

Outsourcing Revenue Collection: Experiences from Local Government Authorities in Tanzania

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Many local government authorities in Tanzania have reformed their tax collection systems in recent years in order to increase their revenue. This brief examines recent experiences with privatised revenue collection in seven urban and rural councils in Tanzania, with particular focus on the outsourcing of revenue collection to private agents.

Such knowledge is relevant for present and future tax administration reforms and for the broader issue of outsourcing local government services. Outsourcing of revenue collection was enhanced by the guidelines on outsourcing local government services issued in 2001 by the President's Office - Regional Administration and Local Government.

The brief concludes that privatised collection offers no 'quick-fix' to increasing a local government authority's revenue, as well as easing administrative problems with the revenue collection. While collection had increased and became more predictable for some councils which had outsourced revenue collection, others had experienced substantial problems with corruption and exceptionally high profit margins for the private agents at the expense

of accomplishing a reasonable return to the local government authority. However, when appropriately managed and monitored, the outsourcing of revenue collection can establish a platform for more effective and efficient local government revenue administration.

Features of Revenue Outsourcing

A large number of revenue sources have been outsourced in recent years (see table overleaf). They include: private collection of property taxes in some urban councils such as in Ilala and Kinondoni Municipal Councils and Mwanza City Council; market fees in both rural and urban councils; forestry levies (until 2005) mainly in rural councils such as Kilosa and Kisarawe; cess on certain agricultural products in rural councils; and bus stand and parking fees. In Mwanza more than one third of

the council's own revenues in 2006 were collected by private agents.

Revenue collection is outsourced to a range of different types of agents within and across the councils studied. For example, in Kinondoni MC the collection of property taxes in certain areas were collected by a private consultancy firm specialised in tax advice during 2004-2005; while the collection of market fees was outsourced to market associations or co-operatives operating in the respective markets. In Mwanza CC, the collection of fish market fees was outsourced to a fish dealer organisation, while the collection of fees at the central market was contracted to a vegetable cooperative operating in the market. In Kisarawe and Kilosa District Councils, the collection of forest levies (until they were abolished in 2005) was outsourced to a private firm whose main activity is the operation of private schools.

Private Revenue Collection in Selected Councils							
Revenue Bases	Dar es Salaam CC	Ilala MC	Kinondoni MC	Mwanza CC	Kilosa DC	Kisarawe DC	Moshi DC
1. Property tax (flat rate)*		X	X	X			
2. Market fees		X	X	X	X	X	X
3. Forestry levies (until 2005)	N/A				X	X	
4. Livestock auction & abattoir fees				X			
5. Bus stand fees	X			X	X	X	
6. Parking fees Outsourced	X			X			X

*Collecting property tax has undergone a number of changes. The movement of the property tax collection between the council and the private agents shows the complexity of this revenue base as compared to others.

In Mwanza CC for example, in 1999/00, the property tax was collected by a private agent, then it was returned back to the council from 2000/01 to 2002/03. It was once again outsourced in 2003/04 to 2004/05, before returning it to the council in 2005/06. Again, in 2006/07 collection was outsourced to a

private agent and returned back to the council in 2007/08. In Kinondoni MC, the property tax was outsourced in 2004 and in 2005 it was returned back to the council. This was also the case for Ilala MC.

In general, outsourcing of revenue collection is based on an open tender process, based on guidelines provided by the Local Government Reform Programme (June 2003) and the Public Procurement Act No 21 of 2004. Before floating a tender the council often conducts an assessment to determine the revenue potential and the tender bids are expected to be within

the council's revenue estimates. The applicant is also required to show a bank guarantee or an asset as security (see the box below), this measure aims to ensure that the council's revenues are not lost if the contractor defaults. Moreover, to further minimise the losses if the contractor defaults, some councils have instituted a system whereby the contractor has to submit revenues to the council in instalments, most commonly on a weekly or fortnightly basis, but in some cases also daily, which was the case for bus stand fees from the Ubungo Bus Terminal in Dar es Salaam City Council.

General Criteria For Winning A Contract To Collect Revenue On Behalf Of The Council

1. Submission of a detailed tender proposal.
2. The bid should fall within the council's assessed revenue estimates.
3. The bidder is required to have a Tanzanian citizenship.
Some councils require that the bidder is from the council.
4. An individual, a firm, a co-operative, village government, etc. may submit a bid.
5. The bidder must have a 'known past history' (ideally experience from revenue collection, and no record of court cases against him/her).
6. The bidder is required to present bank statements and bank guarantee and/or a security of an immovable asset.

