Complementary Approaches Increase Citizen Trust and Tax Compliance

Malawi

TRANSFORMING EVALUATIONS INTO ACTION

An evaluation of approaches to improve tax compliance in Malawi found that trust is a key issue, and that enhancing accountability and transparency can increase taxpayers’ willingness to pay taxes, thereby improving local revenue collection. The Malawian government is using these findings to increase transparency and build trust with citizens.

CONTEXT

Increasing local revenue collection has the potential to support Malawi’s long-term economic and political development. In many districts in Malawi, the largest source of local revenue is fees collected from markets; local governments, however, struggle with collection. Between 2016 and 2021, the U.S. Agency for International Development (USAID) funded the Local Government Accountability and Performance (LGAP) activity, which supported the Government of Malawi to improve service delivery and democratic practice—including revenue collection—in the country.

To improve revenue collection, district governments can either increase citizens’ willingness to pay taxes voluntarily (i.e., take a “bottom-up” approach) or increase government capacity (i.e., take a “top-down” approach), which can either increase the costs of tax evasion or decrease leakage and corruption. This was tested by LGAP in a clustered randomized controlled trial that took the form of a two-by-two factorial design consisting of two cross-cutting treatment arms, each randomized at the market level.
EVALUATION METHODOLOGY
LGAP conducted a randomized controlled trial¹ to examine the effectiveness of three different approaches to improve tax compliance: 1) bottom-up interventions focused on increasing vendors’ willingness to pay taxes; 2) top-down interventions focused on improving the government’s ability to enforce and collect taxes; 3) and a combination of the two approaches. To test the effectiveness of these approaches, the evaluators chose a sample of 128 markets in eight districts in Malawi. These were randomly divided into four equally sized groups of 32 markets: a control group that received no intervention; a group that only received the bottom-up intervention; a group that only received the top-down intervention; and a group that received both bottom-up and top-down interventions. The evaluators interviewed vendors at each market (12,389 at baseline and 12,370 at endline), tax collectors (302 at baseline and 264 at endline), and ward councilors and district government officials (298 at baseline and 352 at endline²). Details on the methodology can be found in the evaluation report.

EVALUATION FINDINGS
On tax revenue, the evaluation found higher revenues in the treatment markets at endline, however, they cannot eliminate the possibility that the markets in the treatment groups had different rates of revenue collection at baseline, in which case the interventions did not in fact increase revenues. The evaluators indicated that while they are confident that the bottom-up treatment increased tax compliance, they are not sure whether the additional revenue actually reached the government.

On likelihood of paying any tax, the evaluation found vendors in the bottom-up only and top-down only group were 10.8 percent and 7.9 percent more likely to show evidence of a tax payment receipt from the past seven days than vendors in the control group. The bottom-up intervention also increased vendors’ satisfaction with services and belief that paying taxes is a duty. Vendors in the top-down intervention group were more likely to report they paid taxes because there were consequences if they did not; tax collectors in this group reported working longer hours and the vendors perceived lower bribe-taking.

The evaluation also found both the top-down and bottom-up approaches could work in tandem to build trust with taxpayers. LGAP strengthened citizens’ trust that their tax payments were being used well by facilitating communication between market vendors and the government; encouraging market vendors to choose how the government should spend revenue on public goods in their markets; increasing transparency and accountability through SMS revenue reporting and a grievance reporting system; and reducing corruption through a mobile-based, market-fee system and improved revenue forecasting. The impact evaluation showed that even from a low baseline, local revenue collection can be kickstarted by enhancing accountability and transparency to increase taxpayers’ trust and willingness to pay taxes.

¹ All impact evaluations in the Evidence to Action briefs follow USAID standards as defined in ADS 201.3.6.4. For more information, see the USAID Evaluation Policy and the full LGAP Impact Evaluation.
² The number at endline was larger because the researchers “were able to obtain a more comprehensive sampling frame for local government officials.”
ACTION BASED ON EVIDENCE FROM THE FINDINGS

Learnings from the evaluation stimulated discussions between USAID, implementing partners, and the Malawian Ministry of Local Government about opportunities to improve revenue generation from market fees through central-level interventions. With USAID support, the local governments improved how they use projections, accounting, and updated financial procedures. District governments also greatly improved their performance, as measured by the Local Performance Assessment, in six key areas, including citizen engagement and service delivery. Results from the activity and evaluation supported institutionalization of the approach across Malawi: for example, one district government now records tax collection amounts and collector names to increase transparency, and the national government has developed business registers for each district government.

Within the LGAP activity, the evaluation findings supported the roll out of replicated or modified versions of the interventions to new districts. In these new districts, the project combined interventions from the different treatment groups in the evaluation to optimize fee collection and licensing from business owners.

The evidence of the link between resource mobilization, government transparency, citizen engagement, and trust that was uncovered by the evaluation is helping USAID design the next generation of activities in Malawi. USAID is now designing a follow-on activity on public financial management that includes continued support to ministry resource mobilization. The follow-on activity will use a Problem-Driven Iterative-Adaptation approach, in which the activity will discuss the problem with market vendors, committees, and elected officials to collaboratively identify a solution. This approach is expected to build trust across stakeholders. The design team is using the LGAP evaluation findings on the linkages between trust and government transparency and revenue generation to inform the new activity, and will follow up and expand upon these findings in the design.

LESSONS LEARNED

• Running the experiments alongside activity implementation allowed for the data to support the review and modification of the activity’s other objectives in real time. This can be helpful when implementing activities that need real-time data. Differences in development and capacities across districts meant that implementation began with, at times, discussing basic roles and responsibilities. Using the data from the experiments, the implementer was able to better target capacity building and platforms for meaningful citizen engagement across districts. These actions increased revenues and provision of public goods, and acted as a positive driver for improving the local government-citizen relationship.

• Enabling citizens to engage in civic life leads to better outcomes. International standards on decentralization, as well as the local decentralization policy, amplified the need for involving citizens in decisions that affect them. This experiment revealed that organizing market vendors in committees with elected leaders and providing them with adequate information on market fee collections improved their compliance—a finding that is being built into the follow-on activity.

• Using high-quality baselines can help assess needs and understand important contextual factors. As mentioned in the report, the investigators cited issues with the quality of the baseline, which led to challenges concluding whether an increase in revenue in some of the treatment groups was due to the experimental interventions being conducted. Taking time to invest in understanding possible baseline issues before the baseline is completed can help strengthen evaluation findings.