

Property Taxation under Fiscal Decentralisation in Malawi: What Are the Available Institutional and Governance Arrangements?

Chunxia Sun¹ Thomson Raphael Bwanali^{2*}

1. College of Public Administration, Huazhong University of Science and Technology, 1037 Luo Yu Road, Wuhan, 430074, Peoples' Republic of China
2. College of Public Administration, Huazhong University of Science and Technology, 1037 Luo Yu Road, Wuhan, 430074, Peoples' Republic of China

* E-mail of the corresponding author: trbwanali@yahoo.co.uk

The research is not financed by any funding agency.

Abstract

The paper investigates institutional and governance arrangements that fiscal decentralisation provides for property taxation. Research for the paper was based on a case study of Lilongwe City Council in Malawi and data were collected through document analysis and semi-structured interviews with senior officials from central government, Lilongwe City Council and other stakeholders in the implementation of fiscal decentralisation and property taxation in Malawi. Fiscal decentralisation in Malawi provides the following institutional and governance arrangements for property taxation: autonomy for the taxing authority; constitutional oversight bodies; dispute handling mechanisms; local representation; collaborative arrangements; and performance reporting. The paper concludes that fiscal decentralisation that has been implemented in Malawi has institutional and governance arrangements that would create smooth administration of property tax. The limitation with the paper is that it is based on one case study of a local government area designated to levy property taxes.

Key words: Fiscal decentralisation, Governance, Institutional arrangements, Property taxation

1. Introduction

Developing countries have implemented fiscal decentralisation with the rationale that lower levels of government would have control over local finances. Fiscal decentralisation is “a two-dimensional policy institution that involves either decentralisation of a tax instrument, when local governments have the power to raise taxes, or decentralisation of expenditures when local governments bear the responsibility for implementing expenditure functions” (Porcelli, 2009, p.1). Literature presents property tax, a levy on real property, as the most appropriate source of local government’s revenue for the following reasons: it easily gets local acceptance; indicates clear jurisdiction of its coverage; ensures predictable flow of revenues and its suitability for budget balancing (Bahl & Martinez-Vasquez, 2008; Bird & Slack, 2004; Monkam & Moore, 2015). Fischel (2001) likens the property tax to a benefit tax especially in cases where it matches with benefits enjoyed in local public services. Effectiveness of a property tax system requires constant improvements and according to Bei (2013), the quality of institutional arrangements determines the success of reform. The paper investigates institutional arrangements that fiscal decentralisation provides for property taxation. Findings of the research are significant to both theory and practice of property taxation in developing countries because knowledge about institutional and governance arrangements that fiscal decentralisation provides for property taxation would provide scholars a basis for building theory for improving performance of property tax. The findings are also significant to developing countries that are in initial stages of fiscal decentralisation and use property taxation as an option for financing local government because through this paper they can learn other institutional and governance arrangements that might be lacking in their own property tax systems. Research for the paper was based on a case study of Lilongwe City Council in Malawi and data were collected through document analysis and semi-structured interviews with senior officials from central government, Lilongwe City Council and other stakeholders in the implementation of fiscal decentralisation and property taxation in Malawi.

2. Theoretical Perspective

The paper is based on theory of fiscal decentralisation and institutional theory based on the understanding that

fiscal decentralisation and property taxation involve several institutions that link up and coordinate with each other. Therefore understanding the concepts of fiscal decentralisation and institution is necessary. Scholars of public finance propagate that financing of public goods should be done at the level where they would be deemed most efficient. Studies in public finance and public goods undertaken by Kenneth Arrow, Richard Musgrave and Paul Samuelson formed basis for the present perspective of fiscal decentralisation (Oates, 2005). Fiscal decentralisation is promoted as an effective arrangement for ensuring that in a multi-level government, each level is assigned economic tools for financing public goods and services. Fiscal decentralisation is based on the Decentralisation Theorem which states that:

For a public good- the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or respective government – it will always be more efficient to (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions. (Oates 2012: 35)

The theory places a responsibility on each level of government of ensuring that public goods and services are efficiently delivered to the local people. The proximity of a local government to people within its jurisdiction puts it as a good provider of public goods and services because it understands their needs better than the central government. A study conducted by Bird, Ebel and Wallich in 1995 suggested that fiscal decentralisation is complete when local governments have “an independent and autonomous source of tax revenue” (cited in Bryson and Cornia, 2003, p.45). Davey and Péteri (2004) suggested local taxation in the following ways: levying taxes themselves; imposing a locally decided surcharge on a revenue levied and collected by other levels of government; and receiving a fixed share of national taxes collected within their jurisdiction. Expenditure assignment for a local government represents the most significant aspect of fiscal decentralisation because that is where taxpayers judge relevance of local taxation. Local governments should ensure public expenditure respond to local requirements to avoid local government failure. Dollery, Crase and Byrnes (2006) have defined government failure as “the inability of a public agency (or agencies) in a given tier of government to achieve its intended economic efficiency and equity objectives” (p.342). Local government failure could also result from spending limitations specified by the central government in the fiscal decentralisation policy framework, therefore, local government should ensure that revenue mobilisation initiatives are driven by public expenditure requirements. Property taxation as a common form of local taxation ought to adopt institutional and governance arrangements that will maximise revenues.

