CHALLENGES FACED BY LOCAL COUNCILS IN REVENUE COLLECTION IN SIERRA LEONE. (CASE STUDY- FREETOWN CITY COUNCIL)

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ABSTRACT

Globally, revenue collection plays a crucial role in the growth and development of city councils and the economy at large. In a low-income country like Sierra Leone, city councils' role is critical in further pushing the country's socio-economic development agenda. This paper explored the challenges local councils face in revenue collection in Sierra Leone.

This study employed a case study survey design with a mixed method approach to collecting relevant data. Stratified, purposive, and simple random sampling techniques were used to reach out to the 50 respondents from the revenue department of the Freetown City Council. Data was collected through questionnaires and a face-to-face interview, and processed using Microsoft Excel application.

Data was analyzed using a descriptive analysis method, and findings were presented in tables and graphs, which showed frequencies and percentages.

The paper found that the inability to collect revenue effectively was due to poor administrative capacity to assess the revenue base, explicit and intentional revenue evasion and resistance from revenue payers, corruption, including revenue embezzlement, external pressure on the local finance department to provide optimistic projections, and political pressure on the local tax administration to relax revenue collection in some areas.

The paper therefore recommended enhancing revenue collection capacity through staff enhancement and enrichment, facilitating revenue payers with education, and establishing more accessible and transparent payment facilities to minimize revenue leakages.

Keywords: City Councils, Revenue Collection, Freetown, revenue payers

1.0 INTRODUCTION

The reintroduction of local government in Sierra Leone in 2004 reinforced the need for local governments to complement the central government's efforts by promoting their localities' development aspirations and welfare. To achieve this objective, the government devolved certain functions to the local councils to take the lead in service delivery. That notwithstanding, the government is still responsible for policy matters, provides technical guidance, and monitors the performance of the functions of local councils.

As a result, revenue mobilization in property rates, business licenses, market dues, billboards and banners, parking fees, etc., increased appreciably. This enabled the Council administration to pay salaries, leave allowances, end-of-service benefits, and commitments to contractors, suppliers, and the media, and granted a loan facility to the Council's staff.

In 2004, the Government of Sierra Leone introduced three significant tax reforms. These are: abolishing the development levy, reiterating the maximum rate of 5 percent for agriculture, and eliminating several nuisance taxes. These reforms brought significant changes in the revenue pattern for local councils in the country. Reforming such revenue sources caused a heavy loss in local government income in a short period. There was a significant deficit in the budget relative to revenues. This deficit in the funding needed to be covered by central government enhancement and grants so local councils could deliver their services effectively to the citizens. Their efforts to meet their budget target through revenue collection have not been successful due to many challenges.

The Fiscal Decentralisation Division at the Ministry of Finance organized a meeting on Thursday, 29 February 2024, with mayors/chairpersons and chief administrators of local councils to discuss challenges regarding collecting household revenue in regional councils.

The Chairpersons/Mayors and Chief Administrator highlighted several challenges regarding revenue collection at the council level.

