CONTRACT MANAGEMENT IN OUTSOURCED REVENUE COLLECTION IN LOCAL GOVERNMENTS IN TANZANIA: EXPERIENCE OF SELECTED LOCAL GOVERNMENT COUNCILS[1]

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Abstract. Local Government's Capacity for Contract management in outsourced revenue collection in Tanzania has become the major topic of discussio. This paper explores recent issues concerning Contracts management in outsourced revenue collection in Tanzania, including feasibility studies prior to outsourcing revenue collection, design of the contracts for revenue collection, monitoring of the performance of the private companies in revenue collection, timely remittance of revenues by the private companies to local councils as well as financial and human resources capacity in enforcing these contracts. The study adopted the case study research design and the methods of data collection were interviews and documentary review. The findings indicate that key problems to contract management and enforcements are corruption, collusion between local government officials and private companies, laxity in conducting feasibility studies and poor monitoring of private companies which do not bring the desired outcomes in terms of revenue collection. Based on the study findings, this research concludes that the private companies and Local governments should comply with contractual agreements and improve human and financial resources capacity in order to provide revenue saving from outsourced revenue collection.

Keywords: Contract management, outsourcing, revenue collection, feasibility studies, monitoring revenue collection, contract enforcement

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Introduction to the Study

In this study contract management of outsourced revenue collection refers to the capacity of local government to design contracts, monitor the timely remittance of revenue by contracted firms and to sanction firms defaulting on their terms of the contract governing the collection of revenue in their areas of jurisdiction.

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In this regard, contractual outsourcing of some core and support functions to the private companies has become somewhat of a trend among tax administrations around the world. Information technology (IT) is the most commonly outsourced function. Germany, Luxembourg, Slovak Republic, Denmark, Iceland, Turkey, the United Kingdom's (UK's) Inland Revenue Department, and the U.K.'s Customs and Excise Tax Administrations have all outsourced information technology, either to the private sector as a support function within a tax administration. In some cases, even core functions have been outsourced to the private sector. For example, Centralized Fiscal Compliance Centers in hopes of improving compliance levels and increasing tax revenues. Hungary has outsourced its fraud investigations function to a police body. In the United States (USA), the USA Expert Panel Report (2014) notes that after several reviews over a period of about three years, the U.S. Treasury's Inspector General concluded that the results were very poor, and the outsourcing contract was soon terminated. For instance, negative results were noted in the outsourcing of parking meters, according to Chicago Inspector General's Office in 2009, the actual value was underestimated, resulting in the city council incurring a loss of 2.13 billion US dollars over 75 years (ibid).

The common belief that everything can be done better by the private sector is, in fact, a myth. Outsourcing to the private sector may work in some cases, but requires in-depth analysis of what programs can be outsourced. For instance, the legal issues, the expected results, finances, and a reference base to make meaningful comparisons of results periodically and thus determine success or failure of outsourcing government functions or services.

In African Countries, the role of public sector has changed from the core "provider" of goods and services to "enablers" of private sector led economic development and growth. A central plank of this transition the development of New Public Management (NPM) by which governments contract out important public services to suppliers. The intervention is to transform the previously state led services that were often defective in cost and quality into competitive and effective private services (Osborn and Gaebler, 1992). Thus, improving delivery and value, invigorating business activity, and allowing the public sector to focus attention and resources on better overall governance. However, the experience indicates that, poor administration of tax collection alongside strong political resistance to payment result in extremely low collection rates. In South Africa, for example, the 'tax gap' between actual and potential tax revenues collected is estimated to be between 15-30% of revenues. Similar problems are faced in Sierra Leone, where city councils frequently collect significantly less than budgeted targets (Haas and Manwaring, 2017).

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 (Kessy, 2011:36; URT, 2009). The thrust for reform, in particular outsourcing revenue collection, arose because local government authorities (LGAs) operated under severe financial constraints and under-funding was significant (Regional Administration and Local Government, (RALG), 2007).

Outsourcing of revenue collection is generally based on the contractual agreements through which the local government councils engage the private company in revenue collection. The outsourcing of revenue collection is based on the contractual agreements based on an assumption that private tax collection 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.*,2009b; CAG Report, 2011/2012). 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 revenue collection started to be outsourced by Local Governments in Tanzania.

The implementation of outsourcing revenue collection since the 2000's has been increasing. A good number of Local Government Authorities (LGAs) in Tanzania have adopted a private tendering system for the collection of different types of taxes (ibid). Such taxes include property taxes in some urban Councils (such as Ilala, Kinondoni Municipal Council and Mwanza City Council), market fees in both rural and urban councils, and forestry levies (until 2005) mainly in rural councils such as Kilosa and Kisarawe (Fjeldstad *et al*., 2009b).

Despite outsourcing revenue collection, the Controller and Auditor General (CAG) report (2011/2012) 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% (CAG report, 2014).

Furthermore, 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 (URT, 2011a; 2011b; Liviga, 2011:376; Kessy, 2011:41). In fact, most regions own sources accounted for only 3% to 7% of their financial resources. It was revealed that in only three regions did LGAs actually rely on less than 90 percent 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 (URT, 2011a; Fjeldstad *et al*., 2009b; Fjeldstad *et al*, 2009a; Mtasigazya, 2017).

The trend of revenue collection suggests that there was a marginal increase in revenue. For instance, 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 as to why contract management in outsourced revenue collection in (Kinondoni (KMC), Morogoro Municipal Councils (MMC), Dar es Salaam City and Arusha Municipal Councils contribute to decrease in revenues in many 159 LGAs in 18 regions) in Tanzania.

1.1. Statement of the Problem

Outsourcing revenue collection to private agents through a competitive tendering process has been implemented by local governments in Tanzania for more than ten years (2000-2018) with the overall objective of increasing revenue. Also, through outsourcing, a more predictable revenue stream for the councils were anticipated (Liviga, 2011:375).

Nevertheless, 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% (CAG, 2011/2012; Mzenzi, 2013). This creates a puzzle 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 examine the capacity of local government in contract management in outsourced revenue collection in (Kinondoni (KMC) and Morogoro Municipal Councils (MMC), Dar es Salaam City Council and Arusha Municipal Councils in Tanzania.

