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## Outsourcing Revenue Collection to Private Agents:

### Experiences from Local Authorities in Tanzania

Odd-Helge Fjeldstad,  
Lucas Katera &  
Erasto Ngalewa

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RESEARCH ON POVERTY  
ALLEVIATION

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# **Outsourcing Revenue Collection to Private Agents: Experiences from Local Authorities in Tanzania**

**Odd-Helge Fjeldstad,  
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## Abbreviations

CC	City Council
CMI	Chr. Michelsen Institute
DC	District Council
KNCU	Kilimanjaro Native Cooperative Union
LGA	Local Government Authority
LGRP	Local Government Reform Programme
MC	Municipal Council
REPOA	Research on Poverty Alleviation
TSh	Tanzanian shilling
UBT	Ubungu Bus Terminal, Dar es Salaam
TCB	Tanzania Coffee Board

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The points of view expressed and any errors in the final text are entirely the responsibility of the authors.

## **ABSTRACT**

Many local government authorities in Tanzania have reformed their tax collection systems in recent years in order to increase their revenue. This paper examines experiences with outsourced revenue collection of some local government authorities in Tanzania. Based on evidence from four urban and three rural councils, the study examines how systems of privatised tax collection perform with respect to revenue generation, administration, and accountability over 1996 to 2006. The selected councils are Dar es Salaam and Mwanza City Councils, Ilala and Kinondoni Municipal Councils, and Kilosa, Kisarawe and Moshi district councils.

The study concludes that outsourcing offers no 'quick-fix' to increase local government revenues or to reduce tax administrative problems. While collection has increased and become more predictable in some councils which have outsourced revenue collection, others have experienced substantial problems with corruption and exceptionally high profit margins for the private agents at the expense of accomplishing a reasonable return to the respective local government authorities. However, when appropriately managed and monitored, outsourced revenue collection may establish a foundation for more effective and efficient local government revenue administration.

## EXECUTIVE SUMMARY

The purpose of this paper is to examine recent experiences with outsourcing of revenue collection in local governments in Tanzania. The research is guided by the following questions:

- (1) What are the major constraints and opportunities facing private collection of local government revenues?
- (2) What allowances are made for the private collectors' profit margin?

Seven local government authorities were selected for in-depth study: Dar es Salaam and Mwanza City Councils, Ilala and Kinondoni Municipal Councils, and the three rural district councils Kilosa, Kisarawe and Moshi.

### Key Features of Revenue Outsourcing in the Case Councils

#### *Revenues sources*

Mwanza City Council pioneered the outsourcing of revenue collection in Tanzania as early as 1996, and since 2000 an increasing number of local authorities in Tanzania have adopted private tendering systems for the collection of different types of taxes. These include property taxes, market fees, forestry levies (until 2005), cess on certain agricultural products, bus stand and parking fees.

#### *Revenue collection agents*

Revenue collection is outsourced to a range of different types of agents within and across the councils studied. These include: a private consultancy firm specialised in providing tax advice to the private sector, a firm principally engaged in operating private schools, market associations, co-operatives and a fish dealer organisation.

#### *Tendering process*

Outsourcing of revenue collection is generally based on an open tender process, referring to guidelines provided by the Local Government Reform Programme (June 2003) and the *Public Procurement Act No 21 of 2004*. In a number of cases, councils have terminated the contracts in accordance with the *Arbitration Ordinance* (Cap. 15) of 1931 due to defaults by some agents.

### Benefits and Costs of Outsourcing: Experiences from the Case Councils

#### *Revenue enhancement and predictability*

Revenues from taxes where the collection is outsourced and a share of the total revenue collection from the council's own sources differ across the councils; ranging from 10% to over 60%.

Outsourcing often yields more revenue compared with council based collection from similar sources. However, the data from this case study suggest only marginal differences over time in revenue collection from sources collected by private agents and those collected by the councils. Two interrelated factors may explain these findings. First, the revenue bases which are outsourced are those which are considered by the councils to be most problematic and/or costly to collect - some of the challenges facing the enforcement of 'problematic' sources might be more effectively

handled by private contractors. Hence, revenue yields from these taxes are expected to increase. Second, by leaving the 'problematic' sources to private contractors, the council may concentrate its enforcement on the remaining revenue sources, therefore the yields from these are therefore likely to increase as well.

### ***Cost effectiveness and reallocation of council staff***

Outsourced collection generally implies lower administrative costs for local government authorities by shifting the collection costs to the private sector rather than utilising government employees for the same purpose. Furthermore, due to the seasonal aspect of some revenue sources, a private agent or market association has much more flexibility in labour inputs than a council, thus reducing the operational costs of revenue collection. According to representatives from the council management teams, reallocation of staff and less political interferences in the day-to-day operations of tax collection are major benefits of outsourcing..

### ***Monitoring the private agents***

In the initial phase of outsourcing, several councils had the experience of some agents not complying with their contracts, either by not submitting the revenues they had collected, or by submitting less money to the council than stipulated in the contract. These problems were partly due to the agents' lack of experience, which was reflected in overambitious bids, and partly because the agents in some cases did not pay their own collectors properly, which reduced their incentives to collect. Also, some agents embezzled and disappeared with the revenues they had collected. Based on these experiences, bidders are now required to provide a bank statement and a bank guarantee or immobile assets as security. To avoid substantial losses by default or embezzlement, the agents must submit revenues to the council in frequent instalments.

### ***Corruption***

Comprehensive assessments of the revenue potential of tax bases are essential for minimising corruption, but the capacity to conduct analysis is still poor in many councils. This study found that the contracted amount to be remitted to the councils only represented a small fraction of the revenues actually collected by the agent. This could be due to corrupt deals between council staff and the private agents, but also due to weak routines for revenue assessments on a regular basis. Furthermore, the potential 'profits' connected with outsourcing make the contracts vulnerable to corrupt arrangements between members of the tendering board and private entrepreneurs.

### ***Political interference***

Representatives from the council management teams in all the councils identified less political interferences in the day-to-day revenue tax collections as a major benefit of outsourcing. However, according to some private agents interviewed, outsourced revenue collection has been actively resisted by individual councillors in some locations.

## **What's the Council's Share? Assessing the Revenue Base in Selected Councils**

What percentage of the revenues collected is remitted to the council? What allowances are made for the private collectors' profit margin? These questions are important for examining the sustainability of outsourced revenue collection systems. This study focuses on the experiences with some of the

commonly outsourced local government revenue sources in recent years, i.e. fees and licenses, market fees and crop cesses. Lessons from these councils are shared by many other councils in Tanzania.

### ***Dar es Salaam City Council***

Dar es Salaam's two main revenue sources under private collectors are fees for vehicles and passengers at the Ubungo Bus Terminal (UBT) and parking fees in the city centre. Approximately 90% of the UBT revenues are now collected by a private agent, but based on the council's own assessment of the revenue base in 2002 and the evidence collected from this study, it is clear that the agent retains the majority share of the revenues collected at the UBT. A conservative revenue assessment indicates that the City Council receives only 44% of the revenue collected from entry fees, with the remaining 56% retained by the agent. When taking into account the peak traffic periods the share of the collected revenues retained by the agent is most likely substantially higher. Moreover, the City Council has signed a five year contract with the agent without any provision for annual adjustments of the nominal amount of revenue to be submitted to the council in order to reflect changes in the consumer price index and increased business activities at the terminal. This implies that the real value of the money remitted to the council will decrease over time.