These challenges range from staff capacity and motivation to lack of coordination and cooperation from stakeholders, chiefdom authorities, and other Ministries, Departments and Agencies (MDAs), the legal framework, outdated cadastral systems, and political interference.
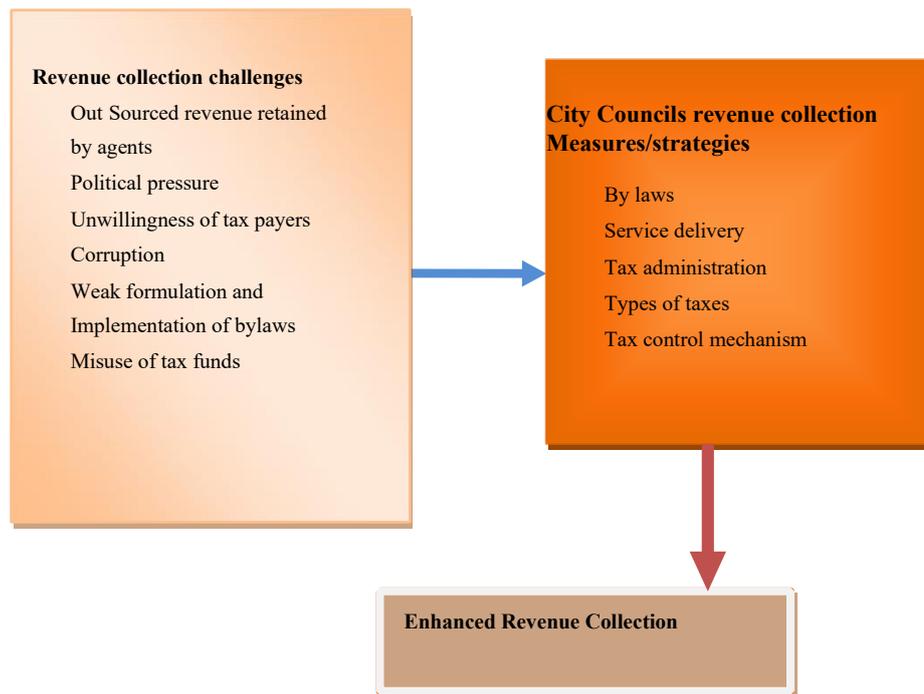
This paper seeks to identify further the challenges local councils face in implementing strategies adopted to enhance revenue collections after introducing these significant tax reforms.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

The study concentrated on identifying the challenges faced by Local councils in implementing strategies adopted to enhance revenue collections after introducing the tax reforms. Some of these challenges range from poor administrative capacity to assess the revenue base; explicit and intentional revenue evasion and resistance from revenue payers; corruption, including embezzlement of revenues; external pressure on the local finance department to provide optimistic projections; and political pressure on the local tax administration to relax on revenue collection in some regions of interest. On the other hand, some of the strategies councils are to implement to enhance revenue collection may range from Outsourcing revenue collection to private collectors to increase revenue; strengthen relationship with other institutions such as National Revenue Authority (NRA); review of bylaws; the use of computerized system of maintaining taxpayer register; and transparency in the operations of local councils among others.

Figure 2.1 Conceptual Framework

Revenue collection challenges

- Out Sourced revenue retained by agents
- Political pressure
- Unwillingness of tax payers
- Corruption
- Weak formulation and Implementation of bylaws
- Misuse of tax funds

City Councils revenue collection Measures/strategies

- By laws
- Service delivery
- Tax administration
- Types of taxes
- Tax control mechanism

Enhanced Revenue Collection

The appropriate model for evaluating the challenges faced by local councils in implementing strategies to enhance revenues consists of two variables: dependent (Revenue collection challenges) and independent (local council factors). The model works by examining how tax payers perceive those factors.

Tax compliance will be higher if taxpayers perceive the tax system is equitable. If corruption is minimized, if not eliminated, taxpayers will willingly pay taxes. If the choice of tax collectors is fair, the amount collected will be higher. Taxpayers will voluntarily pay taxes if bylaws are reviewed and punishment is fairly administered. They should also place a well-designed mechanism to reach all possible taxpayers and develop good local revenue alternatives. This theory applies to this study because it mentions the importance of having local government close to the people.

2.2 Empirical literature review on the challenges faced by local councils in revenue collection

A. Kargbo, (2024), asserted in a presentation done by the Fiscal Decentralisation Division at the Ministry of Finance in Sierra Leone, that even though most Local Councils reduced their target from 2022 to 2023, most of the Council failed to reach their revenue targets for 2023 by collecting a combined total of Nle67.4 million out of the NLe110.2 million target.

He further stated that the government has undertaken several interventions to support Local Councils' revenue drive by preparing MoUs between LCs and Chiefdoms on revenue sharing and management, developing Revenue Mobilization Strategies for five (5) district councils, including Karene, Falaba, Kono, Pujehun, and Bo district councils, and in the process to create Revenue Mobilization Strategies for another five (5) district councils – Moyamba, Kambia, Bonthe, Kailahun, and Koinadugu.

M. Dingie (2024) highlighted that the challenges range from staff capacity and motivation to lack of coordination and cooperation from stakeholders, chiefdom authorities, and other Ministries, Departments, and Agencies (MDAs), the legal framework, outdated cadastral systems, and political interference.

