

**DETERMINANTS OF EFFECTIVENESS OF LOCAL GOVERNMENT AUTHORITIES IN  
COLLECTION OF OWN SOURCES REVENUES:**

**A CASE OF IGUNGA DISTRICT COUNCIL IN TANZANIA**

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**ABSTRACT**

*The study was conducted in Igunga District. Igunga District Council in Tabora Region. It aimed at finding out the determinants for effective collection of own source revenues in Igunga District Council. The findings indicated that determinants of own source revenue included effective revenue by-law, effective monitoring of tax collectors, updating sources of revenue, attracting investments, favourable inflation rates and supported technology for revenue collection. The findings indicated that provision of tax payer education and sensitization to promote voluntary compliance can be used to enhance own revenue collection revenue. The findings also indicated that improving service delivery to the public can also enhance own source revenue collection by the council. The findings also revealed that conducting feasibility studies for new revenue sources can enhance own source revenue collection.*

***Key words: Determinants of own source Revenue Collection***

## **Introduction**

Revenues are sources of development for local government authorities in Tanzania. However, LGAs such as Igunga District Council face the challenge of weak revenue collection systems which are characterized by problems such as unregistered points of sales, uncollected revenues from potential sources and unremitted revenues collected by outsourced agents (National Audit Office, 2021; 2022). For instance, The CAG annual general report for financial year 2019/2020 revealed that Igunga District Council entered into contract with revenue collecting agents but the revenue collected by these agents amounting to TZS 19,825,264 was not remitted to the respective bank account (National Audit Office, 2021). According to CAG annual general report for financial year 2017/2018 Igunga District Council budgeted to collect TZS 3,124,861,000 from own source revenue but managed to collect TZS 1,310,013,236 equivalent to 42% entailing under collection of TZS 1,814,847,764 equivalent to 58% of the total budget of own source revenue (National Audit Office, 2019). Thus this study aimed at finding out the determinants for effective collection of own source revenues in Igunga District Council.

## **2. Objective of the study**

The objective of the study was to assess the determinants of effective collection of own sources of revenues in Igunga District Council in Tabora region in Tanzania. The reason to conduct the study was to ascertain the strategies that could be adapted to improve revenue collection in Igunga District Council

## **Literature Review**

### ***Theory: taxation and accountability.***

A political agency model shows how taxation may differ from external revenue in the way it shapes the incentives of public officials. The model formalizes the heterogeneous impact of internal and external revenue on government performance. As suggested in Paler (2013), taxation may increase citizens' willingness to hold the government accountable but it may also better enable them to do so. The model illustrates how these mechanisms operate in a context of imperfect monitoring, where voters can't perfectly assess the quality of the incumbent based on public good provision because they only get a noisy signal on the amount of government revenue. This affects the incentives that the incumbent has to put in extra effort, which is unobservable to voters, in order to appear more competent to them. Formally, the model takes a standard political agency model with career concerns (Persson and Tabellini, 2000; Brollo et al., 2013) and adds to it the element of imperfect monitoring, along the lines of Holmström (1999).<sup>5</sup> I allow taxation to increase citizens' ability to hold the government accountable by considering the possibility that the noise in voters' signal on revenue is decreasing in the share of taxes in total revenue. Under the assumption that the marginal utility of public goods is decreasing in private consumption, an increase in taxation increases voters' willingness to hold the government accountable because it increases their willingness to pay for more precise revenue information. Both mechanisms suggest that an increase in tax revenue should have a greater impact on public good provision than an increase in external revenue of the same magnitude. Studies done in Asia have investigated determinants for effective revenue collection. Gituma (2017) assessed determinants of effective revenue collection in Embu County in Kenya.

The study assessed four determinants for revenue collection. They included employee qualifications, corruption, technology and government policies. The results of regression analysis indicate that government policies, employee qualifications and technology are most important determinants for effective revenue collection. The study concludes that regulatory reforms are necessary to enhance county effectiveness in collection of revenues. The major limitation of this study is that it focused on internal determinants. The study overlooked external determinants such as inflation rates which also affect revenue collection.