The term “institution” has ignited considerable debate among social scientists who argue about its definition and what it constitutes. An earlier definition by North in 1990 described institutions as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” (cited in Vitola & Senfelde, 2015, p. 272). The definition considers that institutions are based on human behaviours because humans create institutions and determine how they should be run. Greif (2000) define economic institutions as “a system of social factors - such as rules, beliefs, norms, and organisations - that guide, enable; and constrain the actions of individuals, thereby generating regularities of behaviour” (p.257). The definition implies that an institution has structures and rules that coordinate interaction between different agents and whose actions are expected to be rational. Hodgson (2006) views institutions as “systems and embedded social rules that structure social interaction” (p.18). Wilson (2006) faults Hodgson’s definition for not incorporating the behaviour of institutions’ actors. Incorporating actors’ behaviour as a component of institutions extends institutions to informal set-ups because behaviours occur during either formal or informal interactions. In addition, persistent informal efforts by agents to interact with each other and conform to formal rules and regulations result into their actions being regarded as conventional by the society, thus creating informal institutions. According to Phillips, Lawrence and Hardy (2004), the foundation for institutional theory is the fact that “institutions are social constructs produced through meaningful interaction” (p.638).

According to Young (2004), the nature of institutions is self-reinforcing and they possess relatively stable characteristics in terms of their scope, administrative structure and links with other institutions. Institutions can also be identified by their hierarchical nature or availability of sub-systems. Coriat and Weinstein (2002) describe two aspects of institutional structure namely: “the coherence and hierarchy between institutions, or institutional sub-systems” (p.280). Coriat and Weinstein (2002) argue that coherence of institutions is important because it helps a system’s performance to not only depend on itself but also other sub-systems. Similarly, performance of fiscal decentralisation does not only depend on the local governments implementing it but also on technical and financial assistance from central government and choices from citizens. In addition, institutional

hierarchy helps in understanding the entire system and identifying roles of each agent. Maguire and Hardy (2006) summarise the literature on definitions of institutions and conclude that regulatory institutions comprise of: “legislation, systems of standards and penalties, specialised organs for delegated decision making and review procedures; secretariats; and monitoring mechanisms which combine to influence behaviour” (p.9). Institutions involved in fiscal decentralisation and property taxation are regulatory in nature. Based on this summary, it can be argued that the institution of fiscal decentralisation and property taxation comprise of policy makers, implementing agents, policy and legislation that regulate agents’ coordination and their roles. On the importance of institutional arrangements, scholars agree that they play a great role of influencing behaviour (Hodgson, 2006; Phillips, Lawrence & Hardy, 2004) because deviation from the agreed conventions is regarded as a misbehaviour and attracts penalties or sanctions. The role hints that institutional arrangements not only link and coordinate agents but also encompass public governance. Bovaird and Löffler (2009) define public governance as “how an organisation works with its partners, stakeholders and networks to influence the outcomes of public policies” (p.4). Thus, as an institution, fiscal decentralisation should promote governance in property taxation by collaborating with all concerned agencies and citizens. Collaborative governance refers to the “the processes and structures of public policy decision making and management that engage people constructively across the boundaries of public agencies, levels of government, and/or the public, private and civic spheres in order to carry out a public purpose that could not otherwise be accomplished” (Emerson, Nabatchi and Balogh, 2012, p.3). Such arrangements create trust among all agents and promote citizens’ voluntary compliance to pay local taxes.

3. Methodology

The paper is based on an exploratory qualitative research that involved a case study of Lilongwe City Council in Malawi. Case study is “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Robson, 2002, p.178). In a case study strategy, a small geographical location and a limited number of people are selected as respondents to the research. There are three main types of case studies namely: descriptive, explorative and explanatory (Yin, 2009). Research for the paper adopted descriptive and explorative orientation to a case study in order to get a description of property taxation in Malawi; and to investigate institutional and governance arrangements that fiscal decentralisation provides for property taxation. According to Zainal (2007), advantage of case studies is their ability to “explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships.” (p.1). Flyvbjerg (2006) begin by arguing that a case study does not provide reliable information about a broader class; but it may be useful in the preliminary stages of research because it provides hypotheses, which may be tested systematically with a larger number of cases. The choice of a case study for the research was relevant to investigate arrangements in a phenomenon, property taxation. Lilongwe City Council was selected as a case study because, firstly, it is the capital city of Malawi where the seat of government is located, as such it offered a high probability of interviewing key informants from both the government and the public. Secondly, Lilongwe City Council implements many if not all government policies pertaining to fiscal decentralisation and property taxation because of the capital city status.

