

# Procurement contract management in the local government authorities (LGAs) in Tanzania

## A transaction cost approach

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Procurement  
contract  
management

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Received 2 October 2015  
Revised 2 February 2016  
8 March 2016  
Accepted 24 April 2016

### Abstract

**Purpose** – The purpose of this paper is to examine the transaction costs involved in managing procurement contracts in the public sector, particularly at the lower and higher level of local governments from the clients' perspective.

**Design/methodology/approach** – The paper uses new institutional economics, specifically the transaction cost approach. A multiple case study design was used, in which five local government authorities (LGAs) were selected from the Kigoma and Tanga regions of Tanzania. Interviews with heads of procurement management units, focus groups and secondary sources were used to collect information for lower level LGAs.

**Findings** – Very high information, negotiation and monitoring transaction costs were revealed at the post-contractual stage for higher levels of local government in all cases. Transaction costs were associated with institutional problems, lack of financial resources and attitudes towards accountability, transparency and competition. It was also found that lower levels of local government are faced with very high transaction costs for all procurement stages due to a lack of procurement contract management capacity among ward and village procurement project committees, low levels of support from higher level LGAs, a lack of simple Swahili-standardised documents and guidelines for lower level procurement contract management which reflect current legal issues and the lack of a legal framework for procurement at the lower level of local government. These costs are associated with poor accountability and a lack of competition, transparency and efficiency throughout public procurement chains.

**Research limitations/implications** – There is no estimate for quantitative approaches, because it is was difficult to measure transaction costs associated with accountability, transparency and efficiency.

**Originality/value** – The paper contributes knowledge on qualitative levels of transaction costs for procurement contract management for both higher and lower levels of LGAs from the clients' viewpoint.

**Keywords** Contracts, Transaction cost, Procurement, Local government authorities

**Paper type** Research paper

### 1. Introduction

The government of Tanzania has embarked on a policy of decentralisation by devolution for both fiscal and planning processes (URT, 2009). It is geared towards empowering local authorities so that these in turn can empower communities. However, management of public procurement contracts in local government authorities (LGAs) continue to pose challenges even 15 years on from the enactment of the first public procurement contracts Act (URT, 2001) and its amendments and regulations. More challenges are also reported for lower levels of local government after implementation of development by devolution (D by D) policy. Lower levels of local government involve wards *mitaa*, villages and *vitongoji*. Tanzania mainland has a total of 3,802 wards and 12,443 villages (URT, 2014). Lower levels of LGAs are involved in managing public



procurement contracts in wards and villages specifically for public services such as schools, dispensaries, water facilities and minor works.

Currently, some wards and villages are using procurement contract guidelines which were used in specific projects (e.g. the Secondary Education Development Programme I). The Public Procurement Act and its regulations and the local government Tender Board Proceedings do not show how public procurement contract proceedings should be conducted at the lower level. Lack of a sound legal framework raises transaction costs because it increases opportunism behaviour, bounded rationality and asymmetric information (Williamson, 1975).

### *1.1 The institutional environment for the public procurement contracts in Tanzania*

It is important to guidelines and regulations in which public sector procurement is operating because they form institutions which are important in reducing transaction costs.

The first of these is the National Strategy for Growth and Poverty Reduction II (NSGPR), Cluster III "Governance and Accountability", Goal No. 1 "Ensuring systems and structures of governance uphold the rule of law and are democratic, effective, accountable, predictable, transparent, inclusive and corruption free at all levels" (URT, 2010a, b), which recognises good governance as fundamental to economic growth and poverty reduction. The second is decentralisation policy (decentralisation-by-devolution). The third is the Tanzania Development Vision 2015 specifically on goal two, i.e. building the culture of accountability, rewarding good performance and curbing corruption and other vices in society and building strong adherence to and respect for the rule of law; and the fourth is the local government reforms in general by which considerable powers, functions and resources have been devolved to local government (URT, 2009).

The legal framework focuses on the Public Procurement Act of 2004/2011 and subsequent amendments, which restructured public procurement to decentralised procuring entities (PE) including LGAs. Both the pre- and post-contract stages for higher levels of local government are addressed. It includes.

*1.1.1 The Public Procurement Act.* This explains different actors involved in the contract management process, together with their responsibilities. These actors are the accounting officer, the tender board, user departments, the LGA's councillors and public procurement contracts management units. The need for transparency and accountability is recognised by providing a cooling-off period for bidders to submit complaints if any and the establishment of an autonomous appeals authority, respectively. There is also a complaint review process and vetting to make sure bounded rationality and opportunism are minimised. The Act also requires public procurement contracts proceedings in which LGAs are involved, to include a record of decisions taken and their underlying reasons and that such records should be kept for a period of not less than five years from the date of completion of the contract and be made available when required to the minister and the controller and auditor-general (URT, 2011).

*1.1.2 Public procurement regulations.* This provides details of methods of public procurement, the thresholds for pre-tendering procedures and types of contracts. It also prescribes contract management for goods, works, consultancy and non-consultancy work. Procedures for the disposal of public assets and minimum records to be maintained by PE are also set out. It also sets out the roles of different actors in managing public procurement contracts records, including the contract document. In this case, user departments are required to keep contract documents (URT, 2013).