Ha, et al. (2020) assessed determinants of tax revenue in South Asia. Findings from regression analysis indicate that effectiveness of revenue collection is determined by factors such as foreign direct investments, openness of the economy, and ratio of foreign debt to gross domestic product. The major limitation of this study is that it focused on macro factors. The study did not investigate micro determinants that are specific in the context of government institutions such as LGAs.

In Africa, some studies have also identified determinants for effective revenue collection. Ngotho and Kerongo (2014) assessed determinants of revenue collection in developing countries by taking Kenya as a case study. The study involved a sample size of 82 respondents who included senior and middle managers working in tax institutions. The study identified three determinants for revenue collection. The first determinant was inflation level. Rise in inflation results to decrease in revenue collection. On the other hand when inflation is low, tax collection increases. The second determinant identified was compliance level of revenue department. The revenue department should be equipped to ensure taxes are collected. The third determinant was rate of taxes. High rate of taxes does not result to increase in collection of taxes. The fourth determinant is foreign direct investment which helps to increase sources of revenues. The major limitation of the study by Ngotho and Kerongo (2014) is that the researchers did not specify the institutions from which the sample size was selected. Hence, it is unclear on whether or not the findings represented opinions of LGAs

## **Research Methodology**

The study was conducted in Igunga District Council. It used both quantitative and qualitative approaches. It involved 160 respondents. The researcher used questionnaire, interview and documentary review to collect data. Questionnaires were distributed to the respective respondents who were asked to respond by filling them. They were then collected by the researcher for analysis. The researcher conducted face to face interviews to collect from the respondents. Data were analysed using IBMSPSS V.21. Data were presented in tables and figure

## **Findings Presentations**

The objective of the study was to assess the effectiveness of the determinants of own source revenue collection. Findings are presented in the table below.

Table 1. Determinants of Effective Own Source Revenue Collection

Determinants of Revenue Collection	Strongly Agree		Agree		Neither Agree Nor Disagree		Disagree		Strongly Disagree	
	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent	Freq	Percent
Effective revenue by laws	102	63.8	24	15.0	27	16.9	5	3.1	2	1.3
Effective monitoring of tax collectors	110	68.8	46	28.8	3	1.9	1	0.6	6	3.8
Updating sources of revenue	90	56.3	42	26.3	17	10.6	4	2.5	7	4.4
Attracting investments	100	62.5	26	16.3	20	12.5	10	6.3	4	2.5
Favorable inflation rates	102	63.8	40	25.0	11	6.9	6	3.8	1	0.6
Supportive technology for revenue collection	120	75.0	26	16.3	8	5.0	5	3.1	1	0.6

Source: Field Data 2022

### 1 Effective Revenue By - laws

Table 1 indicates that 102 (63.8%) strongly agreed that effective revenue by-laws are determinants of own source revenue collection; 24 (15.0%) agreed that effective revenue by-laws are determinants of own source revenue collection. 27 (16.9%) neither agreed nor disagreed that effective revenue by-laws are determinants of own source revenue collection. The table also shows that 5 (3.1%) disagreed that effective revenue by-laws are determinants of own source revenue collection while 2 (1.3%) strongly disagreed that effective revenue by-laws are determinants of own source revenue collection. Generally the table shows that the majority of respondents agreed that effective revenue by-laws are determinants of own source revenue collection. The findings are supported by (Fjeldstad and Moore 2009) who argue that revenue authorities are tax administrators established and empowered by the laws to administer taxes of the country, enhance public revenue, create

efficiency in public resource utilization, and promote taxpayer compliance to reduce compliance costs, corruption and bureaucracy among other reasons.

