and improvement of public goods and services to the citizenry by Metropolitan Municipal and District Assemblies has encountered numerous challenges over the years after the coming to being of the fiscal decentralisation in Ghana. The purpose of the study was to; find out sources of revenue to the Talensi District Assembly, assess factors that contribute to the poor performance and to evaluate the effectiveness of strategies used in revenue mobilization. A descriptive and explanatory research designs were adopted for the study, using purposive and simple random sampling techniques to carve a sample size of 50 respondents from the study population. Employing quantitative study, data was collected using questionnaires as collection instruments. For sources of revenue to TDA, the study found that the assembly major source of revenue was its share of the 5% District Assembly Common Fund annually sub vented to MMDAs in proportion to their revenue performance. Six out of eight factors were found to be the causal factors accounting for low revenue performance at the TDA. On the effectiveness of revenue generating strategies, the study found that the three most effective strategies of the assembly were the identification of viable sources of revenue, bringing on board businesses in the informal sector and building the capacities of revenue collectors to understand their roles in the assembly revenue mobilization drive.

The study therefore recommended to management of TDA to; take pragmatic steps in developing and creating a reliable data base on properties and for businesses to help revenue budget formulation and implementation, devise new strategies for revenue mobilization, review the collection of property rate and business operating permits to reposition it as a catalyst for accelerated development and to strictly enforce the by-law on property rate, imposing penalties for default in payment.

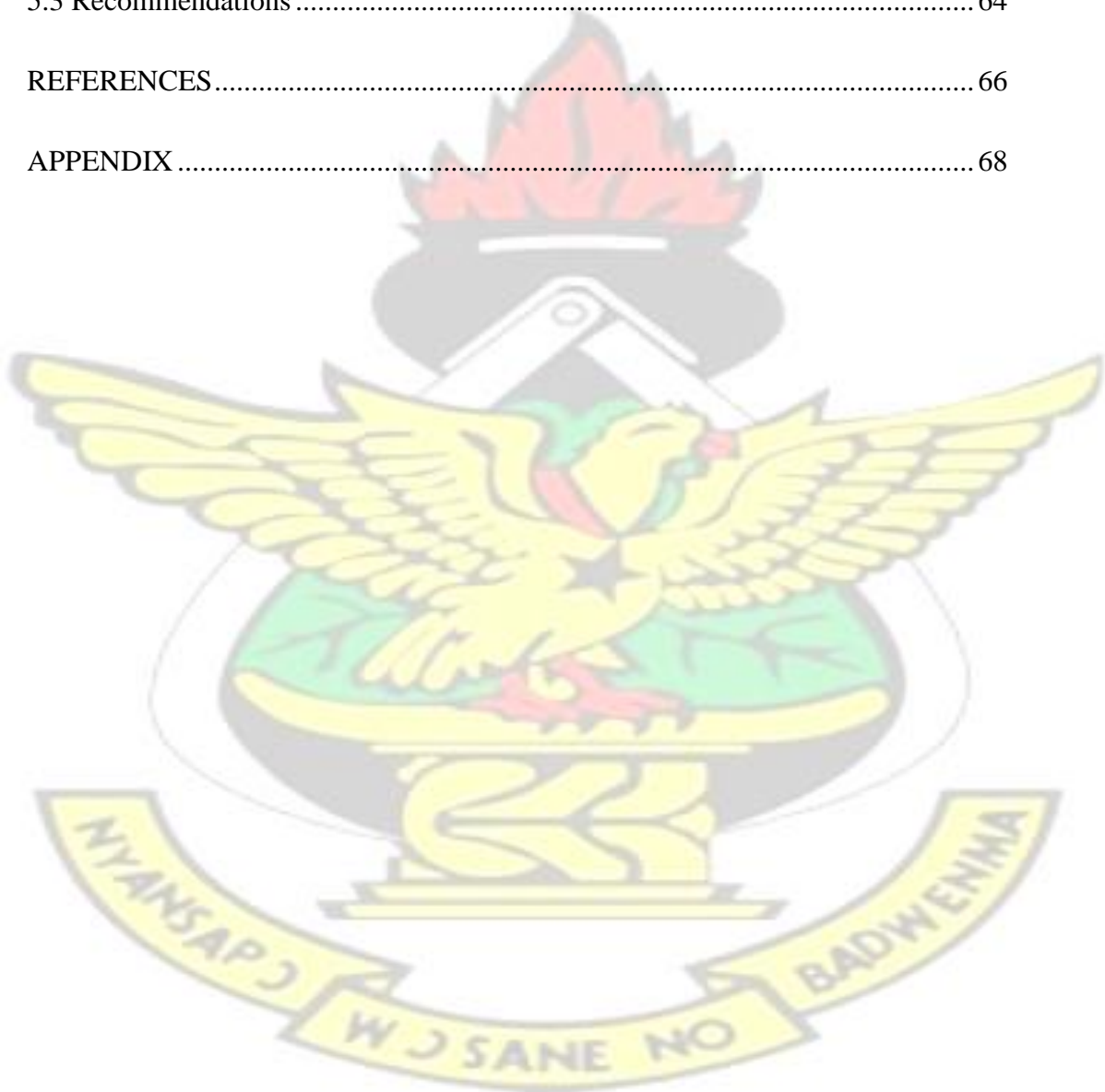
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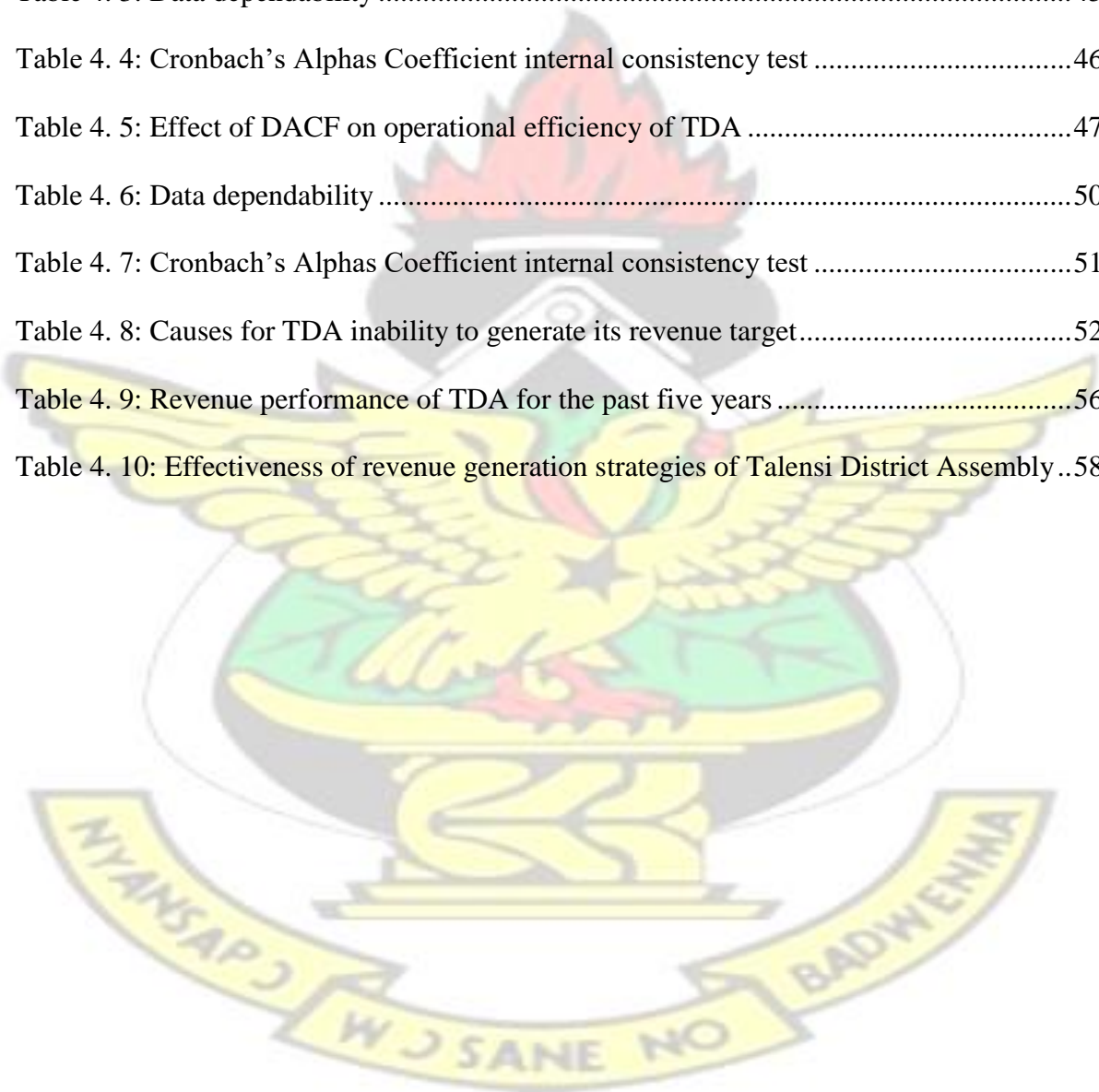
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## LISTS OF ABBREVIATIONS



MMDAs	Metropolitan, Municipal and District Assemblies
MDAs	Ministries, Departments and Agencies
DACF	District Assemblies Common Fund
CLGF	Common wealth Local Government Forum
NCCE	National Commission for Civic Education
CWSA	Community Water and Sanitation Agency
ISD	Information Service Department
MoFA	Ministry of Food and Agriculture
IGF	Internally Generated Fund
UNDP	United Nations Development Program
MLGRD	Ministry of Local Government and Rural Development
TDA	Talensi District Assembly
SMEs	Small and Medium Scale Enterprises
DAs	District Assemblies
DDF	District Development Fund
NGOs	Non-Governmental Organizations
GSSP	Ghana Strategy Support Program
ISSER	Institute of Statistical, Social and Economic Research
GAAP	Generally Accepted Accounting Principles

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the study

Local government institutions such as Metropolitan, Municipal, and District Assemblies (MMDAs) in Ghana are considered implementing partners to the central government developmental agenda and as such are required to generate the financial arsenals of revenue internally to enable them to undertake development projects in their various localities. Thus, the Local Governance Act, 2016 (Act 936) establishing MMDAs mandates them to provide the citizenry with services which the central Government cannot provide readily due to the remoteness from the local communities (Dar et al., 2013). Revenue generated internally by these MMDAs augments the District Assemblies Common Fund (DACF) from the central government in providing infrastructure and amenities to citizens within the catchment areas of MMDAs. MMDAs are constitutionally responsible for providing monumental infrastructure developments and the provision of essential services to the rural citizenry as well as maintaining law and order (Geometry & Analysis, n.d.). All of which require huge sums of funding resources hence locally generated revenue is therefore key if these institutions were to live up to their constitutional mandate.

Local and central government institutions over the years have had budget deficits implying that these institutions have over the government fiscal year spent more than their ability to generate as financial resources (Adu-Gyamfi, 2014).

MMDAs are co-financed by the Central Government and donor agencies being Ghana's development partners, with the majority coming from the central government (Adu-Gyamfi, 2014). As a result of budget constraints, governments over the years have tried finding adequate or sufficient revenue sources to fund the constitutional mandates of MMDAs. Through

government's efforts over the years post decentralization included the insertion of article 240 (2) c in the 1992 constitution giving local government institutions the legal backing to mobilize and collect revenue internally as rating agencies. According to (CLGF, 2018) "MMDAs are presented with sources of revenue to include; rent and rates, building permits, operating permits, fines and fees, central government subventions, advertisements bills, etc. for financing local government budget. The main central government subventions in Ghana include; the 5% district assembly common fund meant for the provision of basic amenities infrastructural developments at the local levels, subventions for MMDAs staff emoluments and compensations, running cost subventions, decentralized departments (i.e. NCCE, CWSA, ISD, MOFA, etc.). Locally generated revenue or internally generated funds (IGF) are funds or revenue generated and mobilized internally by MMDAs within their jurisdiction as supposed to that that has been generated outside the MMDAs jurisdiction. Fines and fees, rent and rates, license, bills boards advertisement fees, gifts, building, and operating permits, etc. are sources of internally generated funds to MMDAs besides central government subventions, transfers, and support grants (Opoku et al., 2014). Proceeds from the issuance of debt instruments such as municipal bonds by MMDAs and investment proceeds are also a source of funding for local government institutions (i.e. MMDAs). The exception is that MMDAs will only be allowed by the central government to borrow by issuing debt instruments like municipal bonds if only proceeds from the borrowing have a guaranteed usage for certain long term capital expenditure projects. Though proceeds from borrowings are a source of funding for MMDAs of the local government, proceeds are not to be spent on recurrent expenditure (World Bank Group, 2015). The main instruments used to raise debt finance from the money or capital markets by local government institutions are municipal bonds. Municipal bonds are liability commitments issued by states, cities, and other executive bodies, using finances raised to build educational infrastructure, health facilities, providing sanitation facilities, providing security etc.

Investment income is also a source of revenue to MMDAs, this may include investment income generated by MMDAs from investment in financial assets such as the acquisition of shares and bonds in other institutions, given of loans or loans advanced to other people. The DACF is a foremost origin of cash provided by the central government to MMDAs making up a least portion of central government revenue (Fosu et al., 2013). The District Assemblies' Common Fund (DACF) is an allocation of resources from the central government enshrined in article 252 of the 1992 constitution of Ghana. The fund establishes 5.0% of Ghana total revenue set aside and shared amongst MMDAs by the common fund administrator using a formula sanctioned by the parliament of the Republic of Ghana according to (Dzansi, J., Jensen, A., Lagakos, D., Otoo, I., Telli, H., Zindam, 2017). The district assembly common fund is for developmental purposes through which the nation Ghana wealth or financial resources is appropriated to MMDAs for the mass benefit of Ghanaians.

