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**EFFECTIVENESS OF MANAGEMENT OF OUTSOURCED INTERNAL REVENUE
COLLECTION CONTRACTS IN LOCAL GOVERNMENT AUTHORITIES IN TANZANIA: A
CASE OF THE CITY COUNCIL OF DODOMA**

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Abstract

This study assessed the effectiveness of management of outsourced internal revenue collection contracts in Local government Authorities, particularly the City Council of Dodoma. The study used a descriptive survey research design, and data were collected using questionnaires and interviews from the population of 41 respondents. This study used all 41 respondents since they were convenient and manageable. Descriptive statistics and content analysis were used to analyse the data. Findings indicated that the contract terms that guarantee effective revenue collection for outsourced revenue contracts at the City Council of Dodoma were well known and were effective in revenue collection since they covered associated risks in a number of ways. The findings further indicated that, to a greater extent, the outsourced revenue collector at the City Council of Dodoma adhere to contract terms. The study further revealed that the Point-of-Sale machine (PoS) was an essential and effective tool used by outsourced revenue collectors. The study concluded that the use of contract terms for outsourced revenue collectors guaranteed effective revenue collection in the City Council of Dodoma. It was further concluded from the study that the contract terms for outsourced revenue collectors at the City Council of Dodoma were friendly; that is why they adhered to them. The study recommended that online models of revenue collection and management should be strengthened by making close follow-ups to PoS operators for effective revenue collection at the City Council of Dodoma.

Keywords: *Outsourcing, Revenue Collection Contracts, Contract Terms, Local Government Authority.*

1.0. Introduction

The growth of African towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure and financing (McCluskey et al., 2003). A large number of populations live in informal settlements characterised by deficient basic services, yet many municipalities are financially weak and rely on financial transfers and assistance from the central government (Borosio, 2000). Local government in Africa has undergone many transformations; for instance, in Zambia, changes have been necessitated by the government's realisation that there is a need to modernise all spheres of government, including that of effective revenue collection and utilisation (Kalimbwe, 2016).

In ensuring that Local Government Authorities meet their responsibilities, the Government of Tanzania in the last two decades did several reforms to facilitate improvement in revenue collections. Among the reforms included the Local Government Reform Programme (LGRP) and Public Finances Reform Programme (PFRP) (Fjeldstad, Katera and Ngalewa, 2008). Outsourcing of local government revenue collection has been under the New Public Management (NPM) and local government reform programmes in particular, which started in the 2000s when Tanzania embarked on the Local Government Reform Programme (LGRP) I, 2000-2007 and LGRP II from June 2008 to June 2013 (Mtasigazya, 2017). It has been noticed in several local authorities in Africa, revenue collection management is often inefficient, and large amounts of revenues collected are inappropriately managed. Kalimbwe (2016), in the research, recommended Ndola City Council provide adequate and improved infrastructure to accelerate the pace of revenue collection. On the other side, Mtasigazya (2017), in his study conducted in Tanzania, revealed key problems in managing and enforcing contracts that are corruption, collusion between local government officials and revenue collectors, laxity in conducting feasibility studies and poor monitoring of outsourced revenue collectors which do not bring the desired outcomes of contract terms of revenue collection.

Mahi (2002) asserts the need of controlling revenue collection requirements in order to enhance the revenue collection process by considering optimum rate structure, appropriate rules and regulations and human capacity. Increasing control to reduce leakage by performing surprise audits to complement self-assessment procedure, improving the control processes, but efforts to enforce a strict and heavy penalty

for non-compliance, instil financial discipline to staffs that have contributed to leakage in local revenues and make efforts to link tax payment with services provided by local government; improvement of administration and better revenue planning in revenue performance is also critically dependent upon the ability of local authorities to minimise the cost of collecting revenues by improving the existing tax administration procedures through administrative simplification.

