

Local Government Revenue Mobilisation and Management: the case of Asante Akim South District Assembly, Ghana

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Abstract

Ghana's comprehensive decentralisation programme aimed at bringing governance closer to the citizens was implemented in the late 1980s. This period witnessed the gradual transfer of power, authority and resources to the District Assemblies. The decentralisation programme has since made modest gains, especially in promoting local participation in political governance. However, one of the biggest challenges facing the District Assemblies in Ghana is how to effectively mobilise revenue internally to support local development initiatives. This paper examines the challenges confronting the Asante Akim South District Assembly in its revenue mobilisation and management drive. The data were collected through in-depth interviews, group discussion and review of relevant financial documents of the Assembly, particularly the Trial Balance Sheets. Clearly, the Asante Akim South District Assembly performs poorly in internal revenue mobilisation. Comparatively, the internally generated fund is the least contributor to district revenue. We also noticed that a wide difference exists between budgeted revenue or expenditure and the actual revenue or expenditure, especially in 2002. In addition, we found that a large amount of the internally generated fund is spent on recurrent expenditure (personnel emoluments, travel and transport, and miscellaneous). We also found that any increase in revenue has a corresponding increase in expenditure. These findings do not present a good picture as far as the financial condition of the Asante Akim South District Assembly is concern. As such, there is the need for the Assembly to initiate measures aimed at improving revenue mobilisation and management.

Keywords: Decentralisation, Revenue, Mobilisation, Expenditure, Management

1. Introduction

Decentralisation has been pursued in most developing countries as part of efforts to promote political, social and economic participation of the citizens in the overall development of their localities. In Africa, and many parts of the developing world, the World Bank and the International Monetary Fund in particular have played an instrumental role in promoting the decentralisation process (see Romeo, 2003; Olowu, 2003; Hussein, 2004; Chibba, 2009; Green, 2010). The devolution of power and authority to sub-national units was advocated as a means of overcoming the inefficiencies associated with the centralised system of governance (Bardhan, 1997; OECD, 2001; Smoke, 2003; Muriisa, 2008). “Decentralisation has been pursued with the aim of bringing governance and development decision-making process closer to the ordinary citizen at the sub-national level” (Akudugu, 2012: 22). It is expected that decentralisation will result in better service delivery (see Chikulo, 2007; Muriisa, 2008). Similarly, it is also believed that decentralisation will result in the design and implementation of pro-poor policies and programmes that will lead to poverty reduction (see Crook, 2003; Smoke, 2003; Crawford, 2008; Asante and Ayee, 2008). Clearly, decentralisation has in part been conceived as a panacea to the development challenges in the developing countries, particularly at the sub-national level.

Despite these expectations, the decentralisation process has hardly delivered the desired results. Decentralised local governments have particularly not performed very well in the promotion of economic development and poverty reduction (see Romeo, 2003; Crook, 2003; Crawford, 2008; Chinsinga, 2008; Dijk, 2008). This has largely been blamed on the inability of central governments to promote fiscal decentralisation that will ensure the transfer of financial resources to local governments (Steiner, 2008; Chinsinga, 2008). “Clearly, without properly defined fiscal decentralisation, political and institutional decentralisation would have little impact. Poorly articulated roles and resource deficiencies can cripple local governments and undermine incentives for local officials and elected representatives to perform effectively” (Smoke, 2003: 10). The situation is compounded by the inability of many local government authorities to effectively mobilise revenues from own sources to finance local development initiatives. Certainly, the capacity of local governments to effectively discharge its developmental role or deliver services to the local residents is largely determined by the stock of financial resources available to them. Yet, revenue mobilisation and management remains a big challenge to District Assemblies in Ghana.

Using the Asante Akim South District Assembly as a case study, the study seeks to assess the capacity of District Assemblies in Ghana to effectively mobilise and utilise revenue to promote local development, and strengthen the decentralisation process. The study particularly seeks to:

- identify the main sources of revenue to the Asante Akim South District Assembly and assess their percentage contribution to the district budget;
- assess the capacity of the Assembly to make realistic revenue and expenditure estimates (budgeting);
- assess the utilisation of the District Assemblies Common Fund (DACF), the internally

generated fund (IGF), and the donor funds.

The findings of the study would enable us to ascertain the financial condition of the Assembly, its revenue collection and management challenges, and to offer some suggestions with the view to helping the Assembly to improve upon its revenue mobilisation and management.

1.1 Methodology

The study employed three methods and a straight forward process in obtaining and analysing the data. We conducted in-depth interviews, group discussion and review of relevant financial documents of the Assembly, particularly the Trial Balance Sheets to obtain relevant data from officials of the Asante Akim South District Assembly. The study was divided into four stages. The first step involved a quantitative and quality analysis of the Assembly's budget documents from 2001 to 2004. The choice of the study period was influenced by the availability of data, especially the trial balance sheets. It was a period that one could find the trial balance sheets of the Assembly for four successive years. The Trial Balance Sheets of the Assembly from 2001 to 2004 were sourced from the Assembly and critically analysed. The findings were presented in tables and diagrams. The second step involved a presentation of the preliminary findings to the core staff of the Assembly for validation. A team of core staff of the Assembly under the leadership of the District Co-ordinating Director actively participated in an open discussion on these topical issues of the district budget. The third step took the form of in-depth interviews with the revenue administrators of the Assembly (particularly the District Finance Officer and the District Budget Officer) to seek further clarification on certain inconsistencies and also to obtain additional information on specific issues of the district budget. The final step involved a critical re-assessment of the findings and the incorporation of comments obtained from the forum of core staff of the Assembly, and the documentation of the findings. Since the study involved financial matters, it was agreed that some level of confidentiality was required in the use of the data. As such, the true financial values were converted into percentages and used for the analysis.

