

## **CHALLENGES OF REVENUES COLLECTION IN MULEBA DISTRICT COUNCIL IN KAGERA REGION TANZANIA**

**EVANS SHEMDOE**

**BUSINESS ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA**

---

### **ABSTRACT**

This study aimed at making an assessment on the factors affecting collection of revenues in Muleba District Council (MDC). The study specifically focused on identifying sources of revenue at Muleba District Council and volume of collection by source; actors and mechanism used in revenue collection and finally establishing factors determining collection of revenue in the study area. The study used multiple methodologies including survey questionnaires, in-depth interviews, and documentation analysis so as to increase richness of the research findings. Furthermore, sampling techniques was used to enable the researcher to reduce the amount of data needed to be collected by considering groups of people rather than the whole population. It was found that, the Muleba District Council (MDC) did not plan properly before decision of assigning the revenue collection function to revenue collectors (own revenue collectors or agents) is made. Not all sources of revenues with the council were identified, documented and adequately studied to establish the potential amount to collect annually. Furthermore, the focus seems to be on very few sources while the need to widen revenue base was quite high. An overall conclusion is that the Muleba District Council (MDC) lacks an effective and integrated approach to manage Revenue Collectors in its different revenue sources, lacks punitive actions to defaulters and Periodic monitoring and evaluation. The entire system of Managing the revenue collection need to be improved in order to make sure that council's collect the intended revenue.

---

## **INTRODUCTION**

Delivery of socio-economic services such as Health, Water, Education etc., depends on efforts of various governments to ensure that there is reliable sources of revenue. High demand for social economic services calls for huge expenses to be financed by various sources internal revenues inclusive. Despite that governments have established various sources; the process of collection is hampered by various factors such as poor financial records, lack of enough equipment, inadequate staff, resistance of tax payers to pay revenue, failure to carry out feasibility study and failure to notify people on time of their dues. This study, therefore aims to address these factors.

The sources of revenue in Local Government Authorities are internal, external revenues and loans. The internal revenue comprises of both tax and no-tax revenues, while the external revenue is essentially grants from different sources. Loans on the other hand, are divided into domestic and foreign, (URT, 1998). Internal revenue sources consist of tax and non-tax revenues. These are domestic revenues, which are used to finance the recurrent and development expenditure at council level. Tax revenues consist of income tax, sales tax, excise duty, customs duties (import duty and export) and miscellaneous indirect taxes charged at council level.

The main sources include retailing businesses such as small and medium shops, Hotels, bars and restaurants, coffee cess, fish licensing fees, Bus stand fees, service levy, guest house levy, Banana fees and forest charges. These sources form the major part of the recurrent revenue, which is used to finance recurrent expenditure (URT, 1998). Main sources of revenue in Local Government Authorities are Block grants, Own sources and donors. The other different types of revenues are; income taxes (pay as you earn, complex tax, shipping taxes, capital gains tax, excess profit tax and single trade transaction tax), sales tax, excise duties, custom duties and miscellaneous taxes. Non-tax revenue covers payments in exchange of goods and services provided by the Government, including Parastatal dividends, royalties, fees, other charges and appropriation in aid. An external source includes foreign aid, loans and development revenue (URT 1998).

In each district, revenue forecasting is done for every category of tax and non-tax revenue taking into account relevant factors for each type of revenue as described earlier. Besides the receivers

of revenue, tax departments, starting with internal revenue, as officers are required to estimate the revenue to be collected by them during the financial year on the basis of existing rates of taxation. Always revenue is supposed to match with expenditure. If it does not meet the target the reasons for variances between the budgeted revenues and expenditure should be established and corrective measures are to be undertaken. (URT, 1998)

In order to facilitate revenue collection the receiver of revenue is required to ensure that adequate organization structure exists for the collection of revenue and that proper account of revenue collected is made to the Paymaster General. Paymaster General also needs to make sure that proper safeguard of all revenue collected is available, correct charges are made and existing laws and regulations are followed. According to the government regulations the responsibility for collecting revenue lies to the Head of Divisions who are also responsible for rendering proper accounts of the money collected, but if necessary the Collector of Revenue, may appoint sub collector (agents) to do so. In this case the Collector of Revenue will ensure that the sub-collectors (agent) have received proper instructions and procedures to be followed in discharging their duties. The sub-collectors are responsible to the observance of those instructions and procedures (URT, 1998).