*1.1.3 LGAs Tender Board Proceedings.* These describe the various actors in LGA pre- and post-contract management stages (URT, 2014). These regulations do not cover lower level of LGAs and the service delivery units of the LGAs.

*1.1.4 The Local Government Financial Memorandum.* This sets out the various actors involved in fiscal processes in LGAs (URT, 2010a, b).

*1.1.5 Electronic Transactions Act.* This defines electronic transactions. Its enactment was important in the field of electronic public procurement contracts, as it provides an environment for higher levels of e-procurement transactions (URT, 2015).

The issue of how transaction costs affect Tanzanian public procurement contracts management is not well understood. Transaction costs are those associated with the use of price mechanisms. It is important to examine the transaction costs in order to understand the total cost of ownership of public services, works and goods. Contract price alone do not give the real picture of the value of services, goods or works procured by the public sector. That is why many countries are switching from awarding contracts to the bidder with the lowest bid to awarding the contract to the bidder offering the most economic advantageous tender, which includes value rather than price. This approach is becoming standards practice in the EU countries. Moreover, also value for money aspects can be well analysed when transaction costs are taken into considerations.

The aim of this paper is to examine the transaction costs involved in managing public procurement contracts at both the higher and lower levels of LGAs from the clients' viewpoint. Therefore, the paper seeks to answer a question on how transaction costs involved in managing public procurement contracts are perceived by clients' or by downstream actors, i.e. the LGAs. This study is slightly different from studies focusing on the upstream or both down and upstream actors of the supply chains. Examples of these studies are Brown and Potoski (2003) which assessed ways in which municipal and county governments respond to transaction costs factors in the context of vendor performance and Zheng *et al.* (2008) on dynamics of contractual governance for non-traditional contracts, i.e. the public private partnership (PPP).

## 2. Theoretical framework

### 2.1 *Contracts, new institutional economics (NIE) and transaction costs*

A contract is an agreement between parties. In a public procurement contracts environment, it is an agreement between the procuring entity (i.e. the client) and a contractor/bidder as a result of a public procurement contracts proceeding (URT, 2013). Contracts can be explained and revolve around the NIE developed by Coase (1937) and later expanded by Williamson (1975). Unlike standard neoclassical economics, Coase acknowledges that there are costs arising from the use of the price mechanism. These costs include discovering what relevant prices are. They can be minimised, but cannot be eliminated by the specialists who sell this information. Coase also discussed the costs of negotiating and concluding contracts, and this led to the emergence of a NIE and its theories, including the transaction costs approach. According to North (1990), institutions are formed to reduce uncertainty in human exchange. Therefore institutions are formed to reduce transaction costs. Hence, institutions matter when it is costly to transact (North, 1990).

NIE differs from mainstream neoclassical economics. Neoclassical economic analysis concentrates on an equilibrium market outcome. There is no consideration of how business relationships arise. Hence, transactions are treated as though they occur in a frictionless economic environment which results in costless transactions (Hobbs, 1996). NIE criticises neoclassical economics for neglecting the social institutions that

form the framework in which the neoclassical economy functions. There are two main strands of NIE. These are the institutional environment and institutional arrangements. The institutional environment involves background constraints or rules that guide individual behaviour. It involves formal, explicit rules such as constitutional issues, laws, property rights and informal and often implicit rules (i.e. social norms). On the other hand, institutional arrangements are specific guidelines. According to Williamson (1975), these are governance structures designed by trading partners to mediate particular economic relationships, business firms, long-term contracts, public bureaucracies, non-profit organisations and other contractual agreements. This research is based on both institutional environment and arrangements.

The study is also based on contractual governance where parties have to safeguard against the hazard of opportunism by applying legal contracts, specifying what is acceptable and what is not with threats of legal enforcement (Zheng *et al.*, 2008). An optimal contract is the one with the lowest transaction costs relative to the outcome (Williamson, 1975) in terms of searching, negotiating and monitoring costs. Therefore, the most appropriate theory for examining transaction costs involved in managing public procurement contract is transaction cost (Williamson, 1996), which is about exchange and transactions.

### 2.2 Definition of transaction costs

Transaction costs are the costs incurred by the firm in searching for a buyer or a seller, negotiating terms and monitoring and enforcing contracts. They arise out of uncertainty that North (1990) attributes to opportunism (moral hazards). For the purpose of this paper, transaction costs are the costs involved in searching for contractors, negotiating contracts and monitoring contracts. Therefore, transaction costs are analysed at all stages of public procurement contracts from the clients' viewpoint. The stages are pre-contract or pre-award stage (i.e. searching for information costs, award (negotiation costs) and post-award (monitoring costs).

According to Williamson (1981), governance structures that have better transaction costs (i.e. lower transaction costs) will eventually displace those that have worse, *ceteris paribus*. Factors that increase problems relating to transaction costs include bound rationality (i.e. cognitive and perceptual limitations on the part of human beings), opportunism (i.e. self-interest and self-seeking behaviour with guile), asymmetric information (i.e. unequal distribution of information among the exchanging parties) and the small number of bargains creating oligopoly conditions (Coase, 1937). Transactions which are specific to the requirements of a particular customer, uncertainty (both internal and external uncertainty) and high frequencies of transactions (especially when combined with asset specificity) increase both transaction inertia and transaction costs (Williamson, 1975).