Specifically the common fund was established on 6<sup>th</sup> July 1993, to “consist of monies allocated by Parliament and any interest and dividends accruing from investment of monies from the Common Fund” (Witter et al., 2009). The purpose of the fund specifically was to strengthen decentralization and encourage workable do-it-yourself development, framework for development lacks in underprivileged communities, improve on the countries educational and health facilities to ensure quality education, improve housing schemes and to ensure unbiased sharing of resources for development in every part of Ghana (Gemeenten, 2018).

The ceded or relinquished revenue embodies local tax sources that the central government ceded to the MMDAs for collection to support the DACF. Property rates, operating permits, building permits, casino revenue, betting tax, advertisement tax, and others that used to be collected by the Ghana Revenue Authority formerly Internal Revenue Service constitute the local government institutions sources of IGF that the central government relinquishes to MMDAs (Ayee, 2003).

A robust internally generated funds (IGF) system for a local government institution is essential for the achievement of the objective of decentralization according to Olowu and Wunsch (2003). This can be achieved through fiscal decentralization. Governments globally are decentralizing responsibilities to authorities at the grassroots level. Decentralization involves the power and responsibility transfer from the central government (higher level) to lower levels (MMDA's) aimed at ensuring every citizen participation in the decision making processes, management of assets, resources and services (Crook and Manor, 1998: 2000: Treisman, 2007: 2000: UNDP, 2004: Ayee, 2012).

## **1.2 Problem statement**

The reason behind the implementation of the decentralization process in the year 1988 was to strengthen MMDAs well and advantageously to recognize rural settlements elementary developmental and service needs and to react to these needs accordingly (CLGF, 2018). Charged with the duty of pinpointing the indigenous need and delivering upon them, MMDAs are authorized to identify and generate IGF by collecting property rates, tolls, permits, advertising fees, fees, and fines among others to improve their funding for the infrastructure and service development of the individual communities in their catchment areas (Dzansi et al., 2018). MMDAs must play their roles mainly by formulating and implementing policies, agendas, and strategies for the operational mobilization of financial resources essential for the inclusive development their catchment communities (MLGRD, 1996).

The triumph of any thorough fiscal decentralization program depends upon a good source of revenue (Dada et al., 2017; Dar et al., 2013; Dzansi, J., Jensen, A., Lagakos, D., Otoo, I., Telli, H., Zindam, 2017). Local governments play multi tasks, vital amongst them is the generation of internal revenue that have the potential to aid partisan and organizational accountability by endowing communities (Hilmer, 2001). The population growth in Africa over the past decades

has outstripped local governments' abilities to deliver basic and essential services in terms of managing and funding of infrastructure (McCluskey et al., 2003; McCluskey and Franzen, 2005: 43-44). The implication is that these assemblies have become inept generating adequate revenues coupled with the decreasing Central Government subventions to meet these ever-growing needs of the population.

The failure of local government institutions in their quest to generate financial resources internally is attributable to numerous reasons by researchers. Devas (2003), argued that a growing population in rural dwellers are impoverished living in slums with insufficient basic amenities for instance housing, clean water, electricity, educational and health infrastructure etc. accounting for the institutional struggle of local governments to mobilize internally generated fund out of these parts. Other scholars likewise attributes poor revenue generating performance of MMDAs to the administration of poor tax systems incapable of accounting for internally generated funds revenues generated thus resorting to financial support from central government (Brosio, 2000; Fjeldstad, 2006).

(CLGF/UNDP, 2014; Adenugba & Ogechi, 2013; Akudugu, 2012) attributes the phenomenon to lack of transparency and inability of MMDAs to engage citizens interest in terms of their participation in the entire process of budgeting, planning and revenue mobilization as well as the provision and rendering of facilities and services that are of high quality. Moreover, some scholars view central government financial support and subventions to local government institutions as a disincentive to the generation of revenues locally (Benin, 2012). Despite the fact that several researches have drawn conclusions regarding the dangers of local government institutions over reliance on central government financial support to finance their fiscal year budgets, (Weingast, 1995; McKinon, 1997), the spectacle has not changed over the years.

The findings of relevant literature reviewed continues to insinuate the fact that local government authorities long after the decentralization process continues to perform abysmally in revenue generation mobilization resulting in governance crisis and poor service delivery capabilities.

Though literature continues to conclude on MMDAs abysmal performance in revenue mobilization for developments and service delivery to the citizenry, knowledge gap continue to be existent suggestive of the fact that little or no consideration has over the years been given to the precise methods and strategies to be adopted in the efficient and effective generation of revenue internally by local government authorities. Moreover, the need to give attention to strategies and processes effective to building a suitable revenue system essential to improving revenue collection by local authorities has fled politicians, local governance experts, practitioners and local government authorities for decades now. There is therefore the need to carefully devote attention to effective and efficient revenue generating approaches and strategies that will maximize the revenue generating drive in local government institutions. MMDAs can and will be able to accomplish their constitutional mandate of providing basic infrastructure developments and monumental service delivery in their localities without overreliance on central government financial support if these authorities can generate and mobilize sufficient revenues locally by budgeting and setting appropriate revenue targets, identifying various form and sources of internal revenue, involving all stakeholders in the process etc (Dzansi, J., Jensen, A., Lagakos, D., Otoo, I., Telli, H., Zindam, 2017).

Been one out of the over 260 local authorities in Ghana, the Talensi District Assembly has over performed poorly generating revenues as a result of; the assembly's failure to find out revenue sources within the district that can be tapped, the inability to monitor revenue performance at both the collection and functional level, implementation of unproductive strategies, policies and procedures.. As of 2015 and 2016 financial years, planned revenues of the assembly were

GHC5,113,305 and GHC7,339,759 respectively whilst its actual collection were GHC2,610,979 for the 2015 fiscal year and GHC3,391,207 for that of 2016 (Composite Budget, Talensi District, 2014). The consequence of local authorities (i.e. MMDAs) inability to sufficiently generate financial resources locally is their failures in providing the wanted basic infrastructural and service delivery to their constituents. To fill the knowledge gap in existence of why the assembly continues to perform poor generating internal revenue after the coming into being of fiscal decentralization since 1988, a study needs to be conducted to explicitly assess the revenue generating strategies and financial performance of Talensi District Assembly.

### **1.3 Objective of the study**

The general objective of this very important subject will be to evaluate the effectiveness of revenue mobilization strategies of the Talensi District Assembly in the Upper East Region. To achieve the overall objective above, the researcher will seek to achieve the specific Objectives below to aid the achievement of the general objective.

- 1) To identify various sources of revenue within the Talensi District Assembly.
- 2) To assess factors that contribute to the poor performance of MMDAs in revenue generation.
- 3) To evaluate the effectiveness of strategies used in mobilizing revenue.

### **1.4 Research questions**

The research primarily seeks to ask: how effective are the revenue mobilization strategies of the Talensi District Assembly? To answer the general question, the study will seek answers to the specific questions below;

- 1) What are the various sources of revenue within the Talensi District Assembly?

- 2) What are the factors that contribute to the poor performance of MMDAs in revenue generation?
- 3) How effective are strategies used in mobilizing revenue?

### **1.5 Significance of the study**

Noteworthy to the improvement of internally generated funds of local government institutions in Ghana, the study's significance can be viewed from three-angle points namely, research, practice, and policy viewpoint.

First and foremost, from the research view, the findings from this piece will provide verifiable empirical data to fill the existing knowledge gap if not entirely regarding the effectiveness of revenue mobilization strategies by MMDAs, Ghana, and for that matter Talensi District Assembly. This will contribute immensely to filling the knowledge gap in the literature about revenue generation strategies by MMDAs and its impact on the development of communities that fall within the geographical location of local government institutions (i.e. MMDAs) for academic writings purposes. Moreover, by identifying the weaknesses associated with the strategies used by MMDAs to mobilize revenue, this piece of academic work will also come out with a comprehensive plan to deal with the weaknesses identified. My study would seek to unveil challenges if any, the District Assembly and revenue collectors' faces in the collection of revenue in the Talensi District that if or when addressed can lead to efficient and effective revenue mobilization.

From the policy viewpoint, this study will provide decision-makers such as the central government being the major provider of funds to MMDAs, donor partners and ministries departments and agencies (MDAs) how effective and efficient strategies deployed by MMDAs are in revenue generation. The study will provide policy guidelines to government institutions responsible for local governance both national and local levels to consider the inclusion of

policies that will lead to efficient and adequate financial resources mobilization by MMDAs in national and local policy agenda.

Lastly, in contributing to best practices, the study will recommend the adoption by MMDAs to identify efficient and effective revenue budgeting and mobilization strategies at the local jurisdictional level of MMDAs. The adoption of these best-practiced strategies will help these local government institutions to broaden the scope, framework, approaches, etc. in their pursuit to mobilize revenue internally. It will also afford local government practitioners lessons and insights with regards to best-practiced revenue mobilization strategies that must be taken into account in the budgeting process of revenue mobilization. Practitioners and policymakers both at the local and national levels will understand the numerous challenges faced by MMDAs and revenue collectors in revenue generation.

### **1.6 Overview of methodology**

This study implored qualitative research design for the evaluation of revenue generating strategies of the Talensi District Assembly grounded on the research objectives and questions. According to Babbie & Mourtou (2006), qualitative research designs afford a researcher the opportunity to provide observations of the data collected from questionnaires and interviews. The research design pick was justified on the grounds that the study sought to assess the effectiveness of revenue mobilization strategies of the Talensi District Assembly. The design permitted the researcher to determine further challenges conflicting the strategies and processes put in place by TDA to achieve the desired outcomes in their revenue generation quest and to outline the several ways of dealing with those challenges. In furtherance of the research design, the case study approach of qualitative design was adopted. Primary and secondary data were the sources of data for the study. Primary data collection tools included structured questionnaires and unstructured interviews allowing the researcher to solicit appropriate

information from different information sources for the research. Collection of secondary data was from official documents and published articles, legislative instruments, internet sources, and academic journals. Data analyzed from both primary and secondary contents perfected each other in drawing valid conclusions on the findings of the study.

The target population for this study was staff of TDA, decentralized departments in the Talensi District, Chiefs, Community stakeholders, SMEs and traders. The sample size of the population was fifty (50) respondents informed by the respondent awareness in the planning and generation of revenue in the TDA.

Selecting a sample out of the study population was done using convenient and purposive sampling techniques giving the researcher the opportunity to select respondents with in-depth knowledge regarding revenue generation processes of the Talensi District Assembly. Respondents who formed part of the study sample form the population because of their knowledge and involvement in revenue planning and generation processes of the assembly gave reason for the purposive sample. Collected data for the study was analyzed qualitatively helping the researcher to draw meaning from the field raw primary data. Qualitative analysis aims at giving or drawing meaning from data collected through the identification of important themes and patterns according to (Patton, 2002). The researcher wanted to draw inferences reasonable from the interpretation of collected data hence the choice of qualitative analysis techniques. Moreover, the adoption of this technique helped the researcher to describe, analyze and interpret collected raw data. The first step in data analysis was to develop systematic descriptions of the situation under study notwithstanding the goal of every research is not to describe but the interpretation, explanation and drawing meanings out of data. Interpreting, explaining and drawing meanings out of data did helped to achieve the objectives of the study ensuring that collected data was analyzed and categorized into the study objectives.

## **1.7 Scope of the study**

This study looked at a single district assembly (i.e. the Talensi District Assembly) out of the fifteen (15) Metropolitan, Municipal, and District Assemblies in the Upper East Region and the total number of two hundred and sixty (260) MMDAS in Ghana. Though the study recommendations could and if adopted by MMDAS not covered by this research can lead to enhanced, efficient, and effective internal revenue generation. Moreover, the study did not seek to look into the entire finance function of the assembly nor the entire functional roles and responsibility of the assembly but rather the revenue-generating function of the finance unit of The Talensi District Assembly.

The scope, therefore, seeks to evaluate the effectiveness of strategies been deployed by the revenue-generating function of the finance unit in the Talensi District Assembly in revenue mobilization.

## **1.8 Limitation of the study**

The study was limited to TDA because it's believed that the Assembly is one out of the many more not using its powers enshrined in the Local Government Act, Act 462 (1993) effectually to generate sufficient IGFs for physical infrastructure development and the provision of basic ancillary services to citizens, businesses, and stakeholders of the TDA.

The study was without limitations as they included methodological and researcher. Methodological limitations attributable to the methodology used by the researcher and that of researcher limitations been those the researcher encountered that hindered the research process and do not fall under methodology.

On the methodological front, the study was confronted with a sample size of fifty (50) randomly picked respondents that in the researcher's view, data collected from this these respondents may not be reflective of the entire population. To overcome this limitation, the

researcher purposively sampled twenty (20) respondents comprising ten (10) respondents each from the Talensi District Assembly Staff and the Assembly revenue collectors respectively. The reason behind this was that, these respondents hold rich and expert opinions when it comes to revenue generation within the TDA. Another methodological limitation was the methods that were deployed to collect data from the sample. Questionnaire and interviews were the tools used to collect data that in the opinion of the researcher, rich data would have been gathered if he had observed the revenue collection process by collectors and studying historical revenue records and documents of the assembly. Further limitations included the researcher's lack of prior research study of the topic constraining him knowledge wise of the topic. To overcome this limitation, the researcher had to do an extensive literature review to equip himself with relevant previous knowledge of the topic.