In drafting and managing procurement contracts, contract management encompasses everything from establishing the business case and confirmation of need through to relationship management and reviewing performance (CIPS, 2013). Good contract management is active and dynamic, ensuring councils can manage change and aim for continuous improvement. It helps to identify and manage changes and associated commercial risks within a collaborative and professional relationship. It helps to maximise savings and service quality. Contracts fail due to misunderstandings, misinterpretations, accountability, responsibility and failure to accurately describe the contract scope, contract idea helps parties align goals, accountability and processes through charts, graphs, and swim lane diagrams (Athuman, 2018). Effective procurement and contract management form a continuous cycle of action and improvement, from identification of the needs through to review of delivery and achievement of outcomes and includes procurement and contract management activity. (Procurement and contract management strategy, 2016-21). It is said that effective contract administration exists when the arrangements for service delivery continue to be satisfactory to both client and provider, expected business benefits and value for money are being realised, the provider is co-operative and responsive, the client knows its obligations under the contract, disputes are rare (Athuman, 2018). This study assessed the effectiveness of management of outsourced internal revenue collection contracts in local government authorities, particularly of the City Council of Dodoma.

Revenue collection in Local government Authorities is essential since LGA has a role in delivering services to the citizens. Any council that does not collect revenue effectively is likely to face hardship in service delivery to its citizens. LGA collect internal revenue by engaging private agents or collecting with in house staff so as to fund various projects and services to the citizen.

Outsourcing revenue collection to private agents was enhanced by the guidelines on outsourcing local government services issued in 2001 by the president office Regional Administration and local government (BOT outsourcing guidelines, 2008). Since when the guideline was issued, some councils noticed an increase in revenue where private agents were contracted. However, there are some substantial problems when outsourcing processes are inappropriately managed and monitored. Control Audit General report 2020 revealed some inefficiencies in managing revenue collection contracts at the City Council of Dodoma.

Some noticed inefficiencies reported by CAG includes that revenue collectors were not adhering to the terms of their contracts, including non-banking of collected revenues, remitting less amount of revenues collected and operating the Point of Sale machines (PoS) in offline mode while the council did not take adequate corrective actions, presence of a weak system for managing revenue collectors indicated by the absence of performance agreement between the City Council of Dodoma and revenue collectors and weak contract terms for the contracts entered with outsourced revenue collectors.

This study sought to assess the effectiveness of management of outsourced internal revenue collection contracts, particularly contract terms of outsourced revenue collection contracts at the City Council of Dodoma.

2.0 Literature Review

This study was conducted based on two theories, namely, agency theory and transaction cost theory, as described below.

Agency Theory.

Outsourced contracts always are the relationship governed by the principal-agent relationship (Agency Theory). An agency relationship is defined as one in which one or more persons (the principal) engages another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent (Jensen and Meckling, (1976). Budnik and Przedanska (2017) claimed that the agency relationship appears whenever one of the parties must rely on the acts of the other. An agency relationship is a contract under which the principal engages another person (the agent) to perform specific projects on its behalf, delegating decision-making rights. According to Mutua, Waiganjo and Oteyo (2014), the cornerstone of agency theory is the assumption that the interests of principals and agents diverge. According to agency theory, the principal can limit divergence from his interests by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit opportunistic action by the agent. Hill and Jones (1992), as cited by Mutua, Waiganjo and Oteyo (2014), said that it may pay for the agent to spend some resources (bonding costs) to guarantee that he will not take certain actions that would harm the principal, or ensure that the principal will be appropriately compensated in the event that he does take such action. That is, the agent may incur ex-ante bonding costs in order to win the right to manage the resources of the principal. Despite these devices, it is acknowledged that some divergence may still remain between the agent's actions and the principal's interests. If this divergence has the ability to reduce the principal's welfare, it is termed as a residual loss. The sum of the principal's monitoring expenditures, the agent's bonding costs, and any remaining residual loss is called agency costs.

This study sought to shed light on the effective management of outsourced revenue collection contracts, which is governed by the principal-agent relationship under the agency theory. This theory lies on three assumptions; first, the efficiency of the principal's operations depends on the agent's acts and decisions. Local authorities depend on revenue collection for the provision of good social services to their citizens. The authority that will not collect revenue efficiently will not be able to provide good services to the taxpayers and likely depend much on central government collections. The efficiency of the local authority's operations (principal) depends on the acts of the outsourced revenue collectors as an agent. The second assumption under this theory states that decisions are made by the parties to the relationship under conditions of uncertainty and risk. This assumption gives guidance to the parties that any decision to the relationship over the contract uncertainty and risk should be made by parties to the contract. It is not expected by the parties to the relationship, whether the local authority or revenue collectors, to decide or to act contrary to the contract terms and conditions of the revenue collection.

