

## **Abstract**

The focus of this study was to examine service outsourcing in Local Government Authorities (LGA's). This is the approach which has been adopted as a mechanism to alleviate the challenge of revenue collection, loss and mismanagement of the public fund. In this regard, the expectations of using agents were to increase revenue collection which in order to provide a room for fiscal autonomy. However, experience from few LGA's with outsourced revenue collection shows that the process has not yielded the expected outcome especially on enabling fiscal autonomy. Instead, it has turned to benefit the private agent who collects revenue. In spite of the good motives of adopting outsourcing in revenue collection by local councils, local councils have not yet managed to have enough funds to finance their activities in Tanzania. This has been motivated by corruption, and misuse of financial system that are not reliable on local government collection of funds.

The study assessed the impact of service outsourcing on revenue collection performance in Local Government Authorities in Tanga Region. The study specifically aimed at; -

- Examining the difference between revenue collected before and after outsourcing
- Determining the extent to which contract management practices for service outsourcing influences revenue collection performance
- Examining the influence of technology and information system on revenue collection performance
- Identifying the challenges faced by local government authorities in outsourcing of revenue collection

The study adopted the agency theory. An agency relationship the principal engages another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. The cornerstone of agency theory is the assumption that the interests of principal and agent diverge. According to agency theory, the principal can limit divergence from his interests by establishing appropriate incentives for the agent, and by incurring monitoring costs designed to limit opportunistic action by the agent.

However, the application of agency theory in this study was to link revenue collectors and local government authorities responsible to alleviate all challenges arising from corruption and mismanagement of the collected revenue. For that, the local government authorities will be able to implement their activities through the collected revenue by the outsourced agent.

- This study adopted a cross sectional design. The study was conducted in three districts (Handeni, Mkinga and Mheza) of Tanga Region. The districts had similar nature of revenue collection (service outsourcing

strategy). The purposive sampling was employed where the total of 60 respondents participated in the study. The respondents of the study were drawn from different departments as indicated in Table 7.

**Table 7: Sample size determination**

Categories of respondents	Handeni	Mkinga	Muheza	Sample size
Procurement section	1	1	1	3
Finance department	5	5	5	15
Council tender board	6	6	6	18
Trade section	2	2	2	6
Council Finance committee	5	5	5	15
Internal audit section	1	1	1	3
<b>TOTAL</b>				<b>60</b>

Primary data were collected by using structured questionnaires and interview guides where by secondary data was gathered by reviewing reports on revenue from different sources before and after outsourcing. councils' financial statements, annual council's performance reports council's internal auditor reports and CAG reports provided relevant secondary data. The data collected were analysed using descriptive statistics, and an explorative statistical method such as principal component factor analysis, Pearson correlation coefficients, and multiple regressions.

On the differences between revenue collected before and after outsourcing, the study revealed that;

- There was a significance difference in mean percentage of Revenue collected before outsourcing of revenue base 71.6111 and revenue collected after outsourcing of revenue base 86.2667 by council. This indicates an increase of about 20.5% in revenues during the period of outsourcing of revenue by the council. Therefore, outsourcing of revenue collection to private agents were more effective in revenue collection considering the high revenue detailed in the annual reports.
- The outsourced revenue collectors are effective in tax collection compared to local government workers who have been hiding the money collected in their own pocket.

On the extent to which contract management practices for service outsourcing influences revenue collection performance, it was found that

- The study discovered that effective contract relationship management involves creation and maintenance of a positive relationship with the contractor. Ensuring mutual understanding between the organization and the contractors; regular communication between the organization and the contractors and timely management of potential problems in the contract.

- Findings are in line with the control mechanism on divergence of interest through establishing appropriate incentives and by incurring monitoring costs designed to limit opportunistic action as explained by principal agency theory.

Regarding the influence of technology and information system on revenue collection performance, the results showed that; -

- Information system was instrumental in enhancing the proper management of revenue sources in the local authorities while the electronic tax register machines have helped to curb cases of tax evasion. It has helped to increase revenue collection due to their efficient nature.
- The finding further noted that, the state of ICT infrastructure in the country determines how revenue collection systems are implemented and used by customers in affecting revenue collection.

Challenges faced by local government authorities in outsourcing of revenue collection

- Challenges involved in outsourcing of revenue collection by local government Authorities includes corruption, political interference, monitoring private agents and assessment of actual revenue potential for various revenue base.
- Moreover, one major administrative problem today for most council is inability to collect fully the revenues. In most council there are huge gaps between reported and projected revenues. This is due to poor administrative capacity to assess the revenue base; poor administrative capacity to enforce the taxes; explicit and intentional tax evasion and resistance from taxpayers; corruption, including embezzlement of revenues; external pressure on the local finance department to provide optimistic projections; and political pressure on the local tax administration to relax on revenue collection.

## **Conclusion**

The findings of study are valuable since it enhances LGA's on service outsourcing as revenue collection strategy which is one of the policy reforms operational in Tanzania. Thus, the study explored the impact of service outsourcing in revenue collection in local government authorities. The study findings contributed to theoretical debates on the subject of service outsourcing and revenue collection performance in LGA's. The study also benefits all stakeholders including central government, local governments, revenue collecting firms and the general public. This is done by providing them with insights on how to cooperate and improve

performance in revenue collection, and how to ensure effective accountability for the collected public revenues.

The study provided the general recommendation that; -

- Before outsourcing revenue base, council must conduct a feasibility study, evaluation and analysis of potentiality of revenue sources within the LGAs jurisdiction and on their collectability in order to obtain a basis for determination of the amount to be remitted by agents.
- Agents must submit the performance bond or deposit in advance three months instalments, bank guarantee or any other form of security as the LGA shall consider appropriate as required by Order 38 (3) of LGFM, 2009, before implementation of the contract.
- Council should strengthen contract management teams in terms of appointing committed and qualified staffs as well as support so as to improve the performance of LGA's revenue collection.
- Revenue collection agents contracted should be trained on modernized method of revenue collection such as the use of point-of-sales (PoS) machine.
- Furthermore, councils should also improve on ICT infrastructure in order to support effective implementation and use of technology and information systems, with continuous training to revenue collectors and employees
- In order to minimize the risk of giving the contract to incompetent or dishonest agent who fails to remit revenue collected to council at point in time, the council management has to give the contracts or term of agreement to agents with enough experience.