Limitations the researcher encountered in the field as part of the research process included limited access to respondents, relevant data and document, and above all TDA itself. As a result of the rapid widespread of the coronavirus in Ghana, access to respondents became very difficult as a result of the directive for citizen limit personal contact and also the presidential directive for some institutions to go on mandatory break, access to the staff of TDA and the institution itself became restrictive.

### **1.9 Organization of the study**

The study is subdivided and organized into five-headed chapters. The detailed information contained and discussed in these five-headed chapters are;

#### **Chapter one: Introduction**

This aspect of the study introduced the topic of study providing an understanding of the research background. A further discussion of the problem statement, the study objectives, and

questions, the study significance, scope, and limitations of the study is covered extensively here. Also in here is an outline of the entire research chapter by chapter.

### **Chapter two: Literature Review**

A critically reviewed, analyzed, organized, highlighted, and presented contributions by other researchers about the effectiveness of revenue mobilization strategies of MMDAs in Ghana is contained in this chapter. Views from scholarly writers were reviewed to unearth relevant literature on the subject of study

### **Chapter three: Methodology**

The chapter covers systematic or step by step approaches used in coming out with a logical concluded research process. Most importantly the methodology i.e. description of the study population, the study sample, sampling techniques, sample size, data collection techniques, tools, and tools used to analyze data. Types of data used and the profile of the study area are not left out here.

### **Chapter four: Data presentation and discussions**

Primary data collected is presented, analyzed, and discussed here concerning the study objectives. Pictorial and graphical representation of findings from data gathered is also captured here in this chapter.

### **Chapter five: Findings, conclusions, and recommendation**

Known as the revelation of the study, this chapter discusses the study findings, concluding the data gathered and making recommendations both general to MMDAs and specific to the Talensi District Assembly.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

Numerous studies have tried investigating the impact of revenue strategies on financial performance of MMDAs in Ghana and local government across the globe. Though the findings of these works are somewhat diverse, the widely held views are that there's a connection between revenue mobilization strategies and the financial performance of local governments across the world and for that matter Africa and Ghana at large (Organizations et al., 2014). The literature reviewed has used a number of variables to examine the relationship between revenue generating strategies and financial performance of local government institutions in Ghana. In this segment of the study, a sequence of studies related to the research problem is presented to try to identify the knowledge gap that exists. Also presented under this section is the theoretical, empirical, conceptual reviews. Examined here also, are time tested process and conditions that will facilitate the effective and smooth mobilization of locally generated revenue. A number of concepts, opinions and expressions have emerged from many intellectuals and local government experts and practitioners on the connection between revenue strategies and their impact on MMDAs financial performance (Agency & Development, 2015).

Among these opinions and concepts expressed are that the inability of local government institutions to function effectively is part attributable to their unproductive revenue mobilization stemming from lack of appropriate structures, inadequate human and financial resources etc. As a result of the these problems local government institutions go into a spiteful cycle of poverty since inadequate human and financial resources coupled with the lack of appropriate structures will result the employment of low skilled staff and poorly waged staff by MMDAs for revenue collection purposes. Shibata (1993), researching on the detachment of

spending accountability amongst central and local governments argued that local governments funding accounts for two-thirds of the total public expenditure.

The growth of poverty is one out of the many challenges faced that African continent, resulting in the conflicting imageries of wealthy habitats and commercial districts and complete despair in straggling slums. It is estimated that not too long in the year 2025, fifty percent of Africa's inhabitants will be living in towns and cities whilst the remaining population in urban shantytowns (Puopiel & Chimsi, 2016). However, the fast development of Africa's towns and cities has outstripped local governments' authorities' ability for service provision speaking of infrastructure, funding and administration.

Bella (2000), observed that many local government institutions in Ghana whose establishment predates the colonial era have neither seen any reforms nor any capacity building to deal with the fast increasing population. Devas (2003), asserts that, an increasing population of urban dwellers lives in shantytowns considered to lack rudimentary social amenities services such as lack of access to clean water, toilet facilities, electricity, health facilities etc. moreover, many local government institutions are economically distressed relying on annual subvention from central government (Brosio, 2000).

Furthermore, the revenue collection functions of MMDAs are time and again incompetent in managing revenue collected resulting to huge sums of revenues been misappropriated. Due to the poor management and the misappropriation of locally generated revenues by local government authorities in Africa, several town and cities in Africa faces governance catastrophes and poor service provision ability (Attah-Botchwey, 2018). Thus, the need to reform the revenue function of local government institutions has come into the center of the development debate. Particularly, fiscal decentralization been the transfer of revenue mobilization function and the powers that be to local government institutions at the lower level of the democratic dispensation has consequently become the subject of governance nowadays.

## **2.1 Theories of tax revenue generation**

More than a few theories of taxation exist in public finances. To fund capital and recurrent expenditures, both local and central governments must collect revenue from a number of sources. There exist two key questions in contemporary public finance writings; i.e. who pays and who benefit?

### **2.1.1 Benefits theory of taxation**

According to this theory, the state should levy taxes on individuals according to the benefit conferred on them (Abdulai et al., 2016). Citizens must and should be prepared to pay taxes to their government in proportion to their expectation on the provision of public goods and services by government. The theory of benefit is occasionally equated to the role of prices in distributing private goods. Originally developed by two Swedish economists in 1896 and revised in 1919, the benefit theory assesses the efficacy of tax revenues in providing benefits to citizens whilst evaluating economic policies of governments. The benefit theory of taxation require citizens to pay taxes to the government in proportion to benefits they receive in the form basic social amenities and infrastructure. Alternatively speaking, the theory advocates for persons profiting more from public goods and services to pay more taxes. The criticism against the theory are that; capital expenditures for both local and central governments are for the good of every citizen including nonpayers of taxes, the appraisal of benefits enjoyed by citizens funded by their taxes is not possible, the poor and vulnerable will be the hardest hit paying taxes should the benefit theory is put to practice as they benefit more from services of the government than well-to-do citizens.

### **2.1.2 Ability to Pay Theory**

The equity principle of taxation advocates for government to tax its citizens on the basis of their taxable. (ZORAN SPASIC Prescott Valley et al., 2016). It seems rational and equitable that taxes ought to be collected based on the assessable capabilities of citizens. For example, if the income level been the taxable capacity of an individual or an entity is greater, the ability theory suggests that individual or entity pay more in term of taxes than an individual or business with a lower level of income or revenue. The viewpoint of the ability to pay principle is that citizens should be levied and made to pay tax to both the local and central governments depending on their taxable capacity. The principle further stand is that individual, business, etc. should pay taxes in proportion to their respective income levels. On the grounds of the ability to pay principle, there will be fairness and equity in the taxation of citizens. But then the challenges to this principle doesn't stop her. The challenges of the theory begin at its implementation stage or putting the policy into practice. One major challenge that the theory encounters is the definition of ability to pay. Economic scholars are divided on the measure of one's ability to pay when it comes to taxation.

### **2.2 Definition and concept of public revenue**

Public revenue comprises cash financial resources derived by government from taxes, grants, contracted loans, recoveries and levies and from other sources. Simply put, monies received by government agencies and departments on government behalf for rendering a service or the sale of public goods to the citizenry form public revenue. In many advance jurisdictions, the use of the terms turnover, income or proceeds is often referred to revenue. Most corporate entities revenue are in the form of interest from debt instruments investment, dividends from equity investment or royalties from mineral, oil and petroleum explorations (Carcello, 2008). (Carcello, 2008). Revenues may denote trade proceeds in general of an entity expected over a

time period. The total operating income or revenue of an entity over or in excess of its operating cost is known as the return or profit accrued to the entity over a period. Always situated on the top most part of the statement of comprehensive income, revenue is habitually referred to as the top line.

### **2.3 Government revenue**

Total gross taxes, interest and dividends income received by ministries, departments and agencies on behalf of government cumulatively form central government revenue. Income or revenue received by government agents on its behalf or private corporate entities can be in a form of cash or its equivalents. Government tax revenue is made up of income accruing to government from taxpayers. Practiced officially, the measure of revenue is an estimation of annual income on the basis of precise standard accounting practice or rules recognized by a political administration or régime or government agency. Listed entities that offer equity securities to the general public for sale are legally bound to report their operating income or revenue using GAP or IFRS (<http://www.budget.gov.au/> dated 16th April 2011). Internally generated revenues of MMDAs predominantly comprised of rates, fines, fees, investment income etc. accumulating to these institutions at the local level. Revenue generation is thus the arrangement, collection and organizing cash financial resources from all revenues accruing from recognizable sources in an economic setting.

### **2.4 Importance of local revenue to local governments**

Internally generated funds play important roles in the running of MMDAs as below;

- Locally generated funds help in financing the administrative costs of MMDAs.
- Maintenance costs of MMDAs are financed using local revenues.

- Local revenue support the continuous rendering of services and provision of developmental projects.
- It help to reduces the over reliance of local government institutions on central government subventions.

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## **2.5 Revenue sources available to local governments**

Local governments revenue sources in Ghana are classified into internal and external with internal revenue sources been revenues collected from the domain of MMDAs and external sources been revenues from the central government in transfer form, subventions and grants.

### **2.5.1 Internally Generated Revenues of Districts Assemblies in Ghana**

Locally generated revenues comprises of revenues generated solely by local government authorities according to the Local Government Act. 1993 (Act 462). Broadly put, internally generated funds can be from tax or from non-tax. Revenue from taxes are obligatory and comprises taxes levied on the income of SMEs, employed persons and tangible physical properties. On the other hand, non-taxable revenues are derived from voluntary payments by particular recipients of the districts' services. These include user fees/charges, licenses, permits and royalties. The MLGRD is tasked with the responsibility to issuing guidelines for imposing taxes. Local government authorities like the MMDAs and their governing boards pass resolutions for the setting and adoption of fees upon which revenues are collected.

According to Lutaya (2009), the major sources of local government revenues includes;

- Rates comprising basic rates, rates levied on properties,

- Revenue from lands and royalties e.g. permits for building and operating, concessions royalties, share of stool land revenue etc.
- Fees and fines e.g. tolls, marriage/divorces fee, lorry parks etc.
- Licenses encompassing of artisans, taxi operators, chop bars operators, herbalists etc.
- Rental income from government properties including markets stores, sheds and stalls etc.
- Grants from central government

### **2.5.2 Inter-governmental Fiscal Transfers**

Countless research findings discovered that funds generated internally are usually inadequate for meeting the capital and recurrent expenditures of local government institutions in Ghana (Mogues & Benin, 2012). Thus, the central government regularly intervenes by way of fiscal transfers to MMDAs as bailouts. Local government institutions in Ghana generally have different revenue generating capacities always contributing to substantial differences in terms of the degree of revenues generated. The frequent governmental intervention in the form of fiscal transfers to MMDAs from the central government seeks to achieve objectives of redistribution of national income or wealth. Moreover, it is often to encourage the spending on certain goods and services that display optimistic externalities by MMDAs. Again, central government fiscal transfers to local authorities are also usually geared towards the sustenance for poverty reduction and the undertaking of specific activities within the locality of local authorities (Inanga & Osei-Wusu, 2004). There are quite a lot of financial transfer systems used by governments across the globe. However, in Ghana, the central government uses three arrangements namely; the DACF, recurrent expenditure transfers, and the ceded revenue provided for by legislation (Inanga & Osei-Wusu 2004).

### **2.5.2.1 The District Assemblies' Common Fund (DACF)**

The 1992 constitution of Ghana provides for the establishment of a fund called the district assembly common fund (DACF) in article 252 into which 7.5 per cent (revised) of all total national revenues shall be allocated and paid into. The constitutional article establishing the DACF also has an act of parliament backing it i.e the district assembly common fund Act, 1993 (Act 455). The purpose of the fund is for the sustenance of poverty reduction and the undertaking of specific activities within the locality of local authorities. A secretariat is thus created to manage the fund headed by an administrator. The common fund administrator uses an approved formula by the parliament of Ghana in disbursing inflows into the fund to over 260 MMDAs.

### **2.5.2.2 Recurrent Expenditure Transfers**

Post the decentralization process in Ghana, local government institutions have continued to receive financial support in the form of the payment of staff salaries, pensions, and gratuities by the central government. The central government does so having regard to whether staff falls within the accepted manpower upper limit of MMDAs. Besides, helping to pay staff salaries of local government institutions, MMDAs receives other support from the central government and its developing partners in the form of district development funds (DDF), grants and donor funds from non-governmental organizations (NGOs) (Ghana Strategy Support Programme, GSSP/ISSER, 2007).

## **2.6 Causes of revenue collections shortfall in MMDAS**

Schroeder et al (1998) attributes the causes of revenue collection shortfall in local government institutions to the following;

### **2.6.1 Administrative weakness**

The root cause for low revenue performance at the local government institutions is administrative weakness. Though empowered by legislative instruments and act to formulate policies, strategies and procedures to collect revenue internally for their development and administrative need, most local government institutions are administratively weak when it comes to budgeting, formulation and implementation of policies, procedures and strategies needed to for effective mobilization and collection of local revenue. The existence of incomplete revenue base information coupled with the absence of revenue collection laws enforcement and the low outputs of collections make these MMDAs weak administratively.