2. Sources of Revenue

Revenue mobilisation is an important task of local governments all over the world. This is so because local governments need money to perform their day-to-day administrative duties as well as deliver services to the local residents. As Juul (2006) points out, effective revenue mobilisation is the main mechanism of keeping local government machinery alive and active. The Asante Akim South District Assembly derives its revenue from four main sources; Internally Generated Fund (IGF), central government transfers, notably the District Assemblies' Common Fund (DACF), and donor funds.

Table 1: Percentage Contribution from the Major Sources to Total District Revenue

Sources	IGF	DACF	Donor Funds	Total
2001	21.9	54.2	23.8	100
2002	16.6	35.6	47.8	100
2003	8.4	41.1	50.5	100
2004	10.1	47.9	41.8	100

Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

As shown in Table 1, the District Assemblies' Common Fund and donor funds constituted the main sources of revenue to the Asante Akim South District Assembly during the period under investigation. Together with other specific grants like personnel emoluments, central government transfers constitute the main source of revenue to the Asante Akim South District Assembly. In recent times, the District Assembly Common Fund (DACF) has been the major and most reliable source of revenue to the District Assemblies in Ghana (Akudugu, 2012). As Boadway and Shah (2007) note, intergovernmental fiscal transfers finance about sixty percent (60%) of sub-national expenditure in developing countries. According to Dickovick (2005), over 95% of provincial budgets in South Africa come from central government transfers. Clearly, central government is the main financiers of local governments in Africa.

The internally generated funds which contribute the least to district revenue are revenues obtained from local or own sources. Under the decentralisation policy, all the District Assemblies are expected to raise revenue from own sources to support the district budget and for local development. Kroes (2003) notes that the chances of a District to raise revenue from independent sources are dependent upon whether it has the authority to: (1) impose taxes and levies or fees on the local inhabitants and transactions within the District; (2) determine the rate (amount) to be charged; (3) collect the resulting revenues and (4) use the revenue in a manner that has been decided locally. According to Diaw (1996), the authority of District Councils to generate revenue in order to be self-supporting was prescribed in the local government Act of 1961 with subsequent amendments in the 1971 and 1974 local government. Although the legal instruments exist, the task of revenue mobilisation is a big challenge yet to surmount by the District Assemblies in Ghana.

Although the Asante Akim South District Assembly has the mandate to raise revenue locally, its internal revenue mobilisation efforts have not been yielding any meaningful results. For instance, from 2001 to 2004, the Assembly was not been able to generate up to twenty-five percent (25%) of total revenue from its internal sources of revenue. The percentage contribution of internally generated fund to total revenue has also experienced a steady decline for the period under study. Clearly, the Assembly has a long way to go in attaining financial self-sufficiency. This will impact negatively on local development efforts.

According to Diaw (1996) adequate financial resources which to a large extent are independent of central government are essential for the efficient operation of District Councils. But effective revenue mobilisation at the district level appears elusive. The low level of internally generated fund of the Asante Akim South District makes the District overly dependent on external sources for the financing of most of its development projects. This high degree of dependence could affect the autonomy of the Assembly and undermine its decision making power or authority. As Dickovick (2005: 192) notes “the lack of own-source revenues contributes to dependence on the centre, especially for capital investment”. Similarly, as Bailey (1999) points out local autonomy would be severely limited if central government could control all the sources of revenue for each local government, and thereby controlled the spending of individual authorities. For instance, Dickovick (2005:193) notes that central governments in Senegal and South Africa “exert influence over sub-national spending by mandating spending in certain areas *ex ante* and monitoring budgets closely through bureaucratic channels *ex post*”. In the view of Mogues and Benin (2012: 1057) “local fiscal autonomy is typically associated with the size of local governments’ budgets”. According to Diaw (1996) local government authorities become mere agents of central government at the local level, and their independence for the initiation of local development projects is entirely lost if they remain dependent on central government for financial resources. Until officials of the Assembly step up their revenue mobilisation efforts, the Assembly will remain overly dependent on the central government as far as financing is concern. As it stands now, most of the District Assemblies in Ghana rely on the District Assemblies Common Fund to finance major development projects in the districts. Until efforts are made to radically improve revenue mobilisation at the district level, the dependence on the District Assemblies Common Fund will continue into the future.

2.1 Local Revenue Mobilisation

National or sub-national governments derive their revenues from a range of sources. According to Shah (2005) government collect revenue through taxes, licenses, fees and charges, royalties on natural resources, and the sale of goods and services. Local governments also derive their revenue from similar sources. The internally generated fund of the Asante Akim South District Assembly is obtained from several sources including lands, rates, fees and fines, licences as well as investment and rent from the Assembly’s property among others. As Fjeldstad (2002) points out the distinction between local revenue sources such as taxes, licences, charges and fees is often not clear. Although local governments can derive their revenues from several sources, only few of them can be considered relevant sources (see Fjeldstad, 2002). With respect to Uganda, Livingstone and Charlton (2001) note that local government authorities often depend on limited sources to raise their revenues. An analysis of the trial balance of the Asante Akim South District Assembly reveals similar trends.

Table 2: Classification of Sources of Internally Generated Fund and their Percentage Share

Sources	2001	2002	2003	2004
Rates	11.0	9.8	9.3	8.6
Lands	6.8	13.3	11.0	20.1
Fees	13.5	14.1	11.0	13.2
Licenses	6.4	4.9	7.5	7.9
Rent	3.1	1.2	1.8	2.2
Grants	53.3	54.8	59.0	46.7
Investment	2.4	-	-	1.0
Miscellaneous	3.4	1.7	0.4	0.3
Other Rateable	0.1	0.2	-	-
Total	100	100	100	100

Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

Table 2 presents an analysis of what has been captured in the Trial Balance Sheets (2001-2004) of the Asante Akim South District Assembly as sources of internally generated funds (IGF). The striking feature of these Trial Balance Sheets is the 'misrepresentation' of central government grants earmarked for personnel emolument as one of the Assembly's sources of internally generated funds. This presents a deceptive picture regarding the true state of the Assembly's internally generated funds. As can be seen from Table 2, this central government grant earmarked for personnel emolument constitute more than fifty percent (50%) of the actual revenue generated locally by the Asante Akim South District Assembly during the period under investigation. This creates a false impression that the Assembly is 'doing well' in local revenue mobilisation. When we presented our analysis to the core staff of the Assembly in a forum chaired by the District Coordinating Director, it was admitted that grants are not part of the actual internally generated funds; but are specific allocations from the central government to cater for personnel emoluments. The classification of grants as part of internally generated funds gave the impression that the internally generated fund was high. The high amount of grants captured under the internally generated fund also tends to overshadow the other revenue heads or components, thus making it difficult to monitor the performance of these revenue heads. This creates a misleading picture and could affect efforts aimed at improving revenue mobilisation in the district.

