The Effect of Revenue Collection Outsourcing Approach on Improving Murram Levy in Local Government Authorities in Tanzania

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Abstract – The study assessed the effect of revenue collection outsourcing approach on improving Murram levy in local government authorities in Tanzania. The study was conducted using explanatory design since knowledge generation was facilitated through causality testing approach with three predicting variables identified for testing. They include delays in agents' payment, tax framework and the compliance by taxpayers which were tested on revenue collections as the dependent variable. Facts on the study were obtained in Dar es Salaam city since it is the area where Murram levy is obtained at higher rate and pace than other regions specifically in Temeke Municipality as the selected case as the local government authority. Primary data were used in facilitating knowledge gathering process with facts being collected using structured questionnaires from the sample of 50 participants as employees of the local government authority (LGA). The collected results were computed in SPSS software version 23 to obtain statistics to present the results. Multiple regression analysis was used to describe the results as the outcome on the relationship between study variables. Findings revealed that all three predicting variables namely delays in agent payment, tax framework and compliance were positive and significant statistically towards revenue collections. The implication is that revenue collections through outsourcing in Murram levy in local government authorities (LGAs) is affected with delays in agent payment, compliance and tax framework. It is therefore recommended that the authority should be keen to avoid delays and assure the framework is certain to assure compliance.

Keywords – Revenue, Revenue Collection, Outsourcing, Local Government, Tanzania

1   Introduction

Outsourcing is an important practice since it entails the strategic decision of a company to use an outside organization to perform work that is typically done within that company (Rosenberg, 2018). It is the process of establishing and managing a contractual relationship with an external supplier concerning provision of capacity that has previously been provided in-house (Khakia & Rashidib, 2012). This is an initiative and practice executed for the purpose of ensuring efficiency in the production process and also delivery of tasks by the organizations based on the operations or activities at hand. Outsourcing is inevitable especially in large and complex entities both public and private to carter for efficiency.

It is also one of strategy pertaining to risk management in various operations and activities including transportation, procurement and others (Victor & Bodislav, 2019). It is the practice which assures cost reduction because outsourcing may reduce several activities for the companies to run on their own under affordable costs in terms of charges which assures performance (Ibid). In that case, outsourcing is executed in different areas and entities by organizations both the public and private actors based on the principle-agent model in practice depending on the activity(s) that are undertaken by the organization (Ditmore, 2019). Among the activity that can be outsourced is revenue collection by the government depending on internal settings and realities within the context in particular.

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 penalizing a poor revenue collector(s) 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 (Garajova, 2018). The situation culminated into inefficiency in revenue collections especially by local authorities where manual practices dominated the exercise by the practitioners.

In developing countries especially in Africa revenue collection at local government arena is mainly collected from the property rates, direct and indirect taxes on locally produced goods, licenses, business registrations, fines, dues and fees for using public social services (Garajova, 2018). Fast growing Africa cities such as Kinshasa, Cairo, Lagos, Cape Town, Nairobi, Abidjan, Ibadan, among others have greatly utilized their local revenue resources, collecting more than 70% of the local revenue potential base (UN-Habitat, 2011). While most of these towns receive federal or central government allocations, grants, and donations, the local revenue collected contribute immensely to their growth and development.

However, there is still low revenue collection in other cities like Dar es Salaam and Kampala despite having put in place several local tax reforms that have led to the abolishment of the 'ineffective' taxes, such as poll (head) taxes and simplification of the local tax legislation and administrative procedures (Fjeldstad et al, 2014). As demand for outsourcing grows constantly

being one of the major business trends, researchers have recently termed it strategic outsourcing; it is believed to play an important role by improving service delivery systems. Its significance has ensured firms meet ever increasing demands of customers (Pule & Masaba, 2016). Basically, outsourcing meets efficiency through; reduction of operation costs, increasing market flexibility, enhancing firms to deal with unpredicted high demands, and reducing the cycle time by outsourcing peripheral activities to specialists while concentrating on their core tasks (Pule & Masaba, 2016).

Tanzania in particular outsourcing of local government revenue collection has been under the New Public Management (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.

Revenue collected by local governments, in this particular case, cities and municipalities; is raised from taxes, dues, fines, and fees on residents, properties and businesses in the respective city, municipality or town including Murram levy (Slack and Bird, 2014). The capacity of the municipality or town council or city to raise resources depends on the revenue base, mode of collection, and the overall administration. Local governments with large revenue base, several times raise more revenue contributing to better service delivery, although this depends on their local revenue collection practices. Effective service delivery in most local governments in the world require three huge local revenue to supplement the central budget allocations (Fjeldstad, 2017), but local resources collection practices are vital.

Among the revenues are Murram levy which constitute charges or revenues from the sand trucks carrying sands and debris for various activities such as constructions and others (Lawrence, 2019). They constitute significant collections once are well gathered since trucks are many and the business is very high in Tanzanian context which is essential for being taxable and assure adequate revenue collections (Ibid). Since tracing the subjects as taxpayers could be also a huge task the collections have been subjected to outsourcing to assure adequacy and performance in revenue collections by the local authorities in Tanzania (Skinner, 2020).

