

**STRATEGIES OF LOCAL GOVERNMENT IN REVENUE COLLECTION:  
A CASE OF ILALA MUNICIPAL COUNCIL.**

**By  
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A Dissertation submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance (MSc. A&F) of Mzumbe University Dar es Salaam Campus College.

2014

**CERTIFICATION**

We, the undersigned, certify that we  
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## **DEDICATION**

This dissertation is dedicated to Mr. & Mrs. Leonard Mwaisabila, Ms Janeth Aluto and all members of my family.

## **ABBREVIATIONS**

Ag. MT	-	Acting Municipal Treasurer
IMC	-	Ilala Municipal Council
LGA	-	Local Government Authorities
LGRP	-	Local Government Reform Programme
MTEF	-	Medium Term Expenditure Framework
PMO	-	Prime Minister Office
RALG	-	Regional Administration and Local Government
RC	-	Revenue Collectors
URT	-	United Republic of Tanzania

## **ABSTRACT**

The study is aimed at investigating revenue collection strategies in Local Government Authorities, assessing revenue collection strategies used in Ilala Municipal Council and lastly investigating the reason why some strategies of collecting revenue fail by using Ilala Municipal Council as a case study.

Based on the objective and research questions, the research instruments such as questionnaires and review of various documents were used to get information that addresses the issues under study. Also, the study involved a sample of 100 respondents, where the sampling techniques used was non probability sampling. The purposive and convenient sampling was used to get respondents from the study population. The data collection methods include questionnaires and review of various documents.

The collected data were coded, analyzed and presented in chapter four; then were later discussed in chapter five of this report. Excel was used to analyze these data from the field. Therefore, the study found that, there are two revenue collection strategies in Ilala Municipal Council, that is, revenue collecting agents and council revenue collectors. 54% of respondents favoured use of revenue agents, while 44% favoured use of revenue collecting agents (outsourcing) and 2% were not certain which strategy should be used by Ilala Municipal Council. It was also revealed that, both strategies are doing well although they have some challenges which include corruption, tax evasion, tax exemption, and poor feasibility of revenue sources before outsourcing them to agents.

Finally, the study concluded that, the council should continue using both revenue collecting strategies, however, the council should make sure that, all weaknesses are dealt out to make the sources deliver more revenue to the council.

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## **CHAPTER ONE**

### **PROBLEM SETTING**

#### **1.1. Introduction**

This chapter provides the general introduction of research. The chapter presents background of the study, statement of problem, objectives of the study, research questions, justification of the study, limitation of the study and delimitation of the study.

#### **1.2. Background of the study**

The local government finance Act No. 9 of 1982 empowers the local government authorities (LGA's) to collect revenue from various sources and ensuring proper utilization of such revenue in fulfilling the function and powers conferred by Act No.8 of 1982, the local government (urban authorities). This means that LGA's are required to collect revenue from sources as stipulated in the Act.

Despite such requirement, one major administrative problem today for many municipals is their inability to collect fully revenues due to them. In most council there are huge gaps between reported and projected revenues. Local Governments' own source of revenues represented less than 6% of total revenues in Tanzania in 2002 (Fjeldstad:2003).

The Local Government Reform Program (LGRP) has done a lot to improve the financial management in local authorities with the purpose of empowering the LGA's to manage and control their financial management.

The issue of outsourcing revenue was introduced in local authorities with the aim of improving revenue collection, however, in some area it recorded success but in other areas failure.

This study in the view of the above ground intended to examine strategies used by local government in collecting revenue using Ilala Municipal Council (IMC) as case study. The study was specifically aimed at helping the Ilala municipal Council to find out strategy (ies) that is (are) effective and efficient towards improving revenue collection so as to be able to discharge its responsibilities or to meet its budget as per MTEF.

### **1.3. Statement of the problem**

The major problem today for many Local Government Authorities is their inability to collect fully the revenues due to them. In most council there are huge gaps between the actual and projected revenues. The recent rationalization of local government taxes and in particular the abolition of development levy raised concern among the stakeholders at both local and central levels that the financial autonomy of local authorities is undermined and that some councils are moving towards bankruptcy. In this setting there are fundamental issues to be addressed in the context of local government current revenue collection strategies and to strengthen financial management.

Despite number of strategies used by local authorities in collecting revenue, there has been too low collection to enable them to provide good quality services. The provision of services is very crucial in the sense that performance of local government is evaluated with regard to quality of services. The quality of services depends on revenue collection performance of LGA's. The amount of locally owned revenue has been very low for a long period of time. In the past almost ninety percent of total council's revenue came from central government subsidies (Fjeldstad 2003). Normally councils encounter different problems in their revenue collection activities. Ilala Municipal Council like other councils has the problem in its revenue collection strategies among them include: poor administrative capacity to assess the revenue base and enforce the taxes, explicit and international tax evasion and resistance from taxpayers, corruption including embezzlement of revenue, external pressure on the local finance department to provide optimistic projections, political pressure on local tax administration, inefficiency performance in revenue collection department due to lack of written financial regulations and procedures, poor revenue collection control, shortage of skilled personnel, poor motivation of revenue collectors and lack of job training to staff.

In the view of the above regards, the study was centred on examining the effectiveness of strategies used by Local authorities in collecting revenue by using Ilala Municipal Council as a case study for the research. The study provided



information which will help LGA's particularly urban authorities to set strategies which will lead to more revenue.

#### **1.4. Objective of the study**

##### **1.4.1. General Objective**

The general objective of this study was to examine effectiveness of revenue collection strategies in Local Government Authorities.

##### **1.4.2. Specific Objective**

The study was guided by the following specific objectives.

1. To identify revenue collection strategies used by Ilala Municipal Council.
2. To investigate if there is any revenue collection strategy that is ineffective in collecting revenue at Ilala Municipal Council.
3. To investigate the reason why some strategies are effective and others are ineffective (if they are)
4. To assess revenue collection strategies which are successfully used to collect revenue at Ilala Municipal Council.

#### **1.5. Research questions**

The study attempted to answer the following general and specific questions

##### **1.5.1. General research question.**

The general research question of the study is:

Are the revenue collection strategies in Local Government Authorities effective or not?

##### **1.5.2. Specific research questions.**

In order to understand the effectiveness of revenue collection strategies in LGA's at Ilala Municipal Council. The following research questions were answered.

1. Which revenue collection strategies are used at Ilala Municipal Council?
2. Is there any revenue collection strategy that is ineffective in collecting revenue at Ilala Municipal Council?
3. Why are some revenue collection strategies effective and others not?
4. What revenue collection strategies are successfully used to collect revenue at Ilala Municipal Council?

#### **1.6. Justification of the study**

The study adds value and knowledge to the society in the following ways:-

Firstly, the study established the strategies used towards collecting revenue in local authorities.

Secondly, the study helped to know which strategies generate more revenues in local authorities; and which ones are ineffective. Hence proved failures.

Thirdly, the study was used as empirical literature review with scholars interested in this field under the study.

#### **1.7. Limitation of the Study.**

The study was conducted at Ilala Municipal Council being representative of all urban authorities. The following are some limitations the researcher encountered during the study:

- (i) Revenue collection agents were not willing to give information which they believe to be confidential;
- (ii) Time constraint was a problem to conduct this study.
- (iii) The fund to support the study was insufficient.

#### **1.8. Delimitation of the Study**

Given the limitation of time and finance the study was mainly conducted at Ilala Municipal Council Office located near by the researcher's place. As study covered only Ilala Municipal Council the results of the study may not fully represent all LGA's as the conclusion was drawn basing on sample.

### **1.9. Scope**

The research covered mainly one Municipal Council. The main source of data was the headquarter of Ilala Municipal Council and its branch office at Anatouglo dealing with revenue collections of the Municipality. The chosen Municipal is located in Dar es salaam given the limitation in time and finance. Results of this research may not fully represent as the conclusion was drawn basing on sample.

### **1.10. Summary**

The chapter has covered the general background of the problem, the objectives and importance of the research to be studied. It has briefly explained strategies used towards collecting revenue in local authorities. The next chapter will concentrate on literature review as far as revenue collection in local authorities is concerned

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This chapter provides definitions of various terms, theoretical framework and empirical findings related to the study. It further expresses the conceptual framework.

#### **2.2. Definitions of Terms.**

##### **2.2.1. Own Source Revenues.**

Means revenue source over which LGA has substantive control.

Economists consider it to mean a tax for which (a) collections flow to the local level and (b) over which LG jurisdictions have control over the marginal tax rate either through policy discretion or through direction over its collection (boex and Vazquez 2006).

##### **2.2.2. Property Taxes**

A type of tax for which the liability of tax stems from ownership of assets. Usually the taxable assets are limited to ‘real property’ which includes land, building, structures and other improvements that are constructed on the land or placed upon foundation.

##### **2.2.3. Progressive Taxes**

A tax for which the liability as a percentage of taxpayer’s income increases with the level of income (LGRP 2001).

##### **2.2.4. Nuisance Tax**

A low yielding tax for which the collection costs exceed the revenue yield of a tax. Examples of typical nuisance taxes include taxes of shoe repairs, dry cleaning and parking (LGRP 2001).

##### **2.2.5. Proportional Taxes**

A tax that has the same liability as percentage of taxpayer’s income or wealth regardless of the level of income or wealth (LGRP 2001).

### **2.2.6. Revenue Adequacy**

The principle that a .good revenue source should generate an adequate amount of revenue. What is considered to be adequate amount is the level of expenditure in a given period.

### **2.2.7. Regressive Taxes**

Tax that requires lower-income taxpayers to pay a greater percentage of their income in tax than upper income taxpayers (LGRP 2001).

### **2.2.8. Revenue Performance**

Degree of effort with which a sub national government pursues revenue collections given the revenue instruments and tax bases that are available to it. Typically measured as ratio of collections to the underlying tax base.

### **2.2.9. Revenue Decentralization**

A degree to which control over revenue is decentralized. Typically measured as ratio of sub national income revenue and total national revenue (Ibid).

### **2.2.10. Tax**

An involuntary payment to government (by households and business firms) that does not involve a quid pro quo (this for that) benefit. Common categories of taxes include income taxes, consumption taxes, property taxes and transaction taxes. (PMO-1997).

### **2.2.11. Compliance**

The degree to which taxpayers comply with tax laws and regulations. Often measured as ratio of tax receipts to assessed tax liabilities. (PMO- 1997).

## **2.3. Review of supporting theories**

### **2.3.1. An assessment of the current Local Government Revenue System**

According to Boex and Vazquez (2006) the following features are combined to form good revenue instrument. These factors include adequate revenue yield, adherence to

benefit principle, adherence to pay principle, easy administration and compliance, economic efficiency and political acceptability.

Boex and Vazquez noted that there are three basic shortcomings associated with the current revenue assignment and local taxation in Tanzania. First, there are number of significant shortcomings in the overall structure of the local government revenue system. Second there are problems specific to each of the revenue instruments assigned to the local government level. Third, there are number of problems with the way local taxes are administered in Tanzania.

### **2.3.2.. Shortcomings of the Local Government Revenue System**

According to Boex and Vazquez (2006) the government made transformation of the local government revenues system where the development levy and several other nuisance taxes were abolished resulting in 40 per cent decline in local revenues to be perceived highly inefficient.

‘The persistent shortcomings of the system continue to necessitate a significant transformation of the local revenue system’ Boex and Vazquez argued.

With regards to the above reality, in 2004 the ministry Finance and PO-RALG decided to engage in a comprehensive review of the policy framework underpinning the structure of the financing of the local government in Tanzania, including the local revenue structure. This comprehensive review identified a number of shortcomings in the assignment of the revenue sources to local level in Tanzania. (price Waterhouse, 1980).

#### **2.3.2.1. Taxes assigned to LGAs are hard to administer and enforce**

Most of the taxes currently assigned to local government such as property taxes are extremely hard to administer especially in the context of property rights in Tanzania and therefore hard to enforce.

A sound revenue assignment and well designed local taxes should take into account the relative ability of local governments to administer local taxes (Richards, 1983).

#### **2.3.2.2. LGAs are mostly assigned Low- Yielding Taxes.**

The central government in Tanzania unlike LGAs has assigned itself most important and reliable tax bases in the economy leaving LGAs with hardship to generate any substantial revenues from their own revenue sources (Boex and Martinez; 2006).

#### **2.3.2.3. Compliance costs for local taxes are high**

Various scholars suggest that compliance costs for local government revenues are quite high, among others due to fragmentation and lack of uniformity of the local tax system between different local governments.