Data were collected by analysing documents pertaining to policy and legal framework for fiscal decentralisation and property taxation in Malawi. Forty-two semi-structured interviews were conducted with purposively selected key informants from central government, Lilongwe City Council and other stakeholders in the implementation of fiscal decentralisation and property taxation at national, local authority and community levels. In addition, four focus group discussions were conducted with property owners to understand the following: public involvement in property taxation; perceived level of accountability at the taxing authority; and communication arrangements between property owners and the taxing authority. Four focus group discussions were arranged with property owners from each of the four categories of properties created by the Lilongwe City Council. Categories of properties are commercial, industrial, residential-low to medium density and residential-high density. There were already existing area committees of property owners for all categories which act as a platform for communicating with Lilongwe City Council and utility providers, and the researcher held discussions with members after getting consent from the leadership of each committee. A set of different open-ended questions were asked to each interviewee depending on the role his or her institution plays in property taxation and his or her own responsibilities in the institution. However, in all cases questions were focused on the role of a particular institution in property taxation and how it coordinates with other stakeholders. The research objective and qualitative research approach that was adopted pre-determined a thematic analysis of data. Themes developed were characteristics of a particular agent and roles in property taxation. Responses from interviews and focus group discussion were transcribed and summarised according to the themes.

4. Property Taxation in Malawi

The administration of property tax in Malawi is governed by the decentralisation law, the Local Government Act of 1998 which provides legal authority for both fiscal decentralisation and property taxation. The legal framework provides locally generated revenues, ceded revenue and transfers from central government as main sources of local government finance. There is no limitation on the sources of locally generated revenue which include: property rates; ground rent; fees and licences; commercial undertakings; and service charges (Government of Malawi, 1998a). Locally generated revenue contribute about “65-80 percent of all revenues” of urban local governments and property taxes are the biggest source of locally generated revenues of urban governments in Malawi as they account for “between 40-50 percent of all revenues” (Choi et al., 2016, p.53).

4.1 Institutional Framework for Property Taxation

Since property taxation in Malawi falls under the broader fiscal decentralisation, it is associated with the same institutions that provide local authorities with policy guidance, technical, financial, and human resource assistance in relation to fiscal decentralisation. These institutions can be classified as: governmental; political; non-governmental; private; and citizens. Government institutions are directly linked with the central government and include all ministries, departments and agencies that are directly involved in the implementation of fiscal decentralisation and land management. These include: local governments authorities; Ministry of Local Government and Rural Development (MLGRD); National Local Government Finance Committee (NLGFC); Malawi Local Government Association (MALGA), Local Government Services Commission (LGSCOM); Ministry of Finance, Economic Planning and Development (MFEPPD); and Ministry of Lands, Housing and Urban Development (MLHUD).

Local authorities are grouped into four types, namely: city, municipal, town and district. City, municipal and town local authorities are responsible for government business of urban areas. The decentralisation law provides that the organisational structure of each local authority should be composed of the secretariat and a council. The secretariat is under the leadership of a Chief Executive Officer and it is involved in the administration of all service sectors in the decentralisation process. The council is a political arm of the local authority comprising of Members of Parliament and Ward Councillors, who are elected representatives for local people of a local government area. The council is headed by a chairperson and in urban local authorities he is designated as the Mayor. Currently, property taxes are levied on assessable property situated in local government areas which legislation has designated as taxable for property tax purposes. The decentralisation policy entrusts MLGRD with responsibility of managing local authorities and the entire decentralisation programme through provision of guidance and support, and linking central government and local authorities (Government of Malawi, 1998b). According to Chiweza (2010), MLGRD performs some of its functions through special local government institutions namely: MALGA, LGSCOM and NLGFC. MALGA is composed of all local authorities who are represented by their elected leader and among its responsibilities include representing and lobbying for local councils interests, for example, revenue generation (Kutengule, Kampanje, Chiweza & Chunga, 2014). The NLGFC was established in accordance with section 149 of the Malawi Constitution, and its main function is to monitor the financial performance of local authorities. The national constitution mandates NLGFC to examine and supervise accounts of local government authorities using the available laws in consultation with the National Audit Office (NAO) (Government of Malawi, 2002). Similarly, LGSCOM was established in accordance with section 147 sub-section 4 the Malawi Constitution and its role is to appoint and discipline staff of local authorities (Kutengule et al., 2010). The only exception are administrative heads of local authorities who are appointed by the Minister responsible for local government. The role of MFEPPD in property taxation is to formulate, monitor, evaluate and review property tax policy in consultation with NLGFC. Finally, the (MLHUD) is involved in property taxation because of its role in managing land and regulating land services, such as valuations.

