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COST-EFFECTIVENESS OF OUTSOURCING LOCAL GOVERNMENT REVENUE COLLECTION IN TANZANIA: THE CASE OF KINONDONI AND MOROGORO MUNICIPAL COUNCILS

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Abstract

There is still lack of clarity regarding the question of whether outsourcing of revenue collection has led to cost saving in Tanzania. Against the backdrop of this question, this paper investigated cost-effectiveness of outsourcing revenue collection to establish whether cost-saving has been realized after outsourcing revenue collection by comparing with the costs incurred before outsourcing in Kinondoni and Morogoro Municipal Councils. The study adopted the case study research design and the methods of data collection were interviews and documentary review. The findings indicate that cost-saving was realized after outsourcing of property tax and guest house levy. This was because the tendering costs incurred after outsourcing were lower than the cost incurred on employing revenue collectors and stationary expenses before outsourcing. The findings support the theoretical framework guiding this study using the assumption of Transaction Cost Theory which assumes that in a transaction where integrity is adhered to, the transaction costs are likely to be reduced. Also, it can be observed that outsourcing increased the cost of collecting the public toilet fees in Kinondoni Municipal Council due to failure in monitoring the private companies. In view of the findings

discussed, it is concluded that outsourcing revenue collection can result to saving cost when outsourcing is executed with integrity in Kinondoni and Morogoro Municipal Councils.

Keywords

Cost-Effectiveness, Outsourcing, Revenue Collection, Local Governments

1. Introduction

The business model of outsourcing revenue collection has been practised with the growing popularity of the New Public Management (NPM) (Mutiangpil, 2010). The NPM champions the streamlining of government functions by adopting the best practices of private sector and prioritising efficiency and effectiveness in spending taxpayers' money (ibid).

As a consequence of NPM, from 1980s, African states started shifting the emphasis from the public sector to the private sector (ibid). Donors such as World Bank and International Monetary Fund recommended reforms to developing Countries in the form of Structural Adjustment Programmes, which included administrative reforms (Economic Commission for Africa {ECA}, 2016).

In Tanzania, outsourcing of local government revenue collection has been under the NPM and local government reform programmes in particular, which started in the 2000s when Tanzania embarked on the Local Government Reform Programme (LGRP) I, 2000-2007 and LGRP II from June, 2008 to June 2013 (Fjeldstad *et al.*, 2009). The thrust for reform, in particular outsourcing revenue collection, arose because local government authorities (LGAs) operated under severe financial constraints. In other words, the reform was initiated similar to what Akinbode, & Al Shuhumi (2018) note that it was about responding to crisis situations in the context of this study outsourcing revenue collection to increase revenue.

The outsourcing of revenue collection is based on the assumption that outsourcing is more efficient and is likely to reduce corruption at the collection points by penalising a poor revenue collector and reduce tax collection costs (Fjeldstad *et al.*, 2009). This is because the main problem before outsourcing was that corruption took different forms and usually did not occur in an isolation but rather it tends to be embedded in social and administrative practices including revenue collection (Garajová, 2018). The Economic and Research Bureau (ERB) (1997) found that LGAs collected 3-5% of all public-sector revenue while they are responsible for over 20% of public sector spending before outsourcing.

It is further posited that the share of own sources of revenue in local government finances continues to be low (7-8%) even if we took into account LGAs' expenditure financed through ministerial subventions (URT, 2011). For instance, by 2004, after outsourcing of revenue collection, LGAs in 18 regions out of 21 relied on fiscal transfer from the central government for more than 93% of their fiscal resources (ibid). In fact, it was revealed that in only three regions did LGAs actually rely on less than 90% of grant sources. These LGAs are in Arusha, Pwani and Dar es Salaam Regions, which collected 13.4%, 10.7% and 35.7%, respectively of their total revenue from own sources (Fjeldstad *et al.*, 2009).

90% of grant sources. These LGAs are in Arusha, Pwani and Dar es Salaam Regions, which collected 13.4%, 10.7% and 35.7%, respectively of their total revenue from own sources (Fjeldstad *et al.*, 2009).