1.2. Objective of the study

To explore the capacity of local governments in contract management in outsourced revenue collection in Kinondoni and Morogoro Municipal Councils in Tanzania.

1.2.1. Research question

How is the councils' capacity (financial and human resources) in management of outsourced revenue collection contracts in the study areas?

1.3. Justification of the study

The contract management in outsourced revenue collection has received inadequate empirical studies, and so limited knowledge has been generated in Tanzania. The scant literature on outsourcing, such as Fjeldstad *et al*. (2009b), Kikunya (2009), whose sources of revenue were rather limited, thereby not offering a comparative analysis which is the knowledge gap that needed to be filled by this study to stimulate new scholarly work. It was the objective of this study to offer a comparative study by examining the contract management in outsourced revenue collection in KMC, MMC, Dar es Salaam and Arusha by comparing the contract management capacity and the challenges facing them so as to discover its impacts on revenue collection through private companies in LGAs.

Furthermore, the study findings also contribute to theoretical debates on efficiency in revenue collection, in particular how private companies and local government as a realm of public sector can collaborate through outsourcing and contractual arrangements to increase revenue in the studied councils. Furthermore, this study also contributes to knowledge on the subject of contract management in outsourced revenue collection. Significantly, it provides an understanding of the efficacy of outsourcing revenue collection in LGAs such as in KMC, MMC, Dar es Salaam, Arusha and beyond because the results of this study show whether or not outsourcing is a management strategy to improve efficiency in revenue collection in local governments in Tanzania.

2.0. Empirical Literature and Theoretical Review

There is a scant literature on outsourcing in Tanzania. For instance, a study was conducted in two kinds of organizations (Komba, 2008). These were outsourcing organizations, which were Ministry of Education, Public Service Management, Tanzania Electricity Supply Company (TANESCO) and the Tanzania Institute of Accountancy (TIA), Dar es Salaam branch. The non-outsourcing ones were the Ministry of Defence, National Services and the Immigration Department. This study sought to determine whether outsourcing has led to improvements in the efficiency of public service delivery by comparing outsourced and non-outsourced services. The main empirical findings of the research suggested that there was general uncertainty and exaggeration in realizing savings through outsourcing in Tanzania. The study found that financial effectiveness was realised at the expense of budgetary reimbursement and redundancy. This study noted that services of high quality were still inaccessible because of high prices. This study was mainly confined to the service delivery of ministerial departments and parastatal organizations such as TANESCO and TIA as opposed to the outsourcing of revenue collection by LGAs, while this study was undertaken to address the research gap pertaining to the paradox of poor revenue collection MMC and not in KMC after both have outsourced the revenue collection.

Another study assessed the performance of revenue collection through outsourcing by local government and found that there was an increase in revenue collection after Dodoma Municipal Council outsourced revenue collection to private agents (Kikunya, 2009). However, this study did not offer a comparative analysis as it focused on Dodoma Municipal Council as a single case study. Therefore, there was a need for another study to be conducted using comparative analysis of municipalities such as KMC, MMC and Dar es Salaam City Council to examine the contract management capacity of the councils in order to ascertain whether contracts designed and enforced with private companies contribute to increase or decrease in revenue in the studied councils.

A further study was based on legal challenges in revenue collection faced by local governments, the case of Temeke Municipal and Kisarawe District Councils (Ngole, 2013). This study was based on the hypothesis that the legal framework for LGAs revenue collection does not provide adequate guidance on sources of revenue for LGAs. There is ambiguity in the le-

gal provisions empowering central government to exercise control over LGAs, as councillors and council staff violate laws governing local government revenue collection.

The study findings established that, although LGAs have the authority to levy taxes, their tax base tends to be frail. The main reasons were attributed to the limitations embedded in the existing legal framework for revenue sources and collection. The Local Government Finance Act (Cap.290 RE 2002) that was intended to be a cornerstone for the collection of revenue does not give LGAs sufficient powers to that effect. The study findings indicate that Tameka Municipal and Kisarawe District Councils failed to collect revenue as targeted. The main reason attributed to this was the weak legal framework regulating revenue collection. Therefore, it is argued that there is a need for immediate measures to amend the Local Government Finance Act. The weakness of Ngole's study is that it only discusses the problems of local government revenue collection in relation to the legal framework, but does not consider the status of LGAs in implementing the outsourcing of revenue collection. Confining poor revenue collection to the legal framework alone does not give due attention to other issues such as the contract management in the studied councils.

2.1. Theoretical Review and Discussion Public Choice Theory

Prior to the emergence of public choice theory, many economists tended to consider the government as an agent outside the scope of economic theory, whose actions depended on different considerations than those driving economic agent (Nkya, 2000). The commanding heights of these economies were directly owned and managed by the public sector as Kiser (1994) cited in Sekiziyivu (2009) observes that the public sector has been the main actor in the development process of most countries in Africa that embraced centrally planned economic policies like Tanzania, Uganda, South Africa and elsewhere in developing countries.

The development of public choice theory was accelerated with the formation of the Public Choice Society in the United States in 1965 (ibid). It attempts to look at governments from the perspective of the bureaucrats and politicians who composed them, and made the assumption that they acted basing on Budget-Maximizing Model in a self-interested way for the purpose of maximizing their own economic benefits.

The public choice theory had its roots in Neo-liberalism which was an extension of liberalism, had its original proponents in the rich western market democracies (ibid). Neo-liberalism attacked absolutism and feudal privileges, while advocating for constitutional and representative governance (Heywood, 1997). The Neo-liberal theory and its subsequent proponents advocated for several reforms including fiscal rectitude, competitive exchange rates, free trade, decentralization, privatization, and limited intervention among others to pave way for competition and public choice (Kiser, 1994).

Public choice theory attempts to look at bureaucratic governments from the perspective of the business and made the assumption that they acted basing on budget-maximizing model in a self-interested way for the purpose of maximizing their own economic benefits. Thus, in the public choice theory, the optimal mechanism for allocating goods and making decisions was the market. Public bureaucracies and representative democracy were both seen as seriously flawed in comparison (Totemeyer, 1994).