Political stakeholders in property taxation are all elected representatives of the people, thus Members of Parliament and Ward Councillors. As members of the political arm of the local authority’s council their role is largely to provide oversight on revenue generation and expenditure. At national level, the Malawi Parliament also provides an oversight role under the provisions of Public Finance Management Act of 2003 by summoning administrative heads of local authorities “to answer audit queries raised by the Auditor General” (Kutengule et al., 2014, p.33). Citizens and groups are involved in property taxation, first as taxpayers and finally through public procurement arrangements that are entered into with the local authorities, for example, valuations of property and collection of tax.

4.2 Property Tax Policy

Tax base defines the immovable property on which tax will be levied. The tax base can be composed of the following: land only; improvements on land only; and both land and improvements, for example buildings (Slack & Bird, 2014; Kelly, 2013; Slack, 2010; Franzsen, 2002). Malawi's property tax policy provides that both land and improvements on it which are within a local government area are subject to tax and covers both residential and non-residential property where the latter includes commercial, industrial and government or public buildings. However, section 67 of the Local Government Act mandates local authorities to levy tax in areas that have not been designated as assessable by the Minister of local government. The following do not qualify as property assessable to tax: "all streets; sewers and sewage disposal works; land and improvements used directly and exclusively as a cemetery, crematorium or burial ground; land and improvements used as a public open space; and railway lines used for transit" (Government of Malawi, 1998a, p.19). The tax policy exempts from tax all real properties that are exclusively used as the following: public religious worship; public library or public museum; hospital; an educational institution; sport centre (Government of Malawi, 1998a). However, the exemption does not extend to property used as residence for staff of these institutions or any other property that the exempted institution might use for profit-making. In addition, all assessable property that is owned by diplomatic missions as approved by the Minister of Foreign Affairs is exempted from property tax and this includes residences for staff. Literature suggest that in some countries, government property does not necessarily enjoy full exemption but the central government is supposed to pay to local government a contribution in lieu of property tax, for example, in Kenya and Canada (Kelly, 2013). Similarly, government-owned property in Malawi is taxed at a discounted rate of fifty-percent of the applicable tax rate.

The bases on which tax could be levied include: sale value, capital value of property, rental value of property and income realised from property (Monkam & Moore, 2015; Aluko, 2005). Capital value is the original cost of acquiring and improving the property whereas rental value refers to the value that the property would realise if it is being let out. Malawi adopted the sale value also known as market value as basis for levying property tax. According to Monkam and Moore (2015), developing countries face challenges with value-bases for calculating tax on property because they require vibrant property markets and sound management of data from the market. To a large extent, application of market value basis by Malawi's local authorities rely on outsourced professional valuers. Malawi's local governments have autonomy of setting their own tax rates and the legislation mandate them to "differentiate tax between area and between different classes of property within the local government area" (Government of Malawi, 1998a, p.25). In Malawi, legislation describes the owner of assessable property as the taxpayer who is liable to paying tax levied on the property he owns and if the property is co-owned, this responsibility is shared among the co-owners.

4.3 Property Tax Administration

Property tax administration by local authorities in Malawi involves the following functions: property identification, valuation, assessment, collection, and enforcement and taxpayer services. Some of the functions are performed in collaboration with other governments departments and in some cases, local authorities outsource services from the market.

4.3.1 Base identification

A first step in property tax administration whereby the tax authority identifies the property that is to be taxed through cadastral surveys in order to establish property ownership and its boundaries. The surveying exercise involves mapping of boundaries and collection of information for each property with reference to the adopted property tax base definition and result into the development of a valuation roll. A valuation roll is register containing details of ownership of property, its location including boundaries and amount of tax that is due (Monkam & Moore, 2015). Section 68 of Local Government Act directs that apart from showing details of property and its owner, the valuation roll should also contain the total valuation of the assessable property: value of the assessable land; and value of the assessable improvements situated on the land. In Malawi, urban local authorities have mandate over all urban land as a result they possess a database of property owners. However, the records are not good enough and periodically property identification is undertaken in conjunction with the ministry responsible for land.

4.3.2 Valuation

Property valuation determines the value on which a taxing authority will apply the tax rate in order to compute tax liability for each taxpayer. The Local Government Act under Section 65 provides a five-year cycle for undertaking at least one valuation of assessable property and that a supplementary valuation to be undertaken once in every twelve months to ensure that new assessable properties are included in the valuation roll. Further,

legislation requires that valuations should be undertaken by a valuer registered under the Land Economy Surveyors, Valuers, Estate Agents and Auctioneers Act. However, such technical expertise is not readily available in local authorities like is the case with Lilongwe City Council which out-sources valuation services from the market. It has been learnt that valuers are remunerated based on a percentage of total value of properties recorded, thus a valuer who presents high values is paid more than the one who presents lower values.