### ***Mwanza City Council***

Currently, one third (33%) of Mwanza City Council's own revenues are collected by 16 private firms, individuals, and market associations, and on average, 32% of the officially reported revenues collected are retained by the agent. Again, this is a high margin, even after taking into account the collection costs. Moreover, it is likely that the official data understate the actual margins, since the revenue potential reflected in the contracts generally seems to be underestimated, as observed in other councils.

### ***Moshi District Council***

Coffee cess is an important revenue source for Moshi DC, accounted for 28% of total tax revenues from agricultural products in the 2005/06 fiscal year. The Kilimanjaro Native Cooperative Union (KNCU) collects the majority of cess on behalf of the council, and is supposed to pay this in four annual instalments to the council. However, there are times when KNCU is a debtor of the council at the year end. There is no well defined mechanism to crosscheck whether the amount presented by KNCU reflects the actual purchases from primary cooperatives and what is actually sold to the Tanzania Coffee Board (TCB).

## **Conclusions and Policy Implications**

Outsourcing offers no 'quick-fix' either to increase local government revenue, or to reduce tax administration problems in local government authorities. In some councils outsourcing has increased collections and made revenue flows more predictable, while other councils have experienced substantial problems with corruption. In several contracts examined during this study private agents have secured exceptionally high profit margins at the expense of accomplishing a reasonable revenue return to the local government authority. However, when appropriately managed and monitored, outsourced revenue collection may establish a foundation for more effective and efficient local government revenue administration.

The accurate assessment of the actual revenue potential is a major challenge facing local government authorities when implementing this system of privatised revenue collection. Currently, assessments are conducted on an *ad hoc* basis, often based on the previous year's reported collection. In many cases the assessment reflected in the contracts are outdated and do not reflect changes over time in the revenue base. Moreover, the contracts often refer to nominal amounts in TSh, which are not adjusted upwards (or downwards, if required) in accordance with the general economic activity level, inflation etc. Underestimation of the revenue potential implies that the actual collection by the agent may be considerably higher than what is reflected in the contract and paid to the council.

There is an urgent need to put in place a system for more realistic assessment of the revenue potential before outsourcing. An effective solution could be to establish an independent body responsible for conducting such revenue assessments. A proper assessment of the revenue potential would also provide an important check against the potential for corruption in the tender process for outsourcing revenue collection.



# 1 INTRODUCTION

Among the most urgent challenges for the ongoing decentralisation reforms in Tanzania is to find appropriate revenue sources and tax enforcement methods for local government authorities. In recent years a number of local government authorities have reformed their tax collection systems in order to increase revenue. Different measures have been implemented, including outsourcing of revenue collection to private agents, which is currently being implemented in an increasing number of councils. They include private collection of property taxes in urban councils; market fees in both rural and urban councils; forestry levies (until 2005) mainly in rural councils; crop cess on certain agricultural products in rural councils; and bus stand and parking fees in urban councils.

Depending on how they are implemented, the tendering systems for collecting taxes, fees and charges could potentially be a successful strategy for improving revenue collection.<sup>1</sup> To meet its objectives the system of private revenue collection needs to ensure that private contractors accomplish a reasonable return on the resources deployed. Private collection may also result in lower costs and more effective revenue collection over a system which utilises local government employees for the same purpose.<sup>2</sup> However, the potential profits connected with such contracts make them vulnerable for corrupt arrangements between members of the tendering board and business people.<sup>3</sup> Thus, it is important to ensure that the tendering process is competitive and fair, and the contracts transparent. Whether this is the case in local government authorities in Tanzania forms an important part of the motivation of this empirical inquiry.

The purpose of this study is to examine recent experiences with outsourcing of revenue collection in local governments in Tanzania. The research is guided by the following questions:

- (1) What are the major constraints and opportunities facing private collection of local government revenues?
- (2) What allowances are made for the private collectors' profit margin?

Much of what is currently known about the working of different systems of outsourced revenue collection results from anecdotal evidence rather than systematic investigation. In particular, little is known about how effective privatised collection schemes are to enhancing revenues in ways that secure the legitimacy of the public sector. The validity of the revenue assessment, which forms the basis for the contract between the private collector and the local government, is especially important. Yet, little empirical research has been carried out on this subject in Africa.<sup>4</sup> This study compiles more systematic evidence on these matters than has hitherto been available.

Seven local government authorities were selected for in depth study. These are: Dar es Salaam and Mwanza City Councils, Ilala and Kinondoni Municipal Councils, and the three rural councils Kilosa, Kisarawe and Moshi. The empirical study is based on primary and secondary data from the selected councils, and combines different methods for data collection. While information on tendering practices were obtained from local government secondary data sources, we also interviewed key informants in local government administrations, existing and former tender holders and other interested parties, as well as taxpayers in the case councils. The empirical assessment of revenue yields was based on field research at the Ubungo Upcountry Bus Terminal in Dar es Salaam, markets of different sizes and structures in Mwanza, and coffee cooperatives in Moshi DC. The data collection for assessing the

<sup>1</sup> Private or outsourced tax collection is commonly referred to as 'tax farming' in the literature (Kiser and Baker 1994; Webber and Wildavsky 1986).

<sup>2</sup> Kiser and Baker 1994

<sup>3</sup> Bardhan and Mookherjee 2000; Iversen *et al* 2006

<sup>4</sup> Excerptions are Iversen et al (2006), focusing on private collection of market fees in Uganda and Kobb (1999, 2001) studying market fee collection in Tanzania.

revenue potential for selected tax bases took place in July, August and September 2006. It included interviews with current and previous revenue collectors, mapping of activities at the bus terminal, censuses of market vendors and of transactions in key commodities such as vegetables, clothing , and so on. This was followed up in 2007 with interviews with key stakeholders in Dar es Salaam CC, Ilala MC and Kinondoni MC (July), Moshi DC and Mwanza CC (August).

The paper is organised as follows. Section 2 reviews the historical and theoretical perspectives on private revenue collection. The theoretical literature reviewed provides predictions about the division of labour between bureaucratic and private collection driven by underlying informational asymmetries. In Section 3, key features and rationales of outsourced revenue collection in the selected urban and rural councils are presented. The tendering process, including the formal criteria that are in place for selecting the winner among the bidders, is also examined. Major economic, political and administrative benefits and constraints facing the outsourced system of revenue collection are examined in Section 4. An assessment of the actual revenue potentials for selected revenue bases is carried out in Section 5. Section 6 discusses policy implications and provides conclusions based on the research findings.

## 2 HISTORICAL AND THEORETICAL PERSPECTIVES OF OUTSOURCED REVENUE COLLECTION

Private or outsourced revenue collection, often referred to as 'tax farming' in the literature, is understood as a system wherein *'the right to collect certain taxes owed the state is auctioned off to the highest bidder'* (Stella 1993: 217). Tax farming was practised in Mesopotamia around 1750 B.C., in England from the late Tudor period until the Civil War, by the Mughals in northern India in the early eighteenth century and by France, China, Russia and Spain at other historical junctures. While tax farming's popularity typically faded with time and modernisation, its trajectory and ultimate demise was rarely linear and often involved switching between bureaucratic and private systems of collection.<sup>5</sup> The typical division of labour was to outsource collection of indirect taxes, while government bureaucrats retained control over the collection of direct taxes.