Due to the fact that the high compliance costs for local payers have potential negative impact on both local tax compliances as well as local economic growth, the reduction of such compliance costs should weigh heavily in design of future reforms (levi, 1998).

#### **2.3.2.4. Crosscutting Problem with the System of LGAs Finance.**

It is sometimes overlooked that the poor revenue performance in Tanzania is caused not only by a poor revenue structure but also by failures in other dimensions of the local government finance system. For instance, poor financial management practices at the local level and lack of trust that local residents have in their officials are leading factors in poor revenue performance at the local level. Also the fact that locally raised revenues are mostly used to finance local government administration from using locally generated revenues for services that provide direct and tangible benefits to local residents. Similarly the presence of hard budget constraints reduces the incentive for local governments to collect own source revenues (Levi, 1998)

Much of the blame for the inefficiency and ineffectiveness of local government revenue system has traditionally been assigned to unwilling local politicians or the limited capacity of the local revenue collectors. In contrast this assessment suggests that many of the problems with the local government revenues may be caused by systematic failures of the local government finance system. While capacity strengthening and sensitization at the local level are essential ingredients in the transformation of the local government revenue system, the systematic nature of

many of the challenges suggests that transaction of the system will need a lot of more than local level reforms alone (PriceWaterhouse, 1998).

### **2.3.3. Shortcomings of Specific Revenue Instrument**

Despite the problems associated with the whole system of revenue collections of Tanzania's local government, many problems exist with the specific revenue instrument commonly used at local government level.

#### **2.3.3.1. Service Levy**

The service levy is an important revenue source for local governments in Tanzania particularly for urban local governments. The service levy is collected from large businesses (producers with turnover in excess of Tshs.20 million); the levy is collected as a rate equal to 0.3 per cent of turnover as determined by central government directive (Boex and Martinez 2006).

The service levy provides an attractive revenue source for local governments with a potentiality high yield. As a tax on production, the service levy can be considered a benefit tax paid in some proportion to firm's feature. This means that local governments can readily identify the taxpayers as well as quantify the amount of turnover subject to the local service levy. Such coordination is not possible for smaller enterprises because many firms are not subject to central government taxes (URT, 1982).

#### **2.3.3.2. Licenses, Fees and Charges.**

As the main purposes of licenses and user fees is to recover the administrative costs of issuing the licenses or the cost of providing the public services, it is important to price the service right. Setting fees below the actual cost of provision will cause a fiscal burden on the locality and would force local governments to provide poor services (due to lack of cost of recovery). While setting fees above the costs for services provided would be sub optimal as well because it would induce follower consumption below optimal levels and would raise fairness issue to the extent that



the public sector has a monopoly over certain services (for example the issuance of marriage licenses) (URT,2000).

While user fees provide important efficiency benefits, it is important to balance the cost of collecting and administering user fees with the amount of revenue collected. Since certain type of user fees involve many transactions such fees may be relatively costly to collect. In addition the payment of user fees provides many opportunities for petty corruption (either through embezzlement of payments or through the need to provide informal co-payments in order to obtain services). However similar to the case of exercises on utilities, it is possible to collect service fees together with other local government taxes that have a similar benefits incidence in order to reduce the administration cost. For instance market fees may strictly be used to for recovering the cost of operating the market. However in addition to the costs of maintaining the market structure, there are costs of collecting the garbage generated at the markets, provision of water, latrines and other measure to ensure some standard of hygiene. Given that market fees provide a good tax handle (since failure to pay market fees result in exclusion from the market), this offers a good opportunity to collect other legitimate local revenues in one harmonized instrument (PMO,1997).

It is important to recognize that unlike the permitted user fees that are intended to be used on a cost- recovery basis, licenses or fees can be used as a mechanism to collect general purpose revenues, in which case the issuance of licenses or permits infact predominantly functions as an administrative tool in the collection of local general purpose revenues. In many countries the existence of local business licenses often exclusively serves the purpose of ensuring the payment of local business tax. It is generally accepted international practice that the issuance of local business licenses is an appropriate method of ensuring a tax handle on local business.(PMO,1997).

#### **2.3.3.3. Land Rent.**

While the local property tax in Tanzania is applied to structures only, the taxation of land is done through the payment of Land Rent. Although the 1995 Land Policy reintroduced the notion of private property and legalized market alienation of land, notion regarding land ownership and taxation are greatly influenced by Tanzanian's post-independence history of common land ownership (LGRP, 2001).

Based on two separate land acts, there are essentially two systems of land tenure in Tanzania. There is a formal system of land registration and the issuance of land titles which is administered by the ministry of Land.

#### **2.3.3.4. Other Local Taxes.**

Many of other taxes assigned to the local government level are appropriate local revenue sources where a strong argument can be made based on the correspondence principle. For instance this is the case for the guest house levy as well as for other local taxes and license fees on specific types of local productive activities, such as plying fees, tax licenses and licenses on intoxicating liquors. Likewise professional license fees are often a type of local income tax on professionals in the form of license fee where there is a broader correspondence between the payment made and the benefits received from local services and infrastructure.

Although these revenue sources are typically not among the highest yielding local revenue sources, the revenue potential from these taxes should not be underestimated (Boex and Vazquez).<sup>2.5.</sup> Local Tax Administration and Efficiency of Revenue System. According to Boex and Vazquez (2006) two of the main arguments that led to the rationalization and elimination of local government revenues in 2003 were: First that the efficiencies inherent in the local government taxes system from an obstacle to local economic growth and: Second the local government revenue administrations are so efficient that the local tax system results in a sub-optimal allocation of public resources at the local level. Indeed there is a broadly shared assumption that the quality and effectiveness of local tax administration is consistently poor.

Unfortunately, little hard evidence is available on the effectiveness or inefficiency of the local tax administration in particular. Although there is ample qualitative evidence to suggest that the local tax system in Tanzania it would not be prudent to attribute the inefficiency of the system to poor local tax administration at face value (LGRP, 2001)

Although limited direct evidence on the effectiveness of local tax administration, the available research allows us to consider three aspects of local tax administration. First, we can consider the impact of local tax administration on gross local revenue

collections. Second, we can break down the factors that influence tax administration performance. Third, we should consider the efficiency of the tax administration apparatus and the cost of local tax administration (Boex and Vazquez, 2006).

#### **2.3.4. Taxation.**

Scholars observe that theories of taxation exist in public economies. Government at all levels need to raise revenue from a variety of sources to finance public sector expenditures. These details of taxation are guided by two principles ‘who will benefit and who can pay’. According to theory of taxation public expenditure concerns the optimal position of public goods. In public finance literature there are two theories: the ability and benefit theories. The ability theory has a modern version known as the voluntary exchange theory.

Most governments collect funds from various sources to provide public services or to finance transfer payments. Taxation is the most common source of revenue in mixed economies. Under the benefit theory, tax levels are automatically determined because tax payers pay proportionately for the government benefits they receive. In other words the individuals who benefit the most from public services pay the most taxes.

##### **2.3.4.1. Review of revenue assignments and own level revenue options**

The concept that in a sound framework for local government finances “frame should follow function that provides a certain level a guidance regarding the extent to which local government activities should be funded from local taxes or other local government revenue sources ( as opposed to, for instance, funding from intergovernmental grants). In particular the scholars raised concern that given the current assignment of expenditure responsibilities and revenue instruments, it would be inappropriate to fund the delivery of national priority programs and centrally mandated services such as primary schooling or basic health care from own source revenues another cross cutting concern with an impact on local government revenue was to acquire Local Government Authorities which greatly reduces the value for money received by Local Government revenue was the high share of local government administration that is self-funded by Local Government Authorities which greatly reduces the value for money received by local residents from their

local tax payments. Instead own source revenue should be used to the maximum extent possible for public services and infrastructure that are purely local in nature, in response to the needs and demands from the local community

Despite the basic guidance the previous section is silent on the revenue instruments that should be assigned to the local government level in order to raise adequate revenues to fund the delivery of local government services and the development of local infrastructure.

#### **2.3.4.2. Sound principles of revenue assignment.**

In order to local governments to exercise a degree of fiscal autonomy consistent with fiscally decentralized government structure, local government must control some own sources of revenue. In this regards, the key policy questions are: which taxes should local government levy and how? This question is commonly referred to in the decentralization literature as the revenue “assignment question”.

#### **2.3.4.3. Objective of revenue decentralization/local taxation.**

The assignment of taxes in a decentralized system of finance must decide three types of issues. First what level of government will be granted legal powers to introduce new taxes or change their structure in terms of the definition of tax bases and the determination of tax rates? Second, how will the revenue from different taxes be shared, if at all among the different levels of government? Third, what level of government will be responsible for the administration and enforcement of different taxes? This mostly focuses on empowering local government with the discretion to introduce own source taxes and other revenue instruments, including setting their rates and bases. Of course revenue assignments are not a stand alone issue. It should be seen as an element that must interact and be compatible with the rest of the design of a decentralized system of finance and more generally with the design of entire fiscal system of a country.

Criteria that should guide the assignment of revenue sources across different government levels in a country reflect a dual role of taxes. First, taxes provide means to pursue government expenditures so that the generated revenue can be spent on provision of public goods and services. Second, taxes can also be used as policy

instrument to achieve the more direct realization of certain government policy objectives so that the imposition of taxes themselves leads to actions and outcomes desired by the government. For instance a tax may be used as a tool for income redistribution by introducing progressive tax.

Scholars argue that the economic objectives of the public sector can be defined as first assuring a stable economic environment in which the market is able to function, second, allocation of resources in case the market fails. While generally the knowledge of circumstances of time and place make decentralized market forces superior or centralized allocation of economic resources, there are a number of areas where the market fails.. Market failure can be due to a number of factors, including the existence of (natural) monopolies and other non competitive market structure (Local public utilities); Impossibility to exclude from consumption of the goods those who do not pay for it (eg. Street lighting) and the presence of spill over effects or externalities (eg. vaccination).

According to the economic principles, policy decisions on economic stabilization and income distribution are best assigned to the central government, while some of those related to allocation efficiency (how to best use the resources available to provide goods and services) may be assigned to local (as guided by the subsidiary principles) otherwise, when decisions on economic stabilization and income distribution are left to the local government, wrong incentives and conflicts may rise and policies may be ineffective and unsustainable. Because taxation does not provide the means for government activity but also has an impact on the areas of government concern outlined before. “Three roles” classification of government activities can also be used to guide the assignment of revenue sources across different government levels. After all, different tax instruments have varying impacts as to the functions of the public sector: macroeconomic stabilization, redistribution of income and resource allocation.

This conceptual framework can be used to identify characteristics of good revenue source by identifying specific attributes of a tax instrument that makes it a desirable element of any national tax system. Then we identify additional requirements for a tax instruments that makes it appropriate for being assigned to local level of government within the national system of public revenues.

#### **2.3.4.4. Characteristics of good revenue source**

Characteristics of good revenue source are very intuitive and have been known for many centuries. In 1776 Adam Smith, a classic economist, formulated some of these principles in his seminal “wealth of nations”.

“The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state.

This single sentence carries the seeds of what is today known as ability to pay principle and the benefit principle. The first principle states that taxpayers with a greater ability to pay should pay more. The second guiding principle of taxation states that those who benefit more from government services should pay more. Today these two fundamental principles of taxations are perceived by some as mutually exclusive. However, when Adam Smith wrote these canons, long before the era of welfare state, the range of services provided by government might indeed have benefited the wealthier more indeed in the same paragraph Smith went on.

The expense of government to the individuals of a great nation is like the expense of management to the joint tenants of a great state, who are all obliged to contribute in proportion to their respective interest in the state.

By saying that citizens should be taxed “in proportion to the revenue which they proportionately enjoy under the protection of the state”. Adam Smith probably meant that to be in proportion to benefits from government services.

“The tax which each individual is bound to pay out to be certain and not arbitrary .The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

In other words a good revenue source should minimize the costs of compliance by taxpayers as the latter represents a pure waste to the society being a loss of time and efforts for the taxpayers without any associated gains for the state budget.

In addition to the Smith's cannons, the modern public finance literature generally recognizes the following principles as commonly acknowledged characteristics of a good revenue source.

- **Adequate revenue yield.**

The revenue yielded by local taxes should be adequate. Among others, revenue adequacy should be considered relative to the funding needs of the local government level and relative to the size of the economic base of the local community.

- **Revenue buoyancy.**

Overall revenues should change roughly in proportion to the economic base. This does not mean government revenue should follow short term economic fluctuations. Rather as long term economic development makes taxpayers demand a wider range and better quality of services from the government, this trend should be matched by increasing yield of the tax system applied to the growing economy.