The objective of public procurement contracts is to obtain services, works and goods on time, at a reasonable price and at a quantity and quality specified by users. The total cost of getting the goods or services involves both transaction costs and the costs of the service, goods or works. The aim is therefore to reduce transaction costs, so as to reduce the total cost of ownership.

### 2.3 The role of the legal framework, regulations and guidelines in reducing transaction costs

The empirical literature on reforms in public procurement contracts and public procurement contracts principles Western Europe and USA is quite comprehensive.

Reforms in public procurement contracts aim to reduce transaction costs and hence achieve value for the money that is invested in public procurement contracts. Studies on public procurement contracts reforms use both qualitative and quantitative methods to analyse social orientation and regulatory compliance where social orientation, expected utility, legitimacy of public procurement contracts law enforcement and perceptions of procedural justice are significant predictors of the regulatory agency fairness in public procurement contracts procedures (Ntayi *et al.*, 2012). PPP contracts involves issues such as transparency and fair selection during tendering in PPP projects and factors for the attractiveness of such projects (Cheung *et al.*, 2010; Li *et al.*, 2005); types of contracts (Zheng *et al.*, 2008) sustainable public procurement contracts where local authorities have strong emphasis on buying from local and small suppliers relative to other sectors (Walker and Brammer, 2004); malpractice and non-compliance with policies and procedures among public procurement officers; and interference from outside parties which may affect the award of contracts (Hu *et al.*, 2011).

#### *2.4 Reduction of transaction costs through e-public procurement contracts and human capacity development*

It is generally known that the use of ICT applications in public procurement contract management reduces transaction costs, specifically in relation to information and the negotiation and monitoring of contracts. E-procurement in the public sector is widely studied. Examples are an initiative in a decentralised system on local government system and issues of human resources (Nurmand and Kim, 2015) and impact of e-public procurement practices and performance (Quesada *et al.*, 2010). On supporting public procurement contracts through the internet, Bartezzaghi and Ronch (2003) found that human resources are the pivotal factors that determine the performance of local government e-procurement. Public procurement reforms and bureaucracy (Jones, 2013) and competition in public procurement contracting processes is also covered. E-procurement, it is yet to be implemented in Tanzanian public sector and hence, higher transaction costs are expected due to information asymmetry and opportunism behaviours of agents.

#### *2.5 Transaction costs; types of projects and stages of managing public procurement contracts*

There are a number studies on transaction costs in the public sector which focus mainly on the contractors' or both clients' and contractors, i.e. the non-traditional PPP. For example, Brown and Potoski (2003) used a survey method to study ways in which the LGAs responded to transaction costs factors. It was found out that LGAs engage variety of monitoring techniques to improve their ability to monitor and correct vendor performance.

De Schepper *et al.* (2015) found that there are higher specific investment types of transaction costs in PPP than in traditional public procurement contracts among projects implemented by contractors in a survey of projects implemented by contractors. Moreover, the level of uncertainty was found to be higher in PPP than in traditional public procurement contracts. In a survey of construction companies, Li *et al.* (2014) also found that post-contractual transaction costs are higher than pre-contractual transaction costs.

### 3. Methodology

A multiple case study design (Yin, 2014) of five purposively selected districts and town councils of Kigoma and Tanga regions was used. Some of the LGAs in both regions were participating in public procurement contracts capacity enhancement project. Another selection criterion was the nature of their location. Kigoma is in Western Tanzania and is about 792 kilometres from Dodoma where the head office of the Prime Minister's Office and the local government authority ministry are situated; and it is 1,244 kilometres from Dar es Salaam, the main business city of Tanzania. Tanga region is in the eastern part and is a few kilometres away from Dodoma. The LGAs involved were the Kigoma and Kasulu district councils of Kigoma and the Handeni district council and the Handeni and Korogwe town councils of Tanga. Three out of five districts (i.e. Kasulu, Kigoma and Korogwe district councils) participated in the enhancing public procurement capacities – local government authorities programme. The project facilitated public procurement action research and training on public procurement contracts, planning and record keeping over a period of three years (URT, 2015).

#### 3.1 Higher level

Face to face interviews were conducted. An interview guide with open-ended questions was used to collect data for higher and lower level of local government. Five heads of public procurement contracts management units (HPMUs) were involved in interviews – one from each local government authority. HPMUs were purposively selected. URT (2011) requires HPMUs to manage public procurement contracts activities in PE, for this case, managing public procurement contracts activities of the LGAs. They are also secretaries of the local government tender boards (URT, 2011). Variances in public procurement contract management were expected between participants and non-participants in the above-mentioned programme. Those participating in the programme were expected to show an enhanced capacity for managing contracts and hence variances in dependent variable, i.e. transaction costs and independent variables such legal framework and policies and human capacity and types of contracts. Variances in were also expected due to location of cases. For example, distance from the central business area influence transaction costs.

The questions revolved around transaction costs in pre- and post-contract processes, and opportunities and challenges for implementation. Questions also focused on the public procurement contracts legal framework, pre- and post-contract management, handling of contract management at the lower level of local government and the level of transaction costs involved.