The study also noted the instability of this specific central government grant meant for personnel emoluments in the Asante Akim South District Assembly over the years. From 2003 to 2004 for instance, total central government grants for personnel emoluments dropped from 59.0% to 46.7%. This was attributed to reasons other than improvement in the other sources of the internally generated fund over the grants. It was revealed from the discussion that followed the presentation of our analysis that the reduction in proportion of the grant from 59.0% in 2003 to 46.7% as shown in Table 2 was as a result of a transfer of some staff from the Assembly. It was explained that since this specific grant is meant for personnel emoluments, transfer of staff or reduction in the number of government paid staff from the Assembly has a corresponding reduction in the amount of grants transferred from central government confers to the Assembly and vice versa. This means that the amount of this particular grant transferred to the Assemblies at any particular point in time is based on central government discretion regarding the number of personnel that should be recruited by the Assemblies. Similar trends exist in other African countries. For instance, in South Africa, Dickovick (2005: 196) notes “even more importantly, personnel costs which regularly accounts for over half of provincial spending are essentially dictated by the central government”. Essentially, grants are not mobilised or derived from the Assemblies’ own sources or efforts, but from central government confers and discretion.

Another revenue source in the Trial Balance Sheet of the Asante Akim South District Assembly that drew our attention was miscellaneous. Miscellaneous has been captured in the various Trial Balance sheets as one of the main sources of internally generated fund. This practice is not limited to the Asante Akim South District Assembly alone, but all District Assemblies in Ghana. Miscellaneous constitutes one of the sources of revenue to District Assemblies in Ghana (see Ahwoi, 2010). This non-specified source contributed as high as 3.4% of total internally generated funds of the Asante Akim South District Assembly in 2001. This miscellaneous revenue head cover sources that were not initially identified under any revenue head but which yielded some amount of revenue during the fiscal year. In other words, it represents revenue obtained from ‘unexpected’ or ‘unplanned’ sources. This practice of lumping heavy sums of revenue under miscellaneous could lead to under-reporting of revenue by revenue collectors. When revenues collected are not properly classified, it is difficult to track its performance or yield over time. This is because such revenue sources are either not usually budgeted for or under-estimated. As such, it is appropriate to classify all revenue sources under specified revenue heads to enable revenue officers effectively monitor the performance of each revenue head, and also ensure proper reporting and accounting.

2.1.1 Performance of Local Revenue Heads/Sources

An attempt was made to get a true picture of the contribution of own sources to total internally generated fund of the Asante Akim South District Assembly. In the absence of grants, Table 3 presents the real picture of the percentage contribution of local/own sources to internally generated fund of the Assembly.

Table 3: Percentage Contribution of Local/Own Sources to Internally Generated Fund

Sources	2001	2002	2003	2004
Rates	24.1	21.7	22.6	16.3
Lands	14.7	29.4	26.8	37.7
Fees	28.9	31.2	26.8	24.8
Licenses	13.7	11.0	18.2	14.9
Rent	6.6	2.7	4.5	3.8
Investment	4.4	-	-	1.9
Miscellaneous	7.4	3.4	1.1	0.6
Other Rateable	0.2	0.6	-	-
Total	100	100	100	100

Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

As can be seen from Table 3, lands, fees and rates represent the highest revenue heads as far as the internally generated fund of the Asante Akim South District Assembly is concern. These three sources contribute over fifty percent (50%) of total internally generated fund for the four year period. Among them, lands as a revenue head is the most promising source. As Perry, et al (2000) note, taxes on real property are usually mainstays of local finance. As can be seen from Table 3, the situation is not different in the Asante Akim South District. The analysis, as shown in Table 3 reveals that the annual yield from the various sources has not been stable over the years. Poor districts also are confronted with limited and low yielding revenue sources (Dickovick, 2005). Aside land which has experienced steady rise, all the other sources have experienced fluctuations (depicting a downward spiral) over the years.

This incidence affects planning in the Assembly. The high level of instability makes it difficult to predict the financial condition of the Assembly at any given time period. Like most District Assemblies in the country, local revenue mobilisation is a challenge to the Asante Akim South District Assembly. Many local governments have relied on few revenue sources since their creation (Dickovick, 2005). The reality is that decentralisation reforms have done little to promote or diversify economic activities at the district level. As Dickovick (2005: 192) notes "local governments in South Africa saw very little change in terms of its tax base with the decentralisation reforms". On one hand, the amount of revenue that District Assemblies can mobilise is dependent on the number of revenue sources available to them and the yielding capacity of these local sources. On the other hand, the amount of revenue

obtained at a given point in time is largely dependent on the capacity of the District Assemblies to institute measures to effectively mobilise revenue from existing local sources. But these local governments often lack the capacity to effectively mobilise revenue (Dickovick, 2005). As Soest (2007: 357) points out “the capability to raise revenue is particularly deficient in Sub-Saharan Africa”. From our investigation, the high level of instability or poor performance associated with the revenue heads can be attributed to a number of factors:

The first factor has to do with the collection methods. The study identified poor revenue collection methods as one of the reasons for the low level of internally generated fund. The monthly collection of revenue on certain sources and the misapplication of revenue tickets were particularly identified as causes of the instability and low yields from the revenue sources. It came to light that one receipt book was often used to issue tickets to different revenue sources such as market stores, lorry parks, drinking bars etc. This makes it difficult to identify which source contributes what amount and so on. We also realised that revenue tickets were issued to some people on monthly basis instead of on daily basis, and this affected the returns from such sources. The worrying phenomenon is that although the Assembly recognises that it could generate more revenue if tickets were issued on daily basis, it has not taken the initiative to do so. The result is that, less revenue is generated for the Assembly.