- **Equity**

Good revenue sources are fair and equitable. Economics considers two dimensions to fairness in a fiscal system.

The notion of horizontal equity suggests that taxpayers in similar circumstances should be treated similarly by the tax system. The tax should be fair not only in terms of definition but also application. Thus, for instance tax assessments should be uniform and comprehensive. A perception of the tax as being fair is believed to contribute to the probability of voluntary compliance.

In addition to horizontal equity the tax system should also display vertical equity, or fairness between taxpayers at different rungs on the income ladder. The determination of what is fair is subjective, but at a minimum, most people believe that wealthier taxpayers should pay more in taxes. As noted earlier, this principle is

known as the “ability to pay” principle. The other notion of vertical equity often considered (particularly at the local level) is the benefits principle. As discussed above, the benefits principle suggests that taxpayers should pay taxes in (approximate) proportion to the benefits received from public services.

- **Efficiency**

An efficient revenue source minimizes administration and compliance costs and in particular generates an amount of revenue well above these costs. Good taxes should not give taxpayers incentives to change their behaviour and discourage productive activities in the economy. Good taxes should be difficult to avoid and evade.

- **Politically acceptable.**

A good revenue source is politically acceptable and sensitive to the historical and institutional framework in a country.

- **Principles of good revenue assignment to the local level.**

Besides satisfying the outlined above criteria of being sound revenue instrument, a revenue source needs to meet some additional conditions to be a good local revenue source. First of all, some taxes while satisfying the criteria of sound revenue when levied by individual local governments. For example, payroll taxes collected “at source” (at firm’s location) might satisfy the benefit principle when levied at the national scale, in the sense that such a tax is borne by workers who benefit from the central government health care and unemployment programs that would be funded with such revenue. However, the benefit principle would be violated if commuting workers had to pay such a tax in the locality where they reside.

Second recall the dual role of taxes as both the sources of revenue and tools of government policy to the extent that local governments are responsible for policies different from that of the central government they might need different tools. Thus “three role” classification of government activities is not only useful in considering the assignment of expenditure responsibilities but can also be used to guide the assignment of revenue sources across different government levels. It has been argued



by many experts that macroeconomic stabilization and income redistribution should be assigned to the central government.

For instance, most economists would argue that progressive income taxes should generally be assigned to the central government level owing to its redistributive nature as well as to the economic stabilization that results from applying high rates on growing income. However, the same reasoning does not apply to flat rate surcharges on the national income taxes by the same token in order to pool the cyclical fluctuations in revenue, revenue sources that are highly sensitive to general economic conditions should be assigned to the central government. If local government revenues (and therefore expenditure) follow closely the fluctuation of local economy, this pro – cyclical local government spending would exacerbate economic fluctuations by cutting public works in the time of recessions. Thus, sub-national governments should turn to more stable tax bases such as property taxes and consumption taxes. In addition to helping survive economic downturns, stable sources of revenue are also important for budgetary and financial planning.

As sub national governments are mostly prescribed to engage in activities ensuring more efficient allocation of public resources, they should be assigned revenue sources for which it is easier to establish a link with the benefits received by residents from local government spending. The most obvious example of revenue sources satisfying this “benefit principle” is charging for specific services provided by public enterprises (utility charges, museum admission and so on). Besides generating revenue for local governments user charges also have a great economic value of providing demand information to public sector supplier. This ensures that publicly provided goods are valued by citizens at least what it costs to produce them. Whenever it is possible to do in an efficient manner, local governments should rely on user fees to raise revenue for the delivery of a local service.

Unlike user fees paid based on a free consumer choice, benefit taxes are compulsory contributions to local governments that are nonetheless related in some manner to benefits received by the taxpayer. As such for benefit taxes there is either a specific or general link between the amount of taxation and the benefits from a specific government service. For example, the size or value of a residential property relates quite closely to an individual taxpayer’ benefits received from street improvement on

which the property is located. By contrast, general benefit taxes can be exemplified by charges levied on motor vehicles and motor fuels, whose revenues can be used for construction and maintenance of roads and highways and thus benefiting road users as a class. Likewise, property taxes are often considered a good benefit tax to finance local collective public goods.

Unlike user charges, benefit taxes do not give a choice to local residents and thus do not provide governments with information whether local government services are demanded by the citizens and valued at least at what it costs to produce them. Nevertheless, relating taxes to the benefits of public spending has the major advantage of helping increase the accountability of sub national governments to their own constituencies. In jurisdictions where the level of taxation exceeds the value of the benefits of public spending, high income individuals and investors could threaten to leave or never to come or invest there.

Besides neutrality with respect to income distribution and economic fluctuation and adherence to the benefit principle, public finance theory and practical policy wisdom provide other desirable characteristics for local government taxes , some of these characteristics are just corollaries of the principle stated above.

- **Correspondence.**

A sound local tax should establish a link between the jurisdiction in which a tax is levied and the area in which the benefits are received from the local services funded with that revenue sources. Thus, the tax base should be readily identifiable with the local authority area. Adherence to the correspondence principle gives local governments the right incentives to fund an optimal amount of locally provided goods.

- **Geographical neutrality.**

Taxes assigned to local governments should not interfere with internal commerce nor distort the location of economic activity. Thus, local governments should not levy production related sales taxes or source related income taxes except where justified by benefits provided to business and commuters.

- **Visibility.**

Local taxation should be clearly perceived by local residents. That is local taxpayers should be aware they are paying the tax, its amount, whom it is payable to and for what purpose. This enables local residents to evaluate the efficiency of local government services as to how much they get for money they pay.

- **Fiscal autonomy.**

Sub national governments that lack some control over (at least the rate of) one or more significant sources of revenue can never truly enjoy fiscal autonomy. They can not be responsive to the demands and cutbacks otherwise. Neither do local governments have flexibility for fiscal adjustment in response to rising costs.

- **Local tax administration.**

Certain revenues are inherently better administered at the local level (eg. Property taxes) while local governments have a relative disadvantage in collecting other taxes (eg. Corporate profit tax). Local government should be assigned taxes for which there are information and enforcement advantages at the local level. For example, it is commonly argued that in the case of property taxes a more decentralized tax administration may have superior knowledge of local circumstances and ability to tailor procedure to local conditions and therefore be more effective in tax enforcement. The capacity to administer taxes is an important factor in assignment of taxing powers to lower levels of government and should explicitly be taken into consideration.

### **2.3.5. Revenue Collection Privatization/ Outsourcing Principle.**

#### **2.3.5.1. Privatization**

Privatization refers to the transfer of a function, activity or organization from the public to private sector, (Foster, 1980). In practice, the privatization of an organization may involve sale of public assets. Thus the difference between the two is that in the outsourcing the LGA remains with its core responsibility of ensuring

effective delivery of service. In the privatization the asset/function is wholly sold to the private sector.

Some services, functions or activities that councils previously provided “in house” have now been outsourced and are now provided by bodies external to the council. The main reasons for using these means of service provision are:

Firstly the services, functions or activities have been considered to be non-core functions and capable of being provided more effectively by external organizations. Example revenue collection, computer services etc.

Secondly, some services, functions or activities can be provided more cost-effectively by an external provider. Example revenue collection, recreation centers and road construction and maintenance.

#### **2.3.5.2. Outsourcing**

Outsourcing is contracting with another company or person to do a particular function. Almost every organization outsources in some way.

Typically, the function being outsourced is considered non core to the business or can be performed more cost effectively by an external organization or person.

In outsourcing services, functions or activities a council can maintain effective financial management by:

Firstly developing a detailed specification of services, functions and activities to be performed, including a comprehensive estimate of the cost/revenue of service provision or source of revenue and financial management and reporting provisions.

Secondly calling tenders, consistent with procurement regulations for the services provision.

Thirdly selecting an appropriate contractor/agent to perform the task.

Fourthly, developing an appropriate and mutually agreeable construct which makes provision for the delivery of service including:

- i. Regular financial and performance reports
- ii. Ownership of information and data about the services performed

- iii. Clear milestone for contract payments, linked to the achievement of specified outputs and outcomes
- iv. Mechanisms for arbitration to determine contract dispute or terminate the contract.

Fifthly ensuring that the specified financial and performance reports are received along with any other regular information that has been required which will assist in properly managing and planning the services provision.

Sixthly reviewing and monitoring received reports and other information and;

Lastly taking action to maintain effective financial management ( Think180).

#### **2.4. Empirical Literature Review**

Various empirical studies have been carried out in selected local government in Tanzania. A study made by Fjeldstad et al (2004) on local government finances and financial management was a formative process research project on local government reform in Tanzania that research made observation from six councils. The researched councils were Bagamoyo DC, Temeke MC, Iringa DC, Kilosa DC, Moshi DC and Mwanza CC. The study found that fiscal autonomy of district councils was limited with respect to both revenue and expenditure. The four rural councils in the sample generated less than 17% of their total revenue from own sources in 2002. In contrast they found that the two urban councils, Temeke MC and Mwanza CC were less dependent on central government grants than rural councils. In 2002 Temeke MC generated about 64% of its revenue through own sources and Mwanza CC almost 48%. The study identified two methods of collecting revenue namely the use of council staff and outsourcing..

Another research titled ‘to pay or not to pay’ solicited citizens’ views on taxation by local authorities in Tanzania was carried out in 2006 by Fjeldstad. The same case councils were used as it was in the previous research. The survey data pointed out misuse of tax revenues by council’s staff and councillors as the major problem in tax councils taken in case study.

The research found that people paid taxes because they wanted to avoid disturbances from tax collectors; meanwhile the majority said they would evade taxation if possible.

However these two studies concentrated on taxpayers' views on tax paying behaviours but did not focus on failures or success of the strategies used by local government in collecting revenue.

A study done by Fjeldstad and Tungodden (2003) which supported the outsourcing of government services. They supported the argument of outsourcing by saying that the privatization of government services was rapidly becoming a key feature in the management of revenue in developing countries. They observed that the present enthusiasm for private tax collection among bureaucrats and other participants in the policy debate on local government finances was echoed as increasing efficiency and effectiveness. The contribution of the authors was appreciated especially in line with the reason for the adoption of the policy.

According to Azabou and Nugent (1988), tax farmers not only have a greater personal stake in controlling collectors but may also more effectively penalize under performing collectors. They thus provided the key arguments for contracting out the collection of market fees and other taxes. The observation of the authors above deserves high level appreciation. It is however of essence to note that the work presented looks at the effectiveness of the private revenue collection system but does not consider service delivery as it is off shot. It also leaves out the possible effects created by the efforts invested by the private firms in trying to achieve this objective through penalizing ineffective performers, private revenue collection firms risk to promote overzealous collection, thus the results may be achieved at the expense of the credibility of the government, leaving an empirical gap to be filled.

Additionally, Svensson (2003) looks at private revenue collections as associated with the challenge of monitoring especially with the intention of curbing all the associated inefficiencies. The author further observed that vulnerability to corruption and tax

evasion were common features of all tax systems in developing countries and this intensified the burden for monitoring. The empirical foci being on problems of accountability and leakages within agents and the massive ineffectiveness uncovered in the administration duties. According to the author, the uncertainty about the size of the tax base represents a key aspect of this monitoring problem. However the observation as made above is generalizations about all tax collection systems in Africa and not tax farming in particular. Besides the observations contradicted the objective of tax farming which were based on the assumption that privatisation, relieved the governments administrative and monitoring costs and challenges. This created the need to find out whether the author's bias was valid or not. According to Stella (1993), there is also a widespread claim that privatization of revenue collection leads to overzealous collection. Tracing the background of the system, the author said that historical records are replete with evidence of overzealous in private revenue collection. The author gave the cases in the Dutch Republic, where the excess of private collection led to the most significant riots in the Republic's history.

#### **2.4.1. Effectiveness of MTEF Budgeting in Local Government in Tanzania.**

The expectation that the effective implementation of the MTEF Budgeting through attainment of the objectives will result into efficiency and effectiveness in the delivery of the public services, hence the consequences of this will result into improvement of the standard of living. According to Kihanga and Maziku, (2006), the effectiveness in Local Governments are centred around non-achievement of most Local Government objectives. In Tanzania, fiscal decentralization is more theoretical than practical. Besides, most of the MTEF Budgeting process is driven by Central Government through different ways such as provision of ceilings, guidelines and budget regulations are examples of how the Central Government influences the budgeting process.

Although Local Governments submit their budget proposals based on the ceilings and directives from the Central Government, ultimately it is the latter which decides

how much in funds-and for what purposes-each council should be given (Kihanga and Maziku, 2006).

One consequences of this is the delay in budget and activities implementation, usually linked to the delays in issuing ceiling, guidelines, regulations and funds (Farrant and Clarke, 2002).