This underpins the claim that principal-agent (or contract) theory provides a promising analytical and conceptual framework to study tax collection systems.<sup>6</sup> Indeed, contractual perspectives illustrate the two core problems in bureaucratic collection, namely corruption at collection point and the scope for ascertaining the tax base of activity-sensitive taxes.<sup>7</sup> Using a principal-agent approach to the relationship between the principal, that is, the local government authority, and the collection agent, the principal's challenge is to design a mechanism (contract) that reconciles the conflicts of interest between the two parties. In local tax collection, the contractual choice may be interpreted as a function of the control or monitoring capacity of local government administrations, with (i) bureaucratic, (ii) intermediate, and (iii) full-fledged tax farming as the main contractual alternatives. Contractual shifts would then result from a change in the underlying monitoring problem.

Uncertainty about the size of the revenue base is a key aspect of the monitoring problem. For example, a stable revenue base reduces the difficulty of the monitoring problem and enables the principal to more accurately predict revenue flows. This makes the verification of the performance of a government-employed revenue collector easier. Many tax bases in poor countries are, however, distinctly sensitive to economic fluctuations. This applies, in particular, to agricultural based revenue bases where the principal will need to distinguish (a) poor performance by the bureaucrat from (b) collusion and corruption between bureaucrat and taxpayers, and (c) a poor collection result due to a local recession. It follows that private contractors (tax farmers) not only have a greater personal stake in controlling the collectors, but also will be better placed with to penalise underperforming collectors. Government jobs in Tanzania are usually permanent and frequently provide insufficient performance-related incentives. The latter provides the key arguments for outsourcing the collection of market fees and other activity sensitive taxes.

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<sup>5</sup> Kiser 1994; Kiser and Kane 2006

<sup>6</sup> Iversen *et al* 2006

<sup>7</sup> Azabou and Nugent 1988; Toma and Toma 1993

### 3 FEATURES OF REVENUE OUTSOURCING IN THE CASE COUNCILS

In this section the key features of and rationales for outsourced revenue collection in the selected urban and rural case councils are examined. The section starts out with a description of revenue sources which have been outsourced in various councils, followed by a discussion of the characteristics of the involved private agents. The tendering process, including the formal criteria that are in place for selecting the winner is also examined.

#### 3.1 Revenues Sources

Since 2000, an increasing number of local authorities in Tanzania have adopted private tendering systems for the collection of different types of taxes (Table 1). They include: outsourced 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.

**Table 1: Private Revenue Collection in the Case Councils**

Revenue Bases Outsourced	Dar es Salaam CC	Ilala MC	Kinondoni MC	Mwanza CC	Kilosa DC	Kisarawe DC	Moshi DC
Property tax (flat rate)*		X	X	X			
Market fees		X	X	X	X	X	X
Forestry levies (until 2005)					X	X	
Agricultural cess						X**	X***
Livestock auction & abattoir fees				X			
Bus stand fees	X			X	X	X	
Parking fees	X			X			X
Public toilets		X	X	X			
Solid waste management		X	X	X			

Key:

- \* Currently, the councils' own staff usually collects property taxes from the valued roll (valued property), and, generally from large property owners.
- \*\* Except from cashew nuts
- \*\*\* Coffee cess

Source: Compiled by the authors based on information from the councils' finance departments.

Mwanza City Council pioneered the outsourcing of revenue collection in Tanzania as early as 1996 in response to 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. Corruption was also perceived to be a problem at collection points. Three arguments in favour of outsourcing were raised. First, it was assumed that a private firm would be able to more easily fire non-performing or corrupt staff than, what was the case for the local authority. Secondly, it was argued that the problem of political interference in the tax collection process and in the recruitment of revenue collectors would disappear by outsourcing.<sup>8</sup> Finally, the council expected that outsourcing would lead to a more predictable revenue stream for the council and lower the administrative costs by shifting the costs of collection to the private agent(s).

### **3.2 Revenue Collection Agents**

Revenue collection is outsourced to a range of different types of agents within and across the councils studied (Table 2). For example, in Kinondoni MC the collection of property taxes in certain areas were collected by a private consultancy firm specialised in providing tax advice to the private sector in the period 2004-2005, whereas in Kilosa and Kisarawe the collection of forest levies (until they were abolished in 2005) was done by a firm principally engaged in the operation of private schools. For market dues, collection is mainly outsourced to market associations and co-operatives operating in the respective markets. In Mwanza, for instance, the collection of fish market fees is outsourced to a fish dealers' organisation, and the collection of fees at the central market is contracted to a vegetable cooperative operating at the market.

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<sup>8</sup> Political interventions in the tax collection processes have been common in local government authorities (see Fjeldstad, 2001; and Fjeldstad and Semboja 2000).

**Table 2: Examples of Outsourced Revenues and Agents in Selected Case Councils**

Council	Type of Revenue Outsourced	Year of Outsourcing	Agent(s)	Contract	Contract amount to be submitted to the council Per month, in Tshs
Dar es Salaam CC	Bus stand fees (Ubungo Bus Terminal)	2004	Smart Holding Ltd.	5 year contract from 1st November 2004 to 31st October 2009. A fixed amount which is the same for the whole period is to be submitted to the council, regardless of any new ventures and business expansions at the bus terminal.	54,052,674
Ilala MC	Parking fees Property tax	2003	M.P. Environment Co. Ltd. TAPSE	12 year contract from 1st September 2003 to 31st August 2015. A fixed amount which remains the same over the whole period is to be submitted to the council.	50,500,000
Kinondoni MC	Market fees Property tax	2004	Market Association Coop Society (ILAMACO) M/S IMMMA Consulting Services Ltd	2 year contract (2004-2005). The firm collected property tax and debts in three wards* 2 year contract (2004-2005). The firm collected property tax and debts in two wards.	90% of the collection is retained by the agent. The contract has been terminated. 80% of collection
		2004	M/S Professional Centre	2 year contract (2004-2005). The firm collected property tax and debts in three wards.	80% of collection

Council	Type of Revenue Outsourced	Year of Outsourcing	Agent(s)	Contract	Contract amount to be submitted to the council Per month, in Tshs
		2004	M/S M&R Agency Ltd	2 year contract (2004-2005). The firm collected property tax and debts in three wards.	80% of collection
		2004	M/S Majembe Auction Mart Ltd	2 year contract (2004-2005). The firm collected property tax and debts in three wards.	80% of collection
		2004	M/S DEZO Ltd	2 year contract (2004-2005). The firm collected property tax and debts in three wards.	80% of collection
		2004	M/S Yono Auction Mart Company Ltd	2 year contract (2004-2005). The firm collected property tax and debts in three wards.	80% of collection
Mwanza CC	Property tax		OKWAMA Enterprises		According to contract, the agent shall submit 85% of the collection to the council
	Livestock auction & abattoir fees		Mbatama Holdings		765,000
Kisarawe DC	Forestry levies	2003	Mutembei Holding	2 year contract (2003-2005)	First year: Tshs. 9,000,000 to the DC Second year: Tsh s.10,000,000 to the DC

Key: \* Ward: an administrative level and constituency in a council.

