Factors Influencing Local Government Authorities Own Sources Revenue Collection in Tanzania

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***Abstract :** The purpose of the study was to evaluate the factors influencing Local Governments own sources revenue collection in Tanzania. The study involved 156 Tanzanian Local Government Authorities Population, council's statues, auditor's opinion, central government funds transfer, council location, and staff shortages treated as independent variables while LGs own source revenue collection treated as a dependent variable. The study employed a quantitative approach using multiple regression analysis and stepwise person correlations to evaluate the factors influencing own source revenue collection. Population, council status, auditor's opinion to have shown a statistically significant positive relationship with LGs owns sources revenue collection. While in the case of staff shortage, the study revealed a negative relationship with LGs own source revenue collection. In the case of council location/zones and central government fund transfer, the study revealed an insignificant association with LGs own source revenue collection.*

Keywords: LGS, LGAs, Own revenue source collection, Council, population, URT, CAG,

1.0 Background of the study

Local Government Authorities (LGAs) are a government tier of a country operating at a local level, functioning through a representative organ famously known as Council (Warioba, 1999). The constitution of the United Republic of Tanzania (URT) of 1977 recognizes the existence of Local Government Authorities (LGAs) and their functions. The functions of LGAs are Firstly, to maintain law, order, and good governance. Secondly, to promote the economic and social welfare of the people, and finally, but not the least is to ensure effective and equitable delivery of qualitative and quantitative services (URT constitution, 1977 Section 146). For the Local Government Authorities to implement their functions entrusted to them, they need viable and reliable resources in order to execute development projects and deliver quality social services in their area of jurisdictions. It is from that notion, the LGs have been given the mandate to collect revenue instead of depending entirely on the central government support to run their day to day undertakings (legislation Act No.9). The legislation Act no. 9 mandates the LGs to collect their revenue, which concurs with the concept of finance that states "finance must follow function" (Chijoriga, 2012, Warioba 1999 and Bahl, 1999). Act No. 9 of 1982 describes matters related to the local government revenues includes the power of local governments to have their own sources of revenue Section 6-9.

Worldwide, there are two approaches used to collect LGs own sources revenue includes the permissive approach and close list approach (URT, Budget Speech FY2003 /2004). The United Republic Tanzania before 2003 was using the lenient approach (Fjeldstad & Heggstad 2012). This open approach to local revenues was a major contributing factor that led the Local Government Authorities in Tanzania to have more than 70 different types of taxes, fees, and charges with a variety of revenue collection instruments as well as various kinds of rates (*Local Government Fiscal Review 2004 and* the Development of a Strategic Framework for the Financing of Local Governments in Tanzania, 2005). Because of high variations of the rates charged by councils on similar revenue, the result was alarming smuggling of tradable goods across council borders within the country (Fjeldstad & Heggstad 2012). Nowadays, Tanzania Local Governments use a close list approach. The uses of a tight list approach limits the LGs to levy any taxes they wish. It is restricted to levy taxes apart from the one listed in the close list of revenue sources for local government (URT, Budget Speech FY2010 /2010).

In addition to that, to strengthen its sources of revenue collection, the government of Tanzania made several reforms regarding the local government revenue system. Among the most significant changes in LGs revenues was the abolishing of a large number of so-called nuisance taxes. These taxes were uneconomical and unproductive (URT, Budget Speech, 2004, and Fjeldstad & Heggstad, 2012). Not only that but also the following measures were taken to revamp LGs own source revenue including the adoption of the D by D policy. Secondly, the introduction of revenue mobilization and the integration of revenues collection database system (URT, 2005).

Revenue mobilization is a process of identifying potential sources of revenue, assessing revenue due, implementing collection procedures, and being able to enforce payment. It is a process geared towards raising adequate taxes for a Local Government

Authority. It includes publicity and sensation of collectors and taxpayers. (PMORALG, 2006). Revenue mobilization is the backbones of any country's development initiatives. Many countries, including Tanzania, have strived to strengthen its internal sources for the sustainability of services delivery (Ngoyo et al. 2015). Nowadays, the majority of public sector organizations have highly been involved in the mobilization of their revenue.