The lesson from successful countries in MTEF indicates that its success is greater when the whole process of budgeting is driven by local authorities, and when there is wider participation of the civil society (African Region, 2002).

According to Kihanga and Maziku (2006), the following are the problems associated with MTEF Budgeting approach in Tanzania Local Government Authorities:-

- (i) Delay in release of guidelines as a results delay in starting to prepares estimates.
- (ii) The problem of balancing expenditure with resources envelope, and mismatch of priorities with community needs.
- (iii) The fact that the Central Government issues national priorities, this may sometimes mismatch with the local community needs. Inclusion in the budget of their priorities, are highly unlikely to get funds from the Government.
- (iv) Consultation and involvement of local authorities in the planning and budgeting process is limited, and the lover levels of Government-such as Village Governments-are to be a large extent excluded.
- (v) Linking objectives, targets and activities is another complicated problem in many Local Government Authorities. Most of their activities and targets are diversified. Activities do not respond with targets.
- (vi) The issue of SMART appears to be not well be known by many Local Government officials. The discussion revealed that such problems are compounded by a lack of knowledge and skills in MTEF Budgeting.
- (vii) The lack of common measurements of units of inputs leads to snags in council MTEF Budgeting.



## **2.4.2. MTEF implementation requirements**

Although in Practices vary considerably between countries, including OECD member states. However, seven key features of MTEF are major requirements must be considered on Implementation. These are:-

- **Good Macro-economic Policies**

Good macro – economic analysis and forecasts are needed as a basis for a MTEF,

- **Adaptable Fiscal Policy and Instrument**

The MTEF approach is based on a strong link between macro – economic policy and fiscal policy. Plans for future expenditure must be based on reasonable estimates of prospective resources.

- **Reprioritization and Reallocation**

Behind the move to MTEF is a conviction that the annual budget by itself is a poor mechanism for shifting resources from lower – to higher priority use. A major function of an MTEF is to provide a better mechanism for aligning budgets with policies.

- **Budgetary Discipline**

Budget allocations must be based on a hard aggregate budget constraint derived from what is affordable, and line ministries must live with their budget allocations

- **Institutional Conformity and Absence of Bias**

An MTEF requires a supportive institutional base; that is to say, one in which the various actors use the MTEF as a framework within which are taken expenditure decisions. In particular, political decision makers must have accepted the MTEF as the means by which resources are allocated.

- **Appropriate Parameters**

Designing an MTEF requires that its parameters to be set. These parameters are the definition of aggregate expenditure to be used, the relationship between the sectoral breakdown and the organizational structure of government, the appropriate price basis for estimating future expenditures, the mechanism for it is coordination with the annual budget process, and the degree of which it is to be flexed for different scenarios.

- **Transparency**

Fiscal transparency and policy transparency improve the accountability of actors engage in the MTEF process. Fiscal transparency means being open to the public about the structure and functions of government, fiscal policy intentions, public about what Government intentions are in a particular policy area, which outcomes are to be achieved, and the costs of achieving these outcomes. Also, transparency means reporting actual performance with quality of outputs and results achieved.

#### **2.4.3. Revenue Experience: Learning by Doing Process.**

According to REPOA Mwanza City Council pioneered the outsourcing of revenue collection in Tanzania as early as 1996 because of complaints from citizens about the council' revenue collectors and that the money collected did not benefit the people. Moreover according to council staff interviewed, councillor often intervened in the revenue collection process and also in the recruitment of revenue collectors. Based on the assessment of the revenue potential by a technical task force appointed by the council, the first tender for the Mwaloni fish Market was won by a fish dealer association and the tender for the Central Market was won by a Vegetable operative society operating in the market. This reform resulted in a substantial increase in revenues from these two sources. Based on these two experiences, the council decided to outsource revenue collection from other sources in 1997. However, according to council staff interviewed, poor assessment of the revenue potential and political interference in the tendering process, led to overambitious bids and the engagement of unqualified agents. The city council received less revenue from the

private agents in some of the outsourced markets than the amount the council staff had managed to collect before outsourcing took place. Similar problems were encountered with the private collection of property taxes from unsurveyed land. The outsourcing was therefore temporarily abolished and substantial revisions of the tender evaluation procedures and new measures for monitoring of the agents were put in place. Based on 2005/06 budget estimates, one third of the city council's own revenues were collected by 16 private firms, individuals and market associations. In many ways, outsourcing of revenue collection in Mwanza as well as in other local government authorities has been learning by doing process, where initial problems have been addressed on a trial and error approach.

#### **2.4.4. Why outsourcing and what are the experiences so far?**

##### **2.4.4.1. Cost effectiveness and Predictability**

Local government tax collection is in general very transaction intensive and often implies direct interaction between collectors and taxpayers which may facilitate corruption at the collection points. Before outsourcing took place the council treasury staff spent a substantial proportion of their time on tax collection. After outsourcing, council staffs were released to other responsibilities within the council. We were, however, informed of cases where council staff who previously were involved in collection, for instance ward executive officers, refused to support the private agents with data and information required to collect property tax. Furthermore, according to the some agents interviewed, revenue collection was actively resisted by individual councillors in some locations. Political interference was also reported as the main reason why elected councillors were removed from the council Tender Board in 2003, when the Local Government Procurement Regulations and the Local Government Procurement Manual were revised in 2003.

According to the same research by REPOA, many local revenue sources are seasonal; for example, taxes on agricultural products reach a peak during the harvest season. Thus, the inputs required for revenue collection also fluctuate, however, since council staffs are employed on a permanent basis, the labour costs are fixed throughout the year. In contrast, a private agent of a market association has much

more flexibility with respect to labour inputs, and thus can reduce the operational costs of revenue collection. For example the company contracted by Mwanza City Council to collect fees from the Mwaloni Fish Market engaged up to 25 people during the peak season, and reduced the number of collectors to 10 people during the low season. Private collection lowers the council's administrative costs by shifting the costs of collection onto the private sector rather than utilising local government employees for the same purpose. Furthermore, private collection may facilitate more predictable budgeting and planning for the council, since the revenues are given as specified in the contracts – if the agents comply with the contract.

#### **2.4.5. Money retained by the Agents.**

How much of the revenues collected is retained by the Agents? This varies between revenue sources, locations and agents. The agent contracted to collect entry fees from vehicles and passengers at the Ubungo Bus Terminal in Dar es Salaam in 2006 retained almost 60% of the revenues collected. Data from Mwanza City Council showed that on average 32% of the officially reported revenues collected were retained by the agent to cover costs and profits. Such margins are so high by any country's standards. Moreover it is likely that the official margins understate the actual margins, since the revenue potential reflected in the contracts in many cases is underestimated. For instance, a recent study from Uganda shows that the actual gross margins realised by private agents caused by the undervaluation of the market yields varied between 71% and 97%.

#### **2.4.6. Corruption.**

Private tax collection is likely to reduce corruption at the collection point by offering mechanisms for penalising poor collector performance. A private collector has in general (i) stronger personal interest in the collection results, and (ii) more effective mechanisms for personalising poor performance on part of collector. These factors combined may reduce corruption at the point of collection. The potential profits connected with such contracts can, however, encourage corrupt arrangement between members of the tender board and private entrepreneurs. In April 2006 a case of suspect tender deals for revenue collection and waste management was exposed in

Dodoma Municipality and taken to court. The case involved senior council officers and had resulted in substantial financial losses for the municipality.

Experience from other countries shows that this is a problem that may seriously undermine the credibility and working of the outsourcing system. An important measure to reduce this potential problem is to ensure the capacity of the local government revenue administration to assess the actual local revenue base.

Assessment of the revenue potential is still poor in many types of council in Tanzania and may imply that the contracted amount which is to be remitted to the council only represents a small fraction of the revenues actually collected by the agent.

There is a recognised danger, as reflected in historical evidence, that overzealous collection can occur under the privatised tax collection systems; however, this does not seem to be a problem in the councils covered by this study. Perhaps generous profits attributed to the agents as a result of accidental circumstances, such as the structure of local markets, bus stands etc, explain this observation. More general mechanisms for curtailing over zealous behaviour have also been established by awarding contracts to market associations, which collect the market fees from its own members. However, still there is a need for establish systems for dealing with complaints from taxpayers, including market vendors and property owners.

#### **2.4.7. Budget Process**

In Tanzania, the budgeting process is thematic, and is lead by Ministry of Finance (MoF) (World Bank, 2002). The budget process is actually about the annual budget cycle events and activities. Essentially it involves the determination of resources and their uses for attainment of government objectives. A sound budget serves as a tool for economic and financial management and accountability and also serves as a mechanism for allocation resources among different needs and priorities as well as bringing economic stability and growth.

#### **2.4.8. Budget formulation**

The budget estimates are formulated in line with detailed microsecond forecasts on future growth, inflation and external sector (import) trends. Donor/Government

Consultations assist the budget process by confirming donor financial commitment in the budget. These discussions take place between MoF/Sectors and Development partners. Once the macro-policy and sectoral performance review and resource projections are completed, the government then formulates goals, objectives and budget priorities which should be achieved in the forthcoming financial year. The government has decided to focus on poverty reduction and so the PRS targets as reflected in the PRSP documents and progress reports become the basis of allocating resources. The budget frame is also formulated for a longer three-year time period in a document called the Budget Guidelines (BG) or Medium Term Expenditure Framework (MTEF). This is prepared by a Committee which comprises representatives from the Ministry of Finance, Planning Commission, Prime Ministers Office, Public Service Management and Regional Administration and Local Government. The Budget Guidelines contain:

- (i) The overview of macro-economic performance and projections
- (ii) Priority sector MTEFs (prepared by Sector Working Groups in the Public Expenditure
- (iii) Review process which are consistent with PRS targets and have been updated and costed;
- (iv) Vote expenditure ceilings based on resource availability; and
- (v) Procedures for preparation and submission of the draft budget to the Ministry of Finance.

#### **2.4.8.2. Scrutiny of Budget Proposals and Dialogue.**

#### **2.4.8.3. The Inter-Ministerial Technical Committee (IMTC)**

This is a committee of all Permanent Secretaries which has a role to scrutinize budget proposals before they are finally approved by the cabinet. To facilitate the discussions, the MoF prepares a draft cabinet budget paper that covers the budget frame, the financial demands after dialogue with MDAs, the government priorities and financial implications. After a thorough review, IMTC may require the MoF to

make further technical improvements on the paper or put up recommendations for consideration by the Cabinet.

#### **2.4.8.4. Cabinet Approval**

The Cabinet budget paper is then discussed by the cabinet after preliminary review by IMTC. The role of the cabinet is to deliberate on the budget cabinet paper and then approve government budget proposals for fiscal year in question before they are submitted to the legislature.

#### **2.4.8.5. Parliamentary Sector Committees**

The process of obtaining Parliamentary authorization starts with discussions by Sector Committees; Preliminary briefs are provided by the Minister of Finance and the Minister for Planning and Privatization. MDA's detailed budgets are then submitted to Parliamentary committees for scrutiny one by one.

#### **2.4.8.6. Debate and Authorization.**

After the Estimates have been reviewed by the sector committees of the Parliament, they have to be tabled to parliament for debate and authorization. The major events during Parliamentary debate and authorization of the government are as follows:-

- (i) Presentation of a Public Speech on macroeconomic performance and projection by the Minister for Planning and Privatization.
- (ii) Presentation of the government budget proposals to Parliament by the Minister for Finance through a budget speech.
- (iii) Parliamentary debates/discussions on sector estimates submitted by each minister responsible.
- (iv) Parliamentary approval of estimates by passing the Appropriation Bill.
- (v) Parliamentary approval and passing the Finance Bill that empowers the Minister for Finance to raise the money and finance the budget.

Upon approval of the budget, the funds are disbursed to the councils by MoF through respective Council's bank accounts on quarterly basis. This is vital for financial control purposes (Coombs and Jenkins, (1991)

#### **2.4.8.7. Budget Execution.**

Budget execution is an important stage of the budget process as it is at this stage that actual revenue collections and service delivery takes place. Execution of the budget therefore is about the collection and accounting for revenue provision of services through the recurrent budget and implementation of development projects. The key documents used during implementation of the budget are Revenue and Expenditure estimates books, action and cash flow plans and budget memorandum.

Main activities are:-

- (i) Release of funds by the MoF
- (ii) Collection and accounting for revenue collections by TRA and other MDAs.
- (iii) Accounting officers are appointed as receivers of revenue and accountable officers for expenditure in accordance with the Public Finance Act, 2001.
- (iv) Delivery of services and project implementation by institutions. This involves both government institutions and Development Partners. Donors are required in some cases to release funds and award of contracts.
- (v) Maintenance of proper Accounts for control and Accountability
- (vi) Reporting on budget performance (both financial and physical) and evaluation.
- (vii) Project inspection and expenditure monitoring.