There is in-built tendency to over-supply reflected weaknesses in representative democracy and the operation of public bureaucracies and public choice theorists regard existing democratic arrangements as very poor predictors of citizens' preferences (ibid). They thus, proposed the application of the contractual outsourcing developed due to New Public Management (NPM) because of its attachment to the market notion of trading and competition.

The public choice theory considers what policies would produce a desirable outcome if they were implemented. This was because good governance tends to be good for the mass of voters, there may be many interest groups that had strong incentives for lobbying the govern-

ment to implement specific inefficient policies that would benefit them at the expense of the general public. This was the case when revenue collection was still under local government staff who minded less about the outcomes of their efforts especially if they were to benefiting the individual collectors, which increased the level of poor performance in revenue collection. Though the theory has correctly expounded the development and prominence of the private sector in revenue collection under outsourcing, nevertheless the theory is silence on how local governments manage the contracts with the private firms. Therefore, this theoretical weakness excludes public choice theory in guiding this study instead it is principal agent theory that was used in examining the contract management capacity in the outsourced revenue collection in the studied local governments.

Principal - Agent Theory

The study is informed by the Principal Agent, unlike other theories like Public Choice theory, principal –agent theory offers a strong link between outsourcer (local government) and the agent hired to collect taxes. The focus of this theory originally was on relationship between managers and stakeholders (Jensen and Mackling, 1976; Perunovic, 2007). The theory focuses on the relationship that may exist within the firms between shareholders (principals) and salaried professional manager (agent) who run the companies. Pass *et al.* (2000) describes an agent as a person or company employed by another person or company (called the Principal) for the purpose of arranging contracts between the Principal and third parties. According to Jensen and Meckling (1976) cited in Munisi (2011) the theory has four major assumptions which include the following:

(I) Both parties (principal and the agent in this context the (local government (outsourcer) and vendor have rational behavior and rational expectations as well as interact on the basis of institutions like freedom of contract and private property

(II) Activities undertaken by the agent and results from his or her activities have external effects on the principal's profit and success.

(III) The agent has discretionary freedom due to incomplete and asymmetrical and monitoring costs. That is the smaller the ability to control the agent's activity (the bigger the information asymmetry), the bigger is the principal's uncertainty.

(IV) Divergence of interest exists in that the agent shows opportunistic behavior to maximize her/his/its own expected profit instead of acting in line with goals of principal. Three types of opportunistic behavior are hidden characteristics (abilities and skills of the agent are not common knowledge), hidden intention (agent has goals and interests not known by the principal) and hidden action (principal cannot fully control the agent's actions).

In this context, the principal- agent theory will be used to examine the contractual relationship between outsourcer (local government) and the vender (Private agent). Using the principal agent theory to explain the contractual relationship between the local government and the revenue collecting agent, the principal's challenge is to design contract that reconciles conflict of interest between the two parties (Perunovic, 2007). In Tax collection the contractual choice may be interpreted as a function of the control or monitoring capacity district administration with (a) Bureaucrat and (b) Full-fledged tax farming as the main contracting alternatives, contractual shift would then result from change in the underlying relationship.

3.0. Research methods

The study employed both the qualitative and quantitative research approaches through methods of data collection such as interviews and documentary review because the data collected were both qualitative and quantitative in nature. This is because the study involves the

perceptions of respondents and specific revenue amount in Tanzanian Shillings (Tshs.) were expressed in numbers and percentages.

3.1. Research design and Sampling techniques

The study was conducted in Tanzania Mainland using the case studies of KMC and MMC. This study used the case study design to enable the researcher to deeply examine the topic and describe the units in detail (Berg-Schlosser *et al.* 2009). In this study therefore, case studies were selected based on performance criteria whereby KMC was selected as an outstanding performer in revenue collection while MMC had poor revenue collection under 10% of its revenue collection (Mtasigazya, 2017; Imas and Rist, 2009). For instance, in 2014, actual property tax collection stood at Tshs. 1,804,476,749/= (82%) in KMC while in MMC, property tax collection was Tshs. 294,926,715/= (56.7%) (CAG report, 2014).

3.1.1. Sampling of the Respondents

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 in KMC and MMC, 12 were councillors, 104 were from 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 designed to capture information relating to the research question (Creswell, 2009). In Dar es Salaam City and Arusha Municipal Councils only documentary data were used to illustrate the contract management in outsourced revenue collection.

3.2. Data Collection Techniques

In-depth interviews were used to collect data. In addition, interview was complemented by a thorough documentary review to strengthen the validity and reliability of the data collected (Kothari, 2004). Accordingly, documentary review involves scrutinizing potential documents such as books and reports from government publications and official statistics on revenue collection.

3.3. 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, such as field notes and local government reports on revenue collection. Thematic data analysis consisted of reading and 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 revenue loss 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 that were mainly obtained from documentary review such as data on the revenue collection in from each source of revenue in the studied councils.

4.0. Research Findings and Discussion

4.1. Capacity to design contracts for Revenue Collection favouring increase of Revenues in KMC

In the first instance, this study examined whether the contracts designed favoured KMC in terms of monitoring the private agent on a daily basis and finally increasing the amount of revenue remitted to the Council.

This study found that in KMC revenue collection contracts were designed by the legal department in collaboration with the Procurement Management Unit (PMU). In contrast, in

MMC, revenue collection contracts were designed by the PMU but the Legal Unit was not involved (Interview, March, 2018). The exclusion of the Legal Unit in designing the contract in MMC was contrary to the requirement of Public Procurement Regulation GN 97 of 2005, which mandates PMU to prepare tender documents which include among others a sample of the contracts the Council would enter with successful bidders. The Legal Officer, as a technical member of staff is required to provide advice on the preparation of these contracts with the assistance of the subject matter technical staff (i.e. engineers if it was the commuter bus stand) depending on the source of revenue to be outsourced (ibid).

The findings show that only 27(31.4%) of all 86 respondents said that KMC designed contracts favouring its interest in increasing revenue as presented in Table 1.0. This response was obtained from 13(25%) taxpayers, 6(50%) respondents from contracted firms and 8(50%) local government staff.