Legislation provides that before commencement of valuation exercise, occupants of property should be given a forty-eight hour notice to enable them prepare. On their part, property owners are required to provide information about their property within twenty-eight days from the date they receive a notice about valuation. When valuations have been undertaken by private valuers, Valuations Department in the Ministry of Lands, Housing and Urban Development provides technical assistance of verifying all values before updating the valuation roll. The Local Government Act under Section 75 requires local authorities to make the valuation roll available for inspection by interested taxpayers or groups (Government of Malawi, 1998a). The valuation roll is not used to levy property tax until the general public has been invited to inspect it and is satisfied with the information it contains. According to section 70 and 71 of the Local Government Act, local authorities are empowered to alter valuation roll and correct errors whenever it is deemed necessary.

4.3.3 Assessment

Assessment function involves calculating annual tax liability for each taxpayer by applying the set tax rate to the value of property. In Malawi, assessing property tax and determining tax rates are responsibilities of the administrative arm of local authorities only. Lilongwe City Assembly uses different rates to levy property tax depending on, first, the use of such property such as for commercial, industrial and residential purposes. Then differential rates are applied depending on the population density of the areas where property is located namely: low, medium and high. Legislation provides neither a period within a year for which taxes are assessable nor a specific date on which taxes become payable and that is left to local authorities to decide. However, in practice, local authorities assess tax bi-annually and have fixed 30th June and 31st December as dates on which taxes are payable for respective halves of the year. The law only authorises local authorities to notify taxpayers about their tax liabilities within a period of not less than twenty-one days before the date on which the tax is payable through either print media that circulates in the local government area or any media that might be decided. According to Lilongwe City Council, in addition to door-to-door delivery of bills and placing notices in print media, it also uses mobile public address system to communicate to property owners that taxes are due.

4.3.4 Collection

The function involves sending bills to taxpayers and collecting taxes that are due. Tax collection requires a considerable level of compliance from taxpayers, therefore it is necessary to design proper collection strategies. The Lilongwe City Council conducts door-to-door delivery of tax bills after realising using the post was one of the factors that promoted non-compliance because taxpayers used to claim that bills were not reaching them. As regards the actual collection of taxes, Lilongwe City Assembly contracted commercial banks located in various points in the city who collect property taxes on its behalf. In addition to the commercial banks, another payment point is at the council's headquarters where collection is done by a commercial bank located within the council's premises, and the council itself.

4.3.5 Enforcement

The function ensures that the tax authority addresses tax arrears by enacting the tax law to undertake actions that are provided for forcing defaulters to pay any tax that might be unpaid after a specified period. Apart from reducing tax arrears, enforcement also promotes voluntary compliance among taxpayers by charging penalties on tax arrears or imposing sanctions against some services, for example, denying issuance of business licences or tax clearance certificates (Kelly, 2013). Lilongwe City Council enforces tax arrears by: charging penalties; seals property of tax defaulters; names and shame defaulters in both print and electronic media; outsourcing services of professional debt collectors, specifically lawyers; and commences litigation proceedings against defaulters.

4.3.6 Taxpayer service

The taxpayer service function handles objections and appeals that taxpayers might have against tax assessments or valuations. Under section 76 of the Local Government Act, property owners objecting a property tax determination are required to file such objection to the local authority within twenty-eight days from the first day on which the rate is payable. It is further specified that objection should be filed in writing. However, property owners in Lilongwe City expressed dissatisfaction that often the authority takes long to resolve disputes possibly because no time-frame is specified for it to resolve disputes.

5. Findings and Discussion

The implementation of fiscal decentralisation in Malawi has created institutional and governance arrangements for property taxation that are discussed below.

5.1 Autonomy for the taxing authority

Autonomy of a public institution refers to the “discretion of public organisations in decision making in respect of policy or managerial issues” (Lægreid, Verhoest & Jann, 2008, p.93). Institutions’ autonomy could be reflected by legislation, lines of accountability and the ability to design and implement operating procedures. The legal and institutional frameworks for fiscal decentralisation demonstrate that local authorities in Malawi are granted semi-autonomous powers for administration of property tax. Legislation for decentralisation provide autonomy in the following areas: setting of tax rates; levying of tax in areas that have not been designated as assessable by the Minister of local government; determining periods for which taxes are assessable and dates on which taxes become payable; outsourcing of services when the local authorities don’t have capacity.

The arrangement where a taxing authority has multiple lines of accountability could also erode its autonomy because each stakeholder would wish to exert authority. For instance, local authorities do not have complete autonomy in organisational management because they neither design their own organisational structures nor recruit staff. The line ministry, the MLGRD, and relevant agency LGSCOM are responsible for designing organisational structure and staff recruitment respectively. With such arrangements, human resource requirements in property tax administration are not readily addressed until approval is sought from LGSCOM. Similarly, local authorities cannot implement monetary incentives for staff involved in property taxation, for example, annual bonuses, because staff remuneration levels are determined by the MLGRD.

The current arrangement also creates problems in staff performance measurement where there is no clear system in place because top-level managers in local authorities feel that is the duty of LGSCOM. The situation is further complicated by the arrangement to have administrative heads of local authorities appointed by the Minister. The arrangement has potential to erode local authority’s autonomy and bring political interference in property tax administration.