The Ministry of Finance publishes quarterly Budget Execution Reports to maintain transparency on actual use of public funds in line with the budget estimates approved by Parliament.

#### **2.4.8.8. Budget monitoring, evaluation and Control.**

Budget monitoring, evaluation and control are necessary for closer supervision of work programmes and projects. This involves a continuous monitoring of the plans and budget in order to identify achievements and bottlenecks. Basically, monitoring, control and evaluation focus on:-

- (i) Accountability – to ascertain appropriateness of expenditure and revenue and their conformity to the authorities through financial reports.



- (ii) Management assistance – for providing management with information on performance.

**2.4.8.9. Mechanisms for control and monitoring.**

- (i) Periodic reporting and follow-up. Specific formats have been issued for budget monitoring and follow-up.
- (ii) Internal Audit
- (iii) External Audit
- (iv) Parliamentary control.
- (v) Budget Review and adjustments.
- (vi) Project inspection.

However, the overall control and monitoring of public expenditure is now affected largely through an Integrated Financial management System (IFMS). This is a computerized system which links up most of the government paying stations in Dar es Salaam. Therefore Most payments are centralized and controlled. Hardly expenditure of commitment can be incurred without financial provision from IFMS. Major outputs from IFMS include:

- (i) Monthly flash reports on revenue collection and expenditure.
- (ii) Quarterly and annually performance reports.
- (iii) Control of excess spending beyond approved budgets.
- (iv) Specific reports based on user requirements

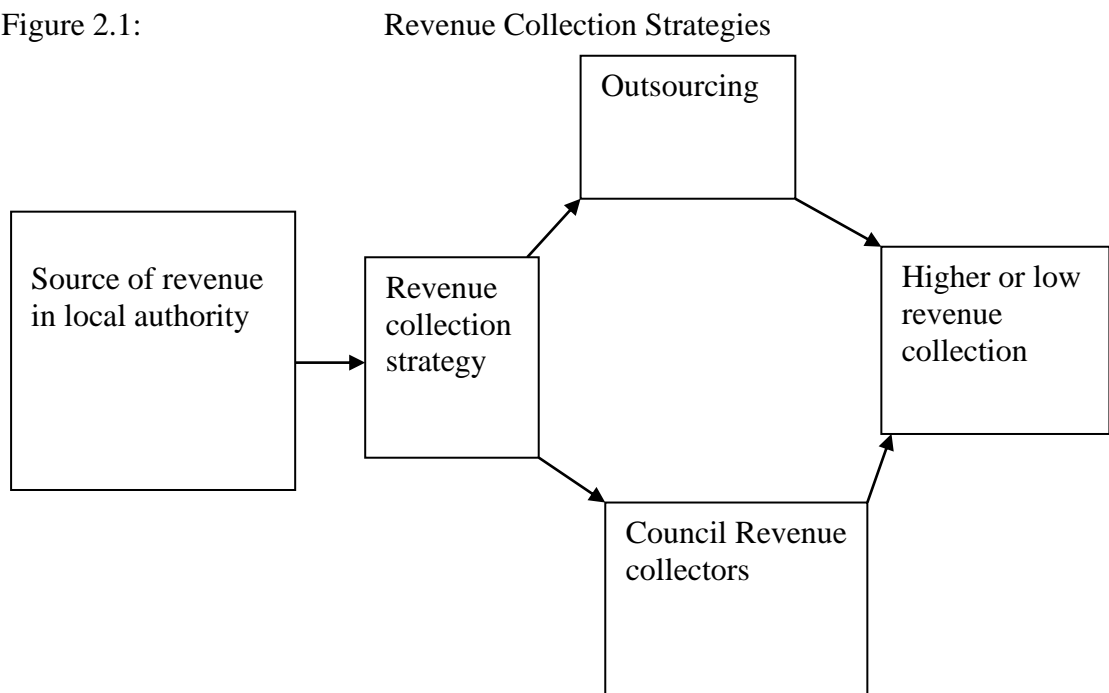
In addition to IFMS we have established sub-treasuries in all the regions for processing payment from decentralized government Ministries and Regions. Efforts are underway to establish sub-treasuries in all the Regions. 2 On top of that, LGAs are required to abide by other laws and regulations such as the Local Government finance Act (1982), the Local Government Financial Memorandum (1997), and the Local Authorities Accounting Manual (LAAM).

## 2.5. Conceptual Framework for studying the problem.

The study concentrated on assessing the revenue collection strategies in local government by looking on two strategies namely, outsourcing and collecting revenue by own staff.

According to researcher's view, in order to collect enough revenue in local authorities the council should set strategies for collection. It can be either through outsourcing or through council staff collecting from revenue sources or combination of both strategies. The more effective the strategy is applied the more revenue is collected and vice versa is true.

Figure 2.1:



**Source:** Designed and Compiled by the Researcher

### Summary.

This chapter discussed the literature review theoretically and its relationship to the study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0. Introduction**

This chapter discusses the research design, case study design, description of the study area, sample size, methods of data collection and data collection instruments. It further discussed data analysis.

#### **3.1. Research design.**

Research design is a master plan specifying the methods and procedures of collecting and analyzing the needed information. It is a framework or the blueprint that plans the action for research project. The objectives of the study determined during the early stages of the study are included in the design to ensure that the information collected is appropriate for solving the problem.

Researcher uses case study design to focus its study on revenues collection strategies of Ilala Municipal Council, a method was used in order to use various methods to study the subject matter as well as various techniques of collecting data under study.

##### **3.1.1. Case Study Design.**

The study uses case study design due to the fact that case study is a comprehensive description and analysis of a single situation or a number of specific situations. It is an intensive description and analysis of a case. It uses a qualitative approach to explore the case in as rich a detail as possible. It is more laying clinical analysis in retrospect; starting from the effect and tracing the reasons back in time. The researcher takes the history of the situation and makes use of any other relevant information about the case to identify the factors leading to the present situation.

Also, a case study design was preferred to other study such as survey and experimental due to the fact that it enables a thorough study of a unit over a range of variable. It may be conducted in any kind of social setting and is flexible in data collection techniques.

However despite the fact that the case study may be considered empirical yet it lacks rigors in its approach. Therefore it has limitations with respect to the reliability of the

findings. One may question whether the case is representative of the entire population.

### **3.2. Area of the Research or Survey.**

This study was conducted at Ilala Municipal Council, Ilala District in Dar es salaam. Various sources of revenue with their respective strategies used to collect them in Ilala Municipality were surveyed. The council was chosen to represent local authorities in the country. Also the researcher is familiar with Ilala Municipal Council. Hence the collection of data is expected to be simple and easily accessible.

### **3.3. Survey population.**

A population is the theoretically specified aggregation of study elements. It is translating the abstract concept into workable concept. In this study the population involved revenue collecting agents, revenue collectors and taxpayers of Ilala Municipal Council.

Moreover target population is the complete group of specific population elements relevant to research project. In this regards, revenue collecting agents, revenue collectors, revenue accountants, trade officers, municipal treasurer, municipal director and other decision makers on revenue collection of Ilala Municipal Council was the target population under this study.

The study involved visiting revenue sources to encounter with revenue collecting agents, tax payers and staff collecting revenue on behalf of Ilala Municipal Council. The population was homogeneous in term of income level, life standards and ability to pay tax within the municipality. Therefore it was easier to choose people to include in the sample.

### **3.4. Sampling procedure and design.**

Non probability sampling techniques were employed of which purposive sampling was used as basis of selecting elements to be included in the study. The basic idea of sampling is that by selecting some of elements in population. It can be used to draw conclusions and generalization about the entire population. A population element is subject on which the measurement is being taken. It is the unit of analysis. In respect

to this study the same sample comprises of respondents, the respondents was drawn from decision makers in Ilala Municipal Council, revenue collectors, revenue collecting agents and some potential taxpayers.

### **3.5. Method of Data Collections**

The study based on collecting both primary and secondary data.

Documentary sources such as relevant books, journals, newspaper clippings, reports and seminar papers were utilized to present the fact and to substantiate the arguments in order to secure secondary data. In respect to primary data, interviews, questionnaires and observation were used to collect data.

#### **3.5.1. Interviews in Research.**

This is a popular data collection tool in science research. In this research two interview schedules were used. One is designed for local government officials dealing with revenue collection and the other is for revenue collecting agents. The focused interview was used.

#### **3.5.2. Focused Group Discussion (FGD) in research.**

Additional primary data was collected through informal discussion round table meeting with revenue collection and other key informants to be found in revenue sources. In this research focused the researcher believes that focused group discussion is more formal way of getting groups of people to discuss on selected issues. The researcher is also expecting to use a focused group discussion of 6-12 persons guided by a facilitator.

#### **3.5.3. Questionnaires in Research.**

Research projects always do obtain information using questionnaires where the reasons being that questionnaires are flexible, easy to apply, relatively inexpensive and can be far reaching. Therefore questionnaires were administered to revenue collecting agents included in the sample. Questionnaires consisted of both open and closed ended questions in order to expand and enrich the quality and reliability of the information obtained from the respondents.

### **3.6. Data Analysis.**

Qualitative data was collected using interviews, informal discussion and round table meeting with revenue collectors and agents. These data were thoroughly examined by the researcher and they were analyzed using descriptive analysis.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents data analysis and the findings of the study whereby the main objective of the study was to investigate revenue collection strategies in Local Authorities using Ilala Municipal Council as a case study. Thus the findings from the research conducted, showed that revenue collections strategies in Local Government using outsourcing were not performing effectively. Moreover the findings of this study were the answers and views from respondents who were asked different questions by the researcher;

#### **4.2 Location**

Ilala Municipal Council is one of the three Municipalities within the Dar es Salaam City; the others are Temeke and Kinondoni. It is the second in size compared to Temeke and Kinondoni Municipalities. It covers an area of 656km<sup>2</sup> with a coastal line of 70km length. Ilala Municipal Council is located in the south of Dar es Salaam City, borders Coast Region in the South, Ilala Municipality in the north and west while in the east it stretches by the coastal line of the Indian Ocean.

##### **4.2.1 Ecological Characteristic**

Ilala Municipal Council is divided into three ecological zones:-

- (i). The northern upland zone of Buguruni, Vingunguti, Airport, Ukonga, Pugu, and Tabata
- (ii). The central zone of Magogoni, City Centre, Kariakoo, Ilala and Kigogo.
- (iii). Southern low land parts of Kisarawe , Chanika, Majohe, Msongole , Kivule na Mwanagati.

Most of the area is covered by sandy soil. The main natural vegetation is Coastal shrubs, Miombo woodland, Coastal swamps and mangrove trees.

#### **4.2.2 Climate**

Ilala Municipal Council lies in the Tropical coastal belt of Tanzania; it is therefore influenced by two major climatic seasons, namely rainfall and temperate seasons. Rainfall pattern is that of bimodal type with erratic conventional rains. The monsoon rains occurring almost throughout the Municipality between December and February, while the long heavy rains occur in the period from March to June. The amount of rainfall received ranges from 800 – 1200mm per annum. Temperature just like rainfall is also influenced by ocean currents. High temperature prevails throughout the year ranging from 250c during the period of June to August up to 350c in the period of January to March.

#### **4.2.3 Population**

According to 2002 population and Housing census; there were 768,451 inhabitants with a total of 187,609 households; of whom 387,364 were males and 381,087 females with an estimated growth rate of 4.6% per year. The current population (2012) is estimated to be 1,151,865 of whom 580,637 are males and 571,228 are females.

#### **4.3 Administrative structure**

Administratively, Ilala Municipal Council is divided into 3 divisions namely; Ukonga, Ilala and Kigamboni. The divisions are further divided into 30 wards; which are also divided into 180 Mitaa.

##### **4.3.1 Functions of the council**

Ilala Municipal Council was established on 10th November, 1999 under the Local Government (Urban Authorities) Act 1982 No. 8 section 8 and 9. The functions stipulated under section 54 (1) of the Act are:

- (i). To maintain and facilitate the maintenance of peace, order and good governance within its area of jurisdiction.
- (ii). To promote the social welfare and economic well being of all persons within its area of jurisdiction. subject to the national Policy and plans for rural and



Urban development to further the Social and economic development of its area of jurisdiction;

- (iii). To take necessary measures to protect and enhance the environment in order to promote sustainable development;
- (iv). To give effect to the meaningful decentralization in political, financial and administrative matters relating to the functions, powers, responsibilities and services of all levels of local government authorities.
- (v). To promote and ensure democratic participation in, and control of decision making by people concerned and
- (vi). To establish and maintain reliable source of revenue and other resources enabling local government authorities to perform other functions effectively and enhance financial accountability of local government authorities, their members and employees.