#### 3.2 Lower level

A focus group of five, comprising district or town economist, ward/village project committee members and a councillor, was selected from one ward/village participating in public procurement contract management from each district and town council. The five groups were different because district/town economists and councillors from Kasulu, Kigoma and Korogwe LGAs had participated in the programme to enhance public procurement capacity among actors in the LGAs. Handeni District and Handeni Town councils were not part of the programme. Therefore, variations in transaction costs, human capacity, the legal framework and types of projects were also expected among these groups depending on whether or not they had participated in capacity-building programmes. Transcripts were prepared for each focus group and coding was

done deductively. Focus groups commented on each others' responses, and discussed ideas and perceptions with each other. Feedback from such groups would not be possible for multiple or single case interviews (Krueger and Casey, 2000; Patton, 2002; Love *et al.*, 2008), especially for the lower level of LGAs with little experience of public procurement contract management. Focus group discussions were used to give general experience, opinions and views on whether they had received training in public procurement contract management, experience of members in managing contracts, the role of public procurement contract record keeping, whether they had guidelines to follow when managing public procurement contracts and whether they were knowledgeable about public procurement contracts principles such as equality among bidders, efficiency, transparency and accountability. The groups were given enough time to discuss and present.

Secondary sources, specifically public procurement contract files were used to identify types and value of project contracts in which actors were participating, specifically at lower levels of LGAs.

The framework of analysis for higher levels of LGAs focused on pre- and post-contract management processes and procedures. Interview transcripts were developed. Four themes were identified, namely: public procurement contract planning; tender process; contract administration; and contract closing and evaluation. The four elements together form the local government public procurement contracts cycle.

Transcripts for focus group discussions were developed by the researcher. Content analysis was used to analyse focus group discussion data. Three main themes emerged: the legal framework and guidelines; support from higher level of LGAs; and human capacity.

Respondents at both higher and lower levels of LGAs were asked whether different transaction costs aspects of managing public procurement contracts emerging from the main themes were a problem. Descriptors of low (not a problem), high (problem) and very high (major problem) were used. This method was adopted from Hobbs (1996).

#### **4. Research findings and discussions for higher levels of local government**

Generally, all districts and town councils are operating in the same environment in terms of legal framework. However, they differ in terms of resources (i.e. financial and human resource capacity). It was found that district councils in Kigoma region had only two staff working for the procurement management unit, while those in Tanga had up to four staff. Transaction costs in terms of information, negotiation and monitoring were also higher in Kigoma than Tanga because of the distance between Dar es Salaam, the main business city of Tanzania, and Dodoma where the head office for the Prime Minister's office – regional administrative and local government authority is located. This was explained by the head of the public procurement management unit of Kasulu who said: "The cost of doing business with contractors here in Kigoma is very high compared to LGAs in Dar es Salaam because we are very far from the central business city, hence raising transaction costs. Therefore the total cost of ownership i.e. for services, goods and works is higher than most regions of Tanzania".

##### *4.1 Transaction costs for pre-contract management stages*

*4.1.1 Public procurement planning.* Public procurement regulations require all PE to integrate public procurement contracts planning with the budget preparation process. They also require public procurement contracts exceeding budget ceilings to receive

approvals from the relevant budget approving authority (i.e. the full council in the case of LGAs (Sect. 49, URT, 2011)). On this issue a respondent in Handeni town council said: “We are trying to comply with public procurement regulations, however, there are still higher transaction costs due to a number of public procurement plan reviews which are done almost throughout the year when projects are not implemented on time or allocated funds are not sent to us on time by the responsible ministry. Information costs with regard to planning are higher due to the need to search for information from different actors, newspapers and the time required getting such information”. He continued: “Most of water and works projects are implemented at less than 50 per cent in a financial year. Imagine all the costs of planning that goes without implementing a project”. Transaction costs for managing public procurement project planning activities at this stage ranged from none to high. Project/need description was a problem mainly on the case of developing terms of reference for consultancy assignments. Hence, high transaction costs in terms of search costs. These results were the same across the five cases. Difficulties in using Public procurement contracts Management Information System (PMIS) due to lack of internet connectivity in Kigoma Kasulu and Handeni DCs were mentioned to be a problem and therefore high information costs (Table I).

*4.1.2 Tender processing.* This stage involves preparation and approvals for works or goods specifications and terms of reference for consulting assignments, preparation and approval of bid documents, advertising, evaluation, supplier/consultants selection and award processes (Table II). At this stage, it is a requirement that there should be public procurement principles such as equal opportunities for all prospective bidders; transparency (e.g. through advertising in most circulating newspapers); encouragement to participate among local bidders and consultancies; and the need for efficiency and economy in the whole process of public procurement (URT, 2011). It was also revealed that transaction costs at this stage ranked from low to very high for activities related to vetting contracts above USD 33,000. However, very high transaction costs for vetting contracts were noted for the Kigoma and Kasulu district councils (Table II). The two local authorities are in Kigoma region. Contracts are vetted by the Attorney General in Dar es Salaam. Higher transaction costs for these two LGAs are associated with geographical distance and the time taken to have the contracts approved.