Source: Compiled by the authors based on information from the councils' finance departments.

### 3.3 The Tendering Process

Outsourcing of revenue collection is usually 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.<sup>9</sup> The applicant is also required to show a bank guarantee or an asset as security. This measure aims to ensure that the council's revenues are not lost if the contractor defaults. To further minimise the losses if the contractor defaults, some councils have installed a system whereby the contractor has to submit revenues to the council in small instalments, most commonly on a weekly or fortnight basis, but in some cases also daily, which is the case for bus stand fees at the Ubungo Bus Terminal in Dar es Salaam City Council. Normally, this frequency and proportion or amount is specified in the contract.

The bidding process generally has six steps in accordance with the *Public Procurement Act 2004*:

1. Advertise in news newspapers.
2. Applicants submit their application to the council through the tender box.
3. When the deadline is over the applications are opened in public, with all applicants invited to attend the opening.
4. The council evaluates the applications.
5. Selection of the winner by the council's tender board.
6. Advertise the winner and inform those who have lost the tender.

The Tender Board, is, in accordance with the Public Procurement Act 2004, composed of:

- Chair (appointed by council director, normally is the head of department).
- Procurement (or Supplies) Officer (secretary).
- Council Treasurer (member).
- Administrative Officer (member).
- 2 members appointed by the Chair (e.g. the Council's Legal Officer and the District Manpower Management Officer).
- Co-opted members like the head of the department responsible for the specific tender (non-permanent member).

Previously, elected councillors were members of the tender board; however this was changed in the new Act of 2004.

The criteria for winning a contract may differ in detail between local government authorities. But, generally, the bidder must fulfil the following conditions:

- The bidder must submit a detailed tender.
- The bidder is required to have a Tanzanian citizenship, or be a registered Tanzanian organisation. A bid may be submitted by individuals, firms, a co-operatives, village governments, and others. Some councils require that the bidder be a resident from their council.

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<sup>9</sup> However, as discussed in section 5, revenue assessments by councils are often very poor.

- The bidder must have a 'known past history' (ideally experience from revenue collection, and no record of court cases against him/her).
- The bidder is required to present bank statements and bank guarantee and/or a security of an immovable asset.
- The bid should fall within the council's assessed revenue estimates.

The contract often specifies that the agent shall meet all administrative and operational costs, including stationary expenses, transport, payment of salaries to the revenue collectors, as well as other costs incurred during the execution of the services. Further, the agent is responsible for keeping and maintaining proper records and books of accounts in respect of revenue collected. In some cases, the contract specifies that the agent shall furnish the council with monthly financial and operational reports. The council is entitled to inspect books and records of accounts, although this 'right' is not enforced by some councils.

If any dispute arises between the agent and the council with regard to their respective rights, duties or obligations connected with the agreement, the contract normally states that such differences first shall be subject to 'amicable resolution' by the parties. In the event that the parties are unable to reach an amicable resolution, the dispute shall be finally settled in accordance with the Arbitration Ordinance (Cap. 15) of 1931. In a number of cases, councils have terminated the contracts in accordance with the *Arbitration Ordinance*, for example Mwanza and Kinondoni terminated their outsourced revenue collection contracts for property tax collection.

## 4 BENEFITS AND COSTS OF OUTSOURCING: EXPERIENCES FROM THE CASE COUNCILS

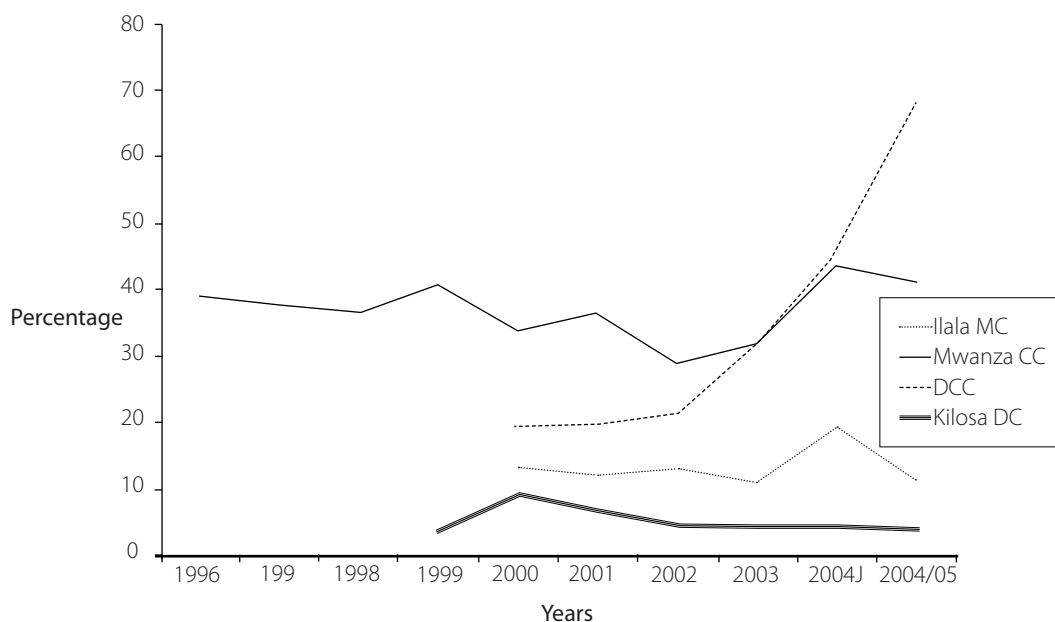
What are the major economic, institutional and political benefits and constraints facing outsourcing of revenue collection? What is the actual revenue potential of specific tax bases, compared with the remittance levels specified in the contracts between the councils studied and their private agents? These questions are examined in this section.

### 4.1 Revenue Enhancement and Predictability

The contract normally specifies the amount of money in Tanzanian Shillings which the agent shall remit to the council on a daily, weekly, monthly, and in some cases annual basis. For the councils, this facilitates more predictable budgeting and planning, provided that the agents comply with the contracts. Collection by the council itself often implied substantial and unpredictable fluctuations in revenues due to, for instance, external shocks in the form of unfavourable weather conditions (droughts or floods), economic recessions, and changes in national tax policies such as the abolition of certain revenue sources. This does not imply that the private revenue collectors are not exposed to shocks, but they can, in principle, incorporate such uncertainties into the contracts via the agreed amount they are to submit to the council.