#### **4.3.2 Mission, Vision and Objective**

Reflecting the current situation of both programme management and service delivery and simultaneous abiding to compliance of Ilala Municipal Council mandate and functions, it was therefore necessary to revise the past institutional vision and mission statement which called for deriving broad objectives and SMART targets. Tentative activities (through the process of developing MTEF) and performance indicators were as well revised to support implementation of Five year development plan.

The overall long term development goal of the people of Ilala Municipality is embedded on National Policies and guideline National Development Vision 2025, The National Strategy for Growth and Reduction of Poverty (NSGRP) MKUKUTA, MILLENIUM DEVELOPMENT GOALS (MDG) and Medium Term Plan, Planning and Budget guidelines.

#### **Vision Statement**

Ilala Municipal Council aspires to have a community that enjoys sustainable high quality standard of living by year 2025.

## **Mission Statement**

Ilala Municipal Council's mission is to use all available resources augmented by the participation of stakeholders to provide quality and accessible service by all, reduce poverty and achieve high sustainable economic growth and excellent amenities which will attract and retain private and public investment.

### **4.4 Social service delivery**

#### **4.4.1 Education**

Ilala Municipal Council in collaboration with other education stakeholders is committed at providing high quality education services, ranging from pre-primary education, Primary Education, Secondary Education, Vocational Training and Adult Education.

#### **4.4.2 Primary School Education**

There are 135 primary schools in Ilala Municipal Council with 1,810 streams and the total number of 173,680 Pupils. Out of these pupils 84,965 are boys and 88,715 are girls. The government schools are 109 while private schools are 23. The number of pupils in government schools is 165,799 of which 81,277 are boys and 84,522 are girls. The 23 private schools have 7,881 Pupils of whom 3,688 are boys and 4,193 are girls.

There has been an increase in the number of enrollment as shown in the table below:

#### **4.4.3 Secondary School Education**

Ilala Municipal Council had 80 Secondary schools out of which, 40 were government owned and 40 were privately owned.

Due to the increasing number of pupils who complete primary education and its subsequent raise number of pupils who pass the standard VII examinations, the demand of secondary school education has gone up in the Municipality.

The number of pupils in Government Secondary schools is 47,077 where by boys are 24,729 and girls 22,348 the private Secondary school the number of students is

15,525 where by boys are 8,170 and girls 7,355. The total number of students in all Secondary schools is 62,602 where by boys are 32,908 and girls are 29,694. There are 1,190 teachers in government schools there by male are 510 and females 680.

#### **4.5 Infrastructure**

The road network extends as far as 1,046.3 km. The network includes tarmac roads, which covers 169.3km, gravel/earth roads covers 554.7km. The council is responsible for the operation and management of 787.3km (75.2%). The other 259 km (24.8%) are managed by Tanzania Roads Agency (TANROADS).

#### **4.6 Tourist attractions**

Ilala Municipal Council has great potentials in tourists' attraction although much of its potential is not well developed. The majority of the hotels are located in the City center of Dar es Salaam.

However in recent years, a many of tourists hotels facilities have been established in the coastal area of Ilala Municipality, this is due to conducive and attractive weather found in the area. There is also another interesting historical site called National Museum located at the City Centre,. Currently, in Ilala Municipal Council there has been mushrooming of many beautiful hotels and malls with a lot of attractions attracting many many local tourists. Also Ilala Municipal Council is currently inviting many stakeholders to invest in different tourist areas of the Municipality.

#### **4.7 Investment opportunities in Ilala Municipal Council**

##### **4.7.1 Mining**

There are four main extraction activities in the Municipality. Salt production, Quarrying targeting other material other than sand especially Coral, for construction, Coral extraction from the sea is one of the most destructive activities in the coastal area. Live and dead coral are extracted using pick axes, crow bars and other implements. Sand extraction is carried out in quaternary sand deposits and in several rivers and streambeds and around built-up areas in the Municipality. These areas

include: -Majohe, Chanika, Kivule, Mwanagati, Msongole and Mzinga rivers and their tributaries

#### **4.7.2 Tourism**

Tourism in Ilala Municipality has great potentials; it is emerging because much of its potential sites are being developed. The majority of big and attractive hotels are located in Ilala Municipal Council City centre.

However in recent years a number of hotels and motel facilities are growing in the coastal area of Temeke Municipality due to white sand beaches attraction.

### **4.8 Trade, Industries and Manufacturing**

#### **4.8.1 Trade**

It encompasses wholesale, sub wholesale, retail trade, hotels, guesthouses and financial institutions and related activities. Few private firms conduct wholesale activities and retail trade activities related to agricultural produce. Several local enterprises are carrying out manufacturing of consumer goods. Through this sector, a variety of goods are produced and supplied to municipal inhabitants. The trading sector is contributing tremendously towards enhancing the economic growth of the municipality as it employs about 49% of its residents.

#### **4.8.2 Industry**

There are nearly 40 major industries that are clustered in Vingunguti and Kiwalani Industrial Area which is situated in the northern part of the Municipality, while over 158 medium scale industries are located in , Kurasini

Manufacturing and processing industries are dominant in Kiwalani, Kilwa road and Mikocheni. Service industries which include garages and warehouses are situated in Kariakoo and Buguruni and part of Kilwa road.

Wood products such as furniture making and distributing industries are concentrated along Nyerer road. And Mwai kibaki road previously Old Bagamoyo Road.

### **4.8.3 Markets**

For the time being there are 12 formal markets with the capacity of 4500 small traders. However only Kariakoo, Ferry, Kisumu and Machinga Complex market which are in good standard as a market while others are just like “magenge”

### **4.9 Informal sector**

According to the National population and Housing Census 2002 the Informal sector account for about 49% of total population labor force of 66,6075 of Ilala population. The category of informal occupations include: street vendors who constitute 24.4 percent, farmers 13.4 percent, service and shop sales workers 11%, craftsmen 10%, elementary occupations 9%, technicians and associated professionals 8%, plant operators and assemblers 6 %.

Many of these informal businesses do not have official designated area for their activities thus frustrating municipal efforts in keeping the environment clean. In order to reduce tension of the street vendors Ilala Municipal Council had set aside three designated areas for them. Tazara RTD with the capacity of accommodating 1970 street vendors, Buguruni with the capacity of 950 street vendors and Mchikichini with capacity of 725 street vendors. These areas are not well developed and they lack essential infrastructures such buildings and structures, electricity, water and latrines. However, the located areas are not enough for the existing street vendors due to day to day increase in influx of street vendor.

### **4.10 Specific areas for investment**

#### **4.10.1 Thematic area for investment**

Ilala Municipal Council has earmarked a number of specific types of areas of Investment. These areas are Housing, Social economical infrastructures, solid waste management and recycling, Transport, Tourist development,

Fish processing, Industrial par and Public toilets constructions. In this study, triangulation was employed; this approach refers to the combination of different

research methodologies and methods within the same research with the assumption that they can complement one another. Through the use of qualitative methods; questionnaire and review of documents were used to get information from respondents as far as revenue collection strategies in Local Authorities. The openness of qualitative research methods, mainly questionnaires and participatory observation, helped the researcher in adjusting his questionnaires to what was perceived relevant. A combination and comparison between what people said, what he observed and what is written in the documents (reviewed documents) was used as evidence for understanding the larger cultures and social contexts of the people of Ilala Municipal Council.

Therefore, the use of triangulation allowed the researchers to capture a more complete, holistic and contextual portrayal and revealed the varied dimensions of a given phenomena, with each source contributing an additional piece to the puzzle. The collected data were analyzed quantitatively and qualitatively, where excel was used to quantify the collected data; and information were presented using Tables, Histograms, and Pie charts were used to present specific information.

So, the findings indicated that, despite the fact that, Outsourcing revenue collection was best option to some sources of revenue in Ilala Municipal Council but it has proved failure to use outsourcing to collect revenue. However, there are some areas it indicated success in revenue collection, by using revenue collectors.

Based on questionnaire, participatory observation method of data collection and other methods, the following are the findings of this study and also regarded as the answers of the research questions of this study:

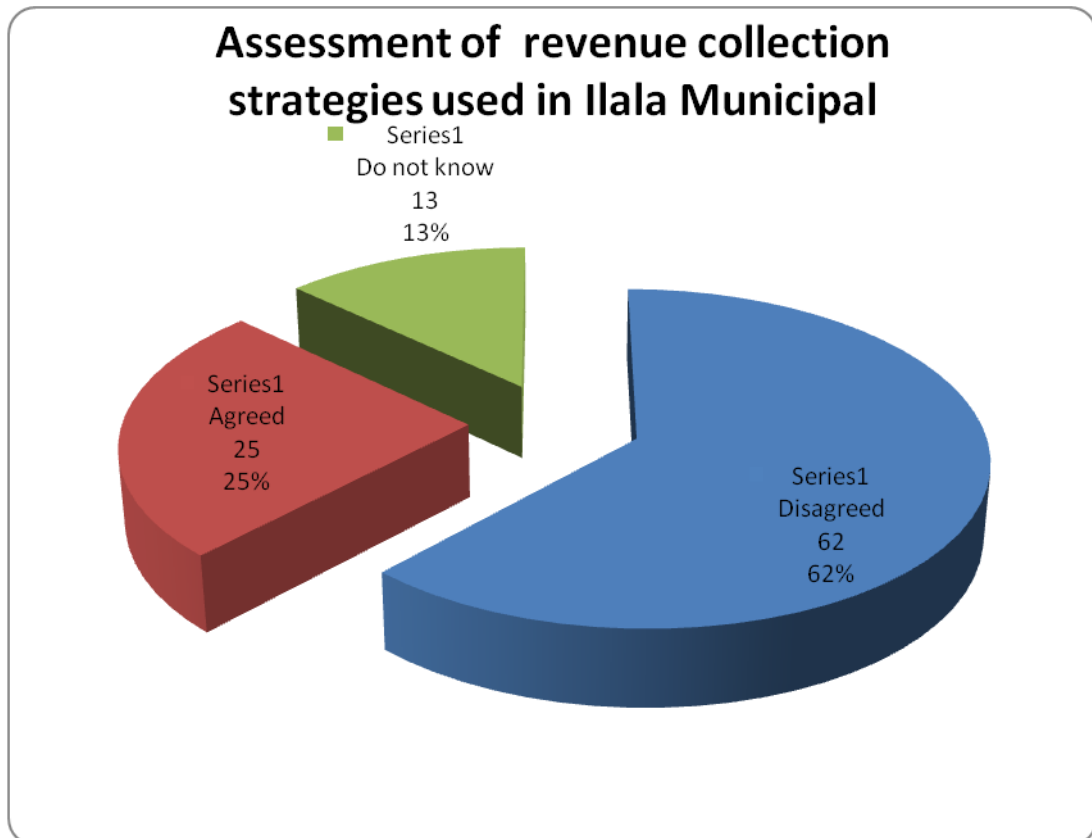
#### **4.11. Revenue collection strategies in Ilala Municipal Council**

When the respondents were asked whether LGAs assessed their revenue collections strategies in 3 years and also whether they determined its effectiveness.

Sixty two percent (62%) of the respondents said that the revenue collection strategies were not performing well. Twenty five percent (25%) said that the revenue collection strategies were performing well and 13% did not know whether revenue collection

strategies were performing effectively or not. According to the results from both questionnaire and participatory observation, it shows that the performance was inadequate. The figure 4.1 below shows the summary of the results

Figure 4.1: Revenue Collection Strategies in Ilala Municipality



Source: Fielddata 2014

The finding indicates that, in Ilala Municipal Council, there were two strategies for revenue collection, namely own source collection using the council revenue collectors and outsourcing some source of revenues. The study found that in Ferry, Mchikichini and Kibasila markets, the revenue was collected through the council staff (Council Revenue collectors). In Ferry Market where the collection of revenue was done through the Agents only a maximum of 8,000,000 was collected per month but the revenue now is not less than 30,000,000 per month using the council staff.

Also the study found that in Ilala, Buguruni, Kigogo Sambusa, Kisutu and Tabata the revenue was collected through Agents. The problem with the agents is that they don't

remit revenue to the municipality on time. Also only one Agent of Ilala Market called Workers General Agent remits monthly. However they collect below the budget like other agents.