## 5. Transaction costs for post-contract management

Transaction costs associated with activities involved in this stage include contract supervision and monitoring, review of performance and contract closure (Table III). Interviews indicated that quality assurance plans for service contracts were not prepared and hence not used for all five LGAs; hence, transaction costs were a problem at the monitoring stage in the case of services (Table III). The head of the procurement management unit in Korogwe said: “Transaction costs for monitoring contracts are very high in our case because of lack of trust among public procurement actors”. Monitoring costs were ranked as very high for the post-contract stage. Results are the same across the cases. This may be due to opportunistic behaviours among actors both on the client and the supplier/contractor/consultant side. These results are the same as those of Li *et al.* (2014) who found that post-contractual transaction costs are higher than in pre-contractual stages for non-traditional types of contracts.

The above analysis looked at traditional methods of analysing a public procurement contracts contract, while focusing on a transaction costs approach for each stage in procurement contract management. Data have also shown that transaction costs at



Activity	Kigoma DC	Kasulu DC	Handeni Town Council	Handeni DC	Korogwe Town Council	Challenges/ opportunities	Type of transaction cost involved/ cost levels
Involvement of PMU in budgetary process	X	X	X	X	X	Heads of PMU are partially involved in budgeting process	Information cost; high
Identification of need by user departments	✓	✓	✓	✓	✓	Users are able to identify needs	No cost involved
Procurement planning process and reviews	✓	✓	✓	✓	✓	More than 50% of planned procurement projects not implemented due to lack of funding	Information and negotiation costs; high
Procurement plan reporting	✓	✓	✓	✓	✓	Difficulties in using PMIS due to lack of internet connectivity for Kigoma Kasulu and Handeni DCs	Information cost; high
Description of requirements/ terms of references	✓	✓	✓	✓	✓	Problems identified on the case of developing terms of reference for consultancy assignments	Information costs; high for consulting assignments

**Notes:** X, activity not implemented although is a PPA 2011, PPR 2013 requirement; ✓, activity implemented  
**Source:** Field data (2015)

**Table I.**  
Procurement  
planning

higher levels of LGAs can be categorised into those associated with institutional problems, lack of financial resources and attitudes towards transparency, accountability and efficiency through all the stages of public procurement.

Interviewees identified transaction costs associated with the institutional framework, such as time taken for the attorney general to review contracts; capital tied up in the case of the unavailability of stock when buying from the medical stores department; costs associated with distance; negotiation and monitoring of non-consultancy services for Tanzania Mechanical and Electronic Services Agency (TAMESA) projects; costs associated with opportunism when involved in micro public procurement contracts; and the switching costs for reporting to the Government Procurement Services Agency (GPSA) instead of the Public Procurement Regulatory Authority (PPRA) on emergency public procurement contracts. There is also information asymmetry costs associated with a lack of participation of public procurement contracts staff in site handling and visits and monitoring costs when funds are not disbursed on time from the treasury. Interviews also highlighted the role of TAMESA, which has a mandate to provide non-consultancy services but is located

**Table II.**  
Tendering, shopping  
and special  
procurement process

Activity	Handeni			Korogwe	Challenges/opportunities	Transaction cost/level of cost
	Kigoma	Kasulu	DC			
Specification/terms of reference preparation	✓	✓	✓	✓	Lack of expertise in preparing terms of references	Information cost/high for consulting assignments
Preparation of tender/request for proposal documents	✓	✓	✓	✓	Mostly PPRA tender documents customization; lack papers and printing and internet facilities	Information costs; high
Advertising	✓	✓	✓	✓	They all complained of high costs of advertising. PPRA is supporting this function however, a contribution to advertising is required	Information costs; high
Receiving bids/proposals	✓	✓	✓	✓	Not all procedural forms for recording receiving available at PPRA website are used. Non availability of internet and printing facilities	Information costs; low
Evaluation of bids	✓	✓	✓	✓	Regulatory restrictions, lack of resources	Negotiation costs; high
Approval of the team, preparation of plan, minutes and approval of negotiation	✓	✓	✓	✓	Few cases of repeated negotiation	Negotiation costs; low
Administration of cool off period and complaints	✓	✓	✓	✓	time waiting is longer	Negotiation/information costs; high
Contract vetting above the threshold, i.e. Tsh 50 million and above	✓	✓	✓	✓	Administrative costs associated with waiting for attorney general to verify and transport costs to and from head office	Negotiation costs; very high for Kasulu and Kigoma District Council
Awarding contract	✓	✓	✓	✓	Costs associated with social-relational factors among actors	Negotiation costs/opportunism; high
Buying through Medical Stores Department	✓	✓	✓	✓	Capital tied up in case of unavailability of stock, contrary to public procurement Act	Information costs; high

(continued)

Activity	Handeni		Handeni		Korogwe	Challenges/opportunities	Transaction cost/level of cost
	Kasulu	Town	DC	Handeni			
Non-consultancy service through TAMESA for vehicle repair/services	X	X	X	X	X	Cannot be implemented due to costs associated with distances/	Negotiation and monitoring costs; High
Micro procurement	✓	✓	✓	✓	✓	Heads of departments are using imprest system without any approval of tender board members	Opportunism costs; very high
Emergency procurement	X*	X*	X*	X*	X*	Approvals and reports are required from Government Procurement Services Agency instead of the public procurement authority	Switching costs are involved because PMIS is hosted by public procurement authority; high