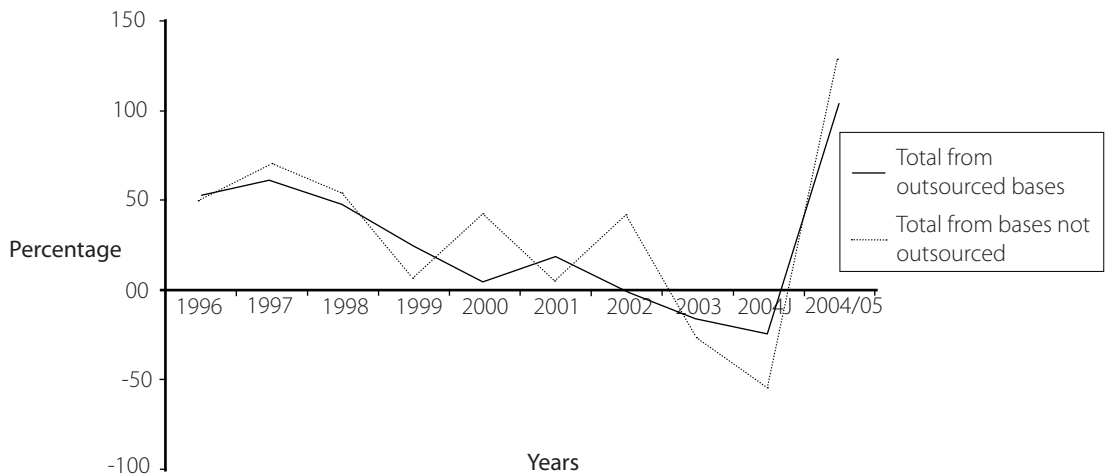
The proportion of revenues from outsourced bases as a share of the total revenue collection from the council's own sources differ across the case councils. In Mwanza CC, for instance, the share in fiscal year 2004/05 was around 40%, compared to more than 60% in Dar es Salaam CC, and approximately 10% in Ilala MC and Kilosa DC (see Figure 1).

**Figure 1: Share of Outsourced Revenue Bases as a Percentage of all Bases**

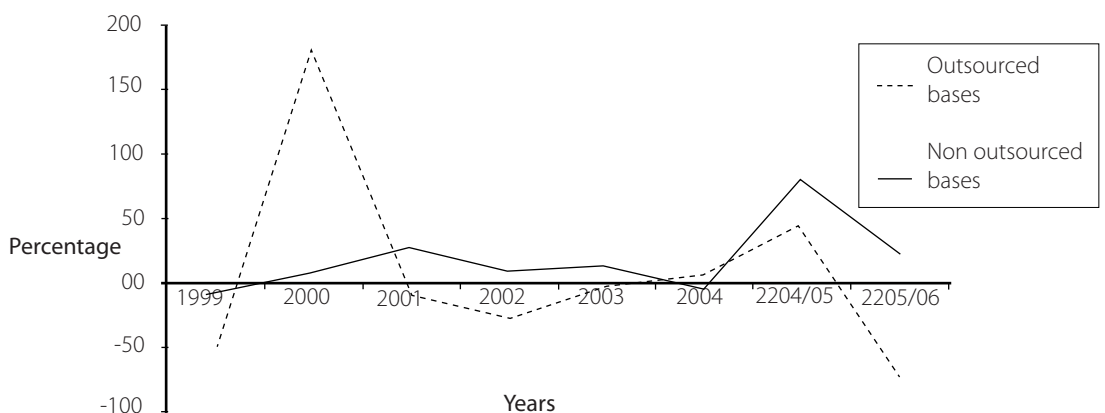


Figures 2a and 2b present the growth rates of revenues from outsourced and non-outsourced revenue bases in Mwanza CC (1996-2005) and Kilosa DC (1999-2005) respectively. Figure 2a shows that revenues from both outsourced and sources collected by Mwanza CC have experienced very similar growth rates during the period 1996-2005. In contrast Kilosa DC experienced a dramatic growth in revenues from outsourced bases from 1999-2000, followed by a drop during 2000-2001 (Figure 2b). Thereafter, the growth in revenues from the two modes of collection followed a similar trend. Two important questions for further examination emerge from the trends reflected in the figures above. First, what is the revenue performance of outsourced bases compared to revenues collected by the case councils? Secondly, what is the cost effectiveness of the two modes of revenue collection?

**Figure 2a: Mwanza - Annual Growth Rates from Outsourced versus Non-Outsourced Revenue Bases**



**Figure 2b: Kilosa - Annual Growth Rates from Outsourced versus Non-outsourced Revenue Bases**



According to those council officials interviewed, outsourcing yields more revenue compared to what the council managed to collect from the same sources. However, the data in figures 2a and 2b above suggest that there are marginal differences in revenue collection from collected by private agents and those collected by the council. How can this be explained? Two interrelated factors are likely to impact upon revenue collection. The first explanation is that the revenue bases which are outsourced are those which are considered by the councils to be most problematic and/or costly

to collect. Some of the challenges facing the enforcement of 'problematic' sources might be more effectively handled by private contractors. Hence, the revenue yields from these taxes are expected to increase. Secondly, by leaving the 'problematic' sources to private contractors, the council may concentrate its enforcement on the remaining sources, and the yields from these are therefore likely to increase too. Further, yields from both outsourced sources and those collected by the councils are dependent on the economic environment. Thus, fluctuations in economic activities due to external shocks such as failure of rainfall for agriculture, interest rate changes, access to credit and, changes in economic policy, are likely to have cross-cutting impacts on the various revenue sources.

## **4.2 Cost Effectiveness**

Private collection generally implies lower administrative costs for local government authorities, since the costs of collection are shifted onto the private sector rather than utilising government employees for the same purpose. Some revenue sources are seasonal, for instance taxes on many agricultural products. Thus, inputs required for revenue collection also fluctuate. However, council staff are employed on a permanent basis and labour costs are fixed throughout the year, independent of fluctuating needs for inputs. In contrast, a private agent or a market association has much more ability to be flexible in labour requirements, and thus reduce the operational costs of revenue collection. For example, the company contracted by Mwanza CC to collect fees in Mwaloni Fish Market engages up to 25 collectors during the peak season, and reduces the number of collectors to 10 people during low season.<sup>10</sup> The agent at Ubongo Bus Terminal (UBT) in Dar es Salaam City Council uses staff overtime to handle peak periods. Entrance gates are staffed from 5am to 10pm. Normally, staff work five days a week, however, during peak periods staff may work seven days a week.<sup>11</sup>

## **4.3 Reallocation of Council Staff**

According to representatives from the council management teams interviewed as part of this study, the reallocation of staff and less political interventions in the day-to-day operations of tax collection are the major benefits of outsourcing. Before outsourcing, the council treasury staff spent a substantial share of their time on tax collection. After outsourcing, council staff could be released to other and more pressing responsibilities within the council.

## **4.4 Monitoring Private Agents**

In the initial phase of outsourcing, agents for some case councils did not comply with their contracts, either by not submitting revenues collected, or by submitting less money to the council than stipulated in the contract. In Kinondoni MC and Mwanza CC these problems were partly due to the agents' lack of experience, reflected in overambitious bids, and partly because the agents in some places did not pay their own collectors properly, thus reducing their incentives to collect. Some councils also experienced agents embezzling and disappearing with the revenues collected.

In some cases, the councils brought the defaulting agents to court. However, this proved to be a costly and time consuming exercise. An additional problem, experienced particularly with property tax collection, was that agents targeted only the most accessible taxpayers to minimise their transaction costs. As a consequence, outsourcing did not contribute to expanding the revenue base as intended. For some councils, e.g. in Kinondoni MC, this led to complaints from the taxpayers who were

<sup>10</sup> Personal interview with Market Master by the authors (Mwanza, August 2007).

