



Impact Evaluation of Tax Compliance Interventions In Malawian Markets

Overview

USAID/Malawi's Local Government Accountability and Performance (LGAP) activity implemented by Development Alternatives Inc. seeks to improve local government performance and service delivery in Malawi. At the request of USAID's Center for Democracy, Human Rights and Governance (DRG) and USAID/Malawi, NORC at the University of Chicago designed and conducted a randomized controlled trial to assess the effectiveness of two intervention bundles implemented to increase tax compliance in markets:

- **A bottom-up (BU) intervention for increasing vendor's willingness to pay taxes** that included facilitating communication between market vendors and government; constructing new public goods in markets; and increasing transparency regarding revenue levels and spending.
- **A top-down (TD) intervention for improving government capacity to collect taxes** that included rolling out a mobile-based market fee payment system; initiating monthly vendor counts and generating revenue targets; and using targets to create an incentive scheme for tax collectors.



Impact Evaluation Design

NORC randomly assigned 128 markets across the eight LGAP districts to four treatment groups of 32 markets each: one group received the BU intervention only; another received the TD intervention only; another received both the BU and TD interventions; and the fourth group received no intervention. LGAP implemented the interventions between October 2017 and November 2018. NORC collected survey data from market vendors, tax collectors, and district government officials at baseline (July-September 2017) and endline (November-December 2018).

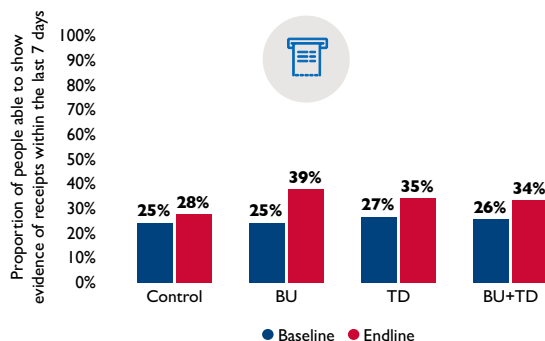
Qualitative information from market visits, interviews, and focus group discussions supplemented survey data. In addition, LGAP provided information on intervention implementation and facilitated access to revenue data from district councils.

Key Findings

Vendor Tax Compliance

- The BU only and the TD only interventions significantly increased vendors' ability to provide a receipt indicating tax payment.
- At endline, vendors in the BU only and TD 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.

Change in the Ability to Show Receipt



District Council Revenues

- Market-level revenue data was tracked between November 2017 and November 2018. Since the first intervention activities began in October 2017, November 2017 figures cannot be considered truly pre-treatment.
- This limitation, together with missing information and other issues, led to inconclusive findings on district council revenues. One analysis of district council revenues indicates that district council revenues from markets in the TD group were higher than those from markets in the control group; another indicates no difference.



LGAP significantly improved record keeping and data analysis capacities of the district governments. Over the course of the intervention period, revenue data became more precise and accessible.

Intermediate Outcomes

- At endline, vendors in **BU markets** reported higher levels of agreement with the statement:

“Paying taxes is a duty of all citizens”

than vendors in markets in the control group. The difference is small but statistically significant, and consistent with expectations.



- Vendors in **BU markets** also reported higher levels of trust in government and in the ward councillor, and higher levels of satisfaction with market services at endline.

- At endline, vendors in **TD markets** reported higher levels of agreement with the statement:

“I pay taxes because I’ll get in trouble if I don’t”

than vendors in markets in the control group. The difference is small but statistically significant, and consistent with expectations.



- In **TD markets**, there was higher work effort by market tax collectors, who reported working longer hours at endline.

Effects of combined BU and TD interventions

Effects of the combined interventions are either smaller than those of the BU or TD interventions alone or statistically insignificant. Two likely explanations for this finding are:

- o **Crowding Out:** Vendors might have been more inclined to pay taxes voluntarily due to the BU components, but this might have been counteracted by the focus on consequences and monitoring in the TD intervention.
- o **Intervention Timing:** Due to deviations from the original timeline, vendors might have been demoralized after learning about their rights and responsibilities surrounding government revenue collection and then experiencing increased government efforts to collect revenues, but without the service improvements they were promised.

IMPLEMENTATION CHALLENGES

- Implementation challenges were significant, arising due to the complexity of the project, multiple stakeholder engagement and low state capacity.
- Delays and changes to the interventions likely resulted in the final interventions being weaker than originally designed.

Recommendations



Scale up either the TD or BU intervention, but not both at the same time

Each intervention is more valuable individually than they are in combination.

Consider fully implementing BU intervention first, and follow with TD intervention once voluntary tax compliance has improved.



BU intervention likely more effective

The BU intervention consistently affects intermediate outcomes such as citizen trust, tax morale, and satisfaction with government services.

The TD intervention’s effects on intermediate outcomes such as vendor compliance, tax collector effort, and corruption are more limited.



Accountability forums

In-person market kick-off meetings and SMS transparency campaigns have been successful and should be scaled up.

On their own, these might not be sufficient to improve tax compliance.



Building revenue data collection capacity

Over the course of the intervention period, revenue data became more precise and accessible. Future interventions of this kind may benefit from building these capacities prior to implementing the interventions, so that outcomes can be tracked more effectively.



Additional Analysis

Future programming could benefit from additional research to identify differential effects of the interventions in different markets, assess effectiveness of individual intervention components, and understand why the combination of the two interventions appears to have no effects.

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The impact evaluation final report can be found [here](#). For more information contact the USAID DRG Center Evidence and Learning Team at ddi.drg.emallist@usaid.gov or NORC at the University of Chicago at Camacho-Luis@norc.org.