Apart from all these procedures and regulations that assist revenue estimation and collection, the Muleba District Council like many other Council, does not achieve its targets, the abolishment of many local revenue sources, especially business licenses in 2004, made councils increasingly depending on central government grants (URT, 1998). For instance, in 2010 Muleba District Council raised only about 80% of the total revenues from its own sources. A similar picture of limited local autonomy applied with respect to expenditure, since the grants from the central government were conditional and in general earmarked for specific activities (Fjelstad, 2004).

The government of Tanzania finances its budgets from internal revenue, external revenue and loans. Local Government Authorities have various sources for revenue collection. In recent years, the financial and economic crisis has spurred a demands for generating financial sustainability in public administration, which is a factor of particular significance in local government finances.

This study focuses on the factors affecting collection of revenue in Local Government authorities for the following reasons; first, because our understanding of this question would be entitled by greater attention to institutional detail, with particular respect to the context of local government, with particular respect to the context of Muleba District Council.

In accordance with numbers prior empirical studies of local public finance, Zafra et al., (2009) and Guilaamon, et al., (2011), I chose to examine, exclusively Muleba District Council with relatively a population of 280 people. Paper had been published on line by German Institute for Development Evaluation, Bonn, German (2014) on tax collection in development countries – New evidence on Semi-Autonomous revenue agencies (SARAs) mentioned that; International pressure on developing countries to staple up domestic revenue mobilisation have been growing recently (Di John, 2001); DEED, 2010), but many government find it difficulty to comply.

Local Government in most countries tend to have limit capacity to collect taxes. Existing theory explains that tax collection performance as a function of political, social economic and cultural factors, this was compounded in a paper (Mayoral Public in Colombia Local Government” Nicolai P. (2014). The collecting revenues, a local government count on two types of resources, those external to its jurisdiction and those internal to it. External revenue seeking might be appealing, but local government have all limited influence over the funds they received from external resources. Hoevery very little is known in terms of factors affecting collection of revenue in Muleba District Council, therefore this study intends to fill this gap.

### **Purpose of the Study**

To identify sources of revenue at Muleba District Council and volume of collection by source.

To examine challenges facing MDC in its effort of revenue collection.

### **Research Questions**

What are the sources of revenue at Muleba District Council and volume of collection by source.

What are the challenges facing MDC in its effort of revenue collection.

### **Revenue Collection in LGAs in Tanzania**

In district councils, it is organized around three levels, namely the council headquarters, the wards and the village levels. At Muleba District Council headquarters the responsibility for tax collection rests with the council treasury headed by the Treasurer. At the ward levels, the responsibility rests with the office of the Ward Executive Officer (WEO). The WEO also handles developmental issues and law – and-order functions at that level. In wards with greater revenue potential there will also be a ward revenue collector (WRC) to support the WEO. At the village level, the responsibility rests with the office of the village executive officer (VEO). The VEO is also responsible for supervising village developmental activities and to maintaining law and order. In addition, the VEOs often function as secretaries of the Village Councils.

### **Mechanism of Revenue Collection**

Revenue collection system start during budgeting process until banking of the money collected. Each Department in the council in collaboration with the Treasurer has to make a revenue budget of the revenue sources which fall under their departments. The budget of the revenue depends on the data collected from the ward level and the budget of the council have to be discussed by the council permanent committees and passed by the full council. After the revenues budget have passed by the council, tendering process starts by advertising in the public magazine the needs of revenue collection agents by specifying the time required to respond and other pre-requisites.