Meanwhile, 59 (68.6%) (the majority) out of all 86 respondents said that KMC did not design contracts favouring an increase in revenue because the contracted companies did not remit the amount of revenue stated in the contracts. The respondents who shared this view were 39(75%) taxpayers, 8(50%) Council staff, 6(100%) councillors and 6(50%) respondents from the contracted firms as presented in Table 1.0. This is because these contracts were not based on the criteria stated in the former Public Procurement Act No. 21 of 2004 and the current Public Procurement Act No.7 of 2011 that emphasize involving all stakeholders in designing contracts.

Therefore, the majority of the respondents, 59 (68.6%), as Table 1.0 presents were of the view that the KMC did not design contracts favouring its interest of increasing its revenue. They argued that in most cases the preparation of contracts for example, for outsourcing the minibus bus terminals did not involve municipal engineers and the legal officer. Instead, the PMU and Municipal treasurer handled and completed a deal. The exclusion of legal experts in designing contracts made it possible to omit some of the technical aspects of operating Commuter Bus Stands. The findings are summarised in Table 1.0 below:

Table 1.0

Capacity of KMC to design contracts favouring an increase of its revenue

S/No	Category of respondents	Yes, contracts were designed to favour increase of revenue	No, contracts were not designed to favour increase of revenue	Neither	Total No. of respondents
1	Local government staff N=16	08(50%)	08(50%)	00	16(100%)
2	Councillors N=6	00	06(100%)	00	06(100%)
3	Private agents N=12	06(50%)	06(50%)	00	12(100%)
4	Taxpayers N=52	13(25%)	39(75%)	00	52(100%)
5	Total No. of responses	27(31.4%)	59(68.6%)	00	86(100%)

Source: Field Data, (2018)

The findings presented in Table 1.0 were also corroborated by documentary evidence from the contract signed between Global Accountancy and Smart Holding Company (companies under the same shareholders) for ten years (2000-2009) which caused a loss of revenue for the Council (UBT Revenue Collection Report, 2013).Also, due to the failure to conduct feasibility studies, the Controller and Auditor General Report (2009) indicates that the Coun-

cil entered into contracts with 100 small vendors to carry out the business at UBT without identifying precisely the premises or areas in which to carry out such business.

In addition, due to the lack of feasibility studies, the Dar es Salaam City Council entered into a contract for fourteen years with M/s Riki Hill Hotel, which was scheduled to expire on 20 July 2023, but due to the Council's incorrect measurements applied resulted into under-charging revenue collection by Tshs. 74,529,840/= for two years from July, 2007 to June, 2009 (ibid).

In a similar vein, the criteria for awarding contracts to M/s Scandinavia Express Service Limited, M/s Riki Hill Hotel, Kiwembo Motors and Smart Holding Companies as revenue collection Agents were not availed or disclosed to the Auditors, implying that no specific criteria were applied to award them the contract for collecting revenue at Ubungo Bus Terminal (CAG Report, 2009). The findings corroborate those of Vasiliauskiene and Snieska, (2009:1022) who document that,

"Contracts design and the allocation of risk play a central role in the success of outsourcing relationships. If the contract is poorly designed, it results in the government insuring the agent against the most of the risks, the burden is transferred to tax payers and the government has to apply the undertakings".

Therefore, it can be seen that KMC and even Dar es Salaam City Council failed to design contracts that would favour their interest in increasing revenue due to collusion and not adhering to the Public Procurement Act of 2004 and the Public Procurement Act No.7 of 2011, which require competitive and open tendering for revenue collection and other government services in LGAs in Tanzania.

4.2. Capacity of MMC to design contracts favouring increase in revenue

Contract design in this study refers to the preparation of the content that showed the terms and conditions for contracting out revenue collection. The contract stated revenue to be collected such as the parking fee and what the contract enforces, i.e. the amount of revenue to be remitted and the time to remit revenue by the private companies.

Through interviews with the PMU staff at MMC, it was established that the contracts for outsourcing revenue collection were designed by the PMU without involving technical experts from the Legal Department or any technical staff such as engineers. The responses from all 86 respondents are presented in Table 2.0.

The findings presented in Table 2.0. show that 42(48.8%) out of 86 respondents opined that MMC designed contracts for outsourcing revenue collection that favoured its interest in increasing revenue. This was the response of 11 (68.8%) local government staff, 22(42.3%) taxpayers, 3(50%) councillors and 6(50%) respondents from contracted firms. They all said that the Council had the capacity to design contracts favouring its interest in increasing revenue for local expenditure.

However, 44 (51.2%) respondents said that MMC had no capacity to design contracts favouring its interest in increasing its revenue. These respondents comprised 5(31.3%) local government staff, 30(57.7%) taxpayers, 3(50%) councillors and 6(50%) respondents from the private agents. The findings are summarised in Table 2.0 below.

Table 2.0

Responses on capacity of MMC to design contracts favouring an increase of its revenues

S/No	Category of respondents	Yes, contracts were designed to favour increase in revenue	No, contracts were not designed to favour increase in revenue	Neither	Total No. of respondents
1	Local government staff N=16	11(68.8%)	05(31.3%)	00	16(100%)
2	Councillors N=6	03(50%)	03(50%)	00	06(100%)
3	Private agents N=12	06(50%)	06(50%)	00	12(100%)
4	Taxpayers N=52	22(42.3%)	30(57.7%)	00	52(100%)
5	Total No. of responses	42(48.8%)	44(51.2%)	00	86(100%)

Source: Field Data, (2018)

Therefore, Table 2.0 indicates that most respondents, i.e. 44 (51.2%), believed that MMC had no capacity to design contracts that favoured its interest in increasing revenue, especially outsourced revenue collection. This was costly to the Council in enforcing the contract.

In fact, the poor design of the contract was manifested in the failure of the private companies to adhere to the conditions stated in their respective contracts, particularly when it came to timely remittance. Also, the contracts did not show exactly which staff were in charge of following up on the daily operations of the companies, nor did the staff establish whether the contracted firms used receipts provided by MMC for revenue collection. The findings corroborate to the principal agent theory which demonstrates that the councils neither designed nor enforced the contracts to reconcile the conflicting interests between the private company and local councils.