The last assumption expresses the conflicting objectives of the parties under the relationship. The principal and the agent have conflicting objectives to some extent. Local authorities should be aware and

need to manage well the outsourced contract on revenue collection since the revenue collector's priority lies in making profits under the relationship while the authority needs revenue for services provided. The establishment of strong contract terms and exerting control measures on the performance of revenue collection reduce conflict of interest between the parties to contract and provide a smooth environment for contract success. These assumptions of the theory raise the need for principals to manage and make a proper expedite on agents acts.

Transaction Cost Theory

In order to carry out a market transaction, it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. More succinctly, transaction costs are search and information costs, bargaining and decision costs, and policing and enforcement costs. Watkin (1973) contends that without taking into account transaction costs, it is impossible to understand the working of the economic system properly and have a sound basis for establishing economic policy. This theory builds a base for the management of outsourced contracts in three cost dimensions, especially in the search for supplier or service provider that is search and information costs, the cost associated with bargaining and decision-making and the last is the cost associated with enforcement of the contract. Before engaging in revenue collection with a third party, this cost should be taken into account in managing revenue collectors due to their influence on the value for money of the deal in an organisation.

Empirical; Literature Review

Research conducted by Mtasigazya (2017) aimed to explore issues concerning contracts management in outsourced revenue collection in Tanzania. The study includes feasibility studies prior to outsourcing revenue collection, design of the contracts for revenue collection, monitoring of the performance of the outsourced revenue collectors, timely remittance of revenues to local councils, as well as financial and human resources capacity in enforcing the contracts. The study revealed key problems in managing and enforcing contracts are corruption, collusion between local government officials and revenue collectors, laxity in conducting feasibility studies and poor monitoring of outsourced revenue collectors, which do not bring the desired outcomes of contract terms of revenue collection.

According to Langat (2013), procurement contract performance involves the manner in which the procurement function is able to reach the objectives and goals with minimum costs. The study assessed procurement performance in terms of efficiency, the competitiveness of services procured, quality of goods procured, and reduction of conflict of interests within the procurement activities. Masaba (2010) revealed procurement performance could be measured using two metrics that is effectiveness and efficiency. Effectiveness in procurement performance involves the achievement of procurement values such as transparency, accountability and value for money. The efficiency aspects of procurement involve aspects such as adequate consideration of the user needs, efficiency in utilisation of public resources and risk management. Kamotho (2014) indicated contract parameters such as costs management, inventory levels, time taken to complete procurement process, delivery of best-value contracted goods and service, stronger vendor-buyer relationship, and assured supply to measure the effectiveness of procurement contract management.

In the study conducted by Fjeldstad, Katera and Ngalewa (2008), which covered several councils in Tanzania experienced that some revenue agents did not comply with their contracts, either by not submitting revenues collected to the council or submitting less money than stipulated in the contract. The study revealed a lack of experience to agents in Kinondoni and Mwanza city councils that resulted in inefficiency in complying with contract terms. The report added that the contracted agents to collect entry fees from vehicles and passengers at the Ubungo Bus Terminal in Dar es Salaam in 2006 retained almost 60% of the revenue collected. The same was noted at Mwanza City Councils, where an average of 32% of revenue collected was retained by agents to cover the cost of operation and profits; such margins are very high by any country's standards. It is likely official margins understate the actual margins since the revenue potential reflected in the contracts in many cases is underestimated.

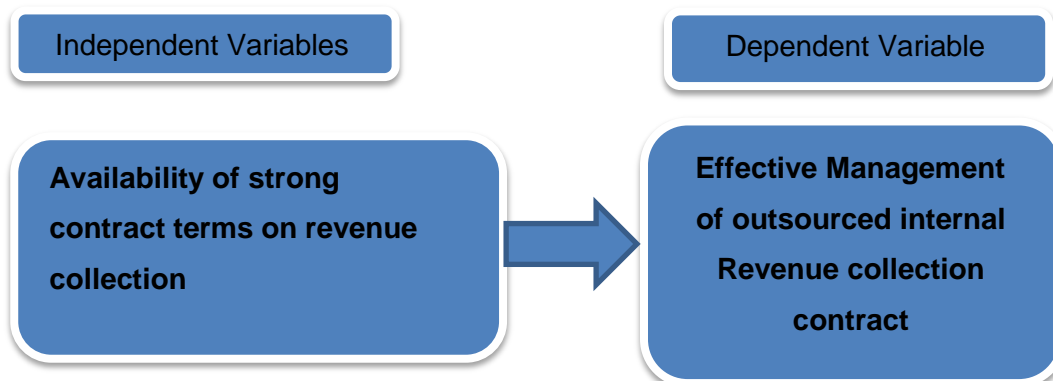
Maina (2013) conducted a study in Nyeri Municipal Council –Kenya and found, majority of revenue collectors did not possess the relevant skills, and at the same time, councils were found to have a low impact in training on revenue collection and low discipline of revenue collectors in controlling revenue collection which indicates inefficiency in revenue collection. Otieno et al. (2013) recommended local authorities to automate revenue collection. It is said computerised information systems has a positive effect on revenue collection, enhancing management integrity, provision of clear records, among other factors.