D by D is the process of delegation of authority to sub-national entities. The primary purpose of D by D is to enable LGs to deliver excellent services to the public as well as the exploitation of potential revenue of LGAs. The D by D policy intended to increase the income of LGs instead of begging it to the central government (Warioba, 1999 and Chijoriga, 2012). The D by D policy includes the administration and fiscal decentralization. Fiscal decentralization is not just a matter of transferring resources to Local Governments. But also to the extent to which the LGAs have the mandate to use and management of devolved resources.

CAG reports and other independent studies on own sources revenue collection revealed disturbing trends of LGs own sources revenue collection. The CAG reports showed that the central government subsidizes to LGs budget was by more than 91% (CAG, 2016). The overdependence of LGs to the central government impair the autonomy of LGs and eliminate the purpose of their establishment. The studies on own sources revenue collection revealed some challenges like complicated and non-transparent of the local tax, lack of clear criteria for tax design; poor coordination between the various levels of government and lack of proper guideline Semboja (2000, URT, 2013, SULUGO, 2013, Kimario, 2014, Kijalo, 2103, Prichard 2010 and Fjeldstad 2006 and Ngoyo, et al., 2015).

1.1 Statement of the problem

Despite the commendable effort made by the government to revamp LGs own sources revenue, LGs own source levels of collections is not much promising. The CAG reports described that own-source revenues represent less than 9% of total national tax revenues. Moreover, Tanzania LGs are capable of financing their recurrent expenditure by using own sources revenue collection for less 10% and more worse in development expenditure (CAG report, 2015). This situation shows that LGAs are over-dependent on central government support and donor fund aids (CAG report 2014, PO-RALG 2013 and SULUGO 2011). The CAG report of 2014, revealed that some councils could only finance their recurrent expenditure by 3% which is contrary to their purpose of establishment and existence (CAG, 2015).

Not only that but also CAG reports revealed the underperformance of LGs own sources collection since there is a gap between actual revenues collection against approved budget. For instance, the CAG report of 2016 showed that Tanzania LGs managed to collect only 3.8% of all public sector revenue compared to LGs from neighboring countries like Kenya, Rwanda, and Uganda. Several reports showed counties in Kenya managed to accumulate 24% of the total federal revenue while Uganda LGs reported raising of 15% of the entire general revenue. These statistics explicitly shows that Tanzania LGs own sources revenue collection performance is not good despite having enormous sources of revenue when compared to its neighbors with the exception of Burundi, where its revenue collection is impeded by civil war (East Africa Tax and Governance Network 2014).

The poor performance of own source revenue collection in Tanzania is very alarming because more than 90 percent of local government expenditure is financed by the central government, unlike South Africa nation which gained its independence in 1994 and still be the central government support to LGs is less than 10 percent (PO-RALG, 2016) .Fortunately, the government of Tanzania has taken this challenge positively by recognizing that LGAs possess potential own sources of revenues which have not yet been optimally utilized (URT budget 2014).

Even though there is the recognition of the underperforming of LGs own sources revenue collection, yet the reasons for poor revenue collections are not explicitly addressed. Therefore, further research on the factors influencing LGs own sources revenue collection in Tanzania is called as frequently insisted by the CAG reports as well as the PMO-RALG, 2013. This study therefore intended to evaluate *the factors* influencing Local Governments own sources revenue collection in Tanzania and shed light on how LGAs can optimally utilize their potential revenue sources in their area of administration

1.2 Research objectives

i.   To determine the relationship between population and LGs own sources revenue collection.
ii.   To identify the relationship between council status and LGs own sources of revenue collection.
iii.   To examine the relationship between staff shortage and LGs own sources revenue collection.
iv.   To ascertain the relationship between Auditor's opinion and LGs own sources revenue collection.

1.3 Research questions

   i.   What is the association between population and LGs own sources revenue collection?
   ii. What is the relationship between the council's statuses and LGs own sources of revenue collection?
   iii. What is the relationship between the staff's shortage and LGs own sources of revenue collection?
   iv. How Auditor's opinion influence LGs own sources revenue collection?