The laxity in adhering to some conditions stated in the contract in MMC was attributed to poor design caused by not involving stakeholders so as to incorporate legal and technical aspects. For example, this study found that the municipal engineers were not involved in designing the contracts for collecting revenue at the Commuter Bus Terminal in MMC.

Moreover, the study found that the majority of the respondents, i.e.62.5%, from PMO-RALG were of the view that the contracts designed did not favour the interest of the Councils in increasing revenue because some of the contracts were inflexible.

On the other hand, a quarter of the respondents, or 25%, from the PMO-RALG strongly agreed that the Council conducted feasibility studies before outsourcing revenue collection, while 12.5% were neutral in their response. However, the majority of respondents, i.e.62.5% from PMO-RALG perceived that the Council did not design contracts favouring an increase in revenue collection. They cited an example of the Central Government having to intervene in UBT and Kariakoo Market in 2009 to prevent the loss of revenue due to the failure of the Council to design contracts that would boost its revenue and its failure to curb corruption in contract management.

4.3. Monitoring Capacity of KMC and MMC of Private Companies Collecting Revenue

In the monitoring of revenue collection, the contracted firms were required to use receipts obtained from KMC and furnish the Municipality with their financial and operational costs and to remit revenue each month. However, the findings indicate that this was not done by KMC. The responses in this regard are presented in Table 3.0.

Table 3.0

Responses on whether KMC monitored contracted firms collecting revenue

S/No	Category of respondents	KMC monitored the companies in collecting revenue	KMC did not monitor the companies in collecting revenue	Neither	Total No. of respondents
1	Local government staff N=16	06(37.5%)	10(62.5%)	00	16(100%)
2	Councillors N=6	02(33.3%)	04(66.7%)	00	06(100%)
3	Private agents N=12	06(50%)	06(50%)	00	12(100%)
4	Taxpayers N=52	22(42.3%)	30(57.7%)	00	52(100%)
5	Total No.of responses	36(41.9%)	50(58.1%)	00	86(100%)

Source: Field Data, (2018)

The findings presented in Table 3.0 indicates that 36(41.9%) out of 86 respondents believed that KMC monitored the performance of the Companies offered contract to collect revenue by checking whether they were using receipts and remitting revenue as agreed in the contract. This belief was confirmed through interviewing 22(42.3%) taxpayers, 6(50%) respondents from the private companies, 6(37.5%) local government staff and 2(33.3%) councillors.

More than half of the respondents 50(58.1%) were of the view that KMC did not monitor the firms contracted to collect revenue. These respondents comprised of 30 (57.7%) taxpayers, 10(62.5%) local government staff, 4 (66.7%) councillors and 6 (50%) contracted firm's personnel said that the Council did not monitor the contracted firms on a regular basis because of financial constraints.

Thus, the findings indicate that a slight majority, (58.1%), of all respondents said that there was no regular monitoring of the private agents collecting revenue. For instance, the contracted firms collected fees at UBT with reprinted receipts and the findings show that the Council was not updating the taxpayers' register which was affirmed by the Property Tax Officer in charge at KMC, who said that:

"For sure I do not know how many buildings are in KMC. The previous record shows that we have 200,000 buildings; others say there are 150,000 buildings. May be at the next valuation we shall be able to ascertain exactly the number of buildings required to pay property taxes in Kinondoni Municipality" (Interview, Mach, 2018).

In addition, documentary data indicates that the contract between KMC and Smart Holding Company Limited of Dar es Salaam, under clause 2.2 of the contract, Smart Holding Company was allowed to collect rent from retail shops/business premises and public toilets. In addition, the same clause allowed the agent to retain 20% of all the rent collected as its operational costs and 80% of that collected was to be remitted to the Council. However, the criteria applied to arrive at 20% and 80% were neither identified nor disclosed (CAG Report, 2009).

Furthermore, in the process of collecting revenue, the contracted company used receipt books which were not controlled by the Council. Therefore, it was not easy for it to know how much was being collected to determine the value of its 80% share of the total revenue collected (CAG Report, 2009).

Therefore, the failure of contracted firms to use official receipts provided by the Council and the lack of a registered taxpayers' roll undermined revenue collection. For instance, it was hard to know how much the agent was collecting in order to design a suitable contract after expiry of the first contract signed between the Council and Smart Holding Company, M/S Riki Hills Hotel and Global Accountancy. The Council did not take accountability measures if the contracted firm defaulted due to the lack of proper information on the revenue accrued as well as specific criteria for arriving at the decision of 20% and 80% share of revenue collected.

The monitoring irregularity was amplified by the CAG Report (2010/2011) which shows that KMC had the highest amount of unremitted revenue totalling Tshs. 1,132,294,000/= followed by Arusha Municipality with Tshs. 627,244,100/=. Due to poor monitoring, the Council was losing more than one billion shillings each year since the commencement of outsourcing. Such a loss of revenue prevents KMC from self-financing their public expenditure on service delivery.

This study found that revenue saving was not realised in some of the sources of revenues after outsourcing because the CAG Report (2010/2011) indicates that KMC lost revenue of Tshs. 1,132,294,000/= that was not remitted by the private companies in the afore-mentioned year. This loss was caused by weak contract enforcement in KMC,

Therefore, the timely remittance of the revenue collected and increase of revenue, as anticipated by the reformers have been exaggerated. As observed in the case of KMC, the contracted firms were generating higher profits from the revenue collected by not remitting to the Council as stated in the contract. These findings corroborate with Dar es Salaam City Council which received only 44% of the revenue collected at Ubungo Bus Terminal as entry fees in 2008 while in the contract, the private agent was required to remit 52% of the revenue (Fjeldstad *et al*.,2009b). From these findings, it can be deduced that the contracted firms were not remitting revenue as agreed upon in the contracts because KMC and Dar es Salaam City Council failed to enforce the contracts after outsourcing which undermined revenue collection.

4.4. Capacity of MMC to monitor the contracted firms in collecting revenue

Monitoring of the contracted firms collecting revenue is a fiduciary role of the Municipal director as stated in Local Government Financial Memorandum of 1997 under order No. 281. The financial memorandum requires the Council Director to appoint Contract Officers to be responsible for managing each contract. The contract officer was also responsible for monitoring the Companies' performance in collecting revenue and requesting them to provide the Council with a monthly financial and operations report in order to observe the trend of revenue collection.