The reporting system was also identified as contributing to the fluctuations of the revenue sources. It came to light that the revenue collectors sometimes report wrongly on the various sources. From his studies in Zambia, Soest (2007: 359) notes that “tax collection institutions have traditionally experienced a high incidence of corruption”. This situation is also present at the district level, as far local revenue mobilisation is concern. We could not find effective measures being put in place by the Asante Akim South District Assembly to ensure proper revenue reporting or accounting by the revenue collectors. The Assembly failed to institute clear structures or procedures that will compelled revenue collectors to report on regular basis. For now, the question of when to report on revenue collected to the Assembly is largely left to the discretion of the revenue collectors. Related to the poor reporting system is the high level of illiteracy among the commission collectors. It was revealed that many of the revenue commission collectors could not even write properly on the revenue tickets. They are also not abreast with standard computation methods. All these factors negatively affect the amount of revenue that the Assembly can realise from its revenue collectors.

In addition, it also came to light that the paying public sometimes show ‘uncooperative’ attitude towards the revenue collectors. The study revealed that there is a general apathy on the part of the paying public towards their tax obligations. It came to light that many of the potential tax payers usually refused to declare their taxable assets, as a way of evading taxes. It was even revealed that some community members in the district often go to the extent of taking cover in the forest as a way of dodging approaching revenue collectors. This situation affects the amount of revenue that could have been obtained from these individuals or sources, and the overall financial condition of the Assembly.

Another factor that was identified to have an effect on the financial condition of the Asante Akim South District Assembly is central government regulations regarding the sharing of revenue generated from certain sources or activities within the district. For instance, we realised that lumbering is one of the principal economic activities in the Asante Akim South District that could yield a substantial amount of revenue to the Assembly. However, government regulations require that seventy percent (70%) of revenue obtained from loggings in forest reserves be paid to central government chest, whilst the remaining thirty percent 30% is distributed between the Assembly and the communities. This arrangement is not favourable to the Asante Akim South District Assembly in terms of revenue generation, since the district has over five well-stocked forest reserves. Until the sharing formula for revenue generated from lumbering or logging is revised in favour of the Assembly, it will continue to lose a great deal of revenue from logging activities to the central government.

We also found out that the low level of economic activities in the district serves as a barrier to efforts aimed at expanding the revenue base of the Assembly. Saffell and Basehart (1998) note that in their attempt to raise revenue, state and local governments are affected by a number of factors, most fundamentally by the level of wealth and personal income within their boundaries. The Asante Akim South District is characterised by low level of economic activities. Majority of the people in the district are peasant farmers, with limited off-farm economic activities. As such, the Assembly appears to be over concentrating on the few existing revenue sources at its disposal. As Soest (2007: 361) notes “revenue collection has largely been confined to formalised economic activity”. Interestingly, for those few existing sources that have recorded a steady increase over the years, we noticed that the increase was as a result of increases in the rates. Increasing the level of rates or charges has been one of the measures of increasing the amount of revenue collected at a given point in time. Diaw (1996) notes that the basic problem facing District Councils is how to provide funds to meet the cost of services without imposing ‘too high a burden on their citizens’. On their part, Saffell and Basehart (1998) note that unless poor states and communities increase their tax rates to unbearable levels, they simply cannot raise sufficient revenue to provide services comparable to those in more affluent areas. From the fee fixing resolutions for the period in question, we noticed that the rates have been experiencing a steady increase as the years go by. For instance, market tolls increased from ₵200 in 2001 to ₵400 in 2002 and to ₵500 in 2003. Again, the renewal of contractor/consultants registration fee increased from ₵150,000 in 2002 to ₵250,000 in 2003 and to ₵350,000 in 2004. This clearly shows that the increases in revenue by the Assembly during the period under review were not realised from the expansion of revenue sources or the tax net, but from increases in tax rates on existing revenue sources.

As can be seen, the internal/local revenue mobilisation drive of the Asante Akim South District Assembly has not been encouraging. The high level of instability and the general low level of internally generated fund mean a high degree of dependence by the Assembly on external sources of revenue. As Merat (2004: 249) notes “... most local governments are heavily dependent on national fiscal transfers for the provision of public services, as not all the revenue necessary for services provided locally can be collected locally”. This dependence could affect the independence of the Assembly, in terms of decision making,

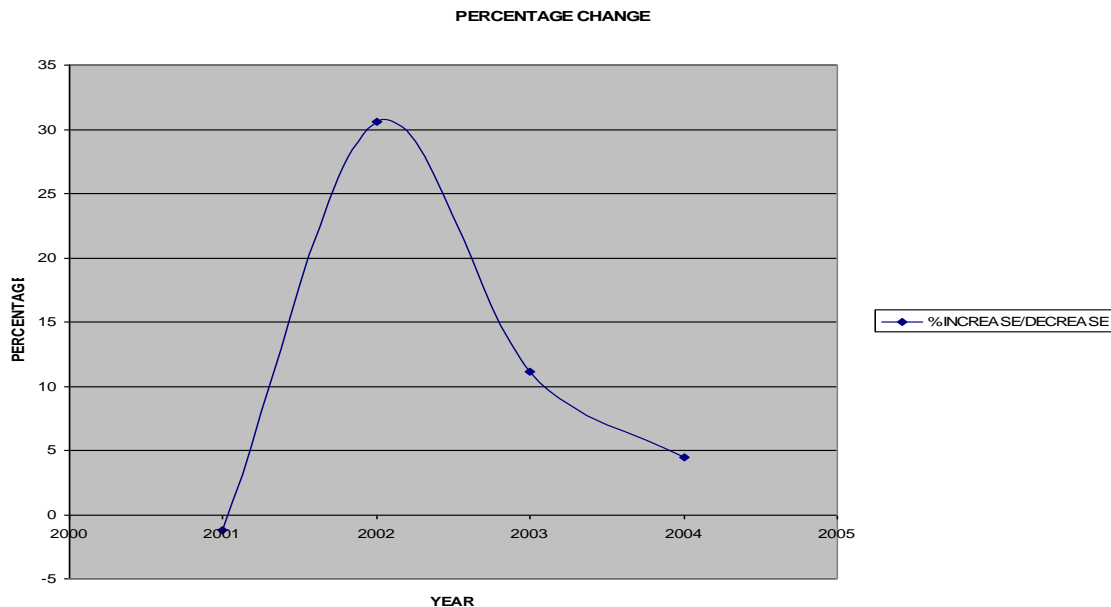
which is the essence of decentralisation. As observed by Kokor (2000), the extent to which District Assemblies exercise discretionary authority is subject, of course to statutes broad national policy guidelines and the limits of their own financial capacity and management competence. If measures are not taken to improve the financial condition of the Assembly, its ability to practice discretionary authority is likely to be compromised. Similarly, its ability to initiate development projects to improve the well-being of the local residents will be severely limited.