## **2. Effective Monitoring of Tax Collectors**

Table 1 indicates that 110 (68.8%) strongly agreed that Effective monitoring of tax collectors are determinants of own source revenue collection; 46 (28.8%) agreed that Effective monitoring of tax collectors are determinants of own source revenue collection. 3 (1.9%) neither agreed n disagreed that Effective monitoring of tax collectors are determinants of own source revenue collection. The table also shows that 1 (0.6%) disagreed that Effective monitoring of tax collectors are determinants of own source revenue collection while 6 (3.8%) strongly disagreed that Effective monitoring of tax collectors are determinants of own source revenue collection. Generally, the table shows that the majority of respondents agreed that Effective monitoring of tax collectors are determinants of own source revenue collection.

## **3. Updating Sources of Revenue**

Table 1 indicates that 90 (56.3%) strongly agreed that Updating sources of revenue are determinants of own source revenue collection; 42 (26.3%) agreed that Updating sources of revenue are determinants of own source revenue collection. 17 (10.6%) neither agreed n disagreed that effective revenue by-laws are determinants of own source revenue collection. The table also shows that 4 (2.5%) disagreed that Updating sources of revenue are determinants of own source revenue collection while 7 (4.4%) strongly disagreed that Updating sources of revenue are determinants of own source revenue collection. Generally, the table shows that the majority of respondents agreed that Updating sources of revenue are determinants of own source revenue collection.

## **4. Attracting Investments**

Table 1 indicates that 100 (62.5%) strongly agreed that Attracting investments are determinants of own source revenue collection; 26 (16.3 %) agreed that Attracting investments are determinants of own source revenue collection. 20 (12.5%) neither agreed n disagreed that Attracting investments are determinants of own source revenue collection. The table also shows that 10 (6.3%) disagreed that Attracting investments are determinants of own source revenue collection while 4 (2.5%) strongly disagreed that Attracting investments are determinants of own source revenue collection. Generally, the table shows that the majority of respondents agreed that Attracting investments are determinants of own source revenue collection.

## **5. Favorable Inflation Rates**

Table 1 indicates that 102 (63.8%) strongly agreed that Favorable inflation rates are determinants of own source revenue collection; 40 (25.0%) agreed that Favorable inflation rates are determinants of own source revenue collection. 11 (6.9%) neither agreed n disagreed that Favorable inflation rates are determinants of own source revenue collection. The table also shows that 6 (3.8 %) disagreed that Favorable inflation rates are determinants of own source revenue collection while 1 (0.6%) strongly disagreed that Favorable inflation rates are determinants of own source revenue collection. Generally, the findings show that the majority of respondents agreed that favorable inflation rates are determinants of own source revenue collection.

## 6. Supportive Technology for Revenue Collection

Table 1 indicates that 120 (75.0%) strongly agreed that Supportive technology for revenue collection are determinants of own source revenue collection; 26 (16.3%) agreed that Supportive technology for revenue collection are determinants of own source revenue collection. 8 (5.0%) neither agreed nor disagreed that Supportive technology for revenue collection are determinants of own source revenue collection. The table also shows that 5 (3.1%) disagreed that Supportive technology for revenue collection are determinants of own source revenue collection while 1 (06%) strongly disagreed that effective Supportive technology for revenue collection are determinants of own source revenue collection. Generally the results show that the majority of respondents agreed that supportive technology for revenue collection are determinants of own source revenue collection

### Conclusion

The study also revealed that there were determinants of effective own source revenue collection. Determinants of revenue sources included revenue by-law, effective monitoring of tax collectors, updating sources of revenue and attracting investments. Other determinants of revenue collection included favourable inflation rates and supported technology for revenue collection. The study showed that there were some strategies that could be utilized to enhance effective revenue collection in Igunga District Council included provision of tax payer education for promotion of voluntary compliance, application of trustworthiness and acting in the interest of the public can also enhance own source revenue collection. Other factors included strengthening the capacity to follow-up cases of non-payment through fair and reasonable revenue enforcement. Improvement of accountability to revenue collectors and provision of information to the public on the allocation of tax revenue is also one of the strategies that can be used to enhance own source revenue collection. Harmonization of revenue collection systems and conducting feasibility studies for new revenue sources can enhance own source revenue collection.

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