1.4 Research hypotheses

   i.   Ho- No relationship between council's population and LGs own sources revenue collection
   ii. H_1- There is the relationship between the council's population and LGs own sources revenue collection.
   iii. Ho- No relationship between council's statuses and LGs own sources revenue collection
   iv. H_1- There is the relationship between the council's status and LGs own sources revenue collection
   v.   Ho- No relationship between staff's shortage and LGs own sources revenue collection
   vi. H_1- There is the relationship between staff's shortage and LGs own sources revenue collection
   vii. Ho- No relationship between Auditor's opinion and LGs own sources revenue collection
   viii. H_1- There is the relationship between Auditor's opinion and LGs own sources revenue collection

1.5 Scope of the study

The scope of the study is all Tanzanian LGs, but some LGAs were excluded because of the missing of some important data. Therefore the study involved 156 LGAs of Tanzania mainland, and the study period was 2016.

2.0 Literature review

2.1 Own source revenue

LGAs' own-source revenue is the amount of money budgeted and collected by the LGAs from its different identified sources, which is not managed by the Central Government (CAG, 2016). In this case, LGAs own source revenue covers all incomes from taxes, fees (charges), fines, loans (Larson, 2004:452). Usually, this amount is retained by the Council to subsidize grants received from the central government and donors in implementing the LGAs' day to day activities (CAG, 2015). Local Governments have the mandate to raise certain revenues from taxes, levies, and fees. The table below indicates some of few of LGs own sources

Table: 1

Revenue sources	Revenue sources	Revenue sources	Revenue sources
property rates	Crop cess	The commercial fishing license fee	An intoxicating liquor license fee
Private health facility license fee	Taxi license fee	Plying (Transportation) permit fees,	Service levy
Dividends, property income	property income	Interest	Land rent
Vehicle license fees	Fishing vessel license fees	Administrative charges	Fines
penalties and forfeitures			

(MoF, 2003).

Note; Local Governments are not allowed to levy any taxes, levies, or fees which are not on this list (close list approach) (MoF, 2003).

2.2 LGAs revenue collection instruments

In Tanzania, public revenues are administered by central and local governments. In central government, TRA is mandated to collect revenue on behalf of the central government where in Local government the mandate is given to the respective council. In

district council revenue collection is divided into three levels; the council level, the ward level, and the village level (SULUGO, 2011). The council level is managed by District Executive Director (DED), the ward level is managed by Ward Executive Officer (WEO) while the village level is managed by Village Executive Officer (VEO). Generally, LGs staff have to raise sufficient revenue that will facilitate smooth administrative running of every established council. It is from that belief the government of Tanzania, through Circular No. 16, 2016, ordered the councils to collect their source revenue by themselves rather than outsourcing to individual entities which proved exploitative and ineffective.

2.3 Empirical Review

(Fosu, 2012) on his study of the effectiveness of LGs revenue mobilization conducted in Ghana in a case study of Kumasi metropolitan revealed that poor own source revenue collection was attributed by the shortage of skilled labor

(Nuluva, 2015) studied the factors affecting its own sources revenue collection using a sample size of four councils. The study applied both quantitative data and qualitative data to examine the factors affecting revenue collection in LGs. The study revealed that weather conditions, un-updated by-laws, modes of revenue collection, and human resources are among the factors influencing LGs own sources revenue.

(Ndungu Ngugi & Kagiri, 2016) studied the optimal factors influencing revenue collection in the county, a case study of Kiambu County in Kenya. The study employed a descriptive design qualitative study to examine the factors influencing revenue collection in the county. The study leveled that a shortage of skilled staff and technology are among the significant factors influencing the county's revenue collection.

(Cox, 2010) compared the Kansas state's revenue collection and other counties using the qualitative research design. The study revealed that the following factors, such as geographical location, historical, and political realities, are among the factors influencing own sources revenue collection. For instance, in his finding, Cox observed that states with tourist destinations or energy-rich often had reported a high volume of revenue than areas with limited natural resources.

(Ndunda, Ngahu, & Wanyoike, 2015) on their study of the factors influencing optimal revenue collection on county government using the sample of 83 Kenyan counties. The study applied a descriptive study design to study the factors influencing the optimal revenue collection in Kenyan Country. The study revealed a positive relationship with the county having an adequate number of skilled staff compared to the county with the shortage number of staff.

(Masaki, 2015) in his study of the way intergovernmental transfer reduce revenue collected by Tanzanians by LGs. The results of the study revealed a positive relationship between own t source's revenue and inter-government transfer.