### **2.6.2 Collection and Enforcement**

Revenue collection variance of local government institutions is estimated to range between 35 to 60 per cent annually. This means percentage performance of MMDAs in revenue generation annually is averagely 52.5 percent. Thus the consistent poor revenue collection performance is attributable to the continuous adoption of persuasive mechanisms by local government institution instead of the enforcement of laws backing revenue collection drive embolden in the Local Government Act. Kelly et al (2001) attributes lack of collection will and enforcement to the factors below;

#### **Lack of political will.**

Lack of firm commitment from past and present government and the powers that be to resourcing and equipping local government institutions with the needed strategic human resources and logistics needed for the budgeting, identification and collection of revenue from different sources.

### **Poor service and social infrastructure**

MMDAs lack the will and are unable to enforce revenue collection mechanisms because of their inability to offer value-added services and social infrastructure to the citizenry. The ordinary person or citizen tasked with the civic responsibility of paying local tax to established local government institutions needs to be convinced that his/her tax or levy will be fairly used to provide him/her with commensurate social infrastructure and improved services. There is therefore the need for local government institutions to first of all improve upon the quality of their service and social infrastructure delivery as citizens will pay more local taxes and fees if in return they receive some tangible benefits or services.

### **Lack of education on tax responsibility**

MMDAs failure to educate the tax paying public on their civic responsibility to pay local taxes coupled with the benefits in the form of improved services delivery and physical infrastructure development accounts for the lack of collection will. Citizens need to be educated on the basis, processes, commitments and their responsibilities toward rates, fees, licenses, fines and penalties due local government institutions. Citizens will only comply with the demand to pay local revenue to MMDAs only if they are educated and assured improved service delivery. Internally generated funds collection will also be improved if citizens are made to be part of the revenue budgeting process.

### **Tax Base Coverage**

Kelly et al (ibid) opine that local government institutions are unable to widen their tax brackets to include to increase the reason been the absence of, inadequate and or obsolete data on taxable objects, properties and businesses. Local business license records hold only data on those few smaller businesses licenses issued by MMDAs. The property tax records of MMDAs are also at different stages of completeness. Some local government institutions in Ghana do not have

records of fees from licenses, operating permits, property rates etc. and also database for businesses, properties from which operating permits and property rates can be collected.

## **2.7 Improving local government internally generated funds (IGFS)**

Fjeldstad et al (2000) found that a number of acts and parliamentary instruments are used for revenue collection by MMDAs in Africa. They further opine that, many local governments in the African continent seem to raise internally generated funds using different legislative instruments regardless of the fiscal distortions and the distribution effect of these instruments. Bardhan and Mookherjee, (2002) argues corruption and maladministration of locally generated revenues are the results of an opaque local government revenue system. Likewise, locally generated revenue comes with a twisting consequence on resource allocation and hence preventing the establishment and growth of startup small and medium scale enterprise (SMEs) and the attainment of fiscal growth in an economy. Sander, (2003) articulates these effects arise once real rates differ significantly amongst different goods that are traded, and when license levies are fixed too high for start-up SMEs to stay alive.

Fjeldstad and Semboja (ibid) note that the stages and kinds of internally generated fund instruments by themselves can result in tax affliction on the underprivileged than on the rich. This is largely owing to the rudimentary scheme of the local revenue structure and the way revenues are collected.

Notwithstanding the numerous all-encompassing central government tax restructuring over the years, local government's revenue structures continue to remain the same in the African continent. Normally, emphasis is always place on the cost efficacy of revenue mobilization taking into consideration both the administration costs and the total costs to the economy when restructuring a system for internally generated funds. Furthermore, prominence is also placed on revenue loss through fraud and circumvention to reduce the magnitude. Undoubtedly, better

revenue management cannot pay off for corrupt revenue scheme. Hence, restructuring the revenue system ought to come first before the administration as there is little value making a corrupt revenue scheme function effective to some extent.

The government of Tanzania recently restructured the internally generated fund system of the local government with the key rudiments of the reorganization been; the deletion of unproductive revenue instruments which hitherto served costly to the economy administering than the benefits derived from governmental and partisan viewpoints and developments to remaining revenue bases by streamlining rate structures and collection measures. The Tanzanian reform proves that fundamental changes of the local government revenue system are likely, even though it is too early in the day to evaluate the longer-term effect of this reform on local government revenues.

## **2.8 Strengths and weaknesses of MMDAs IGF instruments**

As earlier on stated, a number of acts and parliamentary instruments are used for revenue collection by MMDAs in Africa. Nonetheless, the highest sources of revenue to MMDAs are primarily from fees, licenses, permits, rates, user fees from service surcharges etc. Yet, studies in most countries in the African continent have shown that, these revenue sources have underperformed contributing to local government revenue. For example, property taxes can be very expensive to oversee (Brosio, 2000, p. 20), and the collection of local government facilities user fees has occasioned a general opposition to pay coming from the poorer segments of the urban population in some countries (Fjeldstad, 2004; Fjeldstad et al., 2005). Additionally, complex business licensing systems have proven to prevent the establishment and growth of startup small and medium scale enterprise (Devas and Kelly, 2001; Sander, 2003). Nonetheless, empirical literature suggest that a well-managed revenue source can and

will serve as a sustainable and consistent source whilst delivering considerable amount of revenue to MMDAs.

### **2.8.1 Property tax**

Taxation of properties within the jurisdiction of MMDAs contribute significantly to their revenue base. Property taxation contributed forty percent of local governments' revenues as at the 1990s. It was however not the case in Africa as in Tanzania it contributed ten to fifteen percent whilst in South Africa it was estimated to have contributed around twenty percent to total local government revenue. Potentially it can be a major source of revenue for area and town councils within the 260 MMDAs in Ghana. Literature on revenue preps amongst various levels of government contend that rare economically important taxes are more suitable to local administration than property tax. This emanate from the fact physical property is noticeable, immovable, and a strong indicator of one form of wealth. Therefore, in opinion, property tax is hard to evade and if well managed it can characterize a non-distortional and exceedingly resourceful economic tool. Both central and local governments can collect property tax. To collect property tax, MMDAs need have a district wide property database detailing ownership and value of properties to aid annual determination, calculation and distribution of taxable bill to taxable persons been properties owners. Local governments will also need to manage revenue received whilst applying enforcement mechanisms against defaulters or non-payers. In most countries across the African continent, local governments determines the choice of tax rate though the collection and management processes of the tax in some parts of the continent are executed by the national revenue authority. But in Ghana the collection and management of property taxes is in the hands of MMDAs as enshrined in the Local Government Act. In Malawi, the central government performs the valuation function whilst the local authorities performs the rates setting and collection function. According to Brosio (2000) francophone

countries in the West African sub region still base the setting and collection of property tax rates on the outmoded French model whereas the countries in the East and Southern Africa depend on the local government. Relying on respective local government legislative instruments and acts for the collection and management of property tax is frequently suggested in writings that advocate that taxes ought to be collected and managed by the government that is entitled to the revenue. Conversely, diverse results prevail in both cases in Africa.

Diverse experts' opinions exist in literature on ways to increase the collection of property taxes in developing economies and for that matter Africa. Whilst a number of experts fault the too much centralization of property tax policy, which bars setting higher tax rates, others on the other hand, fault what they consider the nearly complete anarchy deriving from local government freedom in this field. Present is also dispute over tax administration. Undoubtedly, property taxation has several fascinations as a source of local revenue to local governments but there also exist a number of apparent weaknesses that local governments must be taken into account in relying solely on it as a source of revenue. Local authorities lack the capacity and capabilities collecting property tax at a low cost. The organizational weaknesses associated with the collection of property taxes are demonstrated in valuation difficulties and the uncertainty or unpredictability of tax assessment and enforcement. Conceptually, valuing properties and the collection of property tax are straightforward; evaluate the sale value of each plot of landed property or site billing each owner after evaluation. Practically, it is at times expensive and time consuming to try to value or put a value on properties within the enclave of local governments. Moreover, the exercise is sometimes beyond the monetary and official capability of many MMDAs. Most countries in sub Saharan Africa lack property valuers at the local government level. Uganda in the East Africa sub region for illustration can only boast of eleven qualified land and property valuers in charge of valuing over five million parcel of lands.

These organizational flaws are demonstrated in problems of assessment and uncertainty in tax mountain load of parcels of land (McCluskey et al., 2003). Tanzania on the other hand has nearly 100 qualified valuers and charged with valuing over five million parcels of lands. It's therefore difficult on the part of local government institutions to value properties within their catchment area and maintain records of valuations, which are regularly eroded by inflation.

### **2.8.2 Business licenses**

Taxes imposed on local businesses comes in two ways (Devas and Kelly, 2001, p. 384): either as a fixed amount, which generally differs by type, size, or location of the business, or ad valorem of revenue or earnings. Calculating business revenue or earnings, nonetheless, is problematic relative to small and medium scale enterprises, that most often do not keep proper financial records regarding their financial transactions. As a result, local taxes imposed on SMEs time and again uses the size, business type, work force, etc. as proxies for revenue and profitability.

Devas and Kelly (ibid) found that local governments in French speaking countries in Africa impose a tax called patente on businesses. Patente contributed seventeen percent of local government revenue in the 1990s whilst serving as the highest sources of revenue financing local government budgets. In their study, Devas and Kelly noted that local governments in Anglophone countries in Africa mostly use licenses as a mechanism to raise revenue from businesses operating within. They further state that, though licenses were meant to control the general conduct of business by local government institutions, it has increased astronomically over the years becoming one of the major sources of revenue to local authorities. It's estimated that revenue from licensing represented between five to twenty percent of town and urban councils of local government institutions. The collection of licenses from businesses in Anglophone countries has not work to produce the desired result thus unsatisfactory. The

licensing system of taxing businesses is time and again unfair. It has over years since its introduction levied huge fees on SMEs including startups while generating somewhat minute money. Most SMEs in Africa on countless occasion had cause to criticize on the reason they are been asked to pay business license. The initial thought of controlling the general conduct of businesses have been mainly abandoned. Coming from poor policy design, implementation, and weak management, the imposition, collection and enforcement are at a record low accounting for poor revenue generation. A business owner is uncharacteristically required to visit the offices of a local government institution on occasions coupled with travel cost to acquire a business license to operate. Aranjou-Bonjean and Chambas, 2003) states that the management and collection of licenses implies that most SMEs are often left behind and not captured in the license system resulting from lack of businesses database. Besides, feeble fiscal management will over and over again suggest that collection and enforcement requirements are hardly imposed. This wears down the tax base and bring together inequities into the system. Thus, countless existing business license systems across Africa contain serious defects. According to Devas and Kelly, 2001, these include:

- ✚ High compliance costs to businesses, due to multiple licensing and complex procedures;
- ✚ Tariff structures that are complicated and do not reflect ability to pay;
- ✚ A process loaded with ineffective regulatory requirements, which provide opportunities for rent seeking;
- ✚ Poor administration and evasion, which reduce the tax base and generate inequities; and
- ✚ A revenue source that generates relatively little income for local governments.

### 2.8.3 User fees – linking payment and service delivery

Bahl et al (2003) maintain that taxation should not be price citizens has to pay for demanding public goods or services if their demand were to be met with supply by governments. They further contend that, the matching of demand for public goods and services against supply can be accomplished through cost-recovering arrangements, tying fees or charges paid to amount expended. It has always been the long tradition in many African countries to use group support and religious and faith-based organizations in addition to longstanding rapport between government institutions and stakeholder groups to provide public goods and services to the citizens. Partnering citizens and interest groups is considered an effective mechanism to recouping the provision costs of public goods and services notwithstanding its efficacy in promoting the efficient consumption of public goods and services. Many scholars like Bahl et al (ibid) argue that the charge of public goods and services consumer fees play a prominent role in local government finance. Fjeldstad et al (2005) suggest that user fees of public services or goods is not for revenue generation but a mechanism to ensure the judicious use of public sector assets. Nonetheless, public facility user fees will make available information to authorities and policy makers how prepared and willing citizens are to pay for the delivery of public goods or services. The outcome for provision of public services and goods to citizens at no cost may or will lead to overconsumption. Besides, it will be difficult on the part of authorities and policy makers to target recipients of free services or goods.

McDonald and Pape, (2002) suggested in their analysis of experiences in the Africa continent that public facility user fees or charges inflict a heavy burden on rural poor, excluding them from better social services and goods from government. Deductions on the words of Rondinelli et al (1989), can, nevertheless, be made to counterbalance such negativity. For example, facility user fees can mirror differences in capacity to pay by integrating downhill scales for the kind

of consumer or the amount of usage, even though this will involve satisfactory organizational capability.

Bahl and Smoke, (2003) found that service fees for the usage of public social infrastructure facilities such as; sanitation, portable water, power and electricity were a key birthplace of revenue to local authorities in southern Africa most particularly South Africa and Namibia. Specifically, user fees from water, power and electricity contributed significantly. Local government derive revenue from facility user fees and charges by surcharging the costs of utilities from the utilities establishments or if the utilities are self-produced by local government authorities.

Bahl et al (ibid), estimates that one quarter of power distribution companies in South Africa collects a significant amount of revenue from excesses gotten from sales. A chunk of this excess revenue goes into finance the production costs of services. It's however not the case in some local government counties as a considerable amount of surpluses are left for all-purpose local government funding. Thus, the tax portion of the facility user charge is hidden from taxpayers making local government taxation opaque to citizens undermining transparency in the administration of the local revenue system.