Despite outsourcing revenue collection, the Controller and Auditor General (CAG) report (2014) shows a low percentage of revenue collected through outsourcing. For example, the revenue collected was on average of 8.5% in 2006/2007 and in 2013/2014, the average revenue collected was 11% (ibid). The trend of revenue collection suggests that there was a marginal increase in revenue. Also, in 2010, the average revenue collected by LGAs was 7.5%, which was slightly increased as ERB Report (1997) which indicates that LGAs collected 3-5% of their expected revenue before outsourcing. However, it is still not yet known on whether the cost saving is realized after outsourcing revenue collection in KMC and MMC.

2. Statement of the Problem

It is more than a decade (2000-2018) since LGAs in Tanzania started to reform their revenue collection system by outsourcing it to private agents with the objective of increasing revenue. Also, LGAs were bent on saving costs as the outsourcing of revenue collection was expected to lead to a more predictable revenue stream for the councils.

Nevertheless, CAG report (2014) notes that the outsourcing of revenue collection has not met the expectations of tax reformers, LGAs and the public at large. The general observation is that the majority of LGAs have been falling short in their expectation of increasing their revenue through outsourcing. For example, out of 43 Councils, only four (04) of them, namely Temeke, Ilala, Kinondoni and Arusha were able to increase their revenue by more than 20% through outsourcing. As for the rest (39 councils), the average revenue collected through outsourcing remained at 7.5%

(Mzenzi, 2013). This creates a paradox as to why only a few (04) councils performed well in outsourcing revenue collection while the majority 159 failed to do so. This study sought to establish whether cost saving was realized after outsourcing revenue collection in two councils (Kinondoni (KMC) and Morogoro Municipal Councils (MMC)).

3. Objective of the study

To explore whether cost-saving is realized after outsourcing revenue collection in Kinondoni and Morogoro Municipal Councils in Tanzania in which a wide range of factors were considered such as the costs of tender advertisement and evaluation after outsourcing. Also, the costs incurred on employing revenue collectors and operational costs such as stationary expenses before outsourcing.

3.1 Research question

1. How has the outsourcing of revenue collection led to cost-saving in Kinondoni and Morogoro Municipal Councils in Tanzania?

4. Empirical Literature and Theoretical Review

Experience from some studies such as that of Eversen *et al.* (2006) in six outsourced rural markets of Mbale, Kamuli, Mubende, Masaka, Ntungamo and Arua in Uganda found that the outsourcing of revenue collection had led to low revenue collection. On average, 53% of all revenue collected from vendors in the markets in Uganda could be interpreted as pure redistributive transfers to the local elites. Other studies have noted that many local tax systems in Anglophone Africa are characterised by high levels of arbitrariness (Brun *et al.* 2014). This is because non-transparent local government revenue system is costly to administer and promotes corruption. The literature cited has enumerated the challenges facing the tax system in general as opposed to the current revenue collection under outsourcing in African countries.

In the Tanzanian context, the collection of a large number of local government revenue sources has been outsourced (Fjeldstad *et al.*,2009). These include property taxes in urban councils and market fees in both rural and urban councils. This study does not indicate the specific monetary costs incurred in collecting revenue after outsourcing so as to establish whether cost saving is realized in KMC and MMC. **4.1 Theoretical Review**

4.1.1 Principal-Agent Theory

Starting with the Principal-Agent Theory, its focus was originally on the relationship between managers and stakeholders but the theory has since expanded to cover the relationship

between two or more parties in outsourcing (Suhartono *et al.*, 2018). The Principal–Agent Theory assumes that there are arm’s length transactions to ensure that both parties in the outsourcing process are acting based on merit and are not subjected to any compulsion from the other party in awarding tenders (ibid). Principal can only oversee the company by using the contract made between the principal and the agent. The agent has discretionary freedom due to asymmetrical information and monitoring costs (ibid). Thus, a well-designed contract is perceived to reduce monitoring problems and enable the principal to predict revenue flows.

4.1.2 Transaction Cost Theory (TCT)

Originally, the TCT was initiated by Ronald Coase in 1937 (Kikuchi *et al.* 2018). The basic idea of the TCT is to identify the most economical governance structure or institutional framework within which the integrity of a transaction is decided, which leads to the lowest transaction costs, whether this should be the market, hierarchy or an intermediate form. The assumption of TCT has been used in guiding this study because its central idea emphasizes on the importance of integrity through which the transaction cost is decided between LGAs and companies, hence lowering the transaction costs of LGAs.

