TITLE:

SEEKING TO IMPROVE LOCAL TAXATION PERFORMANCE: SOCIAL

DETERMINANTS OF AN EFFECTIVE TAX REGIME IN MALAWI'S LOCAL

GOVERNMENTS.

NAME:

TENNYSON JOHN MOYO (PHD20607).

INTRODUCTION

The Local Governments (LGs) in Malawi have been poorly performing in local revenue mobilization thereby paralyzing local operations (Kelly, Nkankha and Kiisa, 2001). Despite introducing the Local Revenue Enhancement Plan (LRESP), the poor performance has persisted. That has raised questions about the effectiveness of the local tax policy. In addition, interventions made to strengthen the tax collection system failed in some LGs, the interventions are Integrated Financial Management Information System (IFMIS), LRESP, and capacity building (Chiweza, 2015). IFMIS is the automated system financial management system used in the LGs to enhance performance, LRESP is the local tax policy that was introduced to eradicate poor revenue mobilization performance and capacity-building was meant to eradicate capacity deficiencies in the tax system. The three did not attain the targeted results and other scholars called for a complete overhaul of the tax system to turn things around (Mustafa, 2017).

The increasing demand for quality services by the citizenry and insufficient central government transfers (Chiweza, 2015) makes enhancing local revenue mobilization by LGs crucial to achieve local objectives. Thus, it is necessary to understand the functionality of the tax policy to develop effective means of enhancing local revenue mobilization (National Local government Finance Committee, 2009). It is also necessary to understand why the interventions made in the tax system failed to provide a basis for developing robust remedial actions to address challenges in the system.

Investigating the functionality of the LRESP requires a focused approach to ensure that significant dynamics are comprehensively understood to effectively eradicate identified challenges.

Therefore, understanding the processes of the policy, social and taken for granted elements affecting it is paramount. The causes of interventions' failure equally need to be understood as a platform for improvement. The policy management processes of formulation, communication, execution, monitoring and evaluation, and enforcement are examined to assess if they are robust enough to achieve the desired goals. In addition, social factors influencing the actors in implementing the policy are also investigated to understand their effect on performance. Furthermore, elements that are embedded in the system but are taken for granted though they affect the system are considered. Particularly, the study investigates social determinants of an effective tax system in the LGs while appreciating each of the tax policy processes and their interaction.

METHODOLOGY

The data used was mainly collected from the respondents with additional data from secondary sources. The data was collected from actors who were directly involved with the formulation and management of the tax policy. Thus, it was collected from the horse's mouth making it more detailed and authentic to explain the dynamics of the tax policy in influencing local revenue mobilization. The actors who formulated, communicated, executed, monitored, enforced and those who were directly affected by the policy implementation provided the data from their actual experiences making it original. Policymakers, managers, tax officers and taxpayers provided the data. The Local governments under investigation and respondents were deliberately selected to understand the dynamics of the tax policy and its influence on tax performance as they were appropriate to provide the needed data for the study. The LGs were in different categories and areas, performed differently and were differently influenced by external stakeholders making them rich in local revenue mobilization information. On the other hand, the actors were directly involved with the policy management. The secondary data was mainly obtained from government sanctioned studies and reports which were affiliated with the government. That ensured that the data used was validated by government agencies and therefore reliable for the study. In addition, the study verified that the data was well-assembled, precise, and appropriate for the study to ensure that the targeted results are attained (Dr. A.L. Bowley; see Kothari and Garg, 2014). Interviews and questionnaires with open-ended questions were used to collect the data. The interviews allowed us to pose follow-up questions, which made the data very comprehensive and so were the open-ended questionnaires.

While it is difficult to directly link the processes, social determinants and the taken for granted elements to the poor local revenue mobilization, the study identified elements within the factors that directly influenced the actors' actions leading to increased or reduced tax payment compliance and willingness to pay. It also looked at how the social phenomena encouraged or discouraged the taxpayers to pay taxes thereby determining the amount of taxes collected. In addition, the cause and results back-and-forth linkage examined by qualitative studies helped to ease the linkage between the tax policy dynamics and the resulting performance (Goertz and Mahoney, 2012). According to Goertz and Mahoney, in the relationship a causal factor or a collection of factors induces an outcome, but the factors need to be adequate to trigger the outcome. Hence the need to investigate the policy processes, social and taken for granted factors. Further, the usage of the Small-N method which deeply investigate few cases to produce comprehensive information aided to clearly define the influence of tax policy on tax performance as it investigates how he the processes operated in each of the targeted LGs and how they differed (Abbott, 2004) therefore hinting on the causes of the varying performance.