<sup>11</sup> The total number of workers employed at the UBT by the private collector is 65. Their monthly salary averaged TSh 100,000 in 2006.

singled out for taxation. Therefore, the tendering process and contracts were revised to incorporate mechanisms to reduce the risk of default, including measures to strengthening monitoring of the agents. Generally, the bidders are now required to provide a bank statement and a bank guarantee or immovable assets as security. To avoid substantial losses by default or embezzlement, the agent must submit revenues to the council frequently and often small instalments. Mwanza CC also plans to institutionalise a system whereby the contractors have to pay a monthly submission in advance of collection. Furthermore, the contracts are usually limited to a shorter period of time, often one year. However, an agent can apply for a renewal of the contract on a competitive basis.

#### **4.5 Corruption**

The potential profits connected with such contracts make them vulnerable to corrupt arrangements between members of the tendering board and private entrepreneurs. For example, in April 2006, a case of dubious tender deals for revenue collection and solid waste management was exposed in Dodoma Municipality. The case involved senior council officers, including the municipal director and the treasurer, and led to substantial financial losses for the municipality (see *Guardian* 4 April 2006; *Daily News* 4 April 2006; *Citizen* 6 April 2006). Experiences from other countries, e.g. from neighbouring Uganda, also show that this is a problem that may seriously undermine the credibility and working of the outsourcing system.<sup>12</sup>

The capacity of the local government revenue administration to accurately assess the actual local revenue base is essential to minimising corruption. Generally, assessing the revenue potential from market fees, licenses and crop cess is often easy to conduct and does not require many resources. As part of revenue enhancement efforts by the Local Government Reform Programme, (LGRP), councillors and staff are being assisted with assessing the potential revenue from individual sources. However, the assessment of revenue potential is still poor in many councils. In several cases examined as part of this study we found that the contracted amount to be remitted to the council only represented a small fraction of the revenues actually collected by the agent (*See Section 5*). Underestimation of the revenue potential implies that the actual collection by the private agent may be considerably higher than what is reflected in the contract. This might be due to corrupt deals between council staff and the private agents, but also could be due to weak council procedures for conducting revenue assessments on a regular basis.

#### **4.6 Political Interference**

Representatives from the council management teams of all the councils visited as part of this study referred to less political interventions in the day-to-day operations of the tax collections as a major benefit of outsourcing. However, some councils, including Kinondoni MC and Mwanza CC, have experienced outsourcing being obstructed by staff and local councillors due to lost rent-seeking opportunities. In Kinondoni MC some ward executive officers and ward councillors resisted supplying the private agents with the data and information required to collect property tax.

According to some private agents interviewed, revenue collection was actively resisted by individual councillors in some locations. Some councillors were reported to have advised citizens not to pay taxes to private agents.<sup>13</sup> Political interferences in day-to-day operations were reported to be 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.

<sup>12</sup> Iversen et al 2006

<sup>13</sup> This is also reported in previous studies on local government taxation in Tanzania. *See*, for instance, Fjeldstad 2001; and Fjeldstad and Semboja 2001.

## 5 WHAT'S THE COUNCIL'S SHARE? ASSESSING THE REVENUE BASE OF THE COUNCILS IN SELECTED CASE COUNCILS

How much of the revenues collected are remitted to the council? What allowances are made for the private collectors' profit margin? These questions are important for examining the sustainability of the private collection systems. This section focuses on some of the revenue sources most commonly outsourced by local government authorities in recent years, such as fees and licenses, market fees and crop cesses. The case studies presented are Dar es Salaam CC (for fees and licenses), Mwanza CC (market fees), and Moshi DC (crop cess). Lessons from these councils are shared by many other councils in Tanzania.

### 5.1 Dar es Salaam City Council

In Dar es Salaam CC the two main revenue sources currently collected by private collectors are fees for vehicles and passengers at the Ubungo Bus Terminal (UBT) and fees from parking vehicles in the city centre. The collection of parking fees was assigned to private firms from 1996, while fees at the UBT were initially collected by the council. However, the collection of UBT fees was outsourced in December 1999. The decision to outsource revenue collection from the UBT was due to (a) responding to government call to councils to outsource some of their services and/or tasks if it is effective to do so; and (b) capacity constraints. The latter was observed due to the shortage of experienced staff to undertake revenue collection. This was further exacerbated by unfaithfulness on the side of some staff involved in revenue collection. The following focuses on the council's experiences of outsourcing revenue collection at the UBT.

Around 90% of the revenues are currently collected by a private agent; this includes entry fees and fees from bars, restaurants and other businesses operating at the terminal. The major revenue source is from the entry fees imposed on buses, cars and passengers. The City Council still collects some fees and rents from the UBT, i.e. mainly fees from a hotel and petrol station located within the property.

The same company has been contracted as the collection agent from the start; however, the contract period has been changing over time. Until 2001 the contract period was one year, thereafter it was expanded to three years until 2005, and since 2005 the contract period is for five years until 2009. Currently the agent remits collections on a weekly basis. The contracted amount is equivalent to Tsh. 1.5 million per day for entry fees, plus 80% of revenues collected from other sources.

In 2002, the City Council estimated the daily average revenue potential from entry fees (from buses, trucks, taxis, private cars, overnight parking and people entering the terminal), to be Tsh. 3.1 million. According to the contract, the agent shall remit Tsh. 1.5 million per day, i.e. the agent retains 52% of the expected collection to cover expenses and profit. This nominal amount to be remitted to the council has remained unchanged since 2002.

In August 2006 REPOA's research team made an independent assessment of the revenue potential at the UBT; this was a straightforward and simple exercise. A group of research assistants was located at the UBT over a one week period counting the number and types of vehicles and people entering the terminal, including the number of cars parked overnight (*see Table 3*). Different rates apply for different sizes of vehicles using or accessing UBT facilities.<sup>14</sup> Moreover, people escorting/receiving

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<sup>14</sup> No fees payment is made for government and donor funded programmes/projects vehicles as well as those belonging to UBT workers. Also passengers with their tickets in hand do not pay entrance fee as they enter the terminal. Tickets must be dated for the same day. Also employees in various services at UBT do not pay at the gate, but have identity cards for which one has to pay an annual fee of Tsh. 5,000.

passengers are charged differently from vehicles. The following categories of fees were applicable at the UBT in 2006:

- Large vehicles, including big buses, tankers and big lorries are charged Tsh. 2,000 at the gate when leaving the terminal. Similar vehicles are charged Tsh. 5,000 for parking in the terminal overnight.
- Medium sized vehicles, which include minibuses and small lorries, are charged Tsh. 1,000 at the gate when leaving the terminal and Tsh. 2,000 when parked in the terminal overnight.
- Small cars, mainly saloons and other private cars picking/dropping passengers in the terminal pay Tsh. 300 at the gate when leaving. Such cars pay Tsh. 2,000 when parked in the terminal overnight.
- Taxis operating in UBT pay depending on where they park; those parking outside the terminal pay Tsh. 1,500 per day and those parking inside the terminal pay Tsh. 2,000 per day.
- People entering the terminal are supposed to pay Tsh. 200.