5.2 Constitutional oversight bodies

Existence of external constitutional oversight bodies in property tax administration ensures accountability and responsibility on the part of a taxing authority. Accountability requires public officials to record and disclose their actions together with outcomes to the larger public (Brandsma & Schillemans, 2012). Schillemans and Busuioic (2014) view accountability as a relationship between actors entrusted with undertaking of a responsibility and regulatory authorities that monitor the actor’s behaviour. Oversight of local government finance in Malawi is provided by NLGFC, NAO, National Parliament and MFEPD. NLGFC is the one that constantly monitors and evaluates performance of property tax revenues and related expenditure. Local authorities are under law required to furnish the NLGFC with financial reports every month. Based on such report the NLGFC conducts routine checks to ensure that the taxing authorities are complying with laws on public finance management. Secondly, legislation on public finance management provides that all public institutions should be audited by the NAO. Thirdly, the National Parliament which makes property tax laws and approves local government budgets is the highest oversight institution. Apart from ensuring accountability in property tax administration, external agencies like a Ministry of Finance, also monitor and evaluate the efficiency and effectiveness of the tax system. Expert guidance helps to evaluate if the tax policy is achieving its objectives in a fair and effective manner. Constitutional oversight bodies should coordinate with each other in executing their roles because relationship and interaction between them affect functioning and autonomy of public organisations on which they play oversight role (Lægreid et al., 2008).

5.3 Dispute handling mechanisms

In property taxation, disputes could arise relating to perceived unfair valuation or assessment. A taxing authority is supposed to be accountable to taxpayers and one way of achieving that is through availability of clear arrangements for resolving taxpayers’ disputes or complaints. Dispute handling mechanisms could be instituted either for maintaining citizen satisfaction with the tax system or getting feedback on the weaknesses of a tax system and non-conforming behaviours of tax officials, for example, corrupt practices. Mookhey (2013) argues that taxpayers’ satisfaction with dispute handling procedures and outcomes help in building health relationships between the tax authority and taxpayers and minimises recurrence of disputes. In addition, handling of disputes presents a taxing authority with an opportunity to justify its decisions and educate taxpayers on a particular issue. In order to promote accountability, procedures and processes for resolving disputes or complaints should be

known to taxpayers. According to Brewer (2007), accessible, simple and transparent procedures for handling complaints keep stakeholders informed and build confidence in complaint handling process. With this background on importance of effective dispute handling in tax administration, a property tax system should ensure that there are either internal or external mechanism for handling disputes. The external mechanism could be a specially arranged and independent arbitrator for handling disputes with minimal costs to both parties involved.

5.4 Collaborative governance

One of the institutional arrangements that fiscal decentralisation provides for property taxation is for the taxing authority to collaborate with other government departments and the private sector in executing some functions like valuation of property and collection of taxes. Managers of taxing authorities have the ability to increase collaborative governance when they are provided with the required regulations to build a network that would help an institution achieve objectives of a tax policy. Smith (2007) shares a similar view and argues a stable and well-structured local government influences collaborative governance because it offers managers a position to build extensive collaborative networks that commits it to recognisable outcomes. Stakeholder involvement helps to achieve good governance (Fung, 2015), thus, accountability, transparency and public participation which in return enable all stakeholders namely: government agencies, the market and citizens to make a property tax system effective. Involving stakeholders outside government machinery improves management and performance of public organisations because policies are easily understood thereby attracting support during implementation (Scott, 2016; Leach, Weible, Vince, Siddiki & Calanni, 2013; Ansell & Gash 2008). Apart from valuation and tax collection, property taxation requires collaboration in taxpayer education where non-governmental organisations could be contracted to educate taxpayers on processes and benefits of property tax.

5.5 Local representation

The political arm of local government council present voters' involvement in property tax administration. On one hand, Ward Councillors and Members of Parliament are expected to act in the interest of the people they represent whenever property tax matters are deliberated at the local authority. On the other hand, political representatives should engage voters by consulting them and provide feedback on developments regarding administration of property tax. Geys, Heinemann and Kalb (2010) argue that engagement increases the voters' monitoring ability because voters are politically aware and develop an interest of public offices' activities. Voters who are also taxpayers of property tax are compliant with tax obligations when they perceive that acts of local government are to their interest (Smoke, 2008) and the political representatives should help the taxing authority in sensitising voters on performance of property taxes and their expenditure. Local governments that derive more finances from local sources than external sources should ensure that there is a relatively high voter involvement coupled with better service delivery. On one hand, a study by Geys et al. (2010) established that high voter involvement result into improved performance of local government with high fiscal autonomy because voters pay more attention to locally-sourced public money.