Fjeldstad et al (ibid), noted that majority of local government councils and counties in Namibia do not fix public goods and services user fees in compliance to sanctioned tariff policy of cost recovery. Hence, a number of social services including the provision of portable water are been managed with substantial losses in a good number of local establishments. (Bahl and Smoke, (ibid), concur to this phenomenon been existent in the South Africa. They further assess the situation to be deteriorated boiling down rising level of receivables in local counties and municipalities. (Bahl and Smoke, (ibid), understandings from South Africa and Namibia clearly demonstrate innumerable challenges surrounding the collection of public service user fees and ways of cost recovery. These challenges are attributable to the consideration of citizens

most especially the rural dwellers ability to pay for services offered, approaches to collection and billing, service quality and determined struggle to pay for public goods or services. The aforementioned challenges calls for a certain appreciation of reasons that underpin citizens' decisions to pay or not to service charges and tariffs dealing with the policy difficulty of revenue attraction in local government institutions.

Slemrod, (2003), found a number of empirical evidence that suggests a linkage between citizens' readiness to pay rates and taxes for public goods and reasons for their willingness that includes; the credibility of the local government to provide value for money and timely services, confidence in others etc. Shorn of trust is a diminutive grounds for public co-operation and voluntary compliance with rules and guidelines vis-à-vis the payment of rates, taxes, etc. Specially, three scopes of trust appear to affect citizen's compliance with payment rules and bye-laws:

- ✚ Trust in the local government to use revenues to provide expected services,
- ✚ Trust in local governments to establish fair procedures for revenue collection, and
- ✚ Trust in other citizens to pay their taxes and rates etc.

The larger the fraction of the local population that is observed not paying the right taxes, the lower the perceived risk of being prosecuted is. This influences the individual ratepayer's view of the integrity and credibility of the revenue administration. Besides, the outlook of local partisan leaders regarding the collection of revenue appears to be vital. For instance, they have to legitimize non-payment through their conduct. The difficulties of non-payment ought therefore to be confronted on many fronts, together with service delivery, better administration and payment schemes, and community involvement.

#### 2.8.4 Implications for policy

Bahl and Smoke (ibid) discovered that the key organizational challenge of local government institutions in Africa is their failure to amass financial resources due to them from taxation. There are vast variances amid budgeted and actual revenues in many MMDAs. This phenomenon is attributable to

- ✚ Weak organizational capacity to measure the revenue base;
- ✚ Weak managerial capacity to put in force the payment of taxes;
- ✚ The high degree of tax evasion by taxpayers;
- ✚ Corrupt revenue collection practices of collectors;
- ✚ Outside pressure on revenue departments to make available optimistic estimates in their budgets;
- ✚ Political pressure on the local tax administration to relax on revenue collection, especially during election periods.

Consistent with Bahl and Smoke (ibid), there is the need to restructure the revenue structure of local government authorities and to reinforce fiscal discipline as essential and important matters that requires attention from policy makers in the perspective of local government economic transformations. Besides, procedures are prerequisite to improving citizens' compliance to statutes and more so increase the answerability of revenue staff and political voted councilors. Hence, without considerable and unflinching political will and commitment the above is not attainable. Bahl and Smoke (ibid) opine that to get citizens to exercise their civic rights of demanding accountability from local governments, education and the supply of information to the public is a must.

## Strategies for effective IGFs

To generate enough IGFs, Korkor (2003) suggests the following strategies to MMDAs;

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



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This segment gave the plan of the research techniques used to discover answers from respondents to the examination questions. The research approach covered the study plan, the number of people in the study, sampling and sampling methods, the sources of information just as the instruments for gathering the data. It likewise covered the data gathering procedures and data analysis procedure just as the research model.

#### **3.1 Research design**

The investigation utilized a descriptive examination plan. As per Kumar (2011), descriptive exploration outline remembers enquiries for phenomena or relationship among them and characterizes the information so as to make inferences about the populace being examined. Descriptive methodology was incorporated with review plan in order to gather thorough qualitative and quantitative information to increase the result of the investigation. The fundamental drive of reviews is to depict the qualities of a populace (Ohene, 2011). Fundamentally, what analysts need to discover is the manner by which the quantities of a populace convey themselves on at least one factors (disposition towards tax compliance).

This study used descriptive and explanatory research methods. A descriptive research design was adopted based on the study approach to assess the effectiveness of revenue mobilization strategies of the Talensi District Assembly. Descriptive research design leads to the generalization of a study outcome (Anglin & Towers, 1992). Thus, it will therefore help in the generalization of the study findings. Borg and Gall (1989) concluded that descriptive research

design use elements of quantitative research strategy such as measurement of central tendencies like mean and median; and dispersion like variance and standard deviation. Therefore, with a descriptive research design, this study would analyze data collected calculating mean, standard error, standard deviation, and factor relative importance indexes (RII) especially data collected using likert Scale. Knupfer and Hayes (1994) added that descriptive research design helps to establish the relationship between variables or helps to estimate the effect of one variable on the other.

This study further used an explanatory research design to estimate the impact of revenue-generating strategies on the financial performance of the Talensi District Assembly. This is because, an explanatory research design is used to identify the cause and effect of a phenomenon (Geletta, 2012). In this study, the phenomenon under consideration is revenue-generating strategies and this study looked at its effect on MMDAs in Ghana.

### **3.2 Population of the study**

Assembly and decentralized departments staff and business operator formed the population out of which a sample of fifty (50) respondents were carved for the study. Accounts and revenue staff, budget officials, staff of the internal audit department of the Talensi District Assembly were an essential fragment of the study population. According to Bryman & Bell (2007), a population is a larger set of observations in which a sample is drawn. The study target population of research must and should have observable characteristics against which the researcher intends to generalize his/her findings (Mugenda & Mugenda, 2003).

### **3.3 Sampling techniques and sample size**

To carve out a sample from the population for the study, purposive and simple random sampling techniques were deployed. Sampling respondents for the study using purposive

sampling technique, enabled the researcher to collect rich data from key informants most especially assembly staff tasked with the responsibility of budgeting, identifying revenue sources and its generation or collection as far as the revenue generating strategies and the impact on the financial performance of the Talensi District Assembly is concerned. For the purpose of carving out a sample from business operators who formed part of the research population, simple random sampling technique was adopted ensuring the unpredictability of a member of the population been selected. According to Ngechu (2004), it is important to select a representative sample by making a sampling frame from the target population. At times dealing with all the numbers even of the smaller accessible population would involve a tremendous amount of time and resources. It's therefore advisable for the researcher to further select a given number of members from the accessible population (Kothari, 2004).

### **3.4 Data collection instrument**

#### **3.4.1 Questionnaires**

Been one of the tools used to collect data for the study, questionnaires administered contained both open and close-ended questions. Closed-ended questions that were asked provided respondents with detailed optional answers from which they were to choose from. The use of close-ended questions provided the researcher opportunity to get what was in the mind of the respondents freely and get to responses where specific answers were required. Using closed-ended questions saved the research time. Contained also in the research questionnaire were open-ended questions that required respondents to give more in-depth and deeper answers or responses to the research question helping the researcher find out more about the topic under study? It also allowed respondents to give free-form answers instead of them restricted to optional answers to choose from as in the case of closed-ended questions.

### **3.5 Reliability and validity of questionnaire**

The quality of work done and the extent to which results and findings can be generalized represents the internal and external validity that research work should possess (Yin, 2008). To ensure internal validity of the study, the researcher adopted a suitable research design and approach ensuring that the target population had sufficient knowledge with regards the topic under study and also ensuring that a sample reflective of the study population was selected, data collection methods, tools, and analysis techniques that will lead to the quality outcome was deployed in the conducting of the study. To enhance data cogency and consistency, questions were asked on the basis of the research objectives that the researcher sought to achieve. Moreover, leading questions were never asked in the quest of the researcher to heighten data consistency and validity. Respondents were therefore asked open and closed ended questions. Questionnaires were reviewed by the supervisor giving dispassionate suggestions to the researcher. On external validity, a thorough review of theoretical frameworks was done to ensure that the findings and results can be generalized to some extent. The extent to which a study can be repeated with the same findings and results denotes reliability (Williamson, 2002). He further argued that getting respondents to understand your questionnaire and to provide rich answers and information tells how reliable research is. To achieve this, the study asked simple and straight forward questions that weren't too difficult and too easy to respond to by the targeted sample. In this investigation, data collected was subjected to internal consistency test using Cronbach's Alpha. For instance, in light of the fact that the poll is built by the specialist, it is structured based on the analyst's needs corresponding to the investigation point. Content legitimacy of the instrument was dictated by the analyst's chief from Kwame Nkrumah University of Science and Technology (KNUST) who took a gander at the estimating procedure and inclusion of explicit goals secured by the investigation.

### 3.6 Techniques of data analysis

Collected quantitative data for the study was analyzed with the help of descriptive statistics. To analyze data descriptively, data was coded into coherent, descriptive, and thematic categories providing a basis for analysis. Frequency, percentages, mean and standard deviations were the descriptive statistical tools used to analyze quantitative data whilst exploratory analysis techniques involving the use of diagrams, graphs, charts, and tables in giving meaning to analyzed quantitative data was used. The use of exploratory data analysis techniques helped in determining the forms and tendencies of revenue mobilization strategies to impact financial performance of Talensi District Assembly in the Upper East. According to (Saunders et al, 2009) exploratory analysis techniques provide room for the researcher to present hitherto unintended analysis responding to research findings giving way for him/her to look for whilst describing other statistical relationships present in the collected data the study was not designed to test. Data analysis was with the help of SPSS and Microsoft Excel. The research will analysed responses on the effectiveness of revenue generation strategies of the Talensi District Assembly and the decision rule is given the Table 3.2 below.

**Table 3. 1: Likert Scale**

<b>Responses</b>	<b>Scoring</b>	<b>Implication</b>
Very effective	5	Respondents strongly agreed to statement
Effective	4	Respondents agreed to statement
Fairly effective	3	Respondents fairly agreed to statement
Ineffective	2	Respondents disagreed to statement
Very ineffective	1	Respondents strongly disagreed to statement

**Source: Researcher's Construct (2020)**

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter of the study presents an analysis of collected data on the effectiveness of revenue generation strategies of the Talensi District Assembly grounded on the research questions: what are the sources of revenue to TDA; is enough revenue generated and mobilized locally by TDA; and how effective are the revenue generating strategies of TDA?

Data presented and analyzed under this section of the study was obtained from a carefully chosen sample of fifty (50) respondents administering structured questionnaires and the conduct on interviews.

#### 4.1 Response rate analysis

Of fifty (50) respondents represented by clerical staff, revenue collector, top management, heads of decentralized departments, petty traders and business operators, the study recorded a 100% response rate. It can be inferred from table 4.1 below that a good response rate was recorded from the sample of the study population.

**Table 4. 1: Analysis of response rate**

Respondents	Sample Size	Response	% Response rate
Top management	10	10	20
Revenue collectors	10	10	20
Heads of Decentralized Department	15	15	30
Petty traders	10	10	20
Business operators	5	5	10

Source: Survey Data, (2020)

## 4.2 Demographic information of respondents

The demographic information of respondents included gender, age and level of education as discussed below in the subsection.

**Table 4. 2: Demographics of the study**

	Frequency	% response
<b>Gender</b>		
Male	36	72
Female	14	28
Total	50	100
<b>Age</b>		
18-29years	8	16
30-39years	22	44
40-50years	15	30
>50years	5	10
Total	50	100
<b>Level of Education</b>		
JHS	8	16
SHS	4	8
HND	9	18
Degree	23	46
Master's	6	12
PHD	0	0
<b>Total</b>	<b>50</b>	<b>100</b>

Source: Survey Data, (2020)

Depicted in the demographics table 4.2 above, the study found that majority of respondents making up of 72% were males whilst 28% of respondents were females.

Moreover, the study found out that majority of respondents representing 44% were between the ages of 30-39 years. Others included 30% respondents belonging to the age brackets of 40-50 years, 16% respondents in the bracket of 18-29years whilst 10% belonged to the >50 years age bracket.

From the research data on age of respondents, the age brackets with the highest frequency (i.e. modal class) is between 30-39years. MMDAs suffer management problems when revenue staff are put in transfer or retire. The mandatory retirement age in Ghana is 60years, this means that assembly staff most especially revenue staff who were part of the study respondents and belong to the modal class of the study has up to thirty (30) more year to craft out policies and strategies efficient and effective enough to help the assembly generate sufficient revenue for its developmental agenda.

On respondents' level of education, the study found that 76% of respondents had had tertiary education representing 46%, 18% and 12% of respondents having degree, HND and master's respectively. Whilst a cumulative of 24% of respondents had basic education been 16% JHS and 8% SHS. Table 4.2 above analyses and presents respondents level of education.

