

# Improving Local Tax Collection and Compliance in Malawi



In Malawi, local tax compliance levels are low and the collection process is sometimes corrupt. At the same time, people are reluctant to pay taxes until they see material benefits from their taxes, contributing to a vicious cycle of non-payment and poor government service delivery. Researchers are evaluating two interventions, individually and in combination, that aim to address two sides of the problem: a program to improve local governments' tax collection capacity, and a program to improve vendors' voluntary compliance.

## Policy Issue

In Malawi, as in many sub-Saharan African countries, fees from open-air markets are one of the largest sources of direct tax revenue for local government. However, tax compliance levels are low and the collection process is often corrupt, limiting the ability of local governments to fund key services. At the same time, market vendors are reluctant to pay fees until they see material benefits from their taxes, contributing to a vicious cycle of non-payment and poor government service delivery. This intervention aims to address both sides of the problem simultaneously – improving district governments' capacity to efficiently and transparently collect taxes, as well as increasing taxpayers' inclination to comply through better communication and improved market services.

## Evaluation Context

In many districts of Malawi, the largest source of public revenue is fees collected from markets. In most markets, vendors are supposed to pay a fixed fee for each day they sell in the market (~\$0.14-\$0.21), and the local government in return is supposed to provide basic services in the market. In practice, however, tax compliance is low. Exploratory research suggests that, on average, only 35 percent of vendors pay their fees consistently.

Under contract with NORC, and in collaboration with USAID's Center of Excellence on Democracy, Human Rights and Governance and USAID's mission in Malawi, researchers have designed an impact evaluation to test the effectiveness of a set of interventions in improving tax compliance. This evaluation will be conducted as one component of a larger USAID project, the Local Government Accountability and Performance (LGAP) activity, which is implemented by Development Alternatives Incorporated (DAI). It will take place in eight districts in Malawi which have been selected by USAID, in cooperation with the Ministry of Local Government, to take part in LGAP. Research will focus on 128 identified markets within districts pulled from a market census implemented by the intervention

### RESEARCHERS

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### COUNTRY

Malawi

### PARTNERS

Development Alternatives Incorporated, NORC at the University of Chicago

### PROGRAM AREA

Governance

### TOPICS

Civil Service Motivation & Productivity, Community Participation, Transparency & Accountability

### TIMELINE

2017-2018

partner, DAI. IPA is responsible for carrying out surveys of market vendor, fee collectors, and local officials at baseline and endline, as well as on-going monitoring during the implementation period.

## Details of the Intervention

The study will evaluate two different approaches to improving tax compliance: “bottom-up” measures that focus on increasing voluntary tax compliance, and “top-down” measures that focus on improving the government's ability to enforce and collect taxes. The 128 participating markets were randomly assigned to one of the following four groups:

1. Top-down program only (32 markets)
2. Bottom-up program only (32 markets)
3. Both top-down and bottom-up programs (32 markets)
4. Comparison group - no intervention (32 markets)

The top-down component includes a number of local government capacity-building measures: a better system for forecasting tax revenue based on the number of market vendors, a mobile-based fee payment system, improved fee collector training and incentives, and an anonymous complaints system for market vendors to identify collectors involved in coercion, violence or suspected corruption.

The bottom-up component includes several measures meant to improve vendors’ willingness to pay taxes, including community and market meetings to identify problems and market needs, construction grants (which are meant to signal local governments’ commitment to delivering services), an SMS messaging system designed to keep citizens informed of revenue collection, and spending to empower vendors to monitor and sanction local officials for how they use market revenues.

Researchers are evaluating participating markets on the percentage of vendors who pay their fees, the amount of tax revenue per vendor, and the level of corruption (misappropriated revenue) from fee collectors.

## Results and Policy Lessons

Study in progress; results forthcoming