The Council should also conduct ad hoc inspections and routine inspections to find out how the revenue collection agents are conducting their activities. Also, the council should enforce sanctions against defaulters in implementing the contract requirements (CAG Report, 2012). The Local Government Financial Memorandum of 1997states that once a private agent has been awarded a contract to collect revenue, the revenue accountant (contract officer) was responsible for monitoring the operations of the contracted firm because the revenue accountant is automatically assigned to oversee all revenue issues in any local council. The respondents' views on the capacity of MMC to monitor the private companies collecting revenue regarding timely remittance are presented in Table 4.0:

Table 4.0

MMC's Capacity to monitor private companies for timely remittance of revenues

S/No	Category of respondents	MMC monitored the companies collecting revenue	MMC did not monitor the companies collecting revenue	Neither	Total No. of respondents
1	Local government staff N=16	08(50%)	08(50%)	00	16(100%)
2	Councillors N=6	03(50%)	03(50%)	00	06(100%)
3	Private agents N=12	08(66.7%)	04(33.3%)	00	12(100%)
4	Taxpayers N=52	15(28.4%)	37(71.6%)	00	52(100%)
5	Total No.of responses	34(39.5%)	52(60.5%)	00	86(100%)

Source: Field Data, (2018)

The findings presented in Table 4.0 indicate that 34(39.5%) out of all 86 respondents were of the view that MMC has the financial and human resource capacity to monitor contracted firms and ensure timely remittance of revenue to MMC. The respondents with this opinion were 8(66.7%) from the contracted firms, 8(50%) Council staff, 15(28.4%) taxpayers and 3(50%) councillors.

Conversely, the majority, 52(60.5%), of all the respondents had a different view as they maintained that MMC had no financial and human resource capacity to monitor the contracted firms to ensure timely remittance of revenue. These respondents comprised of 37(71.6%) taxpayers, 4 (33.3%) respondents from the contracted firms, 8(50%) MMC staff and 3(50%) councillors.

The findings show that the majority of respondents in MMC were of the view that the Council did not monitor the private agents during revenue collection other than waiting for the payment date stated in the contract. Also, the respondents asserted that no specific person was tasked with dealing with compliance of the contracted firms with the terms and conditions stated in their contracts.

In addition, similar views were expressed by the 8 respondents from PMO-RALG. Among them, 4(50%) strongly disagreed with the statement, implying that the Council did not monitor the contracted firms collecting revenue, whereas 2(25%) respondents disagreed with the same statement and 2(25%) strongly agreed that the Council had the capacity to monitor the contracted firms to ensure timely remittance of revenue.

Therefore, half of the respondents (50%) from PMO-RALG were of the view that the Council had no capacity to monitor the contracted firms for timely remittance. Weak monitoring of private companies as revealed by the study findings was the reason behind the failure of the private companies to meet their contractual obligation of remitting revenue on a timely basis after outsourcing.

Such weak contract enforcement is further affirmed by the MMC's Revenue Collection Reports (2013/2014:13) and (2011/2012) which demonstrate that the revenue not remitted by private companies amounted to Tshs. 158,727,000/= in the 2013/2014 financial year. This was the amount of money not remitted by the firm collecting parking fees in MMC. The amount of money not remitted by private companies was in reality the loss of revenue incurred by MMC due to failure of the companies to remit revenue.

Therefore, the findings from the majority of respondents, 50 (58.1%), in KMC and 52(60.5%) respondents in MMC as indicated in Tables 3.0 and 4.0, respectively, and four (50%) respondents from PMO-RALG as well as documentary data on unremitted revenue confirm the laxity of the Councils in monitoring the contracted firms collecting revenue. These findings correspond to a sample of the contract reviewed, presented below and discussed thereafter.

The findings were in line with the contracts reviewed during the data collection on August, 2014 in MMC. For instance, the contract No.LGA/079/2012-2013/NS/13 signed between "X" Municipal Council and "Y Company" which indicates that the contracted firm was to adhere to the following conditions.
(I) Fee charge for parking was according to the "X" Municipal Council By-laws of 2008
(II) The contracted firm was required to pay a performance bond of one month's collection as agreed in the contract seven days after the award of the contract and the contracted firm was to remit the collected amount monthly Tshs. 14,265,000/=at the end of each month and not later than 5thof every month through cheque and not otherwise.
(III) The council was also required to use a cash book for recording daily the amount collected as stated in the local government financial memorandum of 1997 and the council had the freedom to inspect the cash books as per the Local Government Finance Act No.9 of 1982.

(III) The contract also states the possibility of incorporating changes in the contract where need be, but they have to be based on amicable agreement and signed by the two parties i.e. Council and Contracted firm.
(IV) Contract termination is incorporated but either of the parties intending to terminate the contract has to give one month's notice of its intention to terminate the contract without affecting either party.
(V) The private agent will terminate the contract due to failure to adhere to any condition stated in the contract and any of either party who will violate the conditions of contract will be liable to pay the compensation cost incurred.
(VI) The contract states that the council will not be accountable for any loss incurred by the private agent in the course of the implementing the contract unless the law states so.
(VII) All correspondence relating to the contract was to be in written form and submitted through dispatch.
(VIII) Other aspects included in the contracts were the power of attorney, acceptance letter of the bid, interpretation of words, minute sheet of bargaining between the council and contracted firm.
The contracts are signed by the Municipal mayors, Municipal director, contracted firm, legal officer and witnesses of the two parties.
Source: ("X" Municipal Council, 2018).

From the contract cited above, it can be deduced that, apart from submitting the performance bond, monthly remittance of not later than the 5th of each month, and using cash books that have to be inspected by the Council's staff, the contract does not state the officer/team responsible for daily monitoring of the revenue collected by the private company as per the local government financial memorandum of 1997. Thus, the failure to state categorically the revenue officer responsible for monitoring the enforcement of the contract hindered the enforcement and accountability of the government official when the contractual obligations were not fulfilled.