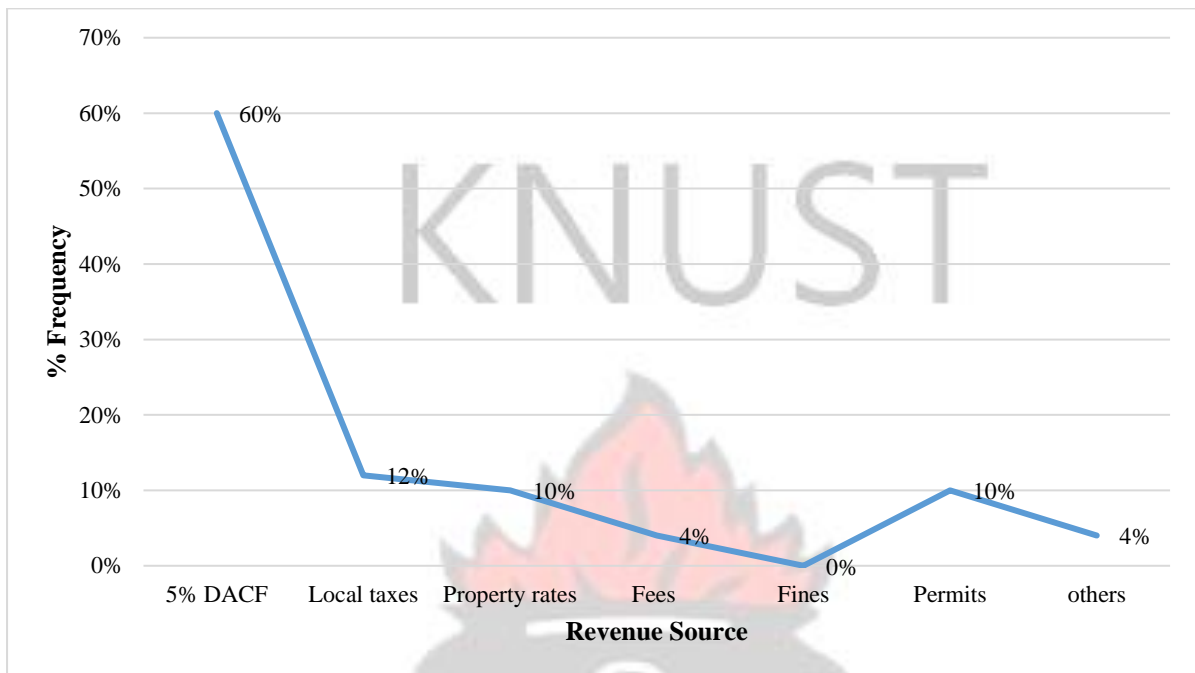
There is a correlation between the amount of revenue generated by MMDAs and the level information accessible to revenue collectors and tax payers. Moreover, tutelage influences ones understanding of the role of revenues mobilized by the Municipal and District Assemblies to the fiscal growth of any nation. To this end, the study sought information on the level of education of respondents.

### 4.3 Main sources of revenue for Talensi District Assembly

It is necessary that institutions or organizations should raise their own internally generated funds to help them pre-finance certain activities before the actual funds are released to them. It is in this regard that respondents were asked what they think are the main sources of revenue to the Talensi District Assembly.

On sources of revenue as shown in figure 4.1 below, majority of respondents representing 60% were of the view that the Talensi District Assembly is mainly funded by its share of the 5% District Assemblies Common Fund (Fund) from central government preceded by responses representing 12%, 10%, and 4% opining that assembly main source of revenue was from local taxes, property rates and permits, fees and other sources respectively. The responses is an indication of the assembly inability to generate internally generated funds (IGF) to augment central government transfers in funding the several projects demanded by the people of the district. Staff of the assembly collaborated this assertion when unstructured interviews were conducted to solicit responses as to their opinions whether the TDA is able to generate adequate IGF internally. Moreover, it is evident that the assembly rely mostly on external sources of funding instead of crafting policies and strategies whilst using existing legislations and laws to help improve upon the assembly revenue collection drive.

**Figure 4. 1: Sources of revenue for TDA**



Source: Survey Data (2020)

#### **4.4 Factors of the DACF influencing the operational efficiency of TDA**

The running of an organization be it private or public depend on the organization's revenue sources, how quickly it's able to generate or have access to revenue from the source and whether the organization is financially and humanly resourced enough to generate revenue from identified sources. The operational efficiency of Talensi district assembly depends on its revenue sources, how soon the assembly is able to have access to revenue from its revenue sources and whether the assembly is well resourced to generate revenue from the identified sources.

Respondents were asked to rank the impact of the DACF on the operational efficiency of Talensi District Assembly using five point likert scale. The five point likert scale which ranges from 1 to 5 as follows: 1- Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 – Strongly agreed (See Appendix). Descriptive data was used to measure the background information

and the appearances of the variables whilst the Cronbach's Alpha was used to test the consistency of the items on the scale. Out of the descriptive data, mean, Standard deviation, RII, Standard mean error, were calculated for each variable and shown below in Table 4.3 and 4.4. Using Cronbach's Alpha Coefficient, a test of reliability was performed for responses to check the dependability of data collected. Authenticating the dependability of the measuring tools is one of the elementary features in evaluation (Tavakol and Dennick, 2011). Dependability has to do with the level to which a measuring instrument will produce the same results on repeated trials (Carmines and Zeller, 1979).

**Table 4. 3: Data dependability**

Cronbach's Alpha	No of items
0.767	4

Source: Survey Data (2020)

With a Cronbach's Alpha coefficient of 0.767 in table 4.4, it is the utmost significant consideration testing the impact of DACF on the operational efficiency of MMDAs. To be dependable, the internal consistency of a scale been the Cronbach's Alpha coefficient needs to be  $\geq 1$  or  $= 0.700$  according to (Taber, 2018). As seen in table 4.4, our internal consistency for responses received on the impact of the DACF on the operational efficiency of 0.767 indicates the measure of data consistency is reliable. Had the measure of internal consistency wasn't reliable, then the study would have considered removing items with low item-total correlations in the column headed Alpha if Item Deleted.

Likewise, low Cronbach's value usually  $\leq 0.500$  are usually associated with scales with fewer items less than 10 like the test on the impact of DACF on the operational efficiency of TDA. In such instances, it may be more appropriate to report the mean inter-item correlation for the items but in this case it's not necessary as the internal consistency for the responses

exceed 0.500. However, the result of the reliability test as contained in table 4.4 shows that the values of the Cronbach's Alpha for each constituent surpassed 0.700 hence approving the consistency of the measuring tool. The same outcome is expected in the individual perspective.

**Table 4. 4: Cronbach's Alphas Coefficient internal consistency test**

<b>Items on the impact of DACF on the operational efficiency of TDA</b>	<b>Cronbach's Alpha if item is deleted</b>
TDA dependence on the DACF	0.916
Delay in disbursement of the DACF by Central Government	0.885
Effect on the operations of TDA due to disbursement delays of the DACF	0.920
Ability to generate IGF if there is a delay in disbursement of the DACF	0.914

Source: Survey Data (2020)

**Table 4. 5: Factors of the DACF influencing the operational efficiency of TDA**

Constituents on the impact of the DACF on the operational efficiency of Talensi District Assembly	N	Sum	Mean		Std. Deviation	RII	Ranking
			Statistics	Std. Error			
Affects operations of TDA due to disbursement delays of the DACF	50	195	3.9	0.208	1.474	0.780	1 <sup>st</sup>
TDA dependence on the DACF	50	194	3.88	0.205	1.452	0.776	2 <sup>nd</sup>
Delay in disbursement of the DACF by Central Government	50	180	3.6	0.183	1.294	0.720	3 <sup>rd</sup>
Ability to generate IGF if there is a delay in disbursement of the DACF	50	177	3.54	0.204	1.446	0.708	4 <sup>th</sup>

Source: Survey Data (2020)

Prior to data analyses, a 95% level of confidence was set, thus, on the basis of the five-point Likert scale rating, an item is deemed noteworthy if it had a mean of 3.5 or more. On this note, Ahadzie (2007) was of the view that an item with the lowest standard deviation should be assigned the highest significance ranking where two or more items have the same mean.

Measuring how likely a sample may characterize the population, the standard error represents the standard deviation of a sample mean (Ahadzie, 2007). Thus, a large standard error (relative to the sample mean) implies that there is a lot of inconsistency between means of different samples whilst a small standard error suggests that most sample means are similar to the population mean; therefore, the sample is likely to be an accurate reflection of the population. The standard error associated with all the means is relatively close to zero signifying that the sample selected is a true reflection of the population.

Considering the impact of the DACF on the operational efficiency of Talensi District Assembly presented in table 4.5 above, it can be seen that the grinding to a halt of the Talensi District Assembly operations due to delays in releasing to MMDAs the DACF by the central government was ranked 1<sup>st</sup> with relative importance index of 0.78, the highest mean of 3.9 from 50 responses, and a standard deviation of 1.474. From responses gathered the grinding to a halt of the assembly's operations is caused by; the over dependence of the assembly on their share of the 5% DACF ranked 2<sup>nd</sup> in table 4.5 with relative importance index of 0.776, mean of 3.88 from a sample of 50 and a standard deviation of 1.452, delay in disbursing the DACF to MMDAs by the central government ranked 3<sup>rd</sup> in the table with RII of 0.72, standard deviation of 1.294 and a mean of 3.6 from 50 responses.

Ranked 4<sup>th</sup> in table 4.5 with relative importance index of 0.708, standard deviation of 1.446 and also with a mean of 3.54 is the inability of the Talensi District Assembly to generate internally generated funds to support its operations that also affect the operational smoothness of the assembly during period of delays incoming to the coffers of the assembly the DACF.

The 5% DACF was set up to augment revenues generated internally by MMDAs in financing developmental projects and programmes at the local level. But over the years, the failures of local government institutions to mobilize sufficient IGF internally has led to the over

dependence on the DACF. Interviews conducted revealed that MMDAs over dependence culminated with their inability to generate enough IGF locally to fund local projects and programmes most often affect the smooth running of these MMDAs as sometimes the central government delay in disbursing the mandatory 5% DACF to them.

Because of the over dependence of local government institutions on the almighty 5% DACF, the study sought to find out whether the central government do disburse the DACF to these local government institutions on a timely basis. Findings were that the central government most often delay in disbursing to MMDAs their share of the 5% DACF. The delay in disbursing to the assemblies the 5% DACF the respondents asserts contributes to the failure of local government institutions in providing developmental infrastructure and sometimes affect the smooth running of MMDAs. Respondent unanimously were of the view responding to interview questions that the effect of MMDAs inability to generate adequate revenue locally on their operations could be minimized if the central government disburses the 5% DACF to MMDAs on a timely basis.

The study sought to find out whether Talensi District Assembly was well resourced and empowered locally to generate adequate revenue for its funding and developmental needs. Though the Talensi District Assembly is well resourced to be able to mobilize its projects and developmental revenue needs locally, its generation of IGF locally over the years has always falling short of target according to the study findings affecting its operational smoothness.

#### **4.5 Causes for TDA inability to generate its revenue target**

To be able to operate smoothly and provide developmental needs of their constituents, MMDAs are mandated to raise revenue internally to augment their share of the DACF from central government. The operational efficiency of Talensi district assembly depends on its revenue sources, how soon the assembly is able to have access to revenue from its revenue sources and

whether the assembly is well resourced to generate revenue from the identified sources. Though well resourced, the study found out that the assembly is unable to generate its needed infrastructural and service revenue needs.

Thus, respondents were asked to rank the factors that account for the inability of the assembly to generate its revenue needs using five point likert scale. The five point likert scale which ranges from 1 to 5 as follows: 1- Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 – Strongly agreed (See Appendix). Descriptive data was used to measure the background information and the appearances of the variables whilst the Cronbach’s Alpha was used to test the consistency of the items on the scale. Out of the descriptive data, mean, Standard deviation, RII, Standard mean error, were calculated for each variable and shown below in Table 4.6 and 4.7 Using Cronbach’s Alpha Coefficient, a test of reliability was performed for responses to check the dependability of data collected. Authenticating the dependability of the measuring tools is one of the elementary features in evaluation (Tavakol and Dennick, 2011). Dependability has to do with the level to which a measuring instrument will produce the same results on repeated trials (Carmines and Zeller, 1979).

**Table 4. 6: Data dependability**

Cronbach’s Alpha	No of items
0.705	8

Source: Survey Data (2020)

With a Cronbach’s Alpha coefficient of 0.705 in table 4.7, it is the utmost significant consideration testing the factors that account the inability of the Talensi District Assembly to generate and mobilize sufficient revenue internally to fund the developmental and service needs of the people in the district. To be dependable, the internal consistency of a scale been the Cronbach’s Alpha coefficient needs to be  $\geq 1$  or  $= 0.700$  according to (Taber, 2018). As

seen in table 4.7, the internal consistency of 0.705 received assessing the factors accounting for the assembly inability to generate and mobilize revenue indicates the measure of data consistency is reliable. Had the measure of internal consistency wasn't reliable, then the study would have considered removing items with low item-total correlations in the column headed Alpha if Item Deleted.