NKUNA (2021), found that municipalities experience severe revenue collection challenges. His research findings reveal poor service delivery, inadequate billing, metering challenges, lack of capacity, and poor policy implementation as contributing to inferior revenue collection and serious threats to a municipality's financial viability.

Oriakhi & Osemwengie (2013) argued that inadequate financial resources negatively impact the quality of municipal services, as most municipalities are not financially sustainable. Accordingly, Amin et al. (2018) opined that poor service delivery will affect revenue collection, as the two are interrelated, and consequently, should communities do not receive quality municipal services, the revenue collection rate will continue to plummet, as more communities become disinterested in observing payments. Owing to the lack of financial resources, Adeyemi (2013) claimed that the failure of municipalities to serve their communities has reached extreme levels in Nigeria, resulting in communities' distrust of their respective municipalities.

According to Manda (2013), consumers' inability to pay is one of the reasons municipalities are experiencing elevated debtor books, as most households billed for municipal services are incapable of payment. It may be said that consumers' inability to pay is beyond municipalities' control, resulting in dire consequences for municipal economic sustainability. Poverty and unemployment, inadequate indigent management, the affordability of municipal services, and financial issues were found to be factors affecting ratepayers' ability to pay.

NKUNA (2021), stressed that the issues of unemployment and poverty were also acknowledged as problematic by the different political parties that entered the South African 2019 National and Provincial elections (African National Congress (ANC), Democratic Alliance (DA), Economic Freedom Fighters (EFF), Freedom Front Plus (FFP), and the United Democratic Movement (UDM)). The manifestos of these parties emphasised that poverty and unemployment must be dealt with urgently, for the South African government to move forward. According to Statistics South Africa [Stats SA] (RSA 2016), the absence of or insufficient employment opportunities is one of the top five leading challenges confronting municipalities, as perceived by households participating in the 2016 census.

Accordingly, Chetty et al. (2016) asserted that municipalities, in consultation with communities, should verify that their tariffs are realistic and should also be based on the demand for such services. They suggested that municipalities determine the total cost associated with the barriers to revenue collection affecting financial viability. In the case of the Maruleng local municipality, 77, rendering all the different services should be used as a basis for setting tariffs. They further asserted that municipalities should consider the number of consumers served when determining the baseline for tariffs. Chauke and Sebola (2016) claimed that municipal tariffs are not so extreme as to trigger complaints from communities regarding the affordability, and thus result in inferior revenue collection. They averred that the depressed revenue collection rate is owing to the inadequate enforcement of credit control policies, rather

than the affordability of municipal services. Based on the above discussion, one may argue that municipalities are often compelled to charge affordable tariffs instead of tariffs reflecting the actual cost of community services. They should therefore investigate using a dual system of cost-reflective and affordable tariff-setting, i.e., adopting the affordable tariff-setting principle in respect of basic services such as water, sanitation, and electricity, rendering these services affordable irrespective of the consumer's socio-economic background, and adopting the cost-reflective tariff-setting principle in respect of other services such as media adverts and the use of municipal facilities such as halls and sports centres.

According to Hamad and Mohammed (2023), shifting some revenue sources from local to national government, employees working under pressure at the local government authority, and tax exemption are among the factors hindering the development of revenue collection in local government authorities.

Mazibuko (2017) asserted that the continued low GDP growth and high inflation rate could even compel the national government to reduce the transfers to municipalities, and this would significantly affect smaller, local, and district municipalities, as they primarily rely on government transfers. Whereas the demand for municipal services is on the rise owing to the increase in the number of persons per household, the weak economic growth and elevated unemployment levels render many consumers incapable of paying for municipal services (Jacobs 2019)

Economic factors appear to pose serious threats to the economic and financial sustainability of councils in their municipalities and the country as a whole. Due to economic instability, businesses may shut down, either voluntarily or forcefully (as penalties), resulting in increased unemployment and consequently less revenue collected.

As opposed to the inability to pay, unwillingness may be another innate challenge that distorts revenue collection. Although unwillingness to pay is considered to be a factor within a council's control, in that councils may implement measures to address such refusal to pay, studies cited poor service delivery, deficient billing, and a culture of non-payment as factors that may affect consumers' willingness to pay for municipal services.

