

Improving local government tax collection capacity

Evidence from Ghana



In brief

- In Ghana, Metropolitans, Municipal and District Assemblies (MMDAs) collect local revenue to complement central government transfers. However, MMDAs are increasingly over reliant on transfers.
- This study sheds light on the root causes of low tax collection capacity in Ghana's MMDAs.
- A survey was conducted among over 5,000 local government officials from 216 of Ghana's MMDAs to provide insight into their internal revenue generation.
- The findings suggest lack of technology use in revenue mobilisation is a root cause of the low levels of IGF raised; the cost of collection in most MMDAs is much higher than it should be, particularly for salaried revenue collectors; cash payments are still all too prevalent in most MMDAs; the fraction of properties that have valuations is still way too low; residents are poorly informed about MMDA revenue collection and expenditures; and district officials have somewhat inaccurate views about their residents' expenditure priorities.
- The researchers outline best practices for local governments on the identification of revenue sources, tax collection technology usage, tax enforcement strategies, property valuation techniques and openness to improvements in tax collection capacity and new technologies.

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Overview of the research

In most developing countries, tax collection capacity remains inadequately low. Nowhere is the lack of tax collection capacity more apparent than in local governments, which collect a negligible fraction of local income in taxes. Under the Ghanaian decentralisation dispensation, for example, Metropolitans, Municipal and District Assemblies (MMDAs) are mandated to collect local revenue from a range of sources to complement central government transfers.

It was envisaged that, over the years, internally generated funds (IGF) would constitute a critical component of MMDAs finances. However, the available figures suggest MMDAs are increasingly over reliant on central government transfers. As a result, local governments provide inadequately low levels of public goods and services – such as roads and schools – which are crucial inputs to achieve structural change and economic growth.

The goal of this study is to shed light on the root causes of low tax collection capacity in Ghana's local governments. To do so, we surveyed all 216 of Ghana's MMDAs in fall 2017 to provide a comprehensive overview of the internal revenue generation capacity of Ghana's local governments. Our study covered more than 5,000 individuals, including chief executives, coordinating directors, finance and budget officers, revenue accountants, revenue collectors, and local citizens. The survey covered the entire revenue mobilisation process, from identifying revenue sources and sending bills to collection and enforcement. The resulting database represents the most comprehensive database of local government tax collection capacity built to date.

The findings

Our study ([Dzansi et al., 2017](#) for the final report) has several main conclusions:

1. The lack of technology use in revenue mobilisation is a clear root cause of the low levels of IGF raised by the MMDAs.

In particular, we find that districts that used revenue management software and electronic property databases collected around 83% more IGF per resident than similar districts that do not use such technologies (by similar, we mean districts in the same region, and with similar levels of urbanisation rates and population size).

2. Technology is associated with larger billing volume and more efficient billing delivery.

MMDAs with technology have 138% fewer non-delivered demand notices. Yet most districts still rely on manual methods, and do not have either software to help them bill and collect revenue or databases of properties.

3. Cost of collection in most MMDAs is much higher than it should be, particularly for salaried revenue collectors.

For the median salaried revenue collector, their salary consisted of 60% of his or her average monthly revenue collections. For an astonishing one out of five salaried revenue collectors, their monthly salary was higher than

average monthly revenues, implying a cost of collection greater than 100%. In contrast, commission rates for commissioned-based collectors were 25% for the median collector, and ranged from 15% to a high of 35%.

4. Cash payments are still all too prevalent in most MMDAs.

Currently, around 70% of property rate payments are still made in cash. For business licenses, around 72% of payments are made in cash. Yet cash payments allow for unacceptably high rates of leakages, which reduce funds available for district expenditures. Electronic payments, including payments by mobile money, are beginning to be used in many districts, though currently a small minority of payments are made through mobile money.

5. The fraction of properties that have valuations is still way too low.

The Land Valuation Division (LVD) of the Lands Commission is the only institution mandated by law to value properties. They are thus solely responsible for estimating property values in Ghana. However, just about a third of the MMDAs in Ghana have worked with the LVD to value some or all properties within their jurisdiction. As a result, less than a fifth of the properties in Ghana are valued by the LVD. While most MMDAs attempt to impose unassessed property rates, our analysis suggests that a lack of up-to-date property valuation lists remains a major constraint to IGF mobilisation in Ghana.

6. Residents are poorly informed about MMDA revenue collection and expenditures.

Among residents, fewer than 10% know what a fee fixing resolution is, and fewer than 2% had attended a fee-fixing resolution meeting in their district. When asked to name a local expenditure funded by their MMDA, fewer than one out of three residents could name or describe one.