Table 3 shows the number of vehicles and people eligible to paying fees at the terminal during the period 16-23 August 2006. Interviews with key informants indicated that the traffic in some periods were much higher than reflected in the table. For instance, in December many people depart from Dar es Salaam for holidays in their home-region. In January people return to work or school. Likewise, towards the end of May through July, there is much traffic due to the school terms. Moreover, the Dar es Salaam Trade Fair has a big impact on traffic patterns in June/July.

Referring to Table 3 and taking into account the contracted daily remittance of Tsh. 1.5 million, a conservative revenue assessment indicates that the City Council receives 44% of the revenues collected from entry fees. The remaining 56% is retained by the agent. However, by taking into account the peak periods, the share of the collected revenues retained by the agent is most likely to be substantially higher.

**Table 3: Dar es Salaam CC: Assessment of the Revenue Potential from Ubungu Bus Terminal**  
(16-23 August 2006) \*

Day	Vehicles Departing Through Gate			Overnight Parking			Taxis Parking		People Enter	Total Revenue TSh
	Big	Med	Sma	Big	Med	Sma	Ins. UBT	Out. UBT		
1	307	129	2,382	146	52	70	57	34	5,678	3,063,500
2	234	135	2,904	141	32	78	58	36	6,080	3,242,500
3*	265	149	3,480	144	67	27	55	40	8,075	3,804,900
4	213	170	3,149	131	25	54	51	23	7,403	3,434,400
5	252	134	2,748	148	31	65	42	38	7,974	3,556,000
6*	218	137	3,190	121	48	76	64	37	6,535	3,357,800
7	256	181	2,590	137	42	65	52	29	7,136	3,320,000
Avg	249	148	2,920	138	42	62	54	34	6,983	3,397,014

Note: \* The research assistants started collection of data at 4 am.

Key: Big = big vehicles  
Med = medium sized vehicles  
Sma = small cars  
Ins. UBT = Inside terminal  
Out. UBT = outside of the terminal  
Avge = Average

Source: Assessed and compiled by the REPOA researchers.

Based on the council's own assessment in 2002 and this study's more recent estimate, the lack of capacity in tax collection has resulted in the agent retaining a larger proportion of the revenues collected at the UBT. Although the collection costs are covered by the private agent, the margin is still very high by Tanzanian standards and this study found no indications that this high margin is due to high collection costs. Moreover, the City Council signed a contract with the agent for five - year period without annual adjustments of the nominal amount of money to be submitted to the council in order to reflect changes in the consumer price index and increased business activities at the terminal. This implies that the real value of money remitted to the council will decrease over time.

Furthermore, interviews with key informants and data from the field research suggest the lack of transparency is one of the many loopholes that may result in loss of revenues, both for the contractor and the Dar es Salaam City Council (DCC). For example, the agent's guards at the gate receive informal payments to allow people and vehicles to pass at a lower rate than the official rate. Passengers can pay less than what they ought to pay provided that they do not request official receipts. The same applies for the vehicles entering and leaving the terminal, and for vehicles that are parked in the terminal overnight. Some DCC officials based at the UBT also collude with private collectors to understate the revenue base and share the excesses. For example, during fieldwork in August 2006 the researchers counted 135 workers from the Terminal Baggage Service Company at the market, each with a trolley carrying passengers' baggage and other belongings. However, according to the official records from the City Council, only 70 trolleys operate at the terminal and this number is used as the basis for the contracted amount to be remitted to the City Council from this specific source. Hence, almost 50% of this revenue base is not accounted for. Another example is the greasing machines operating at the terminal which service cars and buses for a fee. Revenues from this source are not recorded in the council's official revenue data; consequently, the DCC loses this source of revenue.

## 5.2 Mwanza City Council

Initially, Mwanza CC outsourced collection of revenue from only two markets. An assessment of the revenue potential was carried out by a technical task force appointed by the council. The first tender for the Mwaloni Fish Market was won by a fish dealers' association. The tender for the Central Market was won by a vegetable co-operative society operating at the market. This outsourcing resulted in a substantial increase in revenues from these two sources.<sup>15</sup> In 1997 the council then decided to outsource revenue collection from other sources, however, according to the council staff interviewed, poor assessment of the revenue potential and political interventions in the tendering process led to overambitious bids and the engagement of unqualified agents. Consequently the city council received less revenue from the private agents acting in some of the outsourced markets than the collections made by the council staff prior to outsourcing. Similar problems were encountered with the private collection of property taxes from unsurveyed land. Outsourcing was therefore temporarily abolished and substantial revisions of the tender evaluation procedures and new measures for monitoring of

<sup>15</sup> Revenues from market fees increased from Tshs. 53.3 million in 1996 to Tshs. 176.9 million in 1997 (data provided by the Finance Department, Mwanza CC). While these figures refer to revenues from all markets in Mwanza CC, the change in revenue collection from other markets other than the two which were outsourced was insignificant (interview with Chief Economist, Mwanza CC).

agents were put in place. The outsourcing of revenue collection in Mwanza, as well as by other local government authorities has been a 'learning-by-doing' process, where initial problems have been addressed on a trial and-error approach.

One third (33%) of Mwanza City Council's own revenues are collected by 16 private firms, individuals and market associations.<sup>16</sup> On average, 32% of the officially reported revenues collected are retained by the agent to cover costs and profits (Table 4). This is a high margin, even when taking into account the collection costs. Moreover, it is likely that the official data understates the actual margins, since the revenue potential reflected in the contracts generally seems to be underestimated, as also observed in other councils. Consequently, it is not surprising that there has been a substantial increase recently in the number of bidders for each contract.<sup>17</sup>

**Table 4: Mwanza CC Revenues Submitted and Retained by Contractors, based on 2005/06 Budget Estimates, (in % of total collection)**

Contractor	Submitted to Council % Total Collection	Retained by Agent % Total Collection
Beach Invest. Group	84	16
Buruzuga Printing Works	60	40
Kayenze Beach Management	74	26
Kilimahewa General Supply	60	40
Mwaloni Fish Dealers Association	67	33
Mwanza Vegetable Supply Cooperative	70	30
Steven Mwenge	66	34
Wadoki SACCOS	64	36
<b>Average</b>	<b>68</b>	<b>32</b>

Source: Mwanza CC, Treasurer's office

### 5.3 Moshi District Council

Coffee cess is an important revenue source for Moshi DC, during the 2005/06 fiscal year it accounted for 28% of the total tax revenues from agricultural products in the council.<sup>18</sup> The official coffee cess rate is 5% of the farm gate price. The council collects the cess through three types of agents:

- (1) The Kilimanjaro Native Cooperative Union (1984) Ltd (KNCU). The KNCU buys coffee from farmers through local primary cooperative societies, later it sells the coffee to the Tanzania Coffee Board (TCB) at open auction.
- (2) Since 1994 private buyers have been allowed to buy coffee from individual farmers and, like the KNCU, they subsequently sell the coffee to the TCB.

<sup>16</sup> Based on 2005/06 budget estimates from Mwanza CC.

<sup>17</sup> Personal interview with the Chief Economist of Mwanza CC (August 2007, Fjeldstad, Katera and Ngalewa).

<sup>18</sup> The biggest source of crop cess revenue in Moshi DC is sugar cane, which accounted for 69% of crop cess revenue in fiscal year 2005/06.