5.6 Performance reporting

The requirement by law that the taxing authority should record and disseminate information pertaining to its performance is important in promoting transparency and accountability. The information does not only aid monitoring by oversight bodies but also creates trust among citizens on how the authority is generating revenue and spending it. The information could be on performance indicators set by a Ministry of Finance, reasons behind a particular performance and feedback on the effectiveness of a property tax system. For citizens, reports on performance have a potential of influencing compliance behaviours in paying taxes.

6. Conclusion

Fiscal decentralisation that has been implemented in Malawi has institutional and governance arrangements that would create smooth administration of property tax. The arrangements promote values of good governance for taxing authorities and all stakeholders. They enhance autonomy, accountability, transparency and public participation, through citizen representation in the tax institution. Good governance could result into taxpayers trusting the taxing authorities that property taxes are administered according to their interest. The belief that the taxing authorities are acting according to the interest of taxpayers promotes voluntary compliance in paying taxes. It is commendable that all institutional arrangements for fiscal decentralisation and property taxation including the establishment of external oversight bodies are regulated by law

However, there is need check against the autonomy of taxing authorities being eroded because of conflicts

between different oversight bodies. In addition, arrangements for organisational structure and staff recruitment should be reconsidered in order to grant the taxing authorities some autonomy. This will enable taxing authorities to develop and implement programs for measuring staff performance whose results would be used for identifying skills and competences, determining staff remuneration and awarding of incentives. Relationships between oversight bodies should be mutual and strongly linked so that property taxation contributes significantly to local government financing.

The limitation with the paper is that it is based on one case study of a local government area designated to levy property taxes. However, the findings could be applicable to all designated local government areas in Malawi because the same legislation for fiscal decentralisation and property taxation is applied across the country. Future research should assess how institutional and governance arrangements influence performance of property tax revenues.

References

- Aluko, B. T. (2005). Building urban local governance fiscal autonomy through property taxation financing option. *International Journal of Strategic Property Management*, 9(4), 201-214. doi:10.1080/1648715X.2005.9637537
- Ansell, C., & Gash, A. (2008). Collaborative governance in theory and practice. *Journal of public administration research and theory*, 18(4), 543-571. doi:10.1093/jopart/mum032
- Bahl, R., & Martinez-Vazquez, J. (2008). The Determinants of Revenue Performance. In R. Bahl, J. Martinez-Vazquez, & J. M. Youngman (Eds.), *Making the Property Tax Work: Experiences in Developing and Transitional Countries* (pp. 35-57). Cambridge, Mass.: Lincoln Institute of Land Policy.
- Bei, J. (2013). Successful Reform Hinges upon Proper Institutional Arrangements. *China Economist*, 1, 001.
- Bird, R. M., & Slack, E. (2004). Land and property taxation in 25 countries: a review. In R.M. Bird, & E. Slack (Eds.), *International handbook of land and property taxation* (pp.19-56). Cheltenham, UK: Edward Elgar Publishing Limited.
- Bovaird, A., & Löffler, E. (2009) *Public Management and Governance*, (2nd ed.), eBook Collection (EBSCOhost). Retrieved from <http://lib.myilibrary.com/Open.aspx?id=197798>
- Brandsma, G. J., & Schillemans, T. (2012). The accountability cube: Measuring accountability. *Journal of Public Administration Research and Theory*, 23: 953–975. doi:10.1093/jopart/mus034
- Brewer, B. (2007). Citizen or customer? Complaints handling in the public sector. *International Review of Administrative Sciences*, 73(4), 549-556. doi: 10.1177/0020852307083457
- Bryson, P. J., & Cornia, G. C. (2003). Moral Hazard in property tax administration: a comparative analysis of the Czech and Slovak Republics. *Comparative Economic Studies*, 45(1), 44-62. doi:10.1057/palgrave.ces.8100003
- Chiweza, A.L. (2010). *A Review of the Malawi Decentralisation Process: Lessons from Selected Districts* (Final Report). Lilongwe: MLGRD & Concern Universal.
- Choi, N., Lall, S. V., White, R., Webster, M. J., & Wang, H.G. (2016) *Malawi urbanization review: leveraging urbanization for national growth and development*. Washington, D.C.: World Bank Group.
- Coriat, B., & Weinstein, O. (2002). Organizations, firms and institutions in the generation of innovation. *Research policy*, 31(2), 273-290. doi: 10.1016/S0048-7333(01)00141-X
- Davey, K., & Péteri, G. (2004). Local Taxation: Options for Reform. In M. Kopanyi, D. Wetzel, & S. El Daher (Eds.),