These findings therefore show that collecting the revenue through the Council Revenue Collectors is far better than through agents. This is because, as shown above, when the sources of revenue increases at any point in time the revenue collection also increases, but the agents will only give the fixed amount for the whole tenure of contract regardless of whether the sources increase. This means that the agents may benefit at the expense of the council. A through analysis of the revenue to be collected per month for the entire year should therefore be done. In some cases, however, the evaluation is underestimated and the council may end up losing a lot of revenue from a viable source for the entire year. One disadvantage of using the council staff is that some of them are dishonest and usually engage in corruption practices that result in a heavy loss of the council revenues.

These findings are contrary to what Hans (2000) observed. In his study, he identified outsourcing as a good approach for privatization. He points out that outsourcing provides effective collection of revenue and leads to the development of local authority. In Tanzania, privatization focuses at increasing revenues to sustain development, and the more efficient strategy for collecting the revenues according to this study, is through the council officials rather than agents. According to Kejo (2000), privatization also focuses at increasing the efficiency of the productive sector, and reducing government budgetary cost. He further states that privatization has brought reforms that aimed at broadening direct ownership and control of productive asserts, and reorienting the role of state.

#### **4.12. Investigating revenue collections strategies in Ilala Municipal Council**

During the interview, the respondents were asked to state whether outsourcing strategy in collecting revenue or collecting revenue using through the council collectors was successfully in Ilala Municipal Council. Fifty one percent(51%) of respondents said that, collecting revenue through council revenue collectors was the



best strategy, 46% of respondents favoured outsourcing, and 3% of respondents were not certain as to which strategy was better.

Figure 4.2: Revenue collection Strategy



**Source:** Data from the field, 2014

The agents were blamed for being inefficient in collecting revenue because they used unprofessional person in order to minimize the cost and maximize their profits. Sometimes they destroyed the established tax system by taxing less than the established tax rate. Also, some of the respondents argued that, the contract usually lasts for one year or more. The agent therefore continues to pay the same amount even if the business environments changes, for example more revenue may be collected, this situation only benefits the agents at the expense of the council.

However, collecting revenue through the council revenue collectors, proved failure due to the following reasons:

First, the findings indicate that there was some council staff that conspired with tax payers to minimize the tax intentionally after being bribed by the corrupt business people.

Second, due to political influence, the tax base was relaxed by many exemptions, and hence, more revenue was lost.

Also, lack of motivation to staff demoralizes revenue collectors. For example, when transport was not provided by the council it becomes difficult for revenue collectors to travel in different parts of the municipality in order to collect revenue because some of the sources are very far from the council headquarters. Moreover, lack of enough tools and equipment, inadequate bylaws, inadequate updated tax payers' database, poor customer care, inadequate knowledge to tax payers were among the reasons for the failure.

#### **4.12.1. Collecting revenue using Agents**

Ilala Municipal Council used Agents in collecting revenue. The revenue collected in each source was fixed for every financial year. Table 4.1 below indicates the revenue collected from July, 2011 to April, 2012.

Table 4.1: Revenue Collection by Agents at Ilala Market

<b>MONTH</b>	<b>YEAR</b>	<b>AMOUNT (000)</b>
JULY	2011	10,589
AUGUST	2011	10,589
SEPTEMBER	2011	10,589
OCTOBER	2011	10,589
NOVEMBER	2011	10,589
DECEMBER	2011	10,589
JANUARY	2012	10,589
FEBRUARY	2012	10,589
MARCH	2012	10,589
APRIL	2012	10,589

**Source:** Data from field, 2014

**Table 4.2: Revenue collection by Agents at Ferry Market**

<b>MONTH</b>	<b>YEAR</b>	<b>AMOUNT (000)</b>
JULY	2011	15,121
AUGUST	2011	15,121
SEPTEMBER	2011	15,121
OCTOBER	2011	15,121
NOVEMBER	2011	15,121
DECEMBER	2011	15,121
JANUARY	2012	15,121
FEBRUARY	2012	15,121
MARCH	2012	15,121
APRIL	2012	15,121
MAY	2012	15,121
JUNE	2012	15,121

**Source:** Data from the field, 2014

Table 4.1 and 4.2 above indicate that the revenue collected by agents at Ilala and Temeke Market from July 2011 to June 2012 was fixed. Tsh 10,589,100 was collected from Ilala market and at Ferry market a total of 15,121,000 per month was collected.

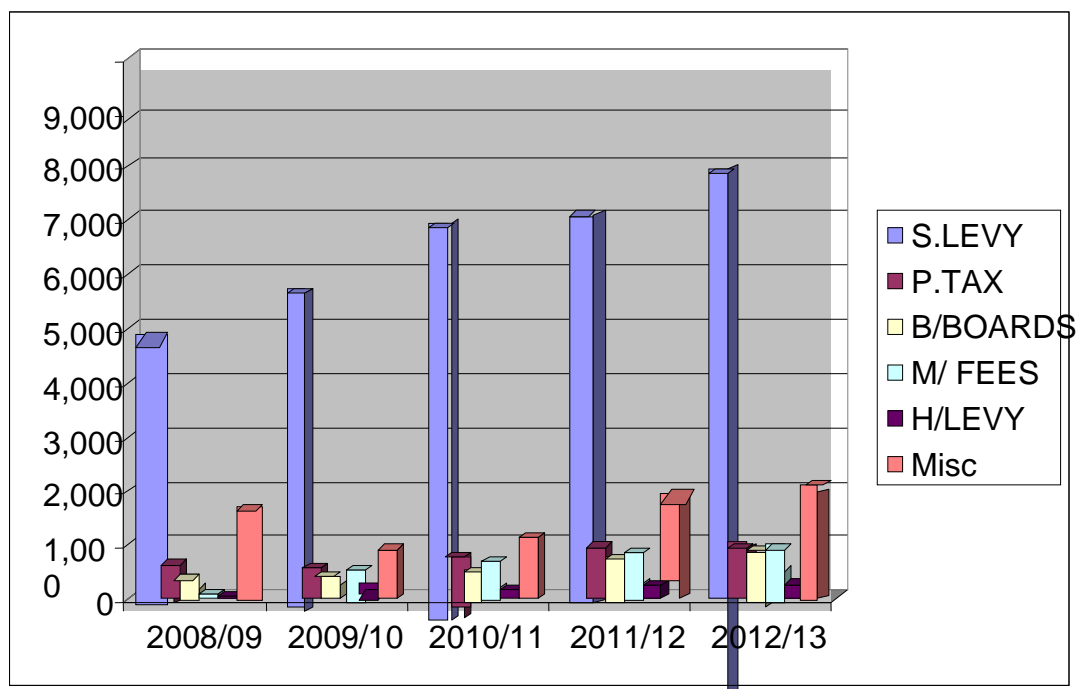
#### **4.12.2. Revenue collections by Municipal's revenue collectors**

Revenue collecting through council revenue collectors was one of the strategies which were used in Ilala Municipal Council. The amount of revenue collected by revenue collector was not fixed like that collected by revenue agents. This revenue varies from year to year depending on the peak of the season. Table 4.3 and figures 4.3 below show the level of collection by source from 2008-2013 at Ilala Municipal Council.

Table 4.3: Revenue collection by source from 2008-2013

Source	2008/2009	2009/2010	2010/2011	20011/2012	2012/2013
Service levy	4,993,810,596	5,602,641,714	5,666,730,402	6,945,354,990	7,721,234,000
Property tax	603,810,871	577,947,889	761,624,981	888,576,788	912,000,000
Bill boards	442,230,762	306,497,807	463,858,442	471,635,215	534,000,000
Market fees	252,750,340	421,664,400	578,335,600	645,664,400	699,664,400
Hotel levy	133,994,773	217,234,055	204,204,579	237,756,695	364,795,055
Others	1,587,840,122	905,073,051	1,064,795,757	1,756,160,048	1,878,160,064
<b>TOTAL</b>	<b>8,014,437,464</b>	<b>8,031,058,916</b>	<b>8,739,549,761</b>	<b>10,945,148,136</b>	<b>12,109,853,519</b>

Figure 4.3: Revenue Collection Trend by Source 2008-2013



Source: Data from field, 2014.

#### 4.13. Reasons for failure of some revenue collections strategies

The respondents were asked to state why some strategies for collecting revenue in Ilala Municipal Council failed. Several root causes were identified, 40% of the respondents mentioned poor rules and regulations to guide revenue collection process as the major reason, 5% said weak internal control system was the reason behind the failure, 5% said it was due to lack of working tools and equipments , 10% identified lack of job training and lack of motivation among the revenue collectors , 5% mentioned lack of reliable transportation , political interference was pointed by 10% of the respondents and 10% identified inadequate updated tax payers database to be the root causes of failure.. Figure 4.4 on page , below shows clearly the summary of these reasons percentagewise

##### 4.13.1. Poor rules and regulations to guide revenue collectors

As stated above, 40% of the respondents said that factor like poor rules and regulations to guide revenue collections led to the failure of some revenue collection strategies in Ilala municipality. The local authorities had ineffective strategies for collecting revenues. Therefore in order to collect enough revenue, it is essential for the municipal authority to set more appropriate policy and modify inadequate rules and regulation.

#### **4.13.2. Weak Internal Control System.**

As shown above, 15% of the respondents said that weak internal control system was the reason for the failure of some revenue collection strategies. Internal control system enables proper functioning and ensures quality performance in any institution. Weaker internal control gives dishonest official a loophole to manipulate various functions for their personal benefits. High revenue collection therefore depends on the effective control system and vice versa

#### **4.13.3. Lack of Working Tools and Equipment**

When the respondents were asked why some strategies of collecting revenue fail, 5% of the respondents said that factor like lack of working tools and equipment lead to the failure of some revenue collection strategies in Ilala Municipal Council. Even for highly motivated workers, it is impossible to perform effectively without necessary working tools. It is therefore mandatory for the authority to provide all necessary equipment for revenue collection process.

#### **4.13.4. Lack of Job Training**

Ten percent (10%) of the respondents said that lack of job training may cause the failure of some revenue collection strategies. It is obvious that new ways of doing things, such as businesses are emerging every day, and these need new strategies for dealing with them, it is important therefore to provide on job training to revenue collectors in order to update their knowledge on effective modern ways of collecting revenues.

#### **4.13.5. Lack of Motivation among the Revenue Collectors.**

Five percent (5%) of the respondents said that lack of motivation among the revenue collectors was the reason for failure of some revenue collection strategies. Motivate workers usually work very hard and can endure and work on various challenges that may happen. Hence, it is important design a plan to motivate the revenue collectors in order to make them work more efficiently. This may result in high revenue collection.

#### **4.13.6. Lack of Reliable Transport**

When respondents were asked why some strategies of collecting revenue failed 5%, of the respondent said that lack of reliable transport to revenue collectors could be the

reason for the failure. This is because revenue collectors had hardships when collecting revenues due to lack of transport facilities. Due to this situation the revenue collected became low.