7. District officials have somewhat inaccurate views about their residents' expenditure priorities.

We asked district officials to name the top three broad expenditure categories that their residents demanded, and then asked residents directly for their top three expenditure priorities. Residents overwhelmingly described roads and water as their top two choices, while district officials named education and health. This disconnect between residents' actual priorities and district officials perceived priorities was present in all regions of the country.

Policy recommendations

All of Ghana's local governments should use revenue management software and geolocated property databases to mobilise revenue.

Currently, just 15% of MMDAs use such technologies, with the rest relying instead on outdated manual systems. Geolocated property databases have already been created in many districts by international development agencies or local technology companies, and promising software options exist. In districts without geolocated property databases, local or central government should consider making the investments necessary to create such databases. While costly, these investments are likely to greatly increase IGF mobilisation. According to our analysis, assemblies that use revenue software and electronic databases of properties collect 83% more IGF per resident than similar assemblies that rely on manual systems.

At present, there are a number of promising revenue technology providers that have recently begun to work with some MMDAs to provide geolocated databases and revenue software. The central government should help ensure that all districts get an opportunity to work with one of these technology providers. At the same time, it is crucial that there is coordination, so that work is not duplicated. For example, a number of development agencies and private technology firms are in the process of creating geolocated property maps, which form the foundation of any property database, for certain districts in Ghana. Having two different agencies repeat this costly task in one district, while a second district waits without any property database, is highly inefficient.

Local governments should consider moving to incentive-based compensation schemes for revenue collectors.

Most MMDAs use a mix of salaried revenue collectors and commission-based collectors. However, we find that the cost of collection is substantially higher for salaried collectors, leaving the MMDAs with less overall IGF net of collection costs. Incentive based compensation schemes, such as commission contracts, have the potential of protecting MMDAs from overly high collection costs.

Local governments should adopt electronic payment systems to reduce cash payments.

The majority of property rate payments are still made in cash, which leads to leakages of funds and prevents MMDAs from putting their revenue towards productive ends. All districts should work with technology providers to move toward electronic payments systems, especially mobile-money payment systems. These systems will record all transactions in a way that should substantially reduce opportunities for leakages. Furthermore, since ratepayers know that cash payments often result in leakages, they are less willing to make payments. Once districts move to electronic payments, rate payers should be more willing to make payments in the first place.

Central and local governments should consider alternative ways of funding property valuations.

At present, districts have to fund the property valuations themselves. Many districts do not have the funds to do this, leaving them with property valuations that are out of date or simply non-existent. This creates a trap of sorts where, without property valuations, they lack the ability to raise the revenues needed to fund the valuation of properties in their district in the first place.

One alternative way to fund property valuations is to have the central government finance the valuation efforts for select districts, perhaps in exchange for lower transfers from the District Assembly Common Fund. Another method would be to allow the districts to issue bonds and sell them to interested parties, and to use these funds to conduct their valuations. Depending on the district's potential for revenue mobilisation, this may or may not be viable. A proper assessment should be conducted for any district in question.

MMDAs should improve their community outreach efforts to better understand the expenditure priorities of residents and to better inform them about the revenue mobilisation process.

Residents of most districts are quite ill informed about how rates are set and how revenue collection works in their MMDA. Residents are also quite uninformed about current expenditures undertaken by their district, with a majority of residents not being able to name or describe any expenditure project funded by their local government.

At the same time, districts officials seem to be somewhat ill informed about the expenditure priorities of their residents, with officials reporting that education and health are the top two priorities of their residents, while the residents themselves report that roads and water access are their top priorities. To the extent that MMDA officials can better understand the needs of their constituents, the constituents may be more likely to comply with revenue collection efforts, thereby allowing the MMDA to provide the public goods that the residents desire.

MMDAs should be required to submit monthly reporting of their revenues, expenditure, and the cost of revenue collection.

At present, MMDAs are required to only report their sources of IGF on a monthly basis, but not their categories of expenditure or their cost of IGF collection. This lack of high-frequency data on expenditure and cost of collection constrains the ability of both the central government and Assemblies to stay on top of the fiscal situation of the MMDAs. Having these monthly data will help the central government to monitor and provide real-time assistance to districts that are struggling to keep their cost of collection low or their expenditures in line with their revenues. Furthermore, the simple act of compiling and reporting expenditures and the cost of collection will help districts keep their cost of collection in check.