2.2 Revenue and Expenditure Forecasting

Revenue forecasting is an essential aspect of budgeting at all levels. In the view of Cole (1994) forecasting in a strategic context refers to any attempt, whether qualitative or quantitative, and usually based on past performance to predict future outcomes and trends in the internal and external environments in an organisation in order to limit the risks involved in devising and implementing a strategy. Every institution or organisation should have the capacity to make realistic forecast regarding what it expect to receive (revenue) and the how the receipts will be expended (expenditure). In other words, all organisations should be able to prepare sound budgets to guide future development. As Mayo (1995) points out, budgets are important planning devises, and their construction requires that financial managers anticipate when outlays will be made and receipts collected. In the view of Cole (1994), forecasting is about making the seemingly unpredictable predictable. Revenue and expenditure forecasting is thus an integral part of organisational planning and management.

However, District Assemblies in the country and the Asante Akim South District Assembly in particular are faced with revenue forecasting or budgeting problems. As Graves and Dollery (2009) note, the quality of local governments' budgets is sometimes poor. The ability of the Asante Akim South District Assembly to adequately forecast or estimate its anticipated revenue and expenditure is in doubt. We found out that there is a growing gap between estimated revenue and actual revenue collected, as well as budgeted expenditure and actual expenditure. As Soest (2007: 356) notes "the 'tax gap', i.e. the difference between tax potentials and tax actually collected forms a major challenge for tax administration in developing countries". As shown in Figure 1, there is a wide margin of difference between estimated and actual revenue and expenditure, of the Asante Akim South District Assembly. For instance, in 2002, the Assembly recorded over thirty percent (30%) increase in revenue and expenditure over the estimated amount as depicted in Figure 1. This phenomenon does not conform to proper forecasting or budgeting standards. As advocated by the World Bank (2005), budgets should be based on better estimates of domestic and external resources, and absorptive capacity constraints.

Figure 1: Difference between Budgeted and Actual Revenue/Expenditure



Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

During a discussion with the core staff of the Assembly after the presentation of our results, three main reasons were specifically identified as causes of this phenomenon:

First, inadequate data was one of the factors identified to be affecting proper budgeting or forecasting. The Asante Akim South District Assembly does not have what it takes in the form of data to serve as basis for sound estimation or revenue forecasting. The Assembly has not been able to profile and keep adequate data on its existing revenue sources and yields over time. The Assembly does not have a comprehensive and updated list of its resources sources. Similarly, because of the poor revenue reporting system, it becomes difficult to use the past years' revenue yields as basis for budgeting. Estimation is thus based on intuition rather than on a scientific assessment of the environment and past performance.

Second, the wide difference between budgeted and actual revenue and expenditure is also accounted for by poor revenue collection practices and poor expenditure planning. As pointed out, revenue collection and the reporting systems are poorly organised or structured. In the absence of effective revenue mobilisation mechanisms, revenue targets cannot be achieved. Alternatively, the use of ad hoc measures can either result in low or high revenue at a given point in time giving rise to the fluctuations shown in Figure 1. In other words, consistency in revenue levels cannot be maintained when ad hoc measures are employed in revenue mobilisation. Similarly, in the absence of well-planned and disciplinary expenditure behaviour, fluctuations in expenditure levels will be the norm.

Third, it also came to light that the wide difference between budgeted and actual revenue is sometimes a deliberate action. It was revealed that District Assemblies were sometimes rewarded by the central government for exceeding their revenue targets. This reward took the form of an increased share of the District Assemblies Common Fund, which are transfers