(Mogues & Benin, 2012) studied the way how grants to the local government discourage their own sources revenue collection using the sample size of eleven Ghana's districts for 11 years. The study employed panel data analysis to analyze the impact of grants on LGs own sources revenue collection. The study revealed a negative relationship between central government grants transfer and LGs own sources revenue collection and allowances. The results suggest that the way the central government increases the volume of donations in a particular council's revenue collection of the appropriate local authority tends to decrease also.

2.4 conceptual framework

Conceptual Framework for LGAs Revenue Collection
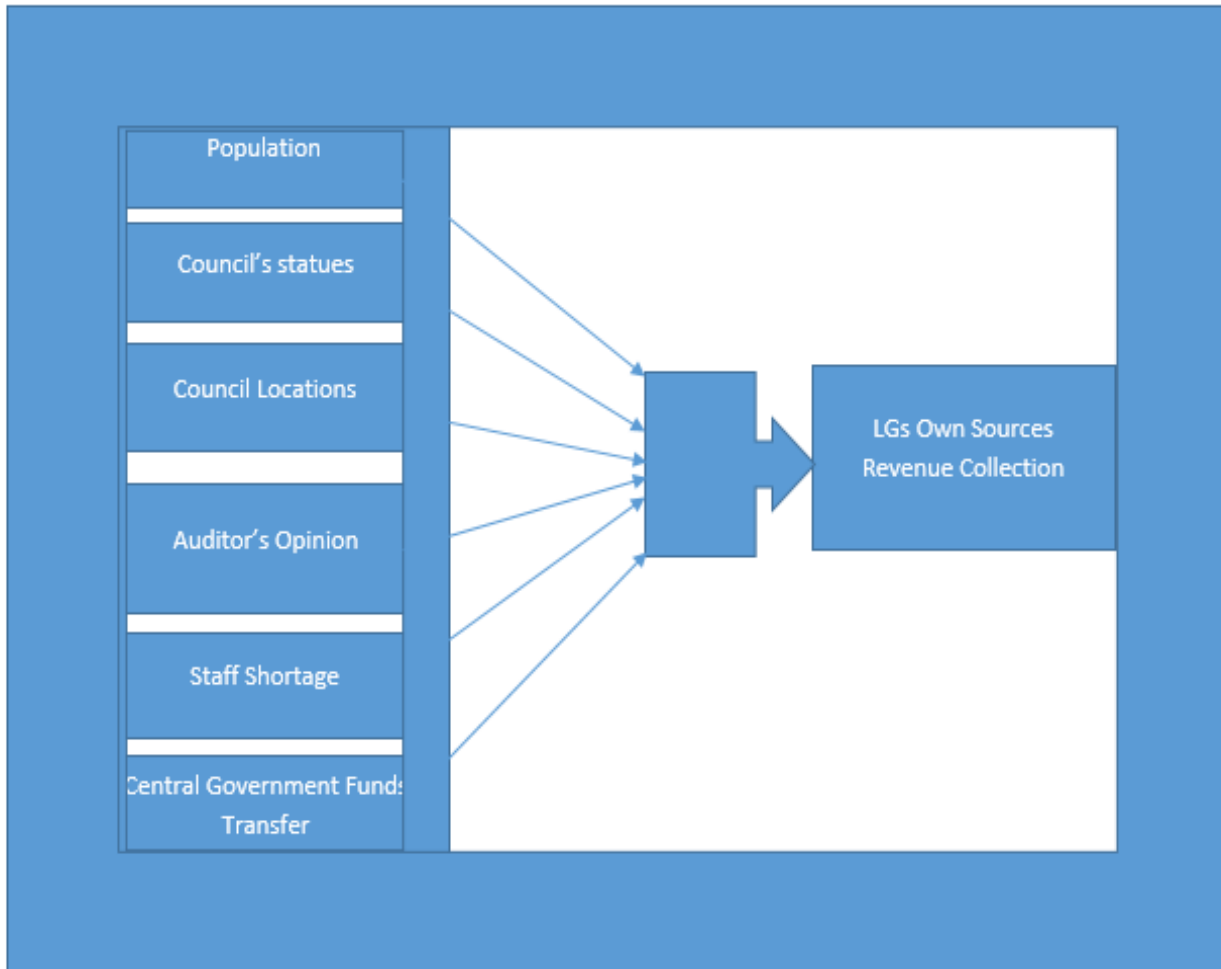
2.5 Research gap

Several studies regarding factors influencing LGs revenue collection have conducted, and most of them employed the qualitative data which are bounded by human biases. Our study employed a quantitative research approach using secondary data to evaluate factors influencing LGs own sources revenue collection in 156 LGs in Tanzania for the financial year 2016/2017.