Ngacuru (2016) revealed that tax administration affects revenue in Nairobi City County through competent staff, availability of computers, and availability of postal communication system and tax education. Revenue diversification affects revenue collected through a number of sources of revenue and new policies to a great extent.

Conceptual Framework

The conceptual framework can be described as a conceptual scheme connecting the various concepts of the research study. It is the model that shows the relationship between independent variable and dependent variable. For the purpose of this study, the independent variable is the availability of strong contract terms on revenue collection and the dependent variable is effective contract management on revenue collection; Figure 1 below depicts the conceptual framework governing this study.

Figure 1: Conceptual Framework



Source: Researcher Own Construct from Concepts, Theories and Empirical Literature review (2021)

3.0. Methodology

The study used a descriptive research design to undertake an in-depth study of the City Council of Dodoma in order to come up with relevant data for analysis. This study adopted a mixed research approach in the collection and analysis of data for the purpose of answering research questions to achieve research objectives. In this study, the researcher used a quantitative approach to analyse numerical data that measured performance such as contract duration, contract running cost and revenue collection targets. A qualitative approach was adopted to analyse non-numerical data. The targeted population was from different departments dealing with revenue collection and outsourced revenue collectors, where a total number of 41 respondents were accessed for data collection. The study used a purposive sampling procedure to select a sample where the only population elements dealing with internal revenue collection at the City Council of Dodoma were considered. This study used all 41 respondents since they were convenient and manageable. The study applied questionnaires and interviews as methods for data collection, where 41 questionnaires were distributed to 41 respondents. A structured interview was conducted whereby the researcher administered standardised questions in a pre-determined order, while an unstructured interview had no specific pattern of questions or response. In this research study, the researcher adopted a structured personal interview and a little telephone interview. The researcher tested for reliability by the use of Cronbach's alpha, where the acceptable number of scores is 0.7 and higher. The correlation coefficient of less than 0.3 signifies a weak correlation, 0.3 - 0.5 is moderate and greater than 0.5 is strong. From the pilot study, the results yielded the Cronbach's alpha of 0.862 for the extent of Outsourced Revenue Collection contract terms to cover associate risks, which signifies that Outsourced Revenue Collection contract terms were strong to cover associated risks.

The study employed a mixed approach of quantitative and qualitative to analyse the presented data and measure the correlation against the intended objective. For the purpose of this study, descriptive statistics were used to analyse quantitative data. Data were collected, edited, coded and conducted data analysis by the use of SPSS (Version 22) computer application. Presentation of findings was done through tables. Qualitative data were analysed using content analysis (narratives). Data were grouped into themes and analysed accordingly. Where necessary to capture the real feelings of the respondents, some quotable narratives were put forth. On this basis, they were categorised and coded. During analysis, data were organised into narratives to be able to capture the experience of respondents. Content analysis to determine the meaning of words, sentences and paragraphs were carried out to get the inner meanings of the qualitative data.

4.0. Findings

This chapter presents and discusses findings generated from data analysis. A total of 41 questionnaires were distributed to respondents, 39 questionnaires (95%) were filled and returned. Analysis of questionnaire data was done on SPSS version 22 by descriptive statistics (frequencies, percentages, mean and standard deviation). Analysis of narratives (qualitative data) was done through content analysis.