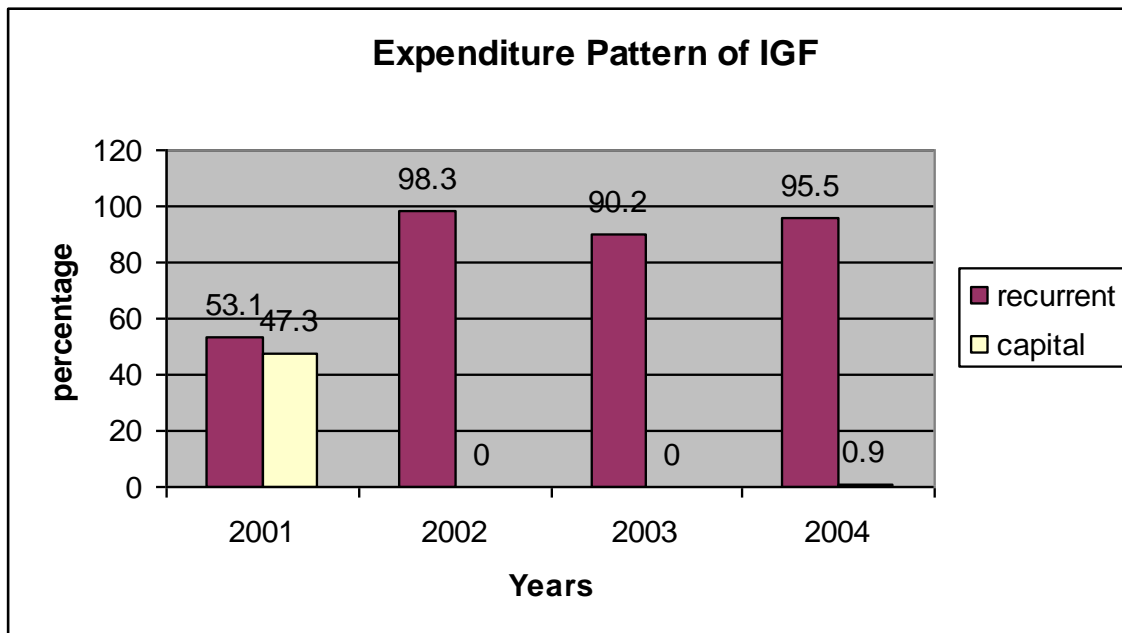
from the central government. This can still be seen in the formula for allocating the District Assemblies Common Fund (responsiveness factor) stated in section 3.2 of this paper. It was revealed during the discussion that in 2002, the Asante Akim South District Assembly received a letter of commendation from the Ministry of Local Government and Rural Development for exceeding its revenue target by 30.6% as shown in Figure 1. The problem with this reward system is that it encourages District Assemblies in the country, including the Asante Akim South District Assembly to set low revenue targets that could easily be exceeded. This results in situations where the Assemblies claim to have exceeded their revenue targets; and thus being rewarded for under-performance.

Poor forecasting or projection can adversely affect planning and effective revenue mobilisation. As Graves and Dollery (2009) point out, cash flow prediction affects cash or investment balances. Kokor (1991) observed that revenue collection variances originate from forecasting errors, administrative factors, random factors or a combination of these. In the view of Ma (2009: 12) “when state finance is poor and revenue flow is beset by unpredictability, it is impossible for the state to even conduct meaningful budgetary activities, let alone acquire the capacity to budget”. Clearly, the poor estimation resulting from the dearth of data, poor revenue and expenditure practices, and as a strategy of obtaining rewards from the central government could thwart future efforts aimed at improving internal revenue mobilisation.

3.1 Expenditure Pattern of the Internally Generated Fund

One important dimension of budgeting is the pattern of expenditure. As noted by Cole (1994), budgets themselves have the function of not only identifying priorities (targets) and allocating resources, but also of enabling those resources to be shared out with a reasonable degree of fairness. The internally generated fund of the Asante Akim South District Assembly is supposed to be spent on both recurrent and capital items. But as noted by Bailey (1999) ‘unlike central government expenditure that is dominated by transfer payments, local government spending is almost wholly incurred on exhaustive expenditures (goods and services)’. Similar trends pertain in the Asante Akim South District. As shown in Figure 2, more than half of the internally generated fund’s expenditure is recurrent. For instance, in 2002, 2003 and 2004, nearly the entire internally generated fund was used on recurrent expenditure alone.

Figure 2: Utilisation of the Internally Generated Revenue



Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

The three main recurrent expenditure areas of the internally generated fund are personnel emoluments, travelling and transport, and miscellaneous. The high recurrent expenditure was partly attributed to cases where the Assembly had to use its internally generated fund to monitor and maintain projects established through the District Assemblies Common Fund or donor funds. The core staff of the Assembly explained that provision has not been made to use part of the District Assemblies Common Fund (restricted central government transfers) to monitor projects financed by the fund. As such, the Assembly is compelled to use part of its internally generated fund to finance the monitoring activities of such projects.

Another area of concern that we found was the captioning of the third major recurrent expenditure item as miscellaneous. Miscellaneous expenditure was identified as expenditure incurred on items or activities not budgeted for. Such expenditure items do not therefore fall under any specific expenditure head, hence the name miscellaneous expenditure. This blanket categorisation of expenditure is worrisome because it is not appropriate to spend such large sums of the internally generated fund on unbudgeted or vaguely classified expenditure items. In 2004 for instance, we found out that as much as ₵149,060,941.00 was expended on miscellaneous. This term is inappropriate since it can easily make room for misappropriation of funds. In cases where specific items or activities are not identified for spending, funds could be misapplied or misappropriated. It is the need to avoid this practice and to allow for proper revenue forecasting and planning that Kroes (2003) argued that the specification of quantities of inputs and money required for each project has to be done in advance. It is only through this that the utilisation of funds can be tracked or monitored.

On the part of personnel emoluments, we noticed that central government grants have consistently not been able to adequately cater for this expenditure component as expected.

This did not mean a reduction in central government grants for personnel emoluments, but as a result of increases in staff numbers at the instance of the Assembly and not the central government. It came to light during the discussion that the Assembly has more staff than what is prescribed by the central government. This means that the Assembly has to find alternative sources of revenue other than the central government grants to pay the extra staff engaged by the Assembly. For instance, in 2004, the Assembly had sixty-five registered staff. These sixty-five staff members were paid from the central government grants. However, besides this number, the Assembly also had additional twenty-two staff members that were paid from the Assembly's own sources of revenue (IGF). These additional staff members of the Assembly were found to be performing minor tasks. They included watchmen, messengers, labourers and sweepers. This explains why part of the Asante Akim South District Assembly's internally generated fund is expended on personnel emoluments. Available records indicates that most of them are paid an annual average salary of ₵3,000,000.00.

The general observation has been made is that increases in revenue usually go with proportionate increase in expenditure. This form of 'indiscipline' spending behaviour could adversely affect revenue management. The consistent reduction in the proportion of the internally generated fund and the rising expenditure pattern of the Assembly translate into a low financial base for the Assembly. This means that investment in physical projects through the internally generated fund would be minimal if not impossible.