**Notes:** X, activity not implemented although is a PPA 2011, PPR 2013 requirement; ✓, activity implemented and X\*: yet to be implemented  
**Source:** Field data (2015)

**Table III.**  
Post contracting  
activities at higher  
level of local  
government

Activity	Handen				Transaction cost; level of cost
	Kigoma	Kasulu	Town	DC	
Appointment of contract supervisors for works and receiving and inspection committee for goods procurement	✓	✓	✓	✓	Opportunism; very high
Site handling, site visits, management meeting and reports	✓	✓	✓	✓	Supervision of works contract is mainly done by heads of works and water sections. Participating in all contract supervision poses problems in accountability
Preparation of quality assurance plans and implementation for the case of non-consultancy contracts	X	X	X	X	Procurement unit staff are not frequently involved due to lack of financial support
Managing payments certificates for goods and deliver notes and invoices for goods	✓	✓	✓	✓	Supervisors are not appointed by the Accounting officer
Extension of time	✓	✓	✓	✓	Funds not transferred to the LGA on time
Managing variations	✓	✓	✓	✓	Not well assessed before approvals
Final payment and release of performance guarantee	✓	✓	✓	✓	Restriction to users on evaluation of bids and lack of financial support for evaluation committees and

**Notes:** X, activity not implemented although is a PPA 2011, PPR 2013 requirement; ✓, activity implemented  
**Source:** Field data (2015)

in regional centres which are distant from some of the local authorities. Distances involved and time waiting for vehicle repair posed challenges for all five LGAs. To reduce transaction costs, they could use shortlisted suppliers located in their areas and still get a good level of service. The legal requirement for every public procuring entity to inform GPSA about emergency public procurement contracts poses switching costs and this result in higher information costs. PPRA hosts the PMIS.

Costs associated with the opportunism behaviour towards public procurement contracts principles among actors in public procurement contracts contract management were evident in all five cases. For example, the head of the public procurement contracts unit in Handeni said, "It has been a common phenomenon for heads of works and water sections to supervise all works contracts under their section, contrary to the PPA 2011 which requires an accounting officer to appoint a contract supervisor for each works contract and this is common for most LGAs". This raises questions on accountability and transparency among actors and ultimately opportunism costs in the public procurement contract chains.

All the five cases highlighted costs associated with a lack of funding to finance already contracted projects in due time. Transaction costs are associated with contract extensions, price inflations and interest charged by service providers, suppliers and contractors. These are in the form of time spent waiting for project completion, negotiation and monitoring interest rates. They automatically increase service costs. In combination with this, transaction costs associated with public procurement contracts staff not being involved in site handling and visits due to lack of finance was mentioned in all five cases. Ultimately, these officials are meant to write project contract reports and use the PMIS to send their reports to PPRA. Costs associated with a lack of transparency and accountability is evident in this type of environment.

It was found that public procurement contract at higher levels of local government are managed by qualified heads of departments in all cases. All heads of PMUs are educated to bachelor degree level and hold a procurement contracts professional qualification. The PPA 2011 requires HPMUs to possess procurement professional qualification. However, there are a number of transaction costs associated with management of contracts. If the challenges associated with transaction costs are not dealt with, the contract price will rise and there will be an increased likelihood that value for money will not be achieved for funds invested in LGAs. Ultimately, poor services will be delivered to the population, contrary to the objectives of the local government reforms, NSGPR II, cluster III and Vision 2015.

## 6. Research findings for lower levels of LGAs

### 6.1 *The legal framework, regulations, policy and guidelines*

Decentralisation by devolution policy (URT, 2009) empowers all citizens at all levels to participate in the allocation and use of public resources, planning and delivery of public services. This has necessitated community participation in projects being managed at lower levels (i.e. wards, villages and *vitongoji* in the case of district councils and wards, *mitaa* and *vitongoji* for municipal councils). This means fiscal decentralisation to the local level for the purpose of service delivery in basic health care, local roads, local water supply, agricultural extension services and marketing and local administration. Therefore, public procurement contracting is also taking place at the lower level to implement fiscal decentralisation policy. Community members are involved in public procurement contracts for works and services for the purpose of delivering services to the community.

It was found that there are no public procurement regulations for the lower level of local government authority and its service delivery units for example schools and dispensaries. Hence, transaction costs associated with transparency, competition and accountability were, therefore, very high for all five cases (Table V). This might be because of opportunism behaviour among actors of the lower level of LGAs. Laws and regulations specify what is acceptable and what is not, with threats of legal enforcements (Williamson, 1975), hence safeguarding against moral hazards. Kenya, for example, has Public Procurement and Disposal (County governments) Regulations. County service delivery co-coordinating unit is mentioned as one of the public entity within the county. These regulations (the county government procurement) have shown appointment authority and composition of the service delivery co-coordinating unit tender committee.