In the research question, the researcher sought to find out the extent to which contract terms of outsourced revenue collection contracts cover associated risks at the City Council of Dodoma. Different

questions were posed to respondents. The results of the analysis of research question one is shown in Table 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7 and 4.8 below;

Table 4.1: Perception of respondents on whether or not they know contract terms that guarantee effective revenue collection for outsourced revenue contracts at the City Council of Dodoma

No. of Participants	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	YES	28	72
	NO	08	21
	I do not know	03	07
Total		39	100

Source: Field data (2021)

As reflected in Table 4.1 above, it was revealed that respondents had varying perceptions on whether or not they know contract terms that guarantee effective revenue collection for outsourced revenue contracts at the City Council of Dodoma. Specifically, findings revealed that 72% of the total respondents had a view that they know contract terms that guarantee effective revenue collection for outsourced revenue contracts at the City Council. 21% did not know, and 07% either knew or not. Generally, respondents know contract terms that guarantee effective revenue collection for outsourced revenue contracts at the City Council of Dodoma. This gives an expression that contract terms that guarantee effective revenue collection for outsourced revenue contracts are known.

Table 4.2 Content analysis of perceptions of respondents on revenue contract terms that guarantee effective revenue collection for outsourced revenue collection contract at the City Council of Dodoma

Respondents	Theme	Codes	Categories
R1	Responses -On-time deposits of the collection of each day -The use of POS machines to collect revenues	-Time -Machines	-Ensuring the deposits -Ensuring machines work properly
R2	-Issuing receipt in each transaction -Collection of the right amount of revenue -Competence of the staff who collects the revenue	-Receipts -Right amount -Competence	-Ensuring receipts -Ensuring the right amount -Ensuring staff are competent

Source: Content Analysis of Interview Data (2021)

The findings in Table 4.2 above present the perceptions of respondents on revenue contract terms that guarantee effective revenue collection for outsourced revenue collection contracts at the City Council of Dodoma. Respondents had varying answers regarding this question and were free to write their answers. Findings revealed that there are various revenue contract terms that guarantee effective revenue

collection for outsourced revenue collection contracts at the City Council of Dodoma. Among the mentioned includes; timely deposits of the collection of each day, the use of PoS machines to collect revenues, issuing a receipt in each transaction, collection of the right amount of revenue and competence of the staff who collects the revenue.

Table 4.3 below presents findings of how respondents rate the contribution of available contract terms on efficient revenue collection at the City Council of Dodoma. Findings revealed that 15% of the total respondents rated the contribution of available contract terms on efficient revenue collection at the City Council of Dodoma very efficient, 64% rated efficient, 21% inefficient, and none rated the contribution of available contract terms on efficient revenue collection at the City Council of Dodoma very inefficient. Generally, respondents who participated in this study rated efficient the contribution of available contract terms on efficient revenue collection at the City Council of Dodoma. This gives an expression that the available contract terms contributed to efficient revenue collection at the City Council of Dodoma.

Table 4.3: Perception of respondents on how they rate the contribution of available contract terms on efficient revenue collection at the City Council of Dodoma

No. of Participants	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	Very Efficient	06	15
	Efficient	25	64
	Inefficient	08	21
	Very inefficient	00	00
Total		39	100

Source: Field data (2021)

As indicated in Table 4.4 below, respondents had varying views on whether or not there were any risks in the outsourced revenue collection contract at the City Council of Dodoma. Among the total respondents, 46% had a view that there are risks, 28% had a view that there are no risks, and 26% did not know whether or not there are any risks in the outsourced revenue collection contract at the City Council of Dodoma. This suggests that the City Council of Dodoma should make a thorough analysis of the risks in outsourced revenue collection contracts so as to mitigate them.

Table 4.4: Perception of respondents on whether or not there are any risks in outsourced revenue collection contract at the City Council of Dodoma

No. of Participants	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	YES	18	46
	NO	11	28
	I do not know	10	26
Total		39	100

Source: Field data (2021)

In the interview, when asked to mention the risks associated with outsourced revenue collection contract at the City Council of Dodoma, one of the respondents said;

It is true that there are some risks associated with outsourced revenue collection contracts at the City Council of Dodoma. In my opinion, one of the risks is that there is no privacy, loss of control; the vendors may hide some of the revenue collected. But we also need to consider that one of the big risks is that there is no realistic and employees may not be able to get experience. Therefore, this should be taken care of.