**Table 4. 7: Cronbach's Alphas Coefficient internal consistency test**

Factors accounting for TDA inability to generate sufficient IGF	Cronbach's Alpha if item is deleted
Failure of revenue collectors to account daily	0.747
Revenue collectors printing their own General Counterfoil Receipts (GCRs)	0.727
Awarding and employing revenue collector on commission basis	0.749
Inability and failure to collect property rates	0.724
Inability and failure to collect operating permits	0.813
Revenue leakages	0.816
Non-existence of revenue sources database	0.822
Failure to educate citizens on their civic duties	0.809

Source: Survey Data (2020)

**Table 4. 8: Causes for TDA inability to generate its revenue target**

Factors accounting for the shortfall in IGF targets at TDA	N	Sum	Mean		Std. Deviation	RII	Ranking
			Statistics	Std. Error			
Inability and failure to collect property rates	50	245	4.90	0.043	0.303	0.980	1 <sup>st</sup>
Awarding and employing revenue collector on commission basis	50	214	4.28	0.121	0.858	0.856	2 <sup>nd</sup>
Failure to educate citizens on their civic duties	50	210	4.20	0.212	1.498	0.808	3 <sup>rd</sup>
Inability and failure to collect operating permits	50	204	4.08	0.217	1.536	0.780	4 <sup>th</sup>
Non-existence of revenue sources database	50	199	3.98	0.228	1.610	0.756	5 <sup>th</sup>
Revenue leakages	50	189	3.78	0.220	1.556	0.724	6 <sup>th</sup>
Failure of revenue collectors to account daily	50	104	2.08	0.117	0.829	0.388	7 <sup>th</sup>
Revenue collectors printing their own General Counterfoil Receipts (GCRs)	50	92	1.84	0.060	0.422	0.332	8 <sup>th</sup>

Source: Survey Data (2020)

Key to smooth operations and the ability of local government institutions to execute their mandate of delivering social services whilst providing the needed developmental infrastructure, is the ability to identify and mobilize internally or locally generated funds. MMDAs by legislative instruments and acts that governs their existence are empowered to marshal revenue needed for their operations internally to augment subvention from the central government. The TDA with existing legislative instruments and acts of parliament backing its establishment and empowering it to mobilize revenue locally has continually failed to meet its revenue targets. Preceding to data analyses, a 95% level of confidence was set, thus, on the basis of the five-point Likert scale rating, an item is deemed noteworthy if it had a mean of 3.00 or more. On this note, Ahadzie (2007) was of the view that an item with the lowest standard deviation should be assigned the highest significance ranking where two or more items have the same mean.

From table 4.8 above, the study sought to find out factors that account for the Talensi District Assembly inability to generate and mobilize sufficient revenue need for the provision of infrastructural and service need for its constituents calculating the mean response, the mean standard deviation, standard error for responses and the relation importance index of factors identified whilst ranking these factors according to their relative importance.

At the look of the various factors that account for TDA inability to generate sufficient IGF in table 4.8 above, it is identified that the assembly's inability and failure to collect property rates from citizens owning properties in the district was ranked 1<sup>st</sup> with the highest mean response of 4.90 out of 50 responses, standard deviation and standard error of 0.303 and 0.043 respectively and also with a factor relative importance index of 0.980 as one of the factor that account for the shortfall in the assembly revenue target. The award collection contracts and employment of revenue collectors on commission basis surprising was identified as the 2<sup>nd</sup> ranked factor causing the assembly to miss its revenue targets year in year out with factor

relative importance index of 0.856 and a mean response of 4.28 from 50 responses, standard error and deviation of 0.121 and 0.858 respectively. Ranked 3<sup>rd</sup> with factor relative importance index of 0.808, mean response of 4.20, standard deviation of 1.498 and standard error of 0.212 was the TDA failure to educate the citizenry on their civic duty of paying local taxes to the assembly to help fund its operations by way of providing development needs to the people. However, the inability and failure of the assembly to collect operating permits from businesses operating within the assembly's jurisdiction was ranked 4<sup>th</sup> with mean value of 4.08, standard deviation and error of 1.536 and 0.217 respectively. Non-existence of revenue sources database at the assembly and revenue leakages at the collection and administration level were the 5<sup>th</sup> and 6<sup>th</sup> ranked factors with mean responses 3.98 & 3.78, standard deviations of 1.610 & 1.556, standard errors of 0.228 & 0.220 and factor relative importance index of 0.756 & 0.724 respectively. Failure to account for revenue collected on daily basis by collectors and the printing of GCRs to be used for revenue collection by collectors instead of the assembly printing copies were thus ranked 7<sup>th</sup> and 8<sup>th</sup> respectively with each having factor relative importance index between 0.330 and 0.390 whilst their means lesser than 3.00.

A rich source of IGF to MMDAs locally is through property taxation and it's for this reason that the study sought to find out if the inability of local government institutions to maximize their revenue generation output is partly due to their inability to maximize revenue collections through the taxation of individual properties within their respective jurisdictions. The assembly poor performance in revenue generation is partly due to the employment of collection officers and the award of collection contracts on commission basis. In the views of respondents, collection officers and contractors are thus not motivated earning commission collecting the needed revenue of the assembly though with the commission scheme, contractors and collectors stand to gain as the level of their output in terms of revenue generation increases. Public education to users of public goods and services is vital, to enable them honor their tax

responsibility for MMDAs to mobilize abundant revenue for development. Educating and reminding the general public considered as beneficiaries of public goods and service of their civic responsibilities in paying taxes to the local authorities is paramount in the mobilization of tax and non-tax revenues by MMDAs at the local level that will be sufficient for development. Its thus not surprising that, the above mentioned were the first three ranked factors respondents in their view accounted for the revenue shortfalls at the Talensi District Assembly over the years.

Another healthy source of IGF to MMDAs locally is through operating permits of businesses within the MMDAs locality and for this reason the study sought to find out if the inability of local MMDAs to maximize their revenue collection output is partly due to their inability to maximize revenue collections from business operating permits. Most if not all MMDAs do not have a reliable database of the citizenry as well as businesses to aid the collection of operating permits fee, properties for property rates, collection of licenses fees etc.

Citizens often perceive that revenue collectors often printing their own general counterfoil receipt books to be used for revenue collection that at the end of the day revenue collected goes into their individual pockets and also often fail to account for their daily sales. These claims were however not true as the causes of the continuous missing of revenue targets by the Talensi District Assembly according to the study findings.

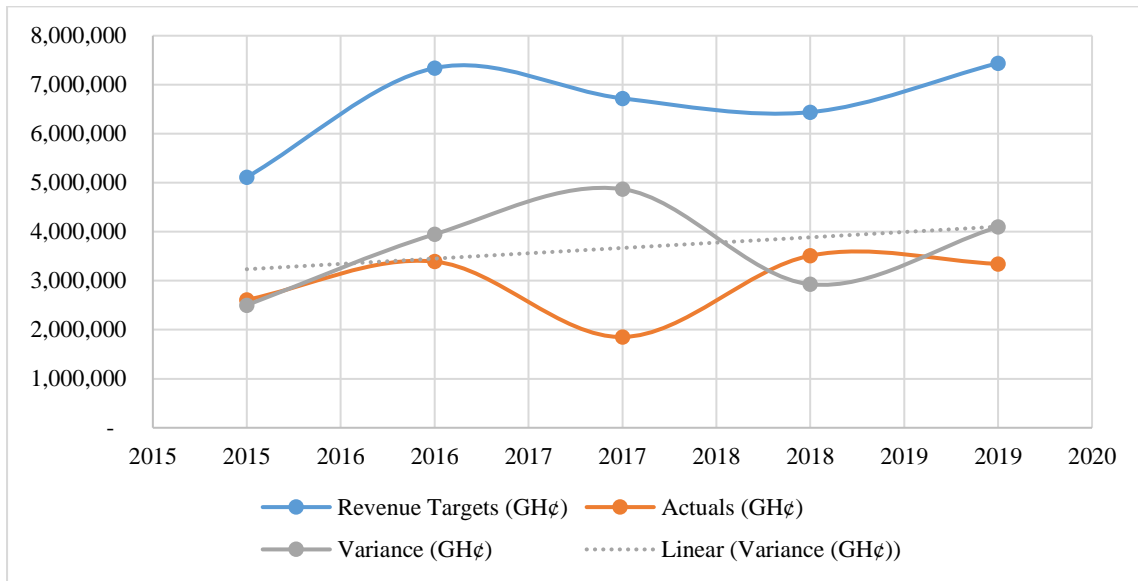
**Table 4. 9: Revenue performance of TDA for the past five years**

<b>FY</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Revenue target	7,441,173	6,440,252	6,721,438	7,339,759	5,113,305
(GH¢)	3,343,457	3,511,819	1,852,112	3,391,207	2,610,979
Actual (GH¢)	4,097,716	2,928,433	4,869,326	3,948,552	2,502,326
Variance (GH¢)	44.93%	54.53%	27.56%	46.20%	51.06%
% Actual	55.07%	45.47%	72.44%	53.80%	48.94%
% Variance	100%	100%	100%	100%	100%
Total %					

Source: Talensi District Finance Office (2020)

The table above shows that revenue targets set by Talensi District Assembly has never been met since 2015. Through the years to 2019 financial year, the assembly has continually lacked behind in terms of revenue performance as it only manage to achieve 44.93%, 54.53%, 27.56%, 46.20% and 51.06% of budgeted revenue in the 2019, 2018, 2017, 2016 and 2015 financial years respectively. Management opine that, the assembly inability to meet its revenue targets are largely due to; lack of public education and sensitization, poor budgeting, poor monitoring of revenue collector, low level of infrastructural development and social amenities, scarce logistics, poor tax education, under declaration of revenue by collectors, unreliable revenue data and statistics, poor expenditure control etc. The continual poor performance in revenue mobilization by the assembly for the past five (5) year is graphically presented below in figure 4.11.

**Figure 4. 2: Revenue performance of TDA for the past five (5) years**



Source: Talensi District Finance Office, (2020)



#### 4.6 Efficacy of tda revenue generating strategies

**Table 4. 10: Effectiveness of revenue generation strategies of Talensi District Assembly**

Revenue generating strategies	Dist.	Level of effectiveness					Total	Mean	Ranking
		VE	E	FE	IE	VIE			
Capacity building for its revenue collectors to understand their role in revenue mobilization.	Freq.	5	6	32	4	3	50	3.74	3 <sup>rd</sup>
	%	10	12	64	8	6	100		
	Freq.								
Building district property database to widen local property rates tax net.	Freq.	2	3	15	30	0	50	3.71	4 <sup>th</sup>
	%	4	6	30	60	0	100		
	Freq.								
Building district traders database to widen operating permits tax net.	Freq.	3	4	12	29	2	50	3.53	6 <sup>th</sup>
	%	6	8	24	58	4	100		
	Freq.								
Identifying businesses within the district to bring on board many informal sector operators hitherto not covered among others.	Freq.	3	8	0	12	27	50	3.76	2 <sup>nd</sup>
	%	6	16	0	24	54	100		
	Freq.								
Identifying new and sustainable sources of revenue.	Freq.	2	4	5	19	20	50	3.85	1 <sup>st</sup>
	%	4	8	10	38	40	100		
	Freq.								

Resourcing revenue collectors with the needed logistics and mandate for effective and efficient mobilization of revenue.	Freq.	23	12	5	6	4	50	3.60	5 <sup>th</sup>
	%	46	24	10	12	8	100		
	Freq.								
Investments.	Freq.	5	11	22	5	7	50	2.10	9 <sup>th</sup>
	%	10	22	44	10	14	100		
	Freq.								
Door – door collection of revenue.	Freq.	0	3	11	22	14	50	3.05	7 <sup>th</sup>
	%	0	6	22	44	28	100		
	Freq.								
Public education, publicity and sensitization programmes.	Freq.	6	3	27	8	6	50	2.05	8 <sup>th</sup>
	%	12	6	54	16	12	100		
	Freq.								

Source: Survey Data (2020)

From table 4.6.1 above, the study sought to determine the effectiveness of strategies put in place by Talensi District Assembly as part of their mandate enshrined in the 1992 constitution and the local government Act, 2016 (Act 936) and quest to generate on the overall IGF output of the assembly. To achieve this aim, feedbacks from respondents were coded to calculate the average mean and percentage response with the view of establishing the effects of revenue mobilization strategies been deployed by Talensi District Assembly on their overall internally

generated fund (IGF) output. The study tried to find out how effective are strategies been used by TDA their quest to generate and mobilize desired level of revenue locally to fund the provision of public goods and services for residents of the district.

Respondents were asked to rate how effective the Talensi District Assembly have been deploying the revenue generating strategies enumerated above in table 4.6.1 in helping them generate adequate developmental funding locally. To do this a likert scale of 1 to 5 was given with a score of 5 = very effective, 4 = effective, 3 = fairly effective, 2 = ineffective and 1 = very ineffective.

Of the nine (9) revenue generating strategies been used by the assembly, the assembly seem to be doing well when it comes to investments, public education, publicity and sensitization programmes and capacity building for revenue collectors to understand their role in revenue mobilization as these strategies were ranked first, second and third respectively from the assessment. Keys investments that generates revenue for the assembly includes market shed, stores, lorry park and toilets facility. Though not enough, it was gathered that these investments provide a greater percentage of the assembly's IGF. Its therefore not surprised investments was ranked first as far as the effectiveness of the assembly's strategies are concerned.

As part of efforts to maximize revenue collection the assembly on quarterly basis engages the constituents educating them on the need and their civic responsibility to honor their tax obligation whilst organizing capacity building workshops for revenue collectors to understand their roles and responsibility in the identification and collection of revenue.

The study found that the assembly does well when it comes to investments, public education and capacity building for its revenue collectors as strategies for efficient and effective revenue mobilization, it however lack behind having ineffective strategies such as building district property database to widen local property rates tax net, building district traders database to

widen operating permits tax net and the identification of businesses within the district to bring on board many informal sector operators hitherto not covered among others.