### **7. Human capacity in managing public procurement contracts**

The district or town planning and statistics officer working with high levels of LGAs ensures effective coordination and management of planning, budgeting, monitoring and evaluation on council operations. School and health management teams/boards/service delivery facilities management team/boards promote governance and a participatory approach among school, health centre or service delivery unit projects and procurement contracts transactions. They should also provide leadership and plan for requirements and award of contracts, monitoring and supervision of minor health facilities/school projects and contracts. Members of the ward development or village financial planning committees are also involved in policy development and management of day-to-day activities in wards and villages' decision making, including decisions on requirements, development of specifications and awarding and supervision of minor community projects/contracts. Finally, project committees elected by members of ward or village council meetings have a role in directly managing procurement contracts. With the exception of town/district planning officers, other actors were not trained in public procurement principles and regulation in all five cases. A member of a group discussion in Mkombozi village in Kigoma shared the experience of terminating a contract without knowledge, which resulted in increased transaction costs: "We terminated contract without knowledge of public procurement regulations, as a result we lost our time and money to follow the matter to the higher level".

### **8. Management of pre- and post-contract and transaction costs**

Procedures for managing contracts at lower levels of LGAs are the same for all the researched LGAs. First, a ward, village, *mtaa* or *kitongoji* council meeting is called. The project committee is elected and minutes for the meeting are prepared. Second, the project committee elects the chairperson and secretary. The project committee opens bank account of which subvention from the higher level of the local government will be transferred. Price quotations for shopping method where applicable are prepared by the project committee.

Focus group data revealed that there are differences in terms of the level of support project committees receive from higher levels of LGAs across the cases. Through its public procurement contracts management unit and works and water section, Kigoma DC supports its lower level to ensure that bills of quantities, advertisements, bidding documents such as price quotations and contracts are well prepared. It also offers a limited amount of supervision in the evaluation process. Tender boards for higher levels of LGA approve each stage of public procurement contracts. A member of a

focus group in Korogwe DC noted that, “there is no guideline showing that the Tender Board for the higher authority should approve procurement contract documents and processes for its lower level”. None of the procurement contract officers in any of the five LGAs were comfortable in supporting the lower level of LGA because none of them had a guideline to show the extent of support to be provided. It was also revealed that some village or ward project committees were not interested in receiving support. The problem was in standard bidding and contract documents which are written in English. Most project committee members are not conversant with the English language. HPMUs and planning officers at higher levels of local government mention problems in managing and implementing contracts at this level due to low levels of accountability, competition, governance, transparency and efficiency. This resulted in high transaction costs in managing contracts.

### 8.1 Types of projects, contract price and transaction costs

Communities at the lower levels of LGAs participate mainly in managing procurement contracts of works associated with projects such as the Tanzania Social Action Fund (TASAF) and the District Agricultural Sector Investment Project (DASIP). There also direct projects from government funding. Ongoing lower level contract projects for three LGAs for 2014/2015 are shown in Table IV.

It was revealed that although the actors (i.e. school and health service delivery boards or teams, ward and village financial planning committees) are supposed to supervise minor works, there are cases where such committees are involved in managing contracts for up to USD 133,000,000 (Table IV). However, the threshold for minor works is up to USD 13,000 (URT, 2013). Low levels of support from the higher level, use of standard documents which are in English and human capacity in managing contracts (Table V) were also mentioned as stumbling blocks when managing public procurement contracts at lower levels of the local government. These limitations might have raised transaction costs due to opportunism, bound rationality among actors and information asymmetry at

LGA' name	Project's name	Cost in (1,000,000) Tsh
Kasulu District Council	Procurement of works for Kagondo village resource centre	149
	Procurement of works for a sunflower processing building for Kagondo village	28.7
	Procured works for teacher's house for Rungwe Mpya village	50
	Works contract for a slaughtering slab for Shunga village	8
Handeni District Council	Works contract for construction of one room of Mteata dispensary	19
	Works contract for slaughtering slab for Mteta village	21
	Works contract for Tewardangazi village dispensary	40
Kigoma District Council	Works contract for construction of Ilagala Health Centre	200
	Works contract for a market centre for Mkongoro village	30
	Works contract for procurement of desks for Mkombozi primary school village	21
	Roads works repair	7.5

**Note:** Currency conversion: USD 1.00 = 1,500 Tsh

**Source:** Secondary data, 2015

**Table IV.**  
Works contracts  
procured for 2014/  
2015 in the lower  
level of LGAs

**Table V.**  
Challenges and opportunities in managing procurement contracts at lower levels of LGAs

Identified issues	Group					Challenges/opportunities	Transaction cost/ level of costs
	1	2	3	4	5		
<i>Legal framework</i> Coverage in of lower level of local government is not covered in PPA, 2011, the PPR, 2013, and the local government tender board proceeding Use of donors and inter government grants procurement guidelines and procurement manuals	X	X	X	X	X	Project committee supervise works contract without any legal backup. Lack of legal framework poses problems in accountability Three out of five higher level district councils are sensitising project committee at the lower levels to use SEDEP II procurement guidelines. They are out of date and some issues do not match with PPA 2011 They are used with the support of officials from higher levels. All standard forms and documents are in English language which is not known by most of project committee members	Associated with opportunism; very high Information costs; high
Use of standard documents	✓	✓	✓	✓	✓	All project committee members mentioned that the higher level of local government is supporting them to a small extent	Information costs and opportunism; very high
Support from higher level of local government on legal aspects for procurement	✓	✓	✓	✓	✓	District economist and statisticians allocate projects of any amount to lower level of local government. There no guidelines on what type and amount of contracts to be implemented at the lower level	Information, negotiation and monitoring costs; very high Information costs; very high
Procurement contract thresholds	X	X	X	X	X	All members participating in contract management and implementation had not received any training All members were participating for the first time	Information costs; very high Information costs; very high
<i>Human capacity</i> Training on procurement received	X	X	X	X	X	Members had no knowledge on procurement principles such as transparent, accountability, equality, efficiency, etc.	Information costs; very high Information costs; very high
Experience	X	X	X	X	X		
Knowledge on procurement principles	X	X	X	X	X		

**Notes:** X, not applicable; ✓, applicable  
**Source:** Field data (2015)



lower levels of LGAs. For example, a slaughtering slab was constructed at Mteata village in Handeni at a cost of USD 14,000 while the same was constructed at Shinga village in Kasulu for only USD 5,333 (Table IV).