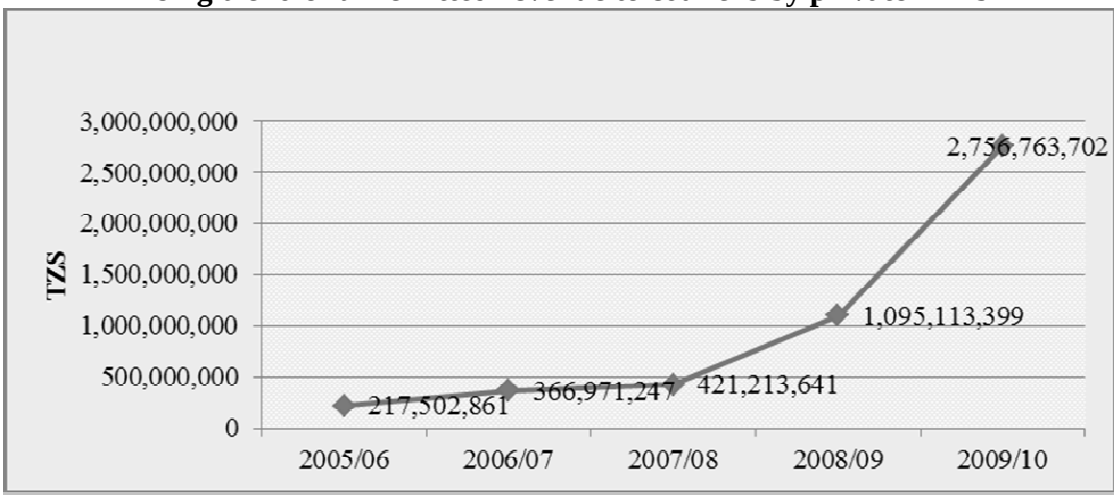
In addition, without regular inspection and monitoring of the contracted firms, it would be hard to know whether their operations were friendly to taxpayers (paying tax without coercion) and was in line with the Council's By-laws to promote taxpayers' compliance and government trust in revenue collection in LGAs.

Furthermore, the review of documentary evidence as well as the interviews held with government officials highlighted the issue of the capacity of LGAs to manage revenue. For example, the CAG Report (2010) identified inadequate internal control over revenue collection as an anomaly that needed to be addressed. The samples of the contracts reviewed at MMC confirm this loophole. Nevertheless, the contracts are said to be unfavourable to LGAs, as they benefit the agents more than the Councils (CAG, 2010). On the whole, there is an increasing trend of revenue not being remitted by the collecting agents from Tshs. 0.22 billion in the 2005/2006 financial year to Tshs.2.76 billion in the 2009/2010 financial year (CAG, 2010). In fact, many of the collecting agents normally fail to remit the collected amount to the councils in Tanzania, as reflected in Figure 1 below.

The problem of poor management of the contracts for outsourced revenue was also underscored not only in KMC and MMC but also at national level. Indeed, more than 50 councils were found to be weak in enforcing contracts with the contracted firms. The CAG Report (2011/2012) shows that 54 LGAs did not collect own source revenue amounting to Tshs. 7,710,147,415/= from various sources of revenue. This implies that the LGAs failed to exploit all the potential sources of revenue and had not established effective mechanisms and strategies for monitoring and following up contracted firms to ensure that they efficiently collected own source of revenue to reduce financial dependency on Central Government funds.

Figure 1

Rising trend of unremitted revenue to councils by private firms



Source: CAG Report (2010)

4.5. Discussion of the findings

Regarding the management of contracts, the study found that KMC, MMC, Arusha Municipal and Dar es Salaam City Councils had been losing revenue due to their failure to carry out feasibility studies and due to collusion between revenue collectors and/or contracted firms. As a result, KMC and MMC failed to generate adequate revenue from outsourced sources. The amount of revenue lost in these cases contributed to poor revenue collection in MMC below 10% of its expenditure.

For instance, more than half of the respondents i.e 44(51.2%) out of all 86 in MMC and 59(68.6%) respondents in KMC lamented that the incapacity to design contracts for outsourced revenue collection undermined the amount of revenue collected because the private companies failed to adhere to the conditions stated in the contracts, in particular the timely remittance of revenue. No supervisory mechanism had been designed to ensure that the contracted firms used the receipts provided by the municipality for revenue collection. Furthermore, there was no renewing of contracts as the contracts existed for ten years at UBT with the same amount of revenue being remitted, i.e.Tshs. 1.5 million, despite an increase in the number of cars from 300 in 2000 to 1900 in 2013 per day.

The findings are contrary to what is proposed by the proponents of public sector reform and NPM such as those of Gaebler and Osborne (1992:219-221) who argue that,

"Governmental institutions should invest in preventing problems rather than funnelling resources to resolve crises. Instead, they believed that the primary concern should be stopping the problem before it ever occurs".

In KMC, the contracted firms also failed to use the receipts provided by the Municipality and some taxpayers were unregistered which negatively impacted revenue collection because it was hard to know how much the agent was collecting in order to design a suitable contract after the contract had expired. The findings also revealed that in MMC, the amount of revenue to be collected was underestimated in some sources of revenue. For example, RARMA Supplies Company retained Tshs. 3,200,000/= (66.7%) from public toilets fees, excluding operational costs, while MMC received Tshs. 1,350,000/= which was 28.1% of the amount budgeted. So 71.9% of the revenue was not remitted to MMC by RARMA Supplies Company.

Monitoring irregularity was further noted in KMC as having the highest amount of revenue totalling Tshs. 1,132,294,000/= not remitted to it by the contracted firms (CAG Report,

2010/2011). Therefore, due to poor monitoring capacity, the Council had been losing more than one billion Tanzanian shillings per year since the commencement of outsourcing as the CAG Report, 2013/2014 indicates.

4.6. Conclusion

This paper explored the local government capacity in contract management of outsourced revenue collection by looking at whether feasibility studies were conducted before outsourcing, contracts were properly designed and the Councils' capacity to monitor the companies collecting revenue and how these aspects undermined or increased revenue in the studied councils.