5. Research Methods

The study employed the qualitative and quantitative research approaches through the methods of data collection and data analysis because the data collected were both qualitative and quantitative in nature.

5.1 Research Design and Sampling Techniques

The study was conducted in Tanzania Mainland using the case studies of KMC and MMC. In this study, KMC was selected as an outstanding performer in revenue collection while MMC had poor revenue collection (Mtasigazya, 2017). For instance, in 2014, actual property tax collection stood at Tshs. 1,804,476,749/= (82%) in KMC while in MMC, it was Tshs. 294,926,715/= (56.7%) (CAG report, 2014). The revenue sources covered in this study were property tax, guest house levy and public toilet fee.

5.1.1 Sampling of the Respondents Using Purposive Sampling Techniques

In this study, the projected number of respondents was 200; however, the actual number of respondents who became available during data collection was 172. Other respondents were preoccupied with official commitments. These were 32 respondents from local government officials,

12 councillors, 104 taxpayers and 24 respondents from the private companies which had won tenders in KMC and MMC. In other words, the purposive sampling of the respondents was deployed to get these respondents.

5.2 Data Collection Techniques

In-depth interviews were used to collect data which was complemented by a thorough documentary review to strengthen the validity and reliability of the data. Documentary review involved scrutinizing potential documents such as books and reports from government publications.

5.3 Data Analysis Techniques

Data collected from the field were analysed using thematic data analysis technique. This is a method used for analysing data which were qualitative in nature from in-depth interviews and documentary review. Thematic data analysis was used in categorising the data in a way that allowed identification of similarities and differences in order to develop themes and sub-themes relating to the research objective such as the cost of revenue collection of each source of the revenue in KMC and MMC. On the other hand, descriptive statistics and cross-tabulation were used to analyze the quantitative data.

6. Research Findings and Discussion

6.1 Cost-Effectiveness of Revenue Collection in KMC before and after outsourcing

6.1.1 Respondents' views on the costs incurred before and after outsourcing revenue in KMC

Overall 86 respondents in KMC were asked through interview about whether the cost of revenue collection had increased or decreased after outsourcing. This study found that 13(81.3%) local government staff, 4 councillors (66.7%), and 30(57.7%) tax payers said that there was no cost-saving in outsourcing because the Council incurred the cost of enforcing the revenue collection contracts. Thus, 47(54.7%) of all 86(100%) respondents believed that costs had actually increased with outsourcing revenue collection as the contracted firms did not meet the contractual requirements of remitting revenue to the Council.

These responses were then proved by KMC Report (2008/2009) which notes that the cost incurred before outsourcing was Tshs. 11,073,000/= but after outsourcing, the cost incurred in collection of public toilet fees was reduced to Tshs. 6,450,000/= when subtracted from revenue collected i.e Tshs. 600,000/=, KMC incurred a revenue loss of Tshs. 5,750,000/= because the council did not get any revenue.

However, as presented in Table 1.0, 35(40.7%) of all 86 respondents composed of 12 (100%), 2(33.3%) councillors, 3(18.8%) local government staff and 18(34.6%) tax payers said that outsourcing revenue collection had reduced the cost of revenue collection in KMC. These findings were the claims of respondents which reflected the reality on the ground. For instance, before outsourcing, the incurred cost was Tshs.7800,000/= in billboard fee collection but after outsourcing the cost dropped to Tshs. 2,150,000/= as the cost for tendering process which implies that the perception of respondents was true on cost saving with outsourcing of billboard fee (KMC Revenue Report, 2013/2014). This study examined the actual monetary costs incurred by KMC and MMC before and after outsourcing revenue collection so as to determine whether cost saving has been realized after outsourcing. (Table 1.0 summarises the responses).