The themes identified in managing pre- and post-contract issues at the lower level were associated with very high transaction costs (Table V) across all cases. If the current situation at lower levels of local government is left to continue, transaction costs will increase to higher-than-expected levels and possibly force procuring institutions to fail completely or move to another level in the vertical coordination continuum (Williamson, 1976). The implication of this is that there will be low quality of works and services which do not reflect the amounts invested and hence poor development in terms of education, water and sanitation, health, access roads, marketing of agricultural produce and linking smallholders to higher dynamic markets. Public procurement contract management is a cross-cutting issue. It supports all sectors of the economy and clear guidelines for lower levels of local government are, therefore, necessary to ensure that principles of transparency, efficiency, accountability and inclusiveness at all stages of public procurement contracts are achieved and that both small-scale and major corruption are eliminated. The guidelines will also help to improve the capacity of management systems in service delivery at lower levels of LGAs.

## 9. Conclusion

As discussed in the theoretical section, there are costs attached to using price mechanisms and, for our case, there are costs of managing contracts. They add to the cost of ownership for services, goods and works. It is important to reduce transaction costs in order to achieve value for money for public projects. This paper focused on the costs of managing contracts for both higher and lower levels of local government. There have been a number of initiatives to improve procurement contract management at the higher level of local government. There are opportunities, for example, for training in managing contracts, the role of training institutes, professional development, establishment of PPRA, the role of development partners, for example the Belgium Technical Cooperation and USA aid, the enactment of public procurement contracts law and the development of public procurement policy. However, much has to be done at the higher level to reduce transaction costs associated with the institutional framework, such as lack of funding, lack of positive attitudes among actors towards public procurement principals and institutional problems.

Findings show slight variations on transaction costs incurred across the five cases. Variation was noted on distances and time involved in vetting contracts. Those close to the offices of the attorney general find transaction costs significantly lower than those in Kigoma. Surprisingly, three of the cases had participated in a five-year programme to enhance public procurement contract management. This data might indicate that institutions are significant factors for reducing transaction costs and therefore human capacity could be a constant variable in reducing transaction costs at present. Although the cases were different in terms of participants and non-participants in the programme, attitudes towards transparency, accountability and moral behaviours as related to transaction costs were the same across the cases. Hence, an emphasis on transparency and accountability is needed in order to reduce transaction costs at higher levels of local government.

The results of this study show that transaction costs are higher in post-contract management stages than in the pre-contracting stage. The results also indicate that the

institutional framework which focuses on public procurement contracts principles (i.e. accountability, transparency, efficiency and equality) may have a more significant impact than human capacity in reducing transaction cost for higher levels of local government.

Unlike the higher level, lower levels show very high transaction costs (i.e. information, negotiations and monitoring costs) throughout all the stages of public procurement contract management. This was due to a lack of proper human capacity and of a legal framework which could help in reducing transaction costs. Data revealed that there are no public procurement regulations in place for lower levels. Neither was public procurement contracts training in place for all works project committees in villages, ward, *mitaa* or *vitongoji*. Both regulation and training are important in minimising transaction costs, which are currently on the rise due to a lack of proper institutions.

Those in practice, along with local government public procurement contracts actors such as the Public Procurement Policy Division, the PPRa and the Prime Minister's Office local government authority could work together to address issues of public procurement contract planning; human capacity in pre- and post-contract management transactions (e.g. in preparing bidding documents for example terms of references for consultants); managing large and complex works contracts; the managing PMIS; timely disbursement of public procurement contracts funding; and preparation of public procurement regulations and standardised manuals at the lower level and the enhancement of public procurement capacity at this level. Opportunities provided by the action research model (i.e. the use of research to identify problems), coaching and on-the-job training and formal training methods could be useful in filling the gaps that currently exist in managing public procurement contracts at both higher and lower levels of local government. Attempts to address the challenges revealed could increase public procurement contracts efficiency at all levels of local government and reduce public procurement contract management transaction costs by improving accountability, competition, equality and transparency. Moreover, increased value for money might be achieved on projects resulting in improved service delivery, which is the primary objective of the decentralisation by devolution policy and Cluster III of the National Strategy for Growth and Poverty Reduction. Conversely, neglecting these issues could increase transaction costs in the areas of information, negotiation and monitoring, and result in a lack of transparency, accountability and efficiency in public procurement contract management systems and the provision of low-value services to citizens. This is contrary to the targets stated in Cluster III of the NSGPR II and Vision 2025.

Future studies could quantify the specific transaction cost factors involved in public procurement contract management.

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