#### **4.13.7. Political Interference.**

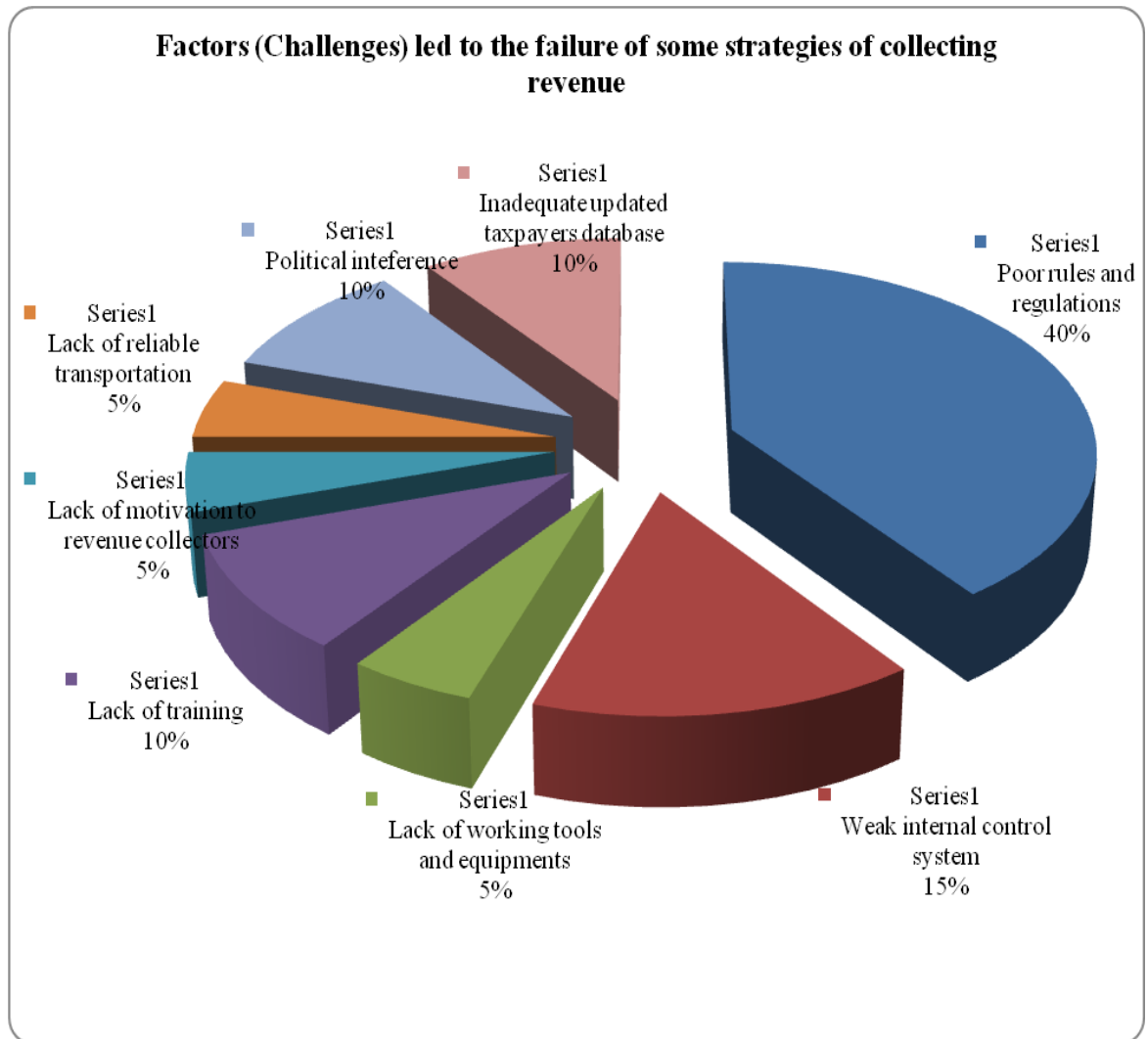
Ten percent (10%) of the respondents said that political interference caused the failure of some revenue collection strategies. Revenue collections in some areas were stumbled due to some political decisions. Some of these decisions were intended to please and win political sympathizers of some leaders.

#### **4.13.8. Inadequate updated taxpayers' database.**

Ten percent (10%) of the respondents said that inadequate updated tax payers' database caused the failure of some revenue collection strategies. It is so hard to identify the exactly number of tax payers if the database is not being updated. This may cause the revenue collection strategies fail.

Figure 4.4 below, presents a summary of the reasons for failure of some revenue collection strategies

**Figure 4.4: Factors/Reasons for the Failure of Some Strategies in Collecting Revenue**



Source: Data from field, 2014

#### **4.14. Effective revenue collection strategies.**

The questionnaires were administered to revenue collectors and revenue collecting agents of Ilala Municipal Council. The responses indicate that, 51% of respondents preferred the use revenue collectors while 46% of respondents were in opinion that the use an agent was more effective than using council staff.

However, more scrutiny indicates that it is more prudent to use both strategies in collecting the revenues because as the findings revealed, the success of the strategy depended on various factors. In some sources of revenue, revenue collectors were successful and in some sources, revenue collecting agents were doing well.



#### **4.15. Improvement of revenue collection in Local Authorities**

In order to improve revenue collection at Ilala Municipal Council, it is suggested from this study that, the council authority should plan appropriate ways to ensure efficiency in revenue collection process. For example, it is important to analyze and evaluate source of revenues before outsourcing in order to establish their viability. This implies that the Municipal authority should project the estimates to the future sources increasing potentials. The council should enter contract with more flexible terms to allow it to demand more revenue when there is an increase in sources. Another means for improving revenue collection is by motivating the revenue collectors for example, by providing them with incentives in forms of cash or in kind upon meeting revenue collection targets.

Moreover, there should be enough tools and equipments for collecting revenues. This will help the revenue collectors to attend every tax payer easily. The authority should also provide revenue collectors with more reliable transport; this will allow them to visit as many sources as possible at any time even in more remote areas. Another improvement can be on aspect of database. The local government authority should update the tax payers' database to raise awareness to both tax payers and revenue collectors. Important information about the tax payers should always tell the current condition of every tax payer; this will help to establish whether he should pay more or whether he needs reduction if his business is not doing well. Finally, the authority can improve revenue collection process by establishing adequate bylaws to guide and protect both customers and revenue collectors during the process of collecting revenue for the council.

#### **4.16. Summary.**

The chapter discussed the research findings. Two strategies for collecting revenue in Ilala Municipal Council, namely collecting the revenue through the council staff and through the agent were assessed. The study identified that to collect revenue through council staff was more effective than through the agents. The findings show that 51% of the respondents favoured collecting revenue using council staff. Although this strategy has its drawbacks, its benefit far outweigh the drawbacks, it therefore needs to be improved for better results in the future. The next chapter presents a summary of the findings, conclusion, and policy implication of the findings.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENATIONS**

#### **5.1. Introduction**

This chapter presents summary, conclusion and policy implication of the findings in this study.

#### **5.2. Summary of the study.**

The study sought to investigate the revenue collection strategies in Local Authorities using Ilala Municipal Council as a case study. In order to achieve this general goal, three guiding research objective were formulated. These appear in Chapter One and are repeated here below:

- (i) To assess revenue collection strategies used at Ilala Municipal Council.
- (ii) To investigate if there are any revenue collection strategies which have proved failures in collecting revenues at Ilala Municipal Council.
- (iii) To investigate the reason why some strategies for collecting revenue fail

Guided by these research questions, the findings show that to collect revenue through council staff was more effective than through the agents. The findings show that 51% of the respondents favoured collecting revenue using council staff. Collecting revenue through the agents was blamed for causing loss to the council. The agents usually pay a fixed amount even when the sources increase. However, in some cases some revenue collection strategies failed. Several reason for the failure was identified, namely poor rules and regulations to guide revenue collection process, weak internal control system, lack of working tools and equipments, lack of job training, lack of motivation among the revenue collectors, lack of reliable transportation, political interference and inadequate update of tax payers database.

In order for the municipal council to overcome these problems some solutions were suggested, including motivating the revenue collectors' provision of enough tools and equipments for collecting revenues, providing revenue collectors with more reliable transport and updating the tax payers' database to raise awareness to both tax payers and revenue collectors. The study focused in Ilala Municipality. A sample of 100 respondents

was selected through both probability and non probability sampling procedures. . The main data collection methods were questionnaires and review of various documents. The collected data were presented, analyzed, and discussed.

### **5.3. Conclusion**

In respect to research questions under this study, the study revealed that, current performance of Ilala Municipal Council as far as revenue collection is concerned is recommendable. The council used two revenue collection strategies, which are using the council's revenue collectors and revenue collecting agents.

Both strategies had strength and weakness as indicated in the research findings. There are some sources which revenue collecting agents proved to be successful and there are some areas which they proved failure. The same was for the case of council staff revenue collectors they performed well in some areas and did poorly in other areas.

Therefore, the council needs to do some feasibility study before subjecting the revenue sources to either revenue collectors or revenue agents for this matter. The council needs to continue using both strategies depending on the circumstances.

Moreover, some of the strategies which the council can use to enhance revenue sources include providing education to the tax payers, identify new sources of revenue, to assign competent revenue collectors, and make regular follow-up to revenue collecting agents to make sure that they comply with the established tax systems.

### **5.4. Recommendations**

#### **5.4.1. Policy Implications**

The policy implication for this study is divided into two areas, that is, what should be done in respect to outsourcing and also, what should be done in respect to revenue collecting agents.

#### **5.4.2. Outsourcing.**

- (i) The council should make sure that, all contracts with agents take only one year only; longer term contract should not be entertained.

- (ii) The council should continually monitor revenue collecting agents so that they continue abiding to the rules and regulations leaving them free for a long time they may destroy the established revenue collecting system.
- (iii) Also, the council needs to do feasibility study before outsourcing the revenue sources in order to understand how much is exactly needed to be collected from that source. This is because sometimes sources are underpaid by revenue collecting agents.
- (iv) Corruption destroys all the strategies for revenue collection; hence, the council should assign the task of revenue collection to people with integrity, who can defend the interest of the council. Some council staff corrodes the system by engaging in corruption practices with revenue collecting agents.

#### **5.4.3. Using revenue collectors**

These are staff of Ilala Municipal Council; the study recommends the following to the council:

- (i) Some revenue collectors are dishonest; they have two kinds of revenue collecting receipts, and the council needs to take care of this situation because more revenue goes to the revenue collectors' pockets.
- (ii) Political interference is also an issue, as many tax payers are given tax exemption and hence reduce revenue to the council.
- (iii) The council should provide transport facilities to revenue collectors in order to perform their duty effectively.
- (iv) Also, the council needs to train revenue collectors on various techniques to deal with tax payers who are not willing to pay tax.

#### **5.5 Summary**

The study was about revenue collecting strategies in Ilala Municipal Council. The study found that, the council has two strategies, that is, revenue collecting agents and council revenue collectors. Both strategies have their own challenges; however, the success outweighed the challenges as far as revenue collection is concerned at Ilala Municipal Council.

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## APPENDICES

### Appendix I. OUESTIONNAIRE

**(To be filled by both Junior and Senior Officials of Ilala Municipal Council)**

Survey Instrument on the Perception of Various Stakeholders on the Success or Challenges of Revenue Collection Strategies in Local Government Authorities in the case of Ilala Municipal Council.

### INTRODUCTION

I am a student pursuing a Masters Degree in Accounting and Finance at the Mzumbe University. As a partial requirement to the award of an Accounting and Finance Master Degree, I am required to undertake a research. Thus I am accordingly researching into the Revenue Collection Strategies in Local Government Authorities in the case of Ilala Municipal Council. This questionnaire is designed to collect your views and perception about Challenges of Revenue Collection Strategies in Ilala Municipal Council.

In this regard therefore, you are kindly requested to answer the questions below so as to help researcher to accomplish his academic requirement. Please take a few minutes to complete this questionnaire. This information is for academic purpose only. The answers will be kept completely and entirely confidential.

### SECTION 1: SOCIO- DEMOGRAPHIC BACKGROUND

1. NAME OF RESPONDENT (Optional) ...
2. Age of respondent

Tick in the appropriate Box

Under 25	26-35	36-45	46-55	56-65	Over 65

3. Gender

Male	Female



4. Educational background

Primary	Form IV	Form VI	College Certificate/ Diploma	University Degree or Equivalent	Masters Degree or Equivalent	PhD

5. Work experience with your Employer

Up to 12 Months	1-2 Years	2-5 Years	5-10 Years	10-15 Years	15-20 Years	Over 20 years

6. Occupation or Position (please mention)

.....

7. Please mention your responsibilities in Ilala Municipal Council ;

.....  
 .....  
 .....

8. Have you ever attended any training to performance those activities above?

- (i) YES
- (ii) No

9. If the answer is yes what kind of training (Please circle applicable)

- (i) In House training
- (ii) Off – job training e
- (iii) Workshop
- (iv) Others specify .....

10. On your views; do you think training help to improve your performance?

- (i) YES
- (ii) No

11. If answer is yes to what extent (Please circle applicable)
  - (i) Highly improved
  - (ii) Moderate Improved
  - (iii) Slightly improved
  - (iv) No improved
  - (v) Don't know
  
12. In your opinion what problems associated with Revenue Collection Strategies in Ilala Municipal Council; .....
  
13. Which revenue collection strategies are used in Ilala Municipal Council?
  
14. If you compare the two strategies of collecting revenue by using agents or revenue collectors; which strategy is best to be used by Ilala municipal council?  
 .....  
 .....
  
15. How much Ilala Municipal Council gets before using the outsource strategy?  
 .....
  
16. How much do Ilala Municipal Council get when they started to outsource?.....
  
17. Are there any revenue collection strategies which have proved failures in collecting revenues at Ilala municipal council?  
 .....  
 .....  
 .....
  
18. Which revenue collection strategies are successfully used to collect revenue at IMC?  
 .....  
 .....

.....  
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19. What should be done to improve revenue collection in local authorities?

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20. Do you get any serious challenges in collecting revenue?

.....  
.....  
.....  
.....

21. What should be done to improve revenue collection using Agents at Ilala municipal Council?

.....  
.....

*Thank You for Your Cooperation*