3.0 METHODOLOGY

This study used a case study research design with a mixed approach to elicit qualitative and quantitative data. Primary data, the dominant data source, was collected by administering structured and semi-structured questionnaires using stratified, purposive, and simple random sampling techniques to reach out to the 59 respondents out of the 118 staff in the revenue department of the Freetown City Council.

Table 3.1 sample frame

Population and sample size	Frequencies	
Stratum	**Population**	**Sample Size**
License	28	14
Estate	10	5
Local Tax	6	3

Street Parking	10	5
Marketers	50	25
Property Rate	10	5
Billboard	4	2
Total	118	59

Figure 3. 2. Showing the administrative building of the Freetown City Council

Source: Researcher's Survey 2024

4.0 DISCUSSION OF RESULTS

4.1 Response Rate

Fifty-nine questionnaires were administered to the revenue department of the Freetown City Council, of which 50 were successfully retrieved from the respondents, representing an 85% response rate. The table below depicts the details.

Table 4.2 Response Rates

Response rate Questionnaires	Total
Administered	59
Collected / Received	50

Source: Researcher's Survey 2024

4.2. Respondents' Gender

Out of 50 respondents, 35 were male, representing 70% and 15 were female, representing 30%, as shown in Figure 4.1 below. This indicates that the revenue department in the Freetown city council is gender sensitive, though a bit masculine.

Figure 4.3 Respondents' gender
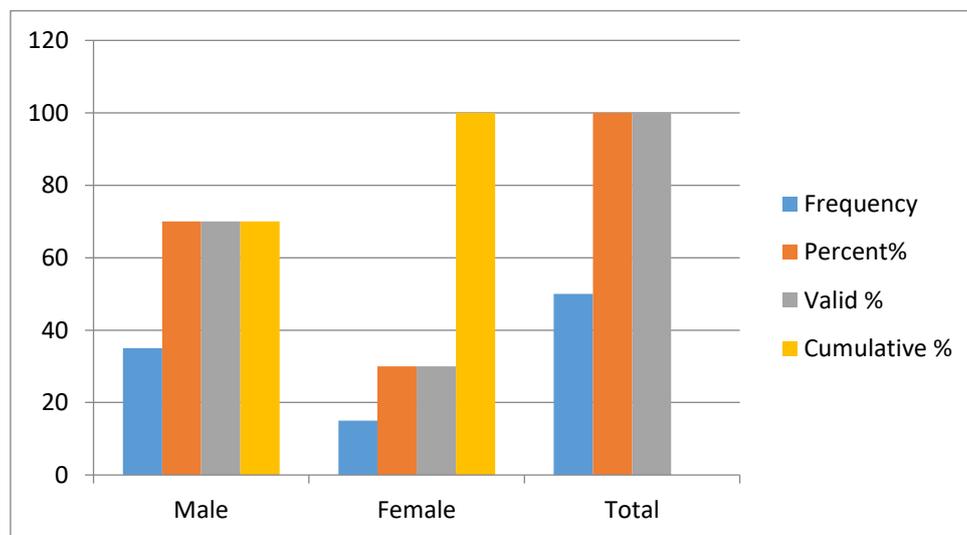
Source: Researcher's Survey 2024

4.3 The Challenges that Affect Revenue Collection

After reviewing many scholarly works using secondary data, the researchers attempted to identify further and confirmed the numerous challenges that hinder revenue mobilization in the Freetown city council. The respondents were given the leverage to confirm using a closed-ended questionnaire about the challenges that apply to the council. This put the researchers on a much better footing to draw valid and representative conclusions as depicted in figure 4.4 below.