- (3) Primary cooperatives can also sell coffee directly to the TCB without going through KNCU. Currently, two primary cooperatives, MRUWIA of Uru ward and KIMASIO of Kibosho ward, do not sell their coffee through the KNCU.

The Kilimanjaro Native Cooperative Union buys coffee from about 36 primary cooperative societies operating at the local level in Moshi DC. The KNCU borrows money from commercial banks to finance the primary cooperative societies buying coffee from farmers. Payment from the KNCU to the cooperatives is made in two instalments: the first is called an 'advance' and is paid at the time of collection of coffee. The second payment, known as the 'balance' is made after the KNCU has sold the coffee and deducted costs. Primary cooperatives pay the farmers accordingly; with the amount the farmer receives depending on the grade of coffee and whether he/she is a member or a non-member of the cooperative. Further deductions are made from payments to non-members, since they do not pay the membership fee, which includes coffee storage and other costs.

KNCU provides returns to the council showing the amount of coffee bought by each primary cooperative society and amount of tax due. Collected cess is paid in four instalments to the council in each fiscal year. However, KNCU has remained a debtor at the end of some years. In January to June 2004, for example, KNCU had an outstanding debt to the Moshi DC amounting to Tsh. 5,860,295<sup>19</sup>. Since KNCU is paid in cash at the TCB auction, it appears that KNCU uses the coffee cess revenue to finance its other operations. Consequently, Moshi DC has contracted a private company (SIMANS) to collect all debts and carry out audits of the amount of coffee purchased by buyers, including KNCU. However, according to the officials in Moshi DC, there is no well defined mechanism to crosscheck whether the amount presented by KNCU reflects the actual purchases from primary cooperatives and what is actually sold to the Tanzania Coffee Board (TCB). The council relies fully on the information from the TCB on the amount of coffee that the KNCU sells to it.

Regarding the payment of the coffee cess, the procedure for private buyers is similar to that of KNCU. Private buyers normally buy coffee in cash from the farmers; the payment is made in one single payment. The buyer then pays the fee to the village as agreed in the meeting with villagers (see Box 1). Both private buyers and primary cooperatives compete to buy coffee from the farmers. However, the private buyer sends returns directly to the council showing the aggregate amount of coffee bought and the tax to be paid to the council.

Generally, it was observed that private buyers are better positioned to evade the coffee cess since they claim that they have bought the coffee from other councils whose citizens grow coffee. In addition, even when a private buyer fails to remit the contracted coffee cess to the council, they simply change their company's name and bid for fresh tenders as new entities. Consequently, the buyer receives a license to buy coffee in the following year, even though they failed to remit the required cess in the previous year.

There are also two primary cooperative societies that operate independent of the KNCU in Moshi DC. These are MRUWIA of Uru ward and KIMASIO of Kibosho ward. These societies buy coffee from farmers and sell it directly to the TCB. In principle, the societies should also collect/pay coffee cess to the council from the sales of coffee. However, according to information acquired from the council's officials, the two primary cooperatives have never paid cess to the council. The amount involved is too small to warrant enforcement by the councils.

The main challenge facing Moshi District Council is how to obtain accurate information on coffee sales from KNCU, private buyers and primary cooperatives. Currently TCB as the sole national buyer and exporter of coffee could provide accurate information on coffee purchases instead of using estimated purchases. The operation of an effective information management system within TCB of purchases and sales from the respective councils would aid in accurate revenue collection.

<sup>19</sup> Moshi Council Final Accounts, for the year ended June 2004

**Box 1: Conditions for Private Traders to Buy Coffee**

There are a number of conditions to be fulfilled before a private trader can be allowed to buy coffee directly from farmers in the council:

- He/she shall have no previous debt to the council he/she is applying to, or to any other coffee producing councils.
- He/she must have a valid license to buy coffee from TCB.
- He/she must be accepted by villagers in the area where he/she wants to buy coffee. Accordingly, a meeting is called and the applicant introduces him/herself to the villagers. The villagers can then ask questions concerning how they can benefit from his/her business. Once an agreement is made, the village authority must send the minutes from the meeting to the council noting that the applicant has been approved by the village authority, and also noting the terms of trade between the villagers and the private trader.
- The council, through the coffee officer, has to assess the selling points to determine whether they meet the required standard.

If these conditions are met, the council will grant a business license to the applicant to buy coffee within a specific period.

## 6 CONCLUSIONS AND POLICY IMPLICATIONS

Outsourcing offers no 'quick-fix' to increase local government revenues, or to reduce the tax administrative problems that local government authorities face. For some councils, the outsourcing of collection has increased revenue and made the revenue flow more predictable. However, other councils have experienced serious problems due to corruption, as well as exceptionally high profit margins for the private agents at the expense of accomplishing reasonable returns for the councils. Nevertheless, when appropriately managed and monitored, outsourced revenue collection may establish a foundation for more effective and efficient local government revenue administration.

A major challenge facing local government authorities when outsourcing revenue collection is 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 collections. In many cases the assessment reflected in the contracts are outdated and do not reflect changes over time in the revenue base. Moreover, the contracts often refer to nominal amounts in Tanzanian shillings which are not adjusted upwards (or downwards, if required) in accordance with the general economic activity levels and inflation. Underestimation of the revenue potential implies that the actual collection by the agent may be considerably higher than what is reflected in the contract. Consequently, there is a risk for ending up in a situation where the private agent keeps the major proportion of the revenue collected, and remits a lesser amount to the council.

To meet its objectives, a system of outsourced revenue collection needs to meet procedural criteria that ensure that private contractors accomplish a reasonable return to the local government authority. Hence, there is an urgent need to put in place a system to generate a more realistic assessment of the revenue potential before outsourcing. Sensitisation or capacity building, a high priority among donors and others, is unlikely to resolve this problem. A more effective solution could be to move the responsibility for revenue assessment out of council administrations by establishing an independent body responsible for such assessments. Moreover, a properly assessed revenue potential will provide an important check to counter potential corruption in the tender process.

The findings suggest that, in order to achieve a reasonable rate of return for a council, a more rational contract for fees and licences at markets, bus terminals and others would be that the agent should receive a fixed percentage of the amount collected (for instance, 30%), and remit the remaining amount to the council. For such a system to work efficiently, the assessment of the revenue potential should be done annually by an independent body (this would be a simple exercise). It is also important to renew the contracts more frequently, for instance annually or after every two years. If the assessment of the transaction costs supports the establishment of a contract which runs over several years, then the amount to be remitted should be adjusted upwards in accordance with changes in the consumer price index, general economic growth rates, and changes in the economic activities at the specific market or terminal.

Moreover, there is a need to strengthen the monitoring of the volume of cash crops purchased from farmers. Otherwise, the council remains vulnerable to lose substantial revenue, as reflected in the experiences of Moshi DC with respect to coffee cess. It seems that rather than enhancing local revenue, the current cess collection system in many rural councils transfers money from ordinary and often poor crop producers into the pockets of cooperatives and private agents and their various associates. Councils should establish procedures for sharing relevant data with the cooperatives and put in place systems for more operationally relevant reporting forms from the crop buyers. The current system only provides councils with information on the volume of crop purchased and not the value of the transactions. Finally, councils should consider establishing a system which monitors what the collectors (i.e. the crop buyers) actually remit in the form of revenues from crop cess to the council.

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