Tender board meeting will be called to open all applications after which evaluation committee will be selected to go through all the applicants documents and to come out with the most best competent bidder who will enter into a contract with the council for collection of revenue on behalf of the council. Otherwise there are other sources of revenue which do not fall in the group of outsourcing. These sources are collected by the council staff at the council level, ward level and also at village level.

All of these revenue collectors have to collect receipt books from the office of the council

treasurer and remit the collected money according to the laid down procedures and regulations.

### **Factors Determining Revenue Collection**

There are some factors when considered ensures efficiency in revenue collection. One of the area in revenue collection is fees and fare collection in the councils. Ensuring good fare collection, it is commented that a relationship exists between the amount of government support provided for operating a public transit system and the amount of revenue collected from the users of the system. The relationship of subsidy versus user fee varies in each community and is based on policy decisions made by the local governing board. This relationship is measured by comparing the revenue collected from the fare box relative to the operating expenditures of the system and is known as the fare recovery or fare return rate. Fare recovery is influenced by three main factors; fare levels, productivity and efficiency.

**Fare levels;** The fare levels or structure influence the average fare collected per passenger and, in turn, the overall fare revenue collected. By increasing the fares (or reducing the discounts) set for each of the rider categories, fare revenue can be increased. Similarly, reductions in fares resulted in a net loss of revenues. Changes in the fare structure also impact riders, with increased fares reducing ridership and reduced fares increasing ridership. Given this, fare adjustments should be made with consideration to transit customers affected.

**Productivity;** The productivity of transit service is typically measured in terms of ridership per mile or hour of service. Transit systems like Votran typically attempt to balance the obligation to maximize route productivity with service policies aimed at developing new markets, serving remote communities or accommodating disadvantaged populations. Decisions regarding route productivity should be made with consideration to social needs of the community and the transit customers affected.

**Efficiency;** Operational costs (fuel, labor, scheduling) are partly within control of Votran and partly a result of prevailing economic conditions. Cost efficiencies are achieved through careful budgeting, monitoring and controlling of expenditures. Cost efficiencies can be measured by operating cost per hour.

Following the analytical approach suggested by Levi (1988, 1997), the relationship between a Taxpayer and the Local Government includes at least three elements. First, there is an element of fiscal exchange, as payment of taxes and the provision of services may be interpreted as a contractual relationship between Taxpayers and the Local Government. A citizen's decision to pay derives from her perception that the Local Government is trustworthy. Second, there is an element of coercion, as represented by the enforcement activities of tax collectors and the penalties imposed on those detected for non-payment. The credibility or trustworthiness of the revenue administration's sanctions against defaulters is important in this context.

A third element is the impact of social influences and norms on the Taxpayer's compliance behaviors. For example, attitudes toward the government may affect the Taxpayer's normative commitment to comply with the laws. An individual's perceptions, in combination with her opportunities, may thus determine her current choice of whether or not to be a tax evader.

The coercive element of the Taxpayer – Government relationship is the focus of the classical tax evasion model (Ellingham & Sandmo, 1972), which assumes that the taxpayer's behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs. The problem is thus one of rational decision making under uncertainty whereby tax evasion either pays off in lower taxes or subject one to sanctions. This implies that if detection is likely and penalties are severe few people evaded taxes.

The importance of social interactions in forming tastes and actions has long been stressed by sociologists and social psychologists (Hessing et al. 1988). It is reasonable to assume that human behavior in the area of whether to pay taxes or not is influenced by social interactions much in the same way as other forms of behavior. Compliance behavior and attitudes towards the tax system may, thus, be affected by the behaviors of an individual's reference group such as relatives, neighbors, friends and political associates. Consequently, we may argue that if a taxpayer knows many people in groups important to her who do not pay taxes, her commitment to comply was weaker.