The systematic process analysis enabled us to investigate the tax policy management processes to ascertain if they had positive or negative effect on the local revenue mobilization performance and why they had such impact. The method basically investigates processes and their resulting outcomes (Hall, 2003). The method was used to understand the tax policy processes listed above and how their functionality and interaction affected performance. The method was also used to validate the proposition that only well-formulated and implemented tax policy positively influences local revenue mobilization. On the other hand, the narrative analysis was mainly used to understand how the interventions made failed in some LGs. The technique puts together different narratives to formulate one story that explains a phenomenon (Abbott, 2004).

RESULTS

The results suggest that local tax policy and social factors influence local revenue performance in the LGs. However, only well-formulated and executed tax policy has the power to positively influence the taxation performance. It was also found that there were various operational and structural elements that hindered the effectiveness of the interventions made in the LGs.

The execution and enforcement processes directly influence performance as their functionality directly influences tax collections while formulation, communication and monitoring does so indirectly as they strengthen the system to ensure that the execution and enforcement are robust and effective to increase revenue collection.

The study found that various social factors hindered the success of the local tax policy. It found that political interference, stakeholders' apathy in local tax management, fraud and theft, neglect of fashion trends, supremacy of informal rules, and lack of shared responsibility among stakeholders were responsible for the failure of the local tax policy. It was discovered that the politicians were unable to competently undertook their roles in managing the tax policy as they prioritized political agenda leading to the exclusion of important elements of tax policy and triggered conflicts which negatively affected the policy management process. It was also found that crucial stakeholders like tax officers and the taxpayers were omitted in other policy management processes like formulation which led to a weak execution process and therefore poor tax collection. The politicians were also not included in the monitoring process due to poor stakeholders' relationship which led to a weak monitoring process. There was also rampant fraud and theft in the collection and management of the local revenue which triggered mistrust among the stakeholders leading to fragmented efforts in collecting taxes which weakened the system leading to poor local revenue mobilization. The mistrust also led to the resistance of tax payment as the taxpayers feared that the taxes they paid would be embezzled further deteriorating the situation. Furthermore, the LGs paid less attention to fashion trends particularly communication and technological trends. The LGs were stuck with the conventional communication techniques like Public Announcement systems which proved ineffective disregarding effective means like social media and mobile telephone usage. Similarly, the continued usage of the physical tax collection aided poor tax collection as effective means like electronic tax collection systems that proved effective in practice were not given attention. Finally, it was discovered that the system was mainly driven like informal practices like use of intimidation and aggression to induce tax payment which discouraged tax payment as the taxpayers objected to such practices. The poor taxation system in the LGs created a conducive environment for the existence of the above elements making it also a contributor to the poor local revenue performance.

The study also discovered that the above elements did not have the same impact in the LGs as they performed differently. In addition, there were also other elements that triggered performance variation among the LGs. Firstly, it was noted that LGs with intensive wrangles among internal

stakeholders particularly politicians and managers performed poorly due to fragmented efforts than those with mild conflicts. The effects were similar for LGs with varying levels of fraud and theft. It was also found that LGs that comprehensively involved stakeholders in tax policy management did better than those that engaged them poorly as they resisted and rejected the policy. LGs with significant staff deficiencies also performed poorly compared to those with relatively low-capacity gaps. Above all, the technical and financial support that other LGs received from domestic and international donors gave them advantage over those without the support and therefore outperformed them.

Furthermore, the study discovered that LRESP failed due to its disconnection with other fiscal decentralization systems that were to support it and lack of meaningful guidance, evaluation, and enforcement. On the other hand, IFMIS failed due to poor implementation planning, evaluation, and enforcement. Finally, Capacity building succumbed to resistance to change by staff, weak stakeholders' coordination and system capture by other stakeholders rendering the system incapacitated.

CONCLUSION.

With rarity of studies investigating local tax policy, this study stands out as it investigates the processes of the local tax policy to understand its dynamic in influencing tax performance. Understanding the tax policy using the narrative and systematic process analysis opens a new chapter in understanding tax performance based on processes than the traditional figures comparison (Lee and Seoh, 2022).

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