3. Research methodology

3.1 Population and sample

The population of the study is Tanzanian LGs, which in total are 185, but our study involved 156 LGs. The study managed to include 156 because other LGs excluded from the study. We excluded other LGs from the study because of they missed some important data, the unique features of some councils such as Dar –es Salaam and Mwanza City councils, and the infancy of the LGs itself since some of them are relatively new.

3.2 Data sources

The study employed secondary data obtained from various sources, which include CAG reports, NBS reports, Council profile databases, and TMA reports. The study applied the mentioned reports to study the factors influencing LGs revenue collection in Tanzanian. The data obtained from the number of archives were extracted into the Microsoft excel to sat the required data since the secondary data typically contains numerous information at once. Data exploration was conducted systematically to ensure the validity and reliability of the data. The study treated LGs own sources revenue collection as dependent variable and population, council's statues, council locations, staff's shortage, central government transfer, and auditor's opinion as independent variables. The study employed pairwise correlation and multiple regression analysis to analyze the factors that influenced LGs own sources of revenue collection.

3.3 Empirical model

The study employed the following model to evaluate the factors influencing LGs own sources revenue collection. The model assessed the specific effect of factors affecting the performance of Tanzanian LGs own sources revenue collection. Population, council status, council location, auditor's opinion, staff shortage, and central government funds transfer were treated as independent variables. While LG's revenue collection as a dependent variable.

$$lnOWN = \beta_0 + \beta_1 lnPOP + \beta_2 lnCETTRA + \beta_3 STATUS + \beta_4 ZONES + \beta_5 D1unq + \beta_6 shot + +U$$

Where $lnOWN$ = logarithm of LG s own sources collection
$lnPOP$ = logarithm of Council's Population
$LnCETTRA$ = logarithm of central government funds transfer
Status = Council status
Zones = Zones where LGs positioned
D1unq = CAG Auditor's opinion
SHOT= LGs staff shortage
U= disturbance term for profitability in LGs
$\beta_0 - \beta_6$ are parameters of estimation

4.0 Results and discussions

4.1 Pairwise correlation

 Table: 2

. pwcorr lnown lnpop lncettra STATUS ZONES D1unq SHOR

	lnown	lnpop	lncettra	STATUS	ZONES	D1unq	SHOR
lnown	1.0000						
lnpop	0.3847	1.0000					
lncettra	0.3276	0.5873	1.0000				
STATUS	0.3986	-0.0401	-0.1119	1.0000			
ZONES	0.1681	0.0088	0.1285	-0.0138	1.0000		
D1unq	0.1475	-0.0334	0.0265	-0.0395	0.0182	1.0000	
SHOR	-0.2940	0.0087	-0.2810	-0.2346	-0.1926	0.0529	1.0000

Pairwise correlation

Table: 2 of pairwise correlation expressed the association of the variable included to our study. We ran the pairwise correlation to examine the relationship between variables. The study results revealed a positive relationship between population, council status, council location, auditor's opinion, and central government funds transfer while the relationship between LGs own sources revenue collection and staff shortage our pairwise correlation told us a genitive relationship. The pairwise correlation analysis is just shed light because it does not tell us the causes of the consequences.