Figure 4.4. The Challenges that Affect Revenue Collection
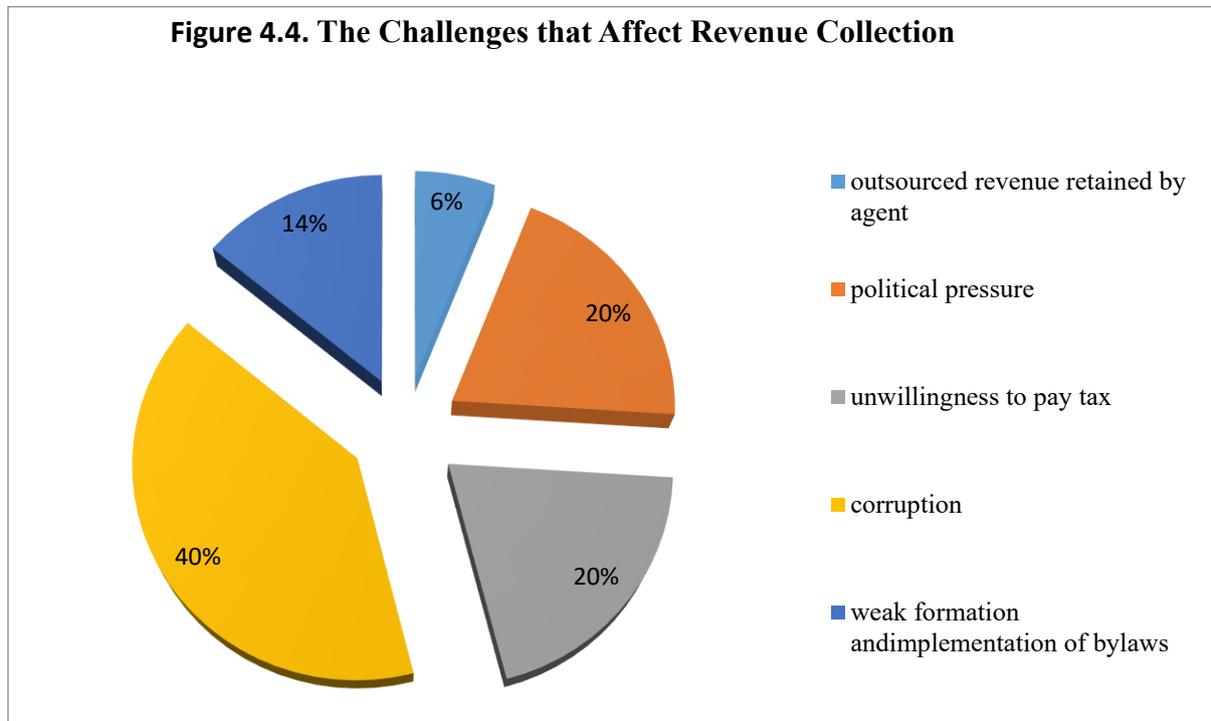
Source: Researcher's Survey 2024

From Fig. 3 above, it is evident that all of these factors are hindrances to the Freetown City Council's revenue collection, although in different degrees. Amongst these factors, corruption is the most prevalent challenge, constituting 40% of the respondents, followed by taxpayers' unwillingness and political pressure, representing 20% each. The weak formation and implementation of bylaws and the outsourced revenue retained by the agent represent 14% and 6%, respectively.

Due to the innate corruption that has successfully made its way into the fabric of our country, revenue collectors see the collected revenues as their personal property, so their embezzlement is no problem for them. This act of impunity has been the reason many taxpayers have given for their unwillingness to pay taxes, which serves as a significant revenue source for the council.

Considering the political landscape of the country, it appears that the political leaders have a covenant with the electorates of areas they refer to as their strongholds to let them enjoy some benefits, including tax shields, as either a fulfillment of their promises during campaigns or as a bait to canvass for votes during elections. Additionally, some people will pay taxes along their political lines to support the candidates they voted for. These are reasons for the political pressure on the revenue collectors that posed a serious challenge.

Consequently, the weak formation and implementation of bylaws by the revenue department of the Freetown city council has also worsened the situation.

4.4 Strategies that Enhance Revenue Collection

The researchers found the factors applicable to the Freetown city council among the numerous strategies local councils implement to enhance revenue collection. Among the ten (10) factors indicated on the questionnaire, the respondents resonated with four (4) main factors as applicable to the council. Table 4.3 depicts the strategies that enhance revenue collection amidst the challenges they faced in the council.