3.2 Utilisation of the District Assemblies Common Fund

The 1992 Constitution of the Republic of Ghana made provision for the setting up of a fund to support the operations of the District Assemblies and local development initiatives at the district level. Article 252 of the 1992 Constitution states that "there shall be a fund to be known as the District Assemblies Common Fund (DACF)" and that "subject to the provisions of this constitution, parliament shall annually make provision for the allocation of not less than five percent 5% of the total revenues of Ghana to the District Assemblies for development" (see Republic of Ghana, 1992). This fund is intended to strengthen the fiscal capacity of the District Assemblies and give practical meaning to the decentralisation process. As Kroes (1996) argues, because the leviable amount of local resources is generally too small to cover the most pressing expenditures, the governments of lower levels always need grants from the central government. The percentage allocation to the District Assemblies Common Fund has since been increased to 7.5% (Ahwoi, 2010).

Article 252 (3) of the 1992 Constitution stipulates that this fund shall be shared among all the District Assemblies in the country using a formula approved by the Parliament of the Republic of Ghana. The allocation of the District Assemblies' Common Fund to the District Assemblies is thus based on a formula that considers a number of factors including:

- The Need Factor – which consider the relative deprivation of one district to another. This consideration essentially seeks to narrow the development gap between districts or regions in the country.
- The Equalising Factor – this factor makes a case for all the District Assemblies in the country to receive an equal proportion of the District Assemblies Common Fund as

development expenditure.

- The responsiveness factor: – By this, District Assemblies are given more allocation from the District Assemblies Common Fund if they “do well” in internal revenue mobilisation. This is intended to encourage or motivate District Assemblies to improve internal revenue mobilisation efforts.
- The Service Pressure Factor – this factor recommends that districts with more population densities be given more allocation from the District Assemblies Common Fund to cater for the pressure exerted on facilities, and the resulting deterioration of these facilities.
- The Reserve Fund – it is required that 10% of the fund should be set aside by all the District Assemblies. This Fund is to be shared among the Members of Parliament in that district to cater for their ‘constituency projects’ and also to the Regional Coordinating Councils for monitoring purposes, and for ‘bulk purchases’ for all District Assemblies (see Scott, 2003; Ahwoi, 2010; Banful, 2011).

The use of a formula is expected to ensure some level of fairness in the distribution of the District Assemblies Common Fund among all the District Assemblies in the country. According to Banful (2011: 381) “the prevailing assumption is that distributing resources by a formula based on economic and welfare variables will suspend the arbitrariness that allows politically motivated targeting”. This formula-based revenue allocation approach is thus a strategy employed to “limit politicians’ discretion over intergovernmental transfers” (Banful, 2011).

The District Assemblies Common Fund (DACF) is spent on pre-defined areas. As Mogue and Benin (2012: 1054) note “in Ghana, a substantial share of local authorities’ revenues is made up of transfers from upper tiers of government or from donors, and these funds tend to be tied to particular activities, projects or sectors”. This practice is also intended to regulate the arbitrariness regarding the use of the District Assemblies Common Fund at the district level and to ensure accountability. As Merat (2004: 249) notes “in order to strengthen accountability, the funds transferred to municipalities were earmarked to ensure that bureaucratic costs would be kept within defined limits and that sufficient resources would be invested in social services”. The main expenditure areas of the District Assemblies Common Fund during the period under investigation include local government, education, health and bank charges. In the case of the Asante Akim South District Assembly, local government as an expenditure head received the highest portion of the District Assemblies Common Fund (DACF) in terms of expenditure for the period under investigation. According to the core staff, the main items contained in local government as an expenditure component include office buildings, electrification projects, poverty alleviation, loans, residential buildings for staff, and assistance to security personnel among others.

Table 4: Percentage Allocations of the District Assemblies Common Fund: 2001-2004

Area	Education	Health	Local Government	Bank Charges	Total
2001	24.5	13.8	35.5	0.1	73.9
2002	30.8	28.8	53.1	0.4	113.1
2003	19.6	16.5	44.8	0.1	81.0
2004	17.3	22.8	67.9	0.09	108.09

Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

As Shown in Table 4, education and health constitute the next main areas of expenditure respectively, whilst the least area of expenditure of the District Assemblies Common Fund in the Asante Akim South District Assembly is bank charges. The District Assemblies Common Fund is usually transferred to the Assemblies through the Banks. This attracts bank charges. As such bank charges have become part of the expenditure component of the District Assemblies Common Fund at the district level. Bank charges have however been less than one percent of the District Assemblies Common Fund's expenditure for all the years under consideration as shown in Table 4.

Aside the percentage allocations shown in Table 4, one interesting observation made on the Trial Balance Sheets regarding receipts and utilisation of the District Assemblies Common Fund is the incidence where surplus and deficit are recorded sequentially. For instance, as shown Table 4, the Asante Akim South District Assembly appears to have spent less of what it received as its share of the District Assemblies Common Fund in 2001 (73.9%) and in 2003 (81.0%). Similarly, as shown in Table 4, it appears that the Asante Akim South District Assembly spent more than it received as its share of the District Assemblies Common Fund in 2002 (113.1%) and in 2004 (108.09%). In other words, the Assembly recorded surplus in 2001 and 2003; and deficit in 2002 and 2004. In reality however, the Asante Akim South District Assembly did not record deficit or surplus in those years. The main reason that accounted for this phenomenon relates to differences in operational year between the Fund and the Assembly's fiscal year. The District Assemblies Common Fund has its own operational year which starts in June and ends in May. This overlaps the normal fiscal year of the District Assemblies in the country, which starts in January and ends in December. What this means is that at the end of the normal fiscal year of the District Assemblies, operations on the District Assemblies Common Fund may still be in progress. It was observed that when the Asante Akim South District Assembly receives less than what it budgeted before the end of the normal fiscal year, the records show a surplus. This does not mean they spent less than what they receive but that they got less than what they were supposed to have received before the end of their normal fiscal year. Similarly, when the Assembly receives the following

year's allocation together with the previous year's "arrears", the balance sheet shows a deficit at the end of the normal fiscal year. Again, this does not mean the Assembly spent more than what it budgeted for that year, but that the Assembly had "arrears" from the previous year adding to that year's budgeted revenue. Without a careful analysis, this trend presents a strange picture of how the District Assemblies Common Fund is utilised at the district level in Ghana. Clearly, as earmarked revenue, the District Assemblies Common Fund is usually utilised as prescribed.