### Efficiency in Revenue Collections

Means assessment of overall pattern of revenues in mobilization of resources, not only the defect tax structure, but also revenue from all sources as actually collected. Sometimes there is efficient in revenue collection, but the lack of proper reporting system a portion of collected revenue can be diverted into personal expenditure leading to deficits, URT (1984) put down that revenue reports are used in managing revenue trends. On revenues collection there are four types of reports:

**Revenue Flash Report** - the revenue flash report is a monthly report giving brief information on the total revenue collected as per cashbook during the month being reported. This report is compiled by the receiver in the implanting agency and submitted to the Treasury by the 5<sup>th</sup> of the ensuing month. The report enables the receivers of revenue to get information on the performance of their collection. At the same time the Treasury is enabled to get information on the performance of each receiver of the revenues and the national collection position in relation to the estimates.

**Monthly Statements of Revenue Collection:** This is a statement of revenue collected during the month compiled by the Receiver of Revenue. It is a more detailed statement and it shows the amount collected against estimates for each revenue item.

**Monthly Revenue Collection Progress report:** This report gives details of cumulative figures or revenue collection up to the month of reporting.

**Mid – Year Revenue Collecting Reporting:** this report gives the cumulative collection of the first half of the annual budget (July – December) and the projection of revenue collection for the second half of the year (January – June). It is prepared for the purpose of the budget review of the reporting year. It is useful when making projections for the next financial year.

“The essence of responsibility accounting is the accumulation of cost and revenue according to areas of responsibility in order that deviations from standard costs and budgets can be identified with the person or group responsible” (Scarpens, 1989), He stresses that financial knowledge is



necessary in maintaining loans. People are unable to manage revenue because of lacking financial knowledge; therefore the importance of financial knowledge is crucial into loan access.

## **RESEARCH METHODOLOGY**

### **Research Design**

This discusses the methods to be used to collect and analyze data. It also indicates the area of the study, which is Muleba District. So, the sample for the study was drawn from this population. Descriptive research design has been employed in developing skills of evaluating data and synthesizing ideas.

### **Area of Study**

The area of this study is Muleba District Council (MDC) and the study focused mainly on the collection of revenue in Local Government aimed at exploring for factors which contributes for under collection of revenue in Local Government in Tanzania. Muleba District council is among the 8 LGAs in Kagera Region and is located between latitude 1150 and 1667 from sea level. According to 2002 census the district has the population of about 386,328 people increasing at a rate of 2.5% per annum. Almost, 90% of the residents are engaged in agriculture (LAAC Report 2011).

### **Population of Study**

The population of 280 was involved the staffs from accounting department of Muleba District Council who deal specifically with revenue collection, officers from different departments and sections as well as the public of the District. It also includes representatives from markets and agent for collection of revenue from wards markets, Banana and fish Markets, public toilets appointed by District council.

### **Sampling Techniques**

The study used a stratified sampling technique in data collection due to involvement of different types of groups from Muleba District Council. Under stratified sampling; the population is divided into several sub-populations that are individually more homogeneous than the total population. The population can be divided into known groups, and each group sampled using a systematic approach. This method is used when the population or sampling frame is made up of sub-sets of known size, and therefore sampling should be stratified ensure that results are proportional and representative of the whole population. It was also used because it is very flexible and applicable to many geographical enquiries. In order to arrive at good results a number of 41 people were being involved as a sample size.

### **Instrumentation**

Questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. This consist of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaires were issued to the respondents who read and wrote down reply of their own. The researcher used the structured questionnaire during the case study in which questions, a set of questions seeking data from respondents were organized and handled to them. The researcher used questionnaire because they are reliable, simple, needs minimum costs and the required data collected with a minimum number of errors. The researcher used both closed questionnaires (“Yes” or “No” questions) and open questionnaires (inviting free response).