On the basis of study findings in this paper, it is concluded that MMC has been losing revenues due to its failure to carry out feasibility studies and due to collusion between revenue collectors and/or the selected firms. As a result, MMC did not generate adequate revenue from outsourced and non-outsourced sources of revenue, such as Mawenzi Market, where the revenue collectors remained with Tshs. 7,039,000/= or 96.6% of the total revenue collected per month, while MMC only received Tshs. 251,000/=or 3.4% monthly. Also, due to collusion in conducting feasibility studies, MMC did not collect adequate revenue from the Central Daladala Bus Terminal where the revenue collector collected an average of Tshs. 700,000/= per day but the Council received only Tshs. 260,000/= and the revenue collectors remained with Tshs. 540,000/=. The sum of revenue lost in these cases contributed to dismal revenue collection in MMC (below 10% of its expenditure) while in KMC there were also cases of underestimation of revenue. For example, only UBT fell into this category. This difference in handling outsourced revenue collection and contract enforcement appeared to have contributed in undermining revenue in KMC, MMC and Dar es Salaam City and Arusha Municipal Councils.

In addition, this paper notes further that the contracts designed and signed between private companies, MMC, KMC, Dar es Salaam City and Arusha Municipal Councils were not monitored by local government staff. This loophole caused the contracted firms to fail to remit the revenue agreed upon in the contracts. The failure of these companies to remit revenue was reported in both KMC and MMC. On the other hand, KMC and MMC did not increase revenue despite outsourcing revenue collection because the contracts were found to be inflexible in that they did not incorporate changes. For instance, the UBT's Contract with Global Accountancy and Smart Holding Company survived for ten years using the same remittance rate of Tshs. 1,500,000/= to the council despite an increase in the number of passengers and vehicles from 300 cars in 2000 to 1,900 entering the terminal in 2013. Similar inflexibility of contract was observed at Msamvu Bus Stand in MMC where Msamvu Properties Company under LAPF and MMC entered a joint venture under the agreement to distribute 40% of the revenue to MMC and 60% to LAPF. This contractual agreement did not specify the binding timeframe although it was reported that it would take 50 years.

4.7. Policy Recommendations

On the basis of the study findings and conclusion, the following recommendations are made for increasing revenue through contract management in outsourced revenue collection in KMC and MMC, Dar es Salaam City and Arusha Municipal Councils. These recommendations are as follows:

Regarding effective contract management in revenue collection, the Municipal staff in KMC and MMC should comply with the Public Procurement Act No. 7 of 2011 in order to do away with irregularities such as selecting companies lacking financial resources for revenue collection that occur in the outsourcing of revenue collection.

There is a need to strengthen the human resource capacity of the PMUs and Tender Evaluation Boards through capacity building programmes to enable KMC, MMC, Dar es Salaam City Council and Arusha Municipal Council to have experts in contract management in outsourced revenue collection.

KMC, MMC, Dar es Salaam City and Arusha Municipal Councils should design a comprehensive framework and thorough mechanisms for monitoring the contracted firms' performance in their daily collection of revenue. This should go hand-in-hand with the involvement of higher authorities at Municipal or District level, such as the District and Regional Commissioners to ensure that there are checks and balances to deter corruption and collusion between contracted firms, taxpayers and local government staff.

4.8. Recommendations for Further Research

Many studies are still needed to examine several reform components implemented in various local councils in Tanzania. This study only dwelt on one aspect of contract management in outsourced revenue collection in KMC, MMC, Dar es Salaam City and Arusha Municipal Councils. Therefore, there is a need to conduct other studies to generate more knowledge and suggest reform interventions that would meet the expectations of the reformers with regard to increasing revenue in LGAs in Tanzania.

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. Also, researchers may wish to conduct research on the relationship between local government and central government on outsourcing revenue collection.

In addition, another study may be carried out on the effectiveness of local government reform in fostering financial transparency in LGAs in Tanzania. Another study may also be conducted to assess the capacity of the village government to mobilise financial resources through outsourcing for their development projects.

Furthermore, studies could also be conducted to examine donor influence on local government reform in Tanzania. However, it is imperative to note that the recommendations for further research stated above are a few among many areas that could be further investigated given the fact that the local government system is dynamic with several financial and administrative reform issues and challenges that keep on emerging in them in Tanzania.

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List of abbreviations and acronyms

CAG – Controller and Auditor General
ERB – Economic Research Bureau
KMC – Kinondoni Municipal Council
LAPF – Local Authority Pension Fund
LGAs – Local Government Authorities
LGRP – Local Government Reform Programme
MMC – Morogoro Municipal Council
NPM – New Public Management
PMO-RALG – Prime Minister's Office- Regional Administration and Local Government
PMU – Procurement Management Unit
PO–PSM – President's Office- Public Service Management
TANESCO – Tanzania Electricity Supply Company
TIA –Tanzania Institute of Accountancy
Tshs –Tanzanian shillings
UBT – Ubungo Bus Terminal
URT – United Republic of Tanzania
USA – United States of America

УПРАВЛЕНИЕ КОНТРАКТАМИ С ИСПОЛЬЗОВАНИЕМ АУТСОРСИНГА: ОПЫТ МЕСТНЫХ ОРГАНОВ ВЛАСТИ ТАНЗАНИИ

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Аннотация. В последние годы во многих странах мира все большее значение приобретает разработка и внедрение в практику государственного и муниципального управления механизмов, позволяющих наиболее эффективно использовать новые технологии при осуществлении государственных и муниципальных функций и при оказании услуг гражданам. В этой связи представляется ценным научный доклад доктора общественных наук из Танзании, основанный на исследовании теории и практики данного вопроса с учетом опыта местных органов власти Танзании. Особое внимание в работе уделяется ключевым проблемам в управлении контрактами со сторонними организациями и возможным сопутствующим им негативным факторам, такими как: коррупция, сговор между чиновниками местных органов власти и частными компаниями, слабость в проведении технико-экономических обоснований, плохой контроль над результатами. Анализируя собранный и задокументированный материал, африканский ученый обобщает имеющийся в местных органах власти опыт и предлагает способы повышения эффективности управления контрактами с внешними исполнителями заказов.

Ключевые слова: местные органы власти, управление контрактами, аутсорсинг, технико-экономические обоснования, контроль, повышение эффективности

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