Table 1: Responses on whether cost-saving was realized after outsourcing revenue collection in KMC

Responses	Councillors	Respondents from private companies	Local government staff	Taxpayers	Total No. of responses
Cost of revenue collection has increased	4(66.7%)	00	13(81.3)	30(57.7%)	47(54.7%)
Cost of revenue collection has been reduced	2(33.3%)	12(100%)	3 (18.8%)	18(34.6%)	35(40.7%)
Cost has remained the same	00	00	00	00	00
Neither	00	00	00	4(7.7%)	4(4.7%)
Total No. of respondents	6(100%)	12(100%)	16(100%)	52(100%)	86(100%)

Source: Field data, (2018)

6.1.2 Costs incurred in collecting property tax before outsourcing in KMC

Before outsourcing of revenue collection in 2000, documentary data indicates that from 1999 to 2007, KMC hired 26 property tax collectors. The average wage was Tshs. 100,000/= per month for each. If multiplied by 26 revenue collectors, the amount was Tshs. 2,600,000/= per month.

Consequently, the total monetary cost in wages per year was Tshs. 31,200,000/= for twenty-six revenue collectors and Tshs. 4,800,000/= in travel expenses, hence, a grand total of Tshs. 36,000,000/= (KMC Reports, 1999-2007).

In order to ascertain and compare the profit or loss of revenue before outsourcing property tax, the revenue to be collected from property taxes was projected to be Tshs. 800,000,000/=, but the actual amount was Tshs. 611,942,000/= (76.5%). When the collection cost before outsourcing (Tshs. 36,000,000/=) was subtracted from the revenue collected which was Tshs. 611,942,000/=, the actual revenue generated was Tshs. 575,942,000/= (71.9%) as a revenue retained from property taxes before outsourcing (ibid).

6.1.3 Costs incurred by KMC after outsourcing property tax collection

The total cost for the tender board meeting and advertisements alone to outsource property tax collection in KMC was Tshs. 2,150,000/=. With regard to revenue collection after outsourcing property tax collection in 2004/2005, the amount of revenue budgeted to be collected was Tshs. 1,200,000,000/= but the actual revenue remitted to KMC was Tshs. 622,942,000/= (51.9%) (ibid). As noted earlier, the cost incurred in the tendering process was Tshs. 2,150,000/=. Thus, if this amount is deducted from the actual revenue collected of Tshs. 622,942,000/=: the amount of actual property tax revenue retained was only Tshs. 620,792,000/= (51.7%) of estimated amount to be collected, i.e. Tshs. 1,200,000,000/=. Therefore, it can be inferred that the Council realized a revenue saving of Tshs. 575,942,000/= or 71.9% of what was budgeted Tshs. 800,000,000/.

Thus, when compared with Tshs. 620,792,000/= (51.7%) as the revenue realized from property tax after outsourcing and deducting costs, so there was a marginal increase in revenue of Tshs. 44,850,000/= (7.2%) as revenue generated after outsourcing. The revenue saved was small when compared with the amount budgeted (Tshs. 1,200,000,000/=) and revenue generated before outsourcing (Tshs. 575,942,000/=) (49.1%) of the Tshs. 12,000,000/= budgeted and after subtracting the cost of collecting property taxes.

The findings indicate that a small amount of the revenue retained before outsourcing was Tshs. 575,942,000/= and the revenue generated after outsourcing was Tshs. 620,792,000/=. Thus, saving only Tshs. 44,850,000/= which was trivial compared with the Tshs. 1.2 billion budgeted after outsourcing property tax collection in KMC. Also, in 2007/2008, the cost was Tshs. 2,150,000/= after outsourcing which was lower than the cost incurred before outsourcing property tax (Tshs. 36,000,000/=) in KMC.

6.1.4 Costs incurred in Guest House Levy Collection in KMC before outsourcing

Regarding the costs incurred in collecting the Guest House Levy, the interview with the Guest House Levy Manager at KMC revealed that the Manager was given a monthly communication allowance of 100,000/= x12 months, totalling Tshs. 1,200,000/= per year. Other costs were incurred when three staff dealing with Guest House Levy collection were paid incentive of Tshs. 12,600,000/= per year.