### **Data Analysis Techniques**

Data analysis techniques assimilate evidence in order to obtain answers to the research questions. Data were collected, categorized, computed and arranged into the evidence required to answer the questions. Two approaches were used, Qualitative and quantitative techniques.

Under this numerical, data were presented through use of tables and figures in order to support qualitative data assessment. In this technique tables were used whereby number of respondent,

and the percentage was shown. Also the volume of revenue collection was presented which showed source of revenue, estimates, actual collection, variance and percentage.

## RESULTS AND DISCUSSION

### Profile of Respondents

A total of 41 respondents (out of them are employees of Muleba District Council, representatives from Agents of revenue collection, ward executive officers, business people and common citizens) responded to the survey questionnaires whereby they were asked about, sources of revenue collection, mechanism for revenue collection, factors for determining revenue collection, consequences of low revenue collection and the efforts taken to reduce the problem of revenue collection at Muleba District Council. Table 4.1 shows the distribution of respondents according to their education level, employment and experience with their organization. In each category, number of those involved was cited and their percentage out of total respondents was established.

### Sources of Revenue and Volume of Collection

**Table 1: General Characteristics of Respondents**

Categories	Characteristic	Number of Respondents	Percentage
Education level	Primary	0	0
	Secondary	18	44
	College/University	23	56
	No education	0	0
	<b>Total</b>	<b>41</b>	<b>100</b>
Employer	Muleba District Council	18	44
	<i>Heads of Units</i>	8	20
	<i>Revenue Accountants</i>	5	12
	<i>FinalAccounts Accountants</i>	2	5
	<i>Planning Officers</i>	3	7
	Revenue Collection Agents	6	14
	Businessmen	5	12
	Residents of Muleba District Council	8	20
	Ward Executive Officers	4	9

	<b>Total</b>	<b>41</b>	<b>100</b>
Working Experience with their Organizations	Less than 1 year	4	10
	1-5 years	9	22
	6-10 years	13	32
	More than 10 years	15	36
	<b>Total</b>	<b>41</b>	<b>100</b>

**Source:** Analyzed data, 2019

### Sources of Revenue

Muleba District Council has got various sources of revenue which include those revenue derived from various agricultural products produced at Muleba, businesses, market dues, fish license fee and bus stand fee. One of the specific objectives of this study was to identify and analyze the existing sources of revenue for the council. One of the aspect or feature of effective revenue collection was sought by research to be the appropriate identification and documentation of the sources of revenue. Consequently respondents were asked whether they consider the identification and documentation of various sources of revenue have been appropriately done and hence affect the levels of revenue collection at Muleba District Council. The summary of their responses is presented in the Table 1.

**Table 2: Sources of Revenue Collection at Muleba District Council**

	<b>Number of Respondents</b>	<b>Percentage (%)</b>
Fish levy	15	37
Fines and penalties	1	2
Business licenses	7	17
Property tax	8	20
Bus stand/car park fees	1	2
Market fees	2	5
Agricultural products	4	10
Hotel levy	2	5
Vaccination fee	0	0
Intoxication liquor	1	2
<b>Total</b>	<b>41</b>	<b>100</b>

**Source:** Analysis from collected data (Questionnaire), 2019

According to table 2 all respondents showed that they do not understand the existence of most of the sources of revenue. There is no source which has been mentioned by more than half of the respondents. The only three sources which most of the respondents are aware with include Fish levy (37%), Property tax (20%) and Business license (17%). The findings revealed that the level of awareness and identification of potential sources of revenue in raising adequate revenue is minimal. Hence there is a need of creating awareness on identifying the potential sources of revenue in order to reduce the problem of under collection of revenue at MDC.

Furthermore, the findings suggest that the level of awareness to both the MDC staff and other officials within Muleba District is very minimal and this indeed pose a question of their ability to identify all potential sources of revenue and use them to adequately raise the revenue. The situation becomes challenging since most of the respondents were the senior officials of the Muleba District Council.