3.3 Utilisation of Donor Funds

Many District Assemblies in Ghana receive assistance from donor countries, non-governmental organisations and other development partners. The assistance usually takes the form of funding for selected development projects in the district. Donor support constitutes one of the main sources of revenue to the Asante Akim South District Assembly. As Shah (2005) notes, spending responsibilities of each level of government are often not perfectly matched with their respective revenue-raising capacities. This means that local government authorities have to explore alternative sources of funding to bridge the financing gap. As can be seen from Table 1, donor funds competed favourably with the District Assemblies Common Fund as the number one contributor of revenue to the Asante Akim South District Assembly from 2001 to 2004.

Table 5: Percentage allocation of Donor Funds to various Projects: 2001-2004

PROJECT	2001	2002	2003	2004
Village Infrastructure Project	0.3	22.2	14.7	1.3
Micro-Project Programme	86	20.4	8.3	9.6
Girl-Child Education	5.2	2.2	1.2	0.4
CWSP II	-	-	34.8	54.0
HIPC Fund	-	-	32.6	32.1
QUIPS	-	-	8.3	2.6
WATSAN	8.5	55.2	-	-
TOTAL	100	100	100	100

Source: Derived from Asante Akim South District Assembly's Trial Balance: 2001-2004

As shown in Table 5, donor support or funding in the district is project-specific. As such, donor funds are earmarked for specific projects, and cannot be utilised at will by the recipient

District Assemblies. The projects funded by donor funds in the Asante Akim South District for the period under investigation include the Village Infrastructure Project (VIP), the Micro-Project Programme, Girl-Child Education, Community Water and Sanitation Project II (CWSP II), the HIPC Fund, Quality Improvement Primary School (QUIPS), as well as Water and Sanitation (WATSAN). In 2001, the Micro-Project Programme received the highest of eighty-six per cent (86%) of the total donor support to the Assembly that year as shown in Table 5. Similarly, as shown in Table 5, Water and Sanitation (WATSAN) received the highest allocation (55.5%) from donor funds in 2002. One observation regarding donor funds is that not all the projects received funding in all the years or on yearly basis. For instance, as can be seen in Table 5, the Community Water and Sanitation Project II (CWSP II), the Highly Indebted Poor Country's Fund (HIPC) and the Quality Improvement Primary School (QUIPS) did not receive funding in 2001 and 2002. Nonetheless, donor fund and the District Assemblies Common Fund remain the main sources of revenue for the Asante Akim South District Assembly's capital expenditure. In other words, they are the main sources of revenue for the provision of essential facilities and services in the Asante Akim South District.

4. Conclusion

It is clear from the analysis that all is not well with the Asante Akim South District Assembly as far as revenue mobilisation and management is concern. The Assembly has a low internally generated fund which can hardly finance any meaningful development project in the district. With recurrent expenditure rising at the expense of capital expenditure with respect to the use of the internally generated fund of the Assembly, investment in revenue generating activities would be minimal, if not completely absent.

The ineffective revenue collection methods in vogue in the district coupled with the highly untrained nature of the revenue collectors and the concomitant poor reporting procedures will continue to hinder the realisation of the Assembly's revenue targets. For now, the Assembly lacks the mechanism that will ensure effective revenue mobilisation and management. The revenue collectors are untrained and lack the capacity to handle basic accounting tasks. This results in poor reporting and accounting which has a high potential of causing considerable revenue leakage. Data is very important in planning, and financial planning is not an exception. The dearth of data in the Assembly especially data on revenue sources and their yields is thus a worrisome phenomenon. This presents a bleak picture of the situation on the ground with regards to the capacity of the various revenue sources and how such sources could be improved or targeted.

There is thus the urgent need for the Assembly to devise measures to address these issues for effective revenue mobilisation and management. This is very necessary since the mere existence of the Assembly largely depends on the amount of financial resources at its disposal. Human resource development, especially those involved in revenue mobilisation and management is essential in this scheme of things. There is also the need to invest on revenue generating activities as a way of expanding the tax net.

5. Recommendations

The financial situation of the Asante Akim South District Assembly leaves much to be desired.

If the Assembly is to meet its financial obligations, then serious steps have to be taken to improve its current financial condition. As part of efforts to improve upon the financial condition of the Assembly, the following guidelines are suggested for consideration by the Asante Akim South District Assembly and other District Assemblies in Ghana and beyond.

First, there is the need to widen the tax net beyond the existing sources. New revenue sources must be identified and targeted. The Assembly needs to create and update revenue sources for the purpose of enhancing its revenue mobilisation drive. The expansion of the existing revenue sources will also require the creation of more economic activities in the district.

Second, the Assembly should institute weekly or monthly revenue collection targets and invest in revenue generating projects or profitable business ventures. This strategy should be complemented with capacity building training for revenue collectors to sharpen their skills for effective revenue mobilisation. Logistics, including a revenue mobilisation Van and incentive packages should be made available to the revenue collectors to encourage and improve revenue mobilisation in the district.

Third, the Assembly should put in place measures for monitoring revenue collection and accounting. This is an important step towards halting the current situation where revenue collectors do not account properly. Effective machinery has to be put in place for supervision and for reporting. In line with this recommendation, revenue collectors should be compelled to report or account on weekly basis on revenues collected.

Fourth, it necessary for the Ministry of Local Government and Rural Development to set revenue targets for all District Assemblies in the country based on an assessment of each District's economic profile. This will not only ensure the setting of realistic and challenging revenue targets, it will also compel the District Assemblies to work hard in realising those targets. When this done, District Assemblies could then awarded on the basis of their exceeding those realistic targets.

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