Table 4.5 below presents findings on whether or not there are any effects of mentioned risks on outsourced revenue collection contracts at the City Council of Dodoma. Findings revealed that 72% of respondents had a view that there were any effects of mentioned risks on outsourced revenue collection contracts at the City Council of Dodoma. 28% had an opposing opinion, while no respondents did not know whether or not there were any effects of mentioned risks on outsourced revenue collection contracts at the City Council of Dodoma. Therefore, the majority of respondents believed that if there were risks, then those risks had effects on outsourced revenue.

Table 4.5: Perception of respondents on whether or not there are any effects of mentioned risks on outsourced revenue collection contracts at the City Council of Dodoma

No. of Participants	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	YES	28	72
	NO	11	28
	I do not know	00	00
Total		39	100

Source: Field data (2021)

Findings from Table 4.6 below revealed that respondents who rated the effect of associated risk on revenue collection contract at the City Council of Dodoma very strong were 13%, 74% rated strong, 13% rated weak, and no respondents rated the effect of associated risk on revenue collection contract at the City Council of Dodoma very weak. These findings mean that the City Council of Dodoma should strive to address all associated risks on revenue collection contracts.

Table 4.6: Perception of respondents on how they rate the effect of associated risk on revenue collection contract at the City Council of Dodoma

No. of Participants	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	Very Strong	05	13
	Strong	29	74
	Weak	05	13
	Very weak	00	00

Total	39	100
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Source: Field data (2021)

Table 4.7 below reveals that most of the respondents (95%) believed that there is a contract term that needed outsourced revenue collectors to apply PoS in revenue collection. Only 5% had a different opinion, and no respondent did not know whether or not there is any contract term that needs outsourced revenue collectors to apply PoS in revenue collection. The findings provide evidence that the City Council of Dodoma were systematic in terms of outsourced revenue collectors for revenue collection.

Table 4.7: Perception of respondents on whether or not there is any contract term that needs outsourced revenue collectors to apply PoS in revenue collection

No. of Participant s	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	YES	37	95
	NO	02	05
	I do not know	00	00
Total		39	100

Source: Field data (2021)

Table 4.8 below presents findings of whether or not the contract terms need outsourced revenue collectors to apply PoS in online mode. Findings found that all respondents who filled the questionnaires (100%) agreed that contract terms need outsourced revenue collectors to apply PoS in online mode. This gives an expression that the City Council of Dodoma has adopted the online ways of revenue collected management. These findings match with those of Ngacuru (2016), who revealed that online revenue collection should be highly used to reduce losses. The study further revealed that tax administration enhances revenue in Nairobi City County through competent staff, availability of computers and online, and availability of postal communication system and tax education. Revenue diversification affects revenue collected through a number of sources of revenue and new policies to a great extent.

Table 4.8: Perception of respondents on whether or not the contract terms need outsourced revenue collectors to apply PoS in online mode.

No. of Participant s	Responses	Frequency and Percent Distribution.	
		(N=39)	
		Frequency	Percentage
N=39	YES	39	100
	NO	00	00
	I do not know	00	00
Total		30	100

Source: Field data (2021)

5.0. Conclusion

Based on the research findings presented above, the following are the conclusions made; The outsourced revenue collection was one of the essential means of revenue collection in the City Council of Dodoma. Through the use of contract terms for outsourced revenue collectors guaranteed effective revenue collection in the City Council of Dodoma. The contract terms for outsourced revenue collectors at the City Council of Dodoma were friendly; that is why most of the outsourced revenue collectors adhered to them. The use of PoS and other corrective measures as recommended in the contract was useful in ensuring that the outsourced revenue collectors meet the target and adhere to the contract terms.

6.0. Recommendations

From the conclusions made above, recommendations were made that;

- i. The City Council of Dodoma should, from time to time, review the outsourced revenue collectors so as to align with the current revenue collection needs.
- ii. More awareness and training should be conducted regularly for the revenue collectors to be able to collect revenues effectively and adhere to the terms of the contract.
- iii. Online models of revenue collection and management should be strengthened for effective revenue collection at the City Council Dodoma.

7.0. Suggestions for Further Research

The current study assessed the effectiveness of management of outsourced internal revenue collection contracts in Local Government Authorities, particularly of the City Council of Dodoma. Further studies can be conducted to compare the effectiveness of management of outsourced internal revenue collection contracts among City Councils in Tanzania.

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