The monitoring of defaulters was carried out three times a year. Thus, Tshs. 100,000/= was spent on petrol when multiplied by three trips gave a total of Tshs. 300,000/= as annual monitoring costs of guest house levy collection. So, the total of costs incurred in collecting the Guest House Levy was Tshs. 14,100,000/= per year. The KMC Report (2007/2008) shows that KMC budgeted Tshs. 300,000,000/= to be collected before outsourcing but the actual amount collected was only Tshs. 25,000,000/= (8.3%). Thus, if collection costs of Tshs. 14,100,000/= are subtracted from the revenue collected of Tshs. 25,000,000/=, then the revenue left to the Council was only Tshs. 10,900,000/= (3.6%) (ibid). (See table 2.0).

Table 2: *Revenue retained and Guest House Levy collection costs before and after outsourcing in KMC*

Revenue Collection Period	Budgeted Guest house levy Collection in Tanzanian shillings (Tshs.)	Actual Guest House Levy collected in Tshs.	Guest House Levy collection cost/tendering cost in Tshs.	Actual revenue realized after deducting collection cost in Tshs.
Before outsourcing 2007/2008	300,000,000/=	25,000,000/=	14,100,000/=	10,900,000/=
After outsourcing 2008/2009	1,000,000,000/=	158,400,000/=	2,150,000/=	156,250,000/=
2013/2014	100,000,000/=	85,080,000/=	15,223,000/=	69,857,000/=
2014/2015	100,000,000/=	90,080,000/=	16,533,000/=	73,547,000/=

Source: KMC Revenue Collection Reports (2007/2008-2014/2015).

6.1.5 Cost incurred in Guest House Levy collection after outsourcing in KMC

The cost of Guest House Levy Collection after outsourcing was of advertising tenders and tender evaluation which was Tshs. 2,150,000/= (KMC Reports, 2007-2015). The actual revenue collected from the Guest House Levy in 2008/2009 after outsourcing was Tshs. 158,400,000/= (15.8%) against the budgeted amount (Tshs. 1,000,000,000/=). Thus, the cost before outsourcing guest house levy collection was Tshs. 14,100,000/= but it was reduced to Tshs. 2,150,000/= as the cost incurred after outsourcing it.

The revenue accrued by KMC before outsourcing was Tshs. 10,900,000/=. More revenue saving was realized by the Council after outsourcing was as follows: actual revenue collected after outsourcing was Tshs. 158,400,000/= minus the cost incurred on outsourcing guest house levy which was Tshs. 2,150,000/=: giving a total of revenue saved of Tshs. 156,250,000/= (15.6%) of the amount budgeted (ibid).

In addition, when the guest house levy collection was returned to KMC staff in 2013/2014, the cost of collection increased to Tshs. 15,223,000/= which is higher than the costs could be incurred after outsourcing which was Tshs. 2,150,000/= in tender process. The revenue realized after deducting costs in 2013/2014 was Tshs. 69,857,000/= (69.9%) which implies that 30.1% of the revenue was not collected due to weak control of the guest house levy collectors. In this instance, the findings indicate that KMC was better-off in guest house levy collection after outsourcing than before. Thus, cost-saving was realized in Guest House Levy, property tax and billboards fee but not in public toilet fees collection in KMC.

7. Respondents ' views on the cost-effectiveness of outsourcing revenue collection in MMC

In MMC, 86(100%) respondents were interviewed regarding the cost of revenue collection after outsourcing. These included 6 councillors, 16 local government staff, 12 respondents from the contracted firms and 52 tax payers. The study findings indicate that 15(93.8%) local government staff, 3(50%) councillors, all 12 (100%) respondents from the contracted firms and 16(30.8%) tax payers said that cost-reduction was realised by MMC after outsourcing revenue collection.

Only one local government staff (6.2%), 3(50%) councillors and 36(69.2%) tax payers reported that there had been no cost-saving with outsourcing revenue collection due to the fact that

the contracted firms were self-centred with the ambition to make greater profits as opposed to meeting their contractual obligations in MMC as presented in Table 3.0.