**Table 3: Reasons for Inadequate Management of Sources of Revenue Collection**

Reasons	Number of Respondents	Percentage (%)
Lack of enough qualified staff	6	21
Lack of adequate plans	5	17
Some sources of revenue are not known	3	10
Lack of feasibility study	8	28
Management is not paying attention	0	0
Dishonest of revenue collectors	4	14
Lack of enforcement on revenue collection	1	3
Unwillingness to pay revenue	2	7
<b>Total</b>	<b>29</b>	<b>100</b>

**Source:** Analysis from collected data (Questionnaire), 2019

The finding shows that a number of factors which contribute to the inadequate management of sources of revenue at MDC. The main five factors were Lack of feasibility study (28%), Lack of enough qualified staff (21%), Lack of adequate plans (17%), Dishonest of revenue collectors (14%) and some sources of revenue are not known (10%). The findings suggest that there is a serious managerial problem on the area of revenue collection which calls for the urgent changes. The findings relate to the situation pointed out by the CAG report that

Councils need to improve on the way they manage sources of revenue and the collection process.

### **Conclusion of the Study**

The Muleba District Council (MDC) does not plan properly before decision of assigning the revenue collection function to revenue collectors (own revenue collectors or agents) is made. Not all sources of revenues with the council were identified, documented and adequately studied to establish the potential amount to collect annually. Furthermore, the focus seems to be on very few sources while the need to widen revenue base was quite high. Similarly, key factors for inadequate management of revenue sources were not worked on by the council and hence deny the council a room for improvements so to say. The consequences for low level of revenue collection were seen on all service sectors within the council whereby council failed to implement various development projects. All of these contributed to the problem of under collection of revenue at MDC therefore there is a need for Muleba District Council to efficiently and effectively conduct periodic monitoring and evaluation

### **Recommendations of the Study**

In order to improve revenue collection at Muleba District Council, the council should take the following measures:

- a) Recruit qualified staff on the area of revenue;
- b) Develop adequate plans for revenue collection in Muleba District Council which covers all sources of revenues
- c) Map-out new and existing sources of revenue and establish a register of all sources
- d) Carry-out feasibility study of all sources of revenue and establish the viability of each source in terms of potential revenue to be collected
- e) Improve the contracts between Private Revenue Collectors and District Council by making sure that performance indicators are clearly stipulated and all clauses of the contract are followed through

## **References**

Afra, k., Sadek, H., Redding, P., & Tantawi, P., (2009) Mayoral Public Sector Work Experience and Tax Collection Performance in Colombia Local Governments, International Public Management Journal.

DEED, (2010) 'Income tax evasion: A theoretical analysis. Journal of Public Economics.

Di John, 2001) Tax Collection in Developing Countries, New Evidence on Semi-Autonomous Revenue Agencies (saraS), The Journal of Development studies.

Ellingham & Sandmo, 1972) Local Government Finances and Financial Management in Tanzania, Observations from Six Councils, 2000 – 2003, Special Paper, No.16, Dar es Salaam.

Fjelstad, 2004). Accounting Theory and Practice, Fourth Edition, Pitman, London.

Guilaamon, et al., (2011) The Development of Local Government in Tanzania Mc Graw-Hill, New York.

Hessing et all. 1988) New Challenges for Local Government Revenue, enhancement – Chr. Michelsn Institute.

Levi (1997) Consent, Dissent, and Patriotism, Cambridge: Cambridge University Press

Nicolai P. (2014)

Scarpens, G (1989) Short term resources Mobilization for Recurrent Financing of Rural Local Government in Tanzania ERB.

URT (1982). The Local Government Finance Act No. 9 of 1982 (amended).

URT (1983). The Local Government (Urban Authorities) Rating Act of 1983.

URT (1984). A Handbook, Government Budget Management in Tanzania, Government Printing

---

Press, Dar es Salaam.

URT (1997). The Local Authority Accounting Manual (LAAM) – 1997