With all the efforts pertaining to outsourcing practices in revenue collections by local government authorities (LGAs) still the targets have been far from being realized prior to collections (Brautigam *et al*, 2018). This has become another setback since the practice sought to be a solution has become a challenge similar to the previous practices. The situation is assumed to be influenced by several concerns including delays in service payment to the agents contracted the duty (Lawrence, 2019). This has been a challenge among the local authorities that agents hired usually delay to be paid which

demoralizes their efforts in the duty with some decide to pay themselves in the process and breach the contracts.

Despite that, inconsistences in the tax framework is perceived to be the other concern that with recent taxpayers' identification cards for instance, most local authorities issued them to the taxpayers who were not in the category to accomplish them the time were introduced (Skinner, 2020). This later created chaos in the collection process it became a legal source to avoid taxes which affected the collections in the local authorities. Moreover, the situation is perceived to be influenced by limited compliance by taxpayers in the process which automatically denies the adequacy in the collection process (Ibid). With the persistence of the situation in the local government entities brought about the need to envisage further to determine the rationale pertaining to the existing situation in Tanzania with regard to Murram levy collection pertaining to outsourcing measures.

2 Literature Review

The study was guided with principal-agent theory which is an economic and management theory emphasizing on the conduct of the activity(s) in the organization(s) prior to the relationship between the principal and the agent (Ferris & Grady, 1991). The theory suggest that in any activity or situation the two actors are inevitable that they go together in facilitating the goals and objectives that need to be achieved. In that case, the principal may be the employer, investor or any leading actor in the relationship serving as the facilitator in the process or activity for that matter (Stein, 1990). The agent on the other hand is the service provider serving as the subordinate to the principal in the course of delivering duty (Tarimo, 2018).

The agent may be the employee(s), consultant(s) or service provider in any activity with the aim of serving the needs and wants of the principal in exchange for rewards based on the agreement between the two. They may be through payments for the services or any other form of gain that is based between the two actors either formally or informally provided that the expected outcomes are realized (Stein, 1990). The principal as the main or leading actor hires or incorporate the agent with the aim of the activities that are intended to be realized successfully be accomplished with most being expected either to be served or attain profit that is expected to be gathered (Tarimo, 2018).

The theory is connected to the study on the ground the outsourcing in local government entities in revenue collections including Murram levy is conducted to assure efficiency whereas the local government entities serve as principals with the service providers through the agents with expectations to perform. This is the case since with revenue collections delays are not expected to be the outcomes and the compliance is expected to be the behaviour among taxpayers to assure the agents successfully fosters the collections in line with the demand or requirements from the principal respectively. With noted shortcomings the study was conducted to address the concern.

In that note several studies have been undertaken in the area including Ochungo et al (2019) examined the outsourcing of revenue collection in Kisumu County, Kenya. The study employed cross sectional design with the findings revealed that outsourcing improved revenue collection efficiency and reduced corruption. However, the study also highlighted the challenges of outsourcing, including the lack of transparency and accountability in the outsourcing process and the need for effective monitoring of outsourced services. This fosters the need to envisage further in Tanzania specifically in local government entities particularly on Murram levy to address the concern pertaining to outsourcing and revenue collections.

Akintoye et al (2020) evaluated the impact of outsourcing revenue collection on local government authorities in Nigeria. The study employed survey design by means of primary data in the selected local government entity. The study findings revealed that outsourcing led to significant improvements in revenue collection, service delivery, and financial management. However, the study also identified the need for better contract management and monitoring to ensure the quality of outsourced services. Since that is the case, it is essential to inquire on Tanzanian experience with the aim of addressing the situation with regard to Murram levy collections.

Tideman et al (2018) explored the outsourcing of revenue collection in Municipalities in South Africa. Exploratory design was used that was complemented with survey design. The study results indicated that outsourcing improved revenue collection efficiency and reduced the workload of municipal staff. However, the study also highlighted the need for careful contract design and management to avoid potential negative effects on service delivery. The study recommended the need to envisage in other contexts to determine the experience and results whereas the conduct of the study in Tanzania address the concern pertaining to the Murram levy collections since it is an area that has been less explored and articulated through an inquiry.

Conceptual Framework

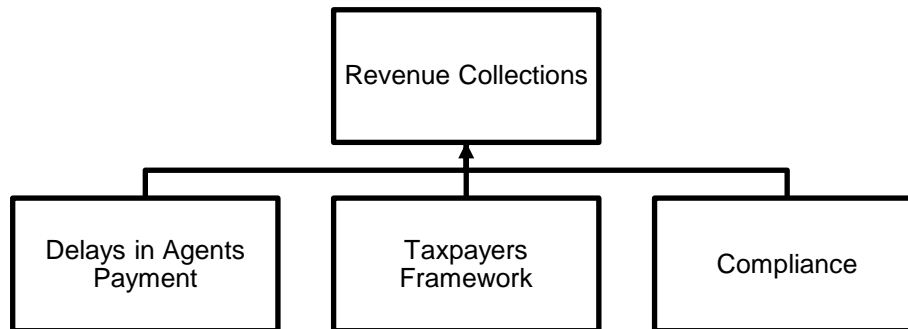Figure 1 illustrates the model that consists of the variables under study.