The data in Table 3.0 indicates that the majority of the respondents, 46(53.5%) out of 86(100%) believed that outsourcing had not resulted in cost-saving due to collusion between local government staff and private companies. The findings also were corroborated with public toilet fee collection which shows that the cost of collecting public toilets fees was Tshs. 4,960,000/= (20.7%) of the amount collected before outsourcing which was lower than the cost incurred after outsourcing which was Tshs. 8,600,000/= (25.6%) after outsourcing (MMC Reports, 2008/2009; 2012/2013). On the other hand, 3(8.8%) of the councillors and 1(2.9%) local government staff believed that there was cost saving after outsourcing (See Table 3.0).

Although the majority 46(53.5%) respondents out of all 86 perceived that cost-saving was not realised with outsourcing, these responses were merely their opinions which were verified through looking at the costs shown in local government revenue reports. Thus, it can be inferred that to a certain extent outsourcing had led to an increase in the cost of collecting the public toilet fee from Tshs. 4,960,000/= before outsourcing to Tshs. 8,600,000/= after outsourcing. The findings indicate further that the revenue collected by MMC has also slightly increased after outsourcing public fee collection. For example, before outsourcing, MMC retained Tshs. 19,040,000/= (70.3%), but after outsourcing, the revenue increased to Tshs. 25,000,000/= (74.4%), a 4.1% of increase, i.e. 74.4% minus 70.3%. Thus, outsourcing of public toilets fee collection led to a small increase in MMC's revenue.

Table 3: Responses on cost-saving was realised after outsourcing revenue collection in MMC

Responses	Councillors N=6	Respondents from private companies N=12	Tax payers N=52	Local government staff N=16	Total No. of responses
Cost saving in revenue collection has been realised	03 (50%)	00	36(69.2%)	01(6.2%)	40(46.5%)
No cost saving has been realised	03(50%)	12 (100%)	16(30.8%)	15(93.8%)	46(53.5%)

Cost has remained the same	00	00	00	00	00
Neither	00	00	00	00	00
Total No. of respondents	6(100%)	12(100%)	52(100%)	16(100%)	86(100%)

Source: Field data, (2018)

7.1 Costs incurred in Property tax collection before outsourcing in MMC

Before outsourcing property tax collection in 2000, MMC had hired 31 revenue collectors to collect property tax in every ward and paid each of them a wage of Tshs. 100,000/= monthly, hence costing Tshs. 3,100,000/= per month. Therefore, the total wage bill for property tax collection per year was Tshs. 37,200,000/= (MMC Revenue Collection Reports of 2002-2012).

MMC's revenue collectors were monitored three times a year and every trip cost about Tshs.100, 000/=. Therefore, the total cost of property tax collection by MMC was Tshs. 37,500,000/= per year (MMC Report, 2014/2015). The revenue collected before outsourcing property tax collection in 2005/2006 was Tshs. 195,000,000/= (78%) of the amount budgeted, i.e. Tshs. 250,000,000/=. The actual revenue retained by MMC was obtained by subtracting the cost of revenue collection before outsourcing from the revenue collected i.e Tshs. 195,000,000/= minus the cost of collecting revenue before outsourcing which was Tshs. 37,500,000/=. Thus, MMC remained with Tshs. 157,500,000/= (49.2% of the amount budgeted).

7.2 Costs incurred by MMC after Outsourcing property tax Collection

The total cost of advertising and evaluating tender on one source of revenue such as property tax was Tshs. 2,150,000/= (MMC Report 2013/2014). Nevertheless, MMC outsourced property tax collection to Peupasa Company Ltd in 2006/2007 and the amount of property tax collected was Tshs. 187,250,000/= (74.9%) of the Tshs. 250,000,000/= budgeted. When the collection costs, i.e. Tshs. 2,150,000/= were subtracted from the revenue collected, MMC remained with only Tshs. 185,100,000/= (74%) and the Company retained Tshs. 25,000,000/= as agreed in the contract after outsourcing in 2009/2010 (ibid).

Comparatively, the findings indicate that before outsourcing property tax collection in 2005/2006, the cost incurred in collecting revenue was Tshs. 37,500,000/= which is higher than the cost incurred after outsourcing which was reduced to only Tshs. 2,150,000/=. Thus, with regard to revenue collection costs, outsourcing seemed to save more money in collecting property tax than when

local government staff did, which cost Tshs. 37,500,000/=. The high cost before outsourcing was due to hiring property tax collectors.