Experiences: A Learning by Doing Process

Mwanza City Council pioneered the outsourcing of revenue collection in Tanzania as early as 1996 because of complaints from citizens about the council's revenue collectors, and that the money collected did not benefit the people. Moreover, according to council staff interviewed, councillors often intervened in the revenue collection process and also in the recruitment of revenue collectors. Based on an 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 co-operative society operating in the market. This reform resulted in a substantial increase in revenues from these two sources. Based on these 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 the 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 a learning by doing process, where initial problems have been addressed on a trial and error approach.

Why Outsourcing and What are the Experiences So Far?

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 staff 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 some agents interviewed, revenue collection was actively resisted by individual councillors in some locations. Political interference were also reported to the researchers as the main reason why elected councillors were removed from the council Tender Boards in 2003, when the Local

Government Procurement Regulations and the Local Government Procurement Manual were revised in 2003.

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 staff are employed on a permanent basis, the labour costs are fixed throughout the year. In contrast, a private agent or a market association have 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 CC to collect fees from the Mwaloni Fish Market engaged up to 25 collectors 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.

Money Retained by the Agents

How much of the revenues collected are retained by the agent? 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 CC showed that on average 32% of the officially reported revenues collected were retained by the agent to cover costs and profits. Such margins are very 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 market yields varied between 71% and 970%.¹

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) a stronger personal interest in the collection result, and (ii) more effective mechanisms for penalising poor performance on the 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 arrangements between members of the tender board and private entrepreneurs. In April 2006 a case of suspect tender deals for

¹Iversen, V., Fjeldstad, O.-H., Bahigwa, G., Ellis, F. & James, R. 2006. 'Private tax collection - remnant of the past or a way forward? Evidence from rural Uganda.' Public Administration and Development, Vol. 26, No. 4 (September), pp. 317-328.

revenue collection and solid 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 councils 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 over zealous collection can occur under 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 establishing systems for dealing with

complaints from taxpayers, including market vendors and property owners.

Monitoring the Agents

How to minimise the risk to give the contract to incompetent or dishonest agents? Initially, several of the councils covered by this study experienced that some agents did not comply with their contracts, either by not submitting revenues collected to the council, or by submitting less money than stipulated in the contract. In Kinondoni MC and Mwanza CC these problems were partly due to the agents' lack of experience, reflected in over ambitious bids, and partly because the agents in some cases did not pay their own collectors properly, which reduced their incentives to collect. In some cases the council brought the agents to court, which was a costly and time consuming exercise.

An additional problem experienced with property tax collection was that some agents only targeted the most easily accessible taxpayers to minimise the collection costs. This method by the private agents did not contribute to expanding the revenue base as intended and it also led to complaints from taxpayers who were approached for tax collection, when others were not. Consequently, the tendering process and contracts were revised by incorporating mechanisms to reduce the risks for defaults, including measures for more efficient monitoring of the agents (see the earlier box).

Moreover, to avoid substantial losses by default or embezzlement, the agent must submit revenues to the council in daily or weekly instalments. Mwanza CC is planning to institutionalise a system whereby the contractors will have to pay a monthly submission in advance of the collection. Furthermore, the contracts are usually for a limited period of time, often one year, although an agent can still apply for renewal on a competitive basis. The five year contract assigned to the agent collecting fees at the Ubungu Bus Terminal in Dar es Salaam and the ten year contract to the agent collecting parking fees in Dar es Salaam city centre seem to be exceptions from the general procedures.

Implications for Policy

Evidence is inconclusive whether outsourcing has led to better revenue administration performance compared to what would have been the case had the tax administration remained within the local government depending on local circumstances. However, outsourcing can establish a platform from which change can be facilitated, but its initial impact and longer-term successful performance depend on:

- the strength and quality of the management of the local government authority;
- political commitment to support the reform, and
- transparency reflected in the provision of accessible and updated information to the general public of the tendering process and bids received, as well as data on the revenue potential and actual collection.

A major challenge facing privatised revenue collection in local government authorities is related to the assessment of the actual revenue

potential for various tax bases. Currently, this assessment is conducted on an ad hoc basis, often based on the previous year's reported collection. Substantial underestimation of the revenue potential may imply that actual collection by the agent is substantially higher than what is reflected in the contract. Consequently, there is a risk for ending up in a situation where the agent keeps the substantial portion of the revenues collected, which already seems to be the case in some places.

To meet its objectives, the system of outsourced revenue collection needs to establish criteria that ensure that private contractors accomplish a reasonable return to the local government authority. Hence, it is important for each council to install a system for more realistic assessment of the revenue potential before outsourcing takes place or is expanded, and to update the assessments regularly. One option for consideration is to move the responsibility for revenue assessment out of council administrations by establishing an independent body responsible for such assessments, but such a body should be accountable to the council.

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