Figure 1: Conceptual framework

The framework describes the study assessing the effect of revenue collection outsourcing approach on improving Murram levy in local government authorities in Tanzania. The study is guided by the assumption that outsourcing in revenue collections in local government authorities (LGAs) in Murram levy is affected with several factors. Therefore, three predicting variables are identified for testing which are described as follows.

H1: There is negative relationship between delays in agents' payments and revenue collections towards Murram levy in local government authorities (LGAs) in Tanzania.

H2: There is negative relationship between tax framework and revenue collections in Murram levy in local government authorities (LGAs) in Tanzania.

H3: There is negative relationship between tax compliance and revenue collections in Murram levy in local government authorities (LGAs) in Tanzania.

3   Methodology

The study was conducted using explanatory design since knowledge generation was facilitated through causality testing approach with three predicting variables identified for testing. They include delays in agents payment, tax framework and the compliance by taxpayers which were tested on revenue collections as the dependent variable. Facts on the study were obtained in Dar es Salaam city since it is the area where Murram levy is obtained at higher rate and pace than other regions specifically in Temeke Municipality as the selected case as the local government authority. Primary data were used in facilitating knowledge gathering process with facts being collected using structured questionnaires from the sample of 50 participants as employees of the local government authority (LGA). The collected results were

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computed in SPSS software version 23 to obtain statistics to present the results. Multiple regression analysis was used to describe the results as the outcome on the relationship between study variables. Therefore, the results are described through the model that

$$Y_i = \beta_0 + \beta_1 X_{i,1} + \beta_2 X_{i,2} + \beta_3 X_{i,3} + \varepsilon$$

where

Y_i = dependent variable, the effectiveness of revenue collection
$X_{i,1}$ = Delays in agents payment
$X_{i,2}$ = tax framework
$X_{i,3}$ = taxpayers compliance
B_o = y-intercept when time is zero
ε = error term

4   Results and Discussion

The findings of the study are described using multiple regression analysis to determine the outcome of the results based on the existing relationship between predicting variables and the dependent variable. Therefore, table 1 below describes the results.

Table 1: Results of multiple regression analysis

	Unstandardized coefficients		Standardized coefficients	t	p
	β	SE	β		
(constant)	-9.436	4.158		-1.192	.000
Delays in Agents Payments	2.715	.235	.578	12.617	.017
Tax Framework	2.347	.241	.523	12.531	.023
Compliance	2.038	.127	.590	12.360	.039

The findings of the study indicate that all three study predicting variables including delays in agents payments, tax framework and compliance by taxpayers are positive with significant outcome statistically on revenue collections towards Murram levy since $p<0.05$. This implies that revenue collections through outsource practices in Murram levy in the local government authorities (LGAs) in Tanzania is affected with delays in agents payments, tax framework and compliance by taxpayers.

This is supported by Kipilimba (2018) suggesting that outsourcing in revenue collections in Tanzania local government entities has had negative results with regard to the performance targets in revenue collections. The situation is mostly caused by the delay in payments of the agents' commission which has been demoralizing their performance and commitment to engage

in the tasks. Besides that, Lukio (2015) on the other hand suggested that outsourcing of revenue collection was awarded in form of contract to the agents as service providers with payments in return based on the framework agreement between the contracting parties. However, payments have been a challenge to be issued by the authorities to the agents which in the end had affected the outcome regarding the expected performance results in terms of collections respectively.

Regardless of that, Astrid (2017) suggesting that in developing countries which collects revenues through outsourcing have been encountering challenges in attaining the collections expected due to the fact that the tax framework comprise several loop holes to foster evasion and avoidance practices. Furthermore, Akitoby (2018) on the other hand suggests that tax framework in most developing countries comprise of weaknesses in the laws that fosters the increasing avenues for tax avoidance. With outsourcing practices especially the local government entities usually the collections have been volatile and less in terms of the expected targets in several jurisdictions including Tanzania since loops for avoidance and evasions are several based on the tax framework.

5   Conclusion and Recommendations

The study concludes that outsourced Marram levy has a negative effect with revenue collection approach in the long run; and that there is a negative association between outsourced murram levy and revenue collection approach provided that the situation pertaining to delays in agents payments, tax framework in place and the level of compliance remain as they exist. This is the case they are hindrance towards attaining high level of efficiency in the collection process which becomes a setback respectively. The study suggests that to increase revenue collection, LGAs should focus on investing in the appropriate sources of revenue and formulating better policy and laws that can help LGAs to improve revenue collection in Tanzania. This is sound since the framework should be designed to accommodate the actors as agents as they operate to work on smooth road. Furthermore, the payments should be granted on time to the agents as stated in the agreement provided that they have successfully collected as required and expected to assure performance.

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