In a similar case, the revenue retained by the council after subtracting the collection cost was Tshs. 157,500,000/= (49.2%) before outsourcing which is a meagre amount compared with the revenue retained after outsourcing property tax which was Tshs. 185,100,000/= (74%) after subtracting the collection cost. Thus, the findings prove that outsourcing property taxes led to an increase in revenue as well

7.3 Guest House Levy Collection Costs before outsourcing in MMC

Through documentary review, it was established that, unlike KMC, MMC spent Tshs. 150,000/= on monitoring guest house levy debtors which was carried out four times a year, giving a total of Tshs. 600,000/= per year. In that regard, the total costs incurred before outsourcing Guest House Levy Collection was Tshs. 14,100,000/= per year including costs incurred incentives in MMC (Interview, August, 2017).

The revenue collected before outsourcing Guest House Levy was Tshs. 115,243,546/= (56%) of the budgeted Tshs. 204,450,000/= before subtracting collection costs. The revenue retained by MMC was Tshs. 101,143,546/= (49.5%) of the budgeted collection, after the collection cost of Tshs. 14,100,000/= was deducted from the revenue collected of Tshs. 115,243,546/= (see Table 4.0).

7.4 Costs incurred in collecting Guest House Levy after outsourcing in MMC

The costs were based on the Public Procurement Act No.7 of 2011 and so the cost was Tshs. 2,150,000/= in MMC. The revenue collected after outsourcing the Guest House Levy was Tshs. 169,201,386.37/= (82.8%) of the Tshs. 204,450,000/= budgeted but after subtracting the tendering costs of Tshs. 2,150,000/=, MMC was left with Tshs. 168,986,386/= (82.7%) of the amount budgeted. The cost incurred in 2011/2012 when the guest house levy was collected by MMC staff was Tshs. 17,100,000/= which is higher than the cost incurred after outsourcing which was Tshs. 2,150,000/= (See Table 4.0).

The findings indicate that the costs incurred in collecting the Guest House Levy before outsourcing in 2008/2009 amounted to Tshs. 14,100,000/= (12.2%) of the revenue collected. The cost before outsourcing was higher than the cost incurred after outsourcing which was only Tshs. 2,150,000/= or 0.1% of the revenue collected. This was largely due to MMC hiring revenue collectors before outsourcing and providing them incentive and travelling expenses as presented in Table 4.0.

The amount of revenue retained after outsourcing was more than that before outsourcing and after subtracting the Guest House Levy collection costs. For example, after outsourcing as Table 4.0 indicates, that MMC retained Tshs. 168,986,386/= of its revenue (82.7%) of the budgeted collection, while, before outsourcing, MMC retained Tshs. 101,143,546/= (49.2%) of the budgeted collection. Thus, outsourcing helped MMC to get more revenue and reduced the cost of collecting the guest house levy because the costs of advertising tender and selecting the companies were less than the costs incurred before outsourcing it.

Table 4: *Cost incurred in guest house levy collection before and after outsourcing in MMC*

Revenue collection period	Budgeted Guest House levy Collection in Tshs.	Actual Guest House levy Collection in Tshs.	Guest House Levy collection cost/tendering cost in Tshs.	Actual revenue realized after deduction of collection cost in Tshs.
Before outsourcing 2008/2009	204,450,000/=.	115,243,546/=	14,100,000/=	101,143,546/=
After outsourcing 2009/2010	204,450,000/=.	169,201,386/=	2,150,000/=	168,986,386/=
Guest House Levy collection by Local Government staff, 2011/2012	191,777,110/=	111,428,966.22/=	17,100,000/=	94,328,966.2/=

Source: MMC Reports (2008-2012).

8.0 Discussion of the Findings

In general, the findings indicate that outsourcing had reduced MMC and KMC overhead cost of collecting revenue in some of the sources of revenue. For example, in property tax collection, the cost of collecting revenue before outsourcing was Tshs. 37,500,000/= which was reduced to Tshs. 2,150,000/= only as the costs incurred in tendering process after outsourcing. The cost-saving in property tax collection went hand-in-hand with an increase in revenue after outsourcing whereby the amount of property tax collected before outsourcing was Tshs. 157,500,000/= (49.2%) of budgeted

collection. After outsourcing, when the collection costs were subtracted, the revenue retained by MMC increased to Tshs. 185,100,000/= (74%) of budgeted in 2008/2009. The findings corroborate with Tuerck *et al.* (2007:2), who observed:

“One of the objectives of tax collection reform is to reduce the cost of collection by minimizing administrative costs and, thus, the deadweight loss of the system to the tax payers and government”.