4.2 Multiple regression results

Table: 3

```
. regress lnOWN lnPOP lnCentra STATUS ZONES D1unq  SHOR
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Source	SS	df	MS
Model	53.4221271	6	8.90368785
Residual	74.0287864	149	.496837492
Total	127.450913	155	.822263958

Number of obs =	156
F(6, 149) =	17.92
Prob > F =	0.0000
R-squared =	0.4192
Adj R-squared =	0.3958
Root MSE =	.70487

lnOWN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
lnPOP	.5525055	.1269499	4.35	0.000	.3016508	.8033603
lnCentra	.126728	.1059169	1.20	0.233	-.0825652	.3360212
STATUS	.4815856	.0807204	5.97	0.000	.322081	.6410903
ZONES	.0599317	.0308198	1.94	0.054	-.0009687	.120832
D1unq	.3926248	.1389588	2.83	0.005	.1180404	.6672093
SHOR	-.0087357	.0038216	-2.29	0.024	-.0162872	-.0011842
_cons	10.38506	2.03061	5.11	0.000	6.372543	14.39757

Multiple regression results

R^2 is the measure that describes what extent does the independent variables can interpret the dependent variable (own sources revenue collection) applied in the study. For this study, our R square is 0.4192 equivalent to the 42%, meaning that 58% can be explained by other predictor variables other than the variables we employed in the model.

From the multiple regression analysis, we found a statistically significant positive relationship between the number of population and the LGs own sources revenue collection. Therefore the null hypothesis was rejected by accepting alternative hypotheses since the P-value is less than 5%. The positive significant suggests that the council with a large population has a higher chance of exploiting a large volume of own sources revenue compared to the LGs with a smaller size of the population. The results suggest that the increase of population by one percent is accompanied by the rise of the LGs own sources revenue collection by 0.5525055%. The results confirm an economic theory suggesting that an increase of the people can open up several economic activities of a particular area. The growth of the production activities in particular regions usually boosts the economy of a specific region as well as LG's own sources revenue collection.

Regarding hypotheses 3-4 evaluating the relationship between council status and LGs own sources revenue collection. The study results revealed a statistically significant positive relationship between the council's status and LGs own sources revenue collection. The null hypothesis stating that there is no correlation between the council's statuses and LGs own sources revenue collection was rejected by accepting the alternative hypothesis. The null hypothesis was rejected because the P-value is less than 5%. The significant positive relationship is proposing that the council's status can determine the LGs own sources revenue collection. The results suggest that the upgraded of the council status, let say from district councils to the town council, is associated with the increase of LGs own sources revenue collection by 0.4815856%. The study results revealed that the council's status, for instance, the municipal council, has more opportunity to grasp more own sources revenue compared to the district council.

Regarding hypotheses 5-6, assessing the relationship between staff's shortage and LGs own sources revenue collection. The study depicted a negative statistically significant link between staff's deficiency and LGs own source revenue collection. The alternative hypothesis was accepted since the p-value was less than 5%, with the coefficient of -0087357. The study result suggests that an increase in staff shortage by one unit is accompanied by the decrease of LGs its own sources revenue collection by 0.887357%. The study tells us that the staff scarcity in LGA is among the major factors hindering LGA's own sources revenue collection. The LGs with the lower or with no percentage of staff shortage have an opportunity to collect more own sources revenue than the LGs with a high percentage of staff shortage.

Regarding hypothesis, 7-8 projected to determine the relationship between auditor's opinion and LGs own sources collection. The study showed a positive association between auditor's opinion and LGs own sources collection. Hence we rejected hypothesis seven by accepting hypothesis eight since the p-value is less than 5%. The study results convey that the improvement of the auditor's report by one unit is associated to the increases of LGs own sources revenue collection by 0.39266248%. The significant positive relationship depicted in our study suggests that the LGs with unqualified audit opinion is performing well than those with qualified or adverse opinion. Hence the study concluded that the adhering to the accounting and LGs rule and guideline is among the factors influencing LGs own source revenue collection.

5. Conclusion and recommendation

The study results suggest that populations, council's status, adequate staff, and adherence of audit matters are among the essential factors influencing LGs own sources revenue collection. In order to uplift LGs own sources revenue, all stakeholders required to participate in LG s revenue mobilization process. For instance, the rule of laws will enable LGs to get an unqualified audit as well as raises of the own sources revenue.

The shortage of staff revealed a negative impact though it is insignificant, the central government should transfer the skilled labor to the LGs suffering from the deficiency of staff since the study has evidenced the lack of proportion among LGAs. The study revealed that some LGAs have excess numbers of staff, while others are suffering from staff shortages especially the skilled ones.

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