Table 4.3: Strategies that Enhance Revenue Collection

Strategies	Frequencies	Percentage
Establishing More Accessible and Transparent Payment Facilities	10	20
Improvement on the Fiscal Policy, Legal and Regulatory Framework	5	10
Improvement in Revenue Administration	15	30
Enhancement of Revenue Payers' Education and Sensitization	20	40
Total	50	100

Source: Researcher's Survey 2024

Five of the respondents, who constitute 10%, believe that improving the fiscal, legal, and regulatory frameworks will enhance revenue collection. 20% concluded that the council's revenue collection will improve when more accessible and transparent payment facilities are established. It is with the notion that when payment facilities are transparent and accessible, revenue payers will have the voluntary will to pay revenue without being coerced. 30% believe that improvement in revenue administration by staff is key. In comparison, 40% which forms the majority of the respondents, opined that the main revenue collection enhancing tool is to embark on revenue payers' education and sensitization. This also acts as an auxiliary hand for revenue collectors, by educating and sensitizing revenue payers, revenue collection will increase.

5.0 SUMMARY

As a result of the innate corruption that has successfully made its way into the fabrics of our country, revenue collectors see the collected revenues as their personal property, so their embezzlement is of no problem to them. This act of impunity has been the reason given by many taxpayers for their unwillingness to pay tax, which serves as the major revenue for the council.

Considering the political landscape of the country, it appears that the political leaders have a covenant with the electorates of areas they refer to as their strongholds to let them enjoy some benefits, including tax shields as either a fulfillment of their promises during campaigns or as a bait to canvass for votes during elections. Additionally, some people will pay tax along their political lines, in support of the candidates they voted for, all of these are reasons for the political pressure on the revenue collectors to relax the revenue collection in those areas, which posed a serious challenge. Consequently, the weak formation and implementation of bylaws by the revenue department of the Freetown city council has also worsened the situation.

However, 30% of the respondents are of the view that improvement in revenue administration by staff is key. In comparison, 40% which forms the majority of the respondents, opined that the main revenue collection enhancing tool is to embark on revenue payers' education and sensitization. This also acts as an auxiliary hand on the part of revenue collectors, by educating and sensitizing revenue payers, revenue payment will increase.

A simple computerized revenue management system would be feasible to enhance efficiency and minimize human error and corruption opportunities. Such a system should be able to automate the key tax administration functions of registration, assessment, collection, and accounting for the revenue collected.

6.0 CONCLUSION

Adequate and buoyant local revenues are critical to ensuring the viability and sustainability of local councils and the quality of services they provide. However, there are many instances where local councils have to rely almost exclusively on fiscal transfers from the central government.

Apart from the central government transfers, Municipal councils also generate revenue from various sources.

Although local councils are supposed to generate revenue from local sources such as property rate, business licenses, bill boards, user charges, sale of land, bus fares, and billboards, market dues, etc, there has been much dependence on the central government grants because the revenue generated is not sufficient to support their operations due to challenges such as corruption, the unwillingness by tax payers and political pressure, the weak formation and implementation of bylaws and the outsourced revenue retained by agent, amongst others.

7.0 RECOMMENDATIONS

7.1 Recommendations to the Government of Sierra Leone

As the central administration and regulatory body, improving the fiscal, legal, and regulatory frameworks will enhance revenue collection. Given this situation, the government is supposed to strengthen and intensify monitoring and supervision to help put the councils on their toes. This will ensure compliance and adequate transparency in revenue collection, minimizing corruption.

7.2 Recommendations to the Freetown City Council

The council and the government in general can use the findings of the study to be accountable and make necessary reforms to improve revenue collection through the following:

Employ an adequate number of personnel who have training on revenue collection, surveyors, and revenue values

Educate revenue payers on the importance of paying tax, as well as educate revenue collectors on how to behave and communicate during the collection of property tax, thus motivating and

influencing revenue payers to pay A special course on tax collection and budgeting should be given frequently to employees responsible for revenue collection

Motivation should be given to revenue collectors so that revenue collectors will be establishing more accessible and transparent payment facilities to minimize revenue leakages

7.3 Area for Further Research

The study assessed the challenges facing the Freetown City Council towards the implementation of strategies to enhance revenue collection in the municipality of Freetown. There is an existing gap in the area of which specific factor(s) constitute the major challenge faced by city councils to raise revenue. Therefore, the researchers are suggesting that in-depth research been carried out using another city council or in similar areas

Acknowledgement

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