When comparing the actual cost of collecting revenue before and after outsourcing, it was established that the financial costs incurred by MMC and KMC after outsourcing had decreased as discussed in the findings above. The period before outsourcing witnessed a substantial increase in the cost of collecting revenue because the Councils hired revenue collectors who were paid salaries and it bought stationeries which increased the cost of revenue collection. After outsourcing, these costs were limited to selecting bidders which were lower than the costs incurred before outsourcing in MMC and KMC.

The findings support the theoretical framework based on the assumptions of TCT, which states that the cost of searching for information and selecting the vendors may be reduced through outsourcing when the transaction costs are executed with integrity. The study findings support the view that outsourcing as proponents of NPM stated, tends to save the costs of collecting revenue.

9. Conclusion, Scope for Future Research and Research Limitations

9.1 Conclusion

This paper has presented and discussed whether cost-savings were realized after outsourcing revenue collection in KMC and MMC. From the findings presented and discussed, it is concluded that cost- saving after outsourcing was realized in sources of revenues such as property tax and guest house levy. This was because the cost decreased after outsourcing due to the fact that the tendering costs were lower than the cost incurred on employing revenue collectors and stationary expenses before outsourcing. For instance, the findings indicate that the costs incurred in collecting the Guest House Levy before outsourcing in 2008/2009 amounted to Tshs. 14,100,000/= (12.2%) of the revenue collected was higher than the cost incurred after outsourcing which was only Tshs. 2,150,000/= or 0.1% of the revenue collected. This was largely due to MMC hiring revenue collectors and providing them incentive and travelling expenses which increased the cost of revenue collection before outsourcing.

The cost saving was also realized in property tax collection in MMC. For example, the cost incurred in collecting property tax collection before outsourcing was Tshs. 37,500,000/= which was reduced to Tshs. 2,150,000/= only as the costs incurred in tendering process after outsourcing it in MMC. In KMC the cost incurred in property tax collection was Tshs. 36,000,000/= while after outsourcing the cost was reduced to only Tshs. 2,150,000/= as the cost of tender advertisements and selection the conclusion is supported by Tuerck *et al.* (2007:6), who observed:

“Tax collection reform is to reduce the cost of collection by minimizing administrative costs and, thus, reducing the burden to tax payers and government”.

In view of the findings discussed above, it is concluded that outsourcing revenue collection has led to saving cost of collecting revenue in guest house levy and property tax collection in MMC and KMC due to the fact that the tendering cost were fixed and lower than local government revenue collection cost before outsourcing. This was not the case in public toilet fee collection in MMC where the cost increased after outsourcing when compared with the cost before outsourcing.

It is therefore recommended that: The KMC and MMC should design a comprehensive framework and thorough mechanisms for monitoring the contracted firms’ performance in their daily revenue collection to deter revenue loss and corruption.

9.2 Scope for Future Research

Outsourcing of revenue collection in LGAs in Tanzania has so far attracted few studies. The scant literature on outsourcing need to be enriched by other studies to stimulate new scholarly work. The findings presented in this paper are significant contributions to the body of knowledge in public administration studies and outsourcing in particular. Further research is needed to examine the usefulness of the local government revenue collection reforms which will go a long way in enriching the available knowledge and providing policy recommendations. In this regard, other researchers may wish to conduct the same study and focus on rural LGAs to gain insights into rural councils’ experience of outsourcing revenue collection.

9.3 Research Limitations

Limitation in this study first lies in the sample used in this study only focused on the revenue collection outsourced in Kinondoni and Morogoro Municipal Councils, so the conclusions drawn from this research cannot be generalized in other local government councils and government Institutions in Tanzania. A further research on outsourcing revenue collection needs to be addressed in order to have a more comprehensive results.

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