The ability of MMDAs to generate sufficient revenue for their operations depend largely on identifying revenue sources, having a district wide database for both properties and businesses, bringing on board businesses in the informal sector, charging realistic amounts etc. it is therefore imperative for local government institutions to develop district wide baseline indicators showing the revenue capacities within their jurisdictions. This database should include properties, business, and investment opportunities among others that the assembly can tap revenue from. Facts gathered from respondent discovered that Talensi District Assembly do not have readily available property and businesses database base considered widely as the most effective way for revenue generation. Though attempts have been made by the assembly to compile a district wide database, it was still not ready at the time of the study.

Identification of revenue sources and targets or projections requires thorough processes which involve the development of practical baseline indicators on existing and potential taxpayers, subscribers and (if possible) beneficiaries of the services of local governments. This is one of the key prerequisite to effective revenue generation. It is important that a proper identification and approximation of the actual number of beneficiaries and potential number of tax payers is carried out to enable those concerned to get a clear picture on the true performance of revenue target and enhancement at later stage.

The failure of the assembly in its quest for revenue generation is however not surprising as it has had in place over the year ineffective revenue mobilization strategies as found by the study.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

In this chapter, the researcher discussed the key issues that emerged in the course of the analysis and their implications. It also highlights on the various recommendations of the study, aimed at addressing the problems identified and thus enhances the effort of the MMDAS.

#### 5.1 Summary of findings

The summary of findings paid attention to the following straplines drawn from the study objectives.

##### 5.1.1 Revenue sources for Talensi District Assembly

Revenue and its sources serves as the life wire of every establishment be it private or public. Seeking to find out the sources of revenue to the TDA, the study found that the major source of revenue to the assembly was its share of the 5% District Assembly Common Fund annually sub vented to MMDAs in proportion to their revenue performance. Though the study further found local taxes, operating permits, property rates, fees and fines as sources of local revenue available to the assembly, respondents however opined that these sources formed a minute percentage of the total revenue base of the Talensi District Assembly. Being the major source of revenue to the assembly, it's however, not surprising that the assembly is unable to meet its capital and recurrent expenditures delivering service and social infrastructure to the people within its enclave. The study arrived at some findings; TDA lacks the capacity to meet

consumer demands for public goods like toilet, market, school, roads, clinics and health centers, streetlights, entertainment and community centers. The study findings further revealed that the assembly major source of revenue (i.e. the DACF) usually received in a form of transfer from the central government sometimes delay in coming to the assembly coffers causing its inability to meet capital and recurrent expenditures.

### **5.1.2 Causes of low revenue output at the Talensi District Assembly**

Using descriptive statistics calculating mean responses, standard deviation and factors relative importance index, the study found that six (6) out of the eight (8) factors contributed to low revenue output at the Talensi District Assembly. Inability and failure to collect property rates, awarding and employing revenue collector on commission basis, failure to educate citizens on their civic duty to pay taxes, inability and failure to collect operating permits, non-existence of revenue sources database and revenue leakages at the assembly were identified to be the six (6) factors that accounted for the low revenue output of the Talensi District Assembly with each factor recording a mean response of more than 3.00. However, further findings revealed that failure of revenue collectors to account for their daily collections and the printing of collection receipts by revenue collectors did not influence significantly the low revenue collection output of the assembly. These factors per data collected from respondents had the mean score of less than 3.00.

### **5.1.3 Effectiveness of revenue generating strategies**

Revenue mobilization strategies of MMDAS are very important issue that needs to be dealt or looked at critically in this country. On the effectiveness of revenue generating strategies, the study found that the three most effective strategies of the assembly were the identification of viable sources of revenue, bringing on board businesses in the informal sector and building the

capacities of revenue collectors to understand their roles in the assembly revenue mobilization drive. Building district property and traders database, resourcing revenue collectors with the needed logistics the study found further were the next most effective strategies of the Talensi District Assembly.

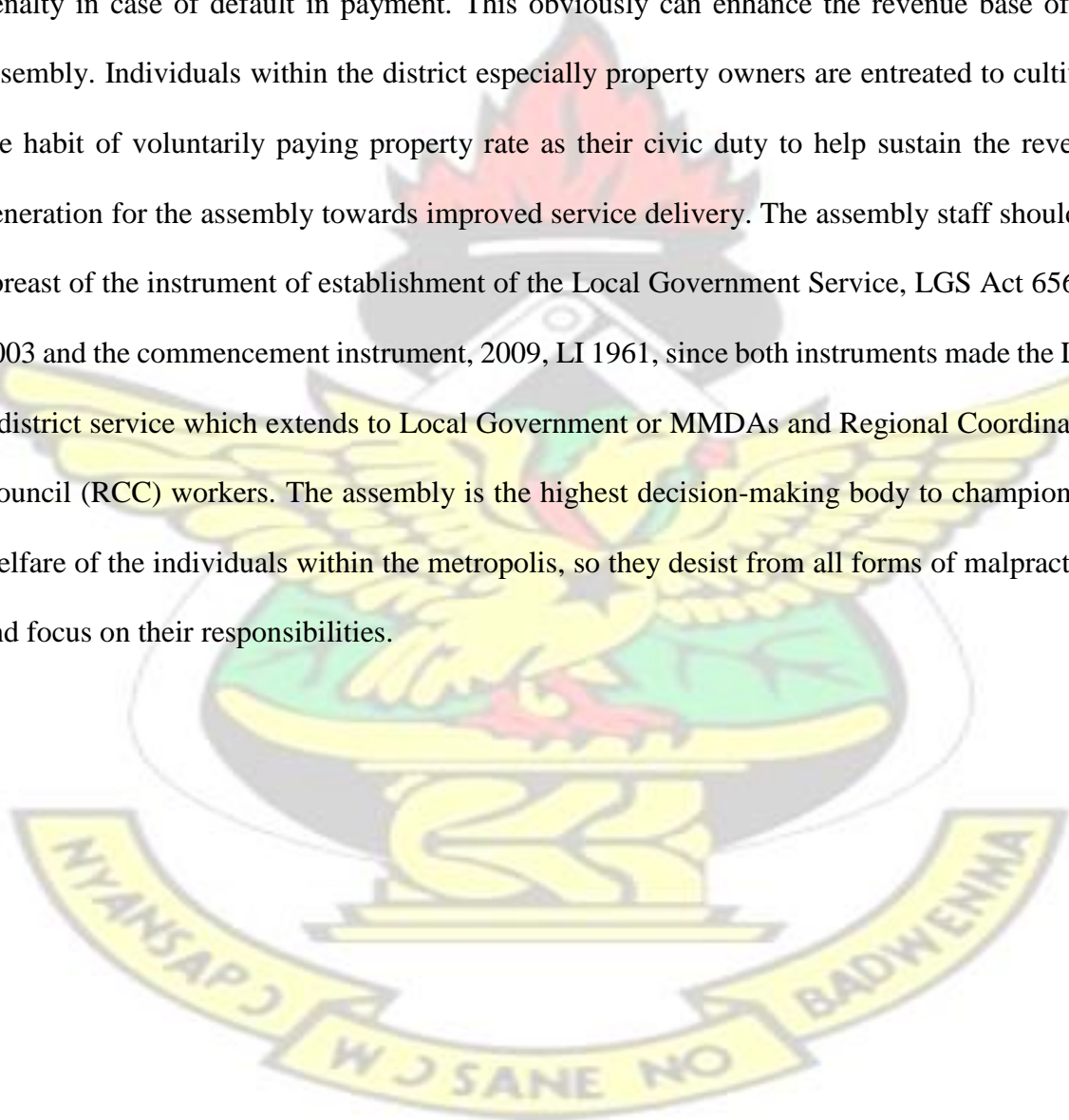
## **5.2 Conclusion**

Based on the findings of the study some conclusions are drawn and for which recommendations are also made to the management of TDA. TDA is not sufficiently using fiscal decentralization to empower itself under Local Government Act, Act 462 (1993) for that matter it has not developed new and sustainable strategies to improve its performance in revenue mobilization. The assembly like many local authorities in Ghana turn to over-rely on the District Assembly Common Fund to meet its capital expenditure. Another fact is that greater part of the assembly IGF goes into administration expenditure. The Assembly definitely is unable to meet its socioeconomic and political obligations to consumers of public goods and services in the metropolis. It will continue to fail to satisfy its consumers so as it does not develop new strategies and policies to improve its revenue mobilization. TDA does not have reliable database which give details about total traders, artisans, property owners, corporate bodies doing business in the metropolis. The lack of reliable data base is one of the factors for poor budget formulation and implementation in the assembly.

## **5.3 Recommendations**

The study therefore recommend that management of TDA to take the necessary steps in developing and creating a reliable data base on properties, business, civil society organization etc. to help the assembly in budget formulation and implementation. The assembly should also use relationship marketing to reach out to stakeholders through meetings, conferences, forums,

tax education and sensitization to know the problems of payment of taxes, rates, fines and the challenges in revenue collections. This will reduce tax avoidance; tax connived and tax evasion which can drastically reduce TDA's IGFs. The Talensi District Assembly should devise new strategies of revenue mobilization. Moreover, the assembly should review the collection of property rate and business operating permit fees to reposition it as a catalyst for accelerated development. The assembly should strictly enforce the by-law on property rate, since there is penalty in case of default in payment. This obviously can enhance the revenue base of the assembly. Individuals within the district especially property owners are entreated to cultivate the habit of voluntarily paying property rate as their civic duty to help sustain the revenue generation for the assembly towards improved service delivery. The assembly staff should be abreast of the instrument of establishment of the Local Government Service, LGS Act 656, of 2003 and the commencement instrument, 2009, LI 1961, since both instruments made the LGS a district service which extends to Local Government or MMDAs and Regional Coordinating Council (RCC) workers. The assembly is the highest decision-making body to champion the welfare of the individuals within the metropolis, so they desist from all forms of malpractices and focus on their responsibilities.



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## APPENDIX

### KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

This questionnaire is designed to collect data on the topic “**Revenue mobilization strategies and financial performance of MMDAs in Ghana. A case study of the Talensi District Assembly**”. Please answer all the questions to the best of your ability. You are assured that all your responses will be treated with utmost confidentiality and be used for research purposes only.

#### SECTION A: Demographic Data

Instruction: please tick (✓) and write where appropriately.

1. Gender  Male  Female
2. Which age group do you belong to?  18-29 years  30-39 years  40-50 years  50 years and above
3. What is your highest level of education?  JHS  SHS  HND  Bachelor Degree  Master's Degree  PHD
4. How long have you been working in the organization?  less than a year  2-5 years  5 years and above
5. Which level of organizational hierarchy do you belong to?  Top Level  Middle level  Lower level

#### SECTION B: Sources of revenue to Talensi District Assembly

Instruction: please tick (✓) and write where appropriately.

1. District Assembly Common Fund is the main source of funding for development projects  strongly agree  disagree  undecided
2. Metropolitan Municipal and District Assemblies depend mainly on the common fund for their operations  agree  disagree  strongly agree
3. The Central Government normally delay in the transfer of the District Assembly Common Fund.  True  Not very sure  False
4. What effect does it have on the operations of the MMDAS?  Positive effect  no effect  negative effect
5. The MMDA's are not able to mobilize sufficient Internal Generated Fund to supplement the District Assembly Common Fund.  No  Yes  May be
6. MMDA's empowered to generate revenue for their operations?  True  False  undecided

**SECTION C: Talensi District Assembly ability to mobilize enough revenue locally.**

Instruction: please tick (✓) and write where appropriately.

1. The revenue collectors fail to account for the daily sales  True  Not true  undecided
2. The revenue collectors print their own tickets, which they issue alongside that of the MMDA's  Agree  strongly agree  strongly disagree
3. MMDA's award collection of revenue to agents on commission basis.  strongly agree  Agree  Disagree
4. MMDA's are still using 1997 baseline data for their annual valuations, which by all standards outdated  strongly agree  Agree  undecided

5. MMDA's lack the ability to maximize revenue mobilization especially through property tax, which is considered to be one of the best revenue sources.  True  Untrue  undecided
6. MMDA's lack the ability to maximize revenue mobilization from operating permits also considered to be one of the best revenue sources.  True  Untrue  undecided
7. Greater part of MMDA's IGFs goes into administrative expenses.  strongly agree  disagree  agree
8. There are so many leakages involving MMDAS revenue collector, senior officials, Assembly men and women.  strongly agree  undecided  disagree
9. MMDA's does not have reliable data base on Traders.  true  untrue  undecided
10. MMDA's fail to educate citizens regarding their civic responsibility to their tax obligations for mobilization of sufficient revenue for development.  Agree  disagree  strongly agree

**SECTION D: Effectiveness of Talensi District Assembly Revenue Mobilization Strategies.**

Instructions: Please use the scale below to rank how effective Talensi District Assembly Revenue Mobilization Strategies are by ticking (√) the box corresponding to your preferred choice. 5 = Very Effective 4 = Effective 3 = Fairly Effective 2 = Ineffective 1 = Very Ineffective

Revenue Mobilization Strategies	Level of Effectiveness					Remarks
	5	4	3	2	1	
1. Capacity building for its revenue collectors to understand their role in revenue mobilization.						

2. Building district property database to widen local property rates tax net.					
3. Building district trader's database to widen operating permits tax net.					
4. Identifying businesses within the district to bring on board many informal sector operators hitherto not covered among others.					
5. Identifying new and sustainable sources of revenue.					
6. Resourcing revenue collectors with the needed logistics and mandate for effective and efficient mobilization of revenue.					
7. Investments.					
8. Door – door collection of revenue.					
9. Publicity and sensitization programs.					