- Intergovernmental Finance in Hungary: A Decade of Experience 1990-2000* (pp.215-226). World Bank Publications.
- Dollery, B., Crase, L. & Byrnes, J. (2006). Local government failure: Why does Australian local government experience permanent financial austerity? *Australian Journal of Political Science*, 41(3), 339-353. doi: 10.1080/10361140600848952
- Emerson, K., Nabatchi, T., & Balogh, S. (2012). An integrative framework for collaborative governance. *Journal of public administration research and theory*, 22(1), 1-29. doi:10.1093/jopart/mur011
- Fischel, W. A. (2001). Homevoters, municipal corporate governance, and the benefit view of the property tax. *National Tax Journal*, 157-173. doi: dx.doi.org/10.17310/ntj.2001.1.08
- Flyvbjerg, B. (2006). Five misunderstandings about case-study research. *Qualitative inquiry*, 12(2), 219-245. doi: 10.1177/1077800405284363
- Franzsen, R. C. (2002). Property assessment for rating purposes in Southern and East Africa: present status and future prospects. *8th Pacific Rim Real Estate Society*, 1-11.
- Fung, A. (2015). Putting the public back into governance: The challenges of citizen participation and its future. *Public Administration Review*, 75(4), 513-522. doi: 10.1111/puar.12361
- Geys, B., Heinemann, F., & Kalb, A. (2010). Voter involvement, fiscal autonomy and public sector efficiency: evidence from German municipalities. *European Journal of Political Economy*, 26(2), 265-278. doi:10.1016/j.ejpoleco.2009.11.002
- Government of Malawi (1998a). *Local Government Act*. Zomba: Government Printer.
- Government of Malawi (1998b). *National Decentralisation Policy*. Lilongwe: Ministry of Local Government and Rural Development.
- Government of Malawi (2002). *The Constitution of the Republic of Malawi*. Zomba: Government Printer.
- Greif, A. (2000). The fundamental problem of exchange: a research agenda in historical institutional analysis. *European Review of Economic History*, 4(03), 251-284. doi: 10.1017/S1361491600000071
- Hodgson G.M. (2006). What are institutions? *Journal of Economic Issues*, 40(1), 1-25. doi: 10.1080/00213624.2006.11506879
- Hong, S. (2016). What are the areas of competence for central and local governments? Accountability mechanisms in multi-level governance. *Journal of Public Administration Research and Theory*, 27(1), 120-134. doi:10.1093/jopart/muw048
- Kelly, R. (2013). "Making the Property Tax Work", Working Paper 13-11, International Center for Public Policy, Andrew Young School of Public Policy, Georgia State University.
- Kutengule, M., Kampanje, R., Chiweza, A.L. & Chunga, D. (2014). *Report On the Review Of The Second National Decentralisation Programme (NDP II)*. A Joint Review of the Ministry of Local Government and Rural Development (MLGRD) and the United Nations Development Programme. Lilongwe: United Nations Development Programme.
- Lægreid, P., Verhoest, K., & Jann, W. (2008). The governance, autonomy and coordination of public sector organizations. *Public Organisation Review*, 8, 93-96. doi: 10.1007/s11115-008-0056-5
- Leach, W. D., Weible, C. M., Vince, S. R., Siddiki, S. N., & Calanni, J. C. (2013). Fostering learning through collaboration: Knowledge acquisition and belief change in marine aquaculture partnerships. *Journal of Public Administration Research and Theory*, 24, 591-622. doi:10.1093/jopart/mut011

- Maguire, S., & Hardy, C. (2006). The emergence of new global institutions: A discursive perspective. *Organization studies*, 27(1), 7-29. doi: 10.1177/0170840606061807
- Monkam, N., & Moore, M. (2015). *How Property Tax Would Benefit Africa*. London: Africa Research Institute.
- Mookhey, S. (2013). Tax disputes system design. *eJournal of Tax Research*, 11(1), 79-96.
- Oates, W. E. (2005). Toward a second-generation theory of fiscal federalism. *International tax and public finance*, 12(4), 349-373. doi: 10.1007/s10797-005-1619-9
- Oates, W.E. (2012). *Fiscal federalism* (2nd ed.). Massachusetts: Edward Elgar Publishing Ltd.
- Phillips, N., Lawrence, T. B., & Hardy, C. (2004). Discourse and institutions. *Academy of management review*, 29(4), 635-652. doi:10.5465/AMR.2004.14497617
- Porcelli, F. (2009). *Fiscal Decentralisation and efficiency of government. A brief literature review*. Department of Economics. University of Warwick (UK).
- Robson, C. (2002). *Real World Research* (2nd ed.). Oxford: Blackwell
- Schillemans, T., & Busuioac, M. (2014). Predicting public sector accountability: From agency drift to forum drift. *Journal of Public Administration Research and Theory*, 25(1), 191-215. doi:10.1093/jopart/muu024
- Scott, T. A. (2016). Is Collaboration a Good Investment? Modeling the Link Between Funds Given to Collaborative Watershed Councils and Water Quality. *Journal of Public Administration Research and Theory*, 26(4), 769-786. doi:10.1093/jopart/muw033
- Slack, E. (2010). *The Property Tax-in Theory and Practice*. Toronto: Institute on Municipal Finance and Governance, Munk School of Global Affairs.
- Smith, C. R. (2007). Institutional determinants of collaboration: An empirical study of county open-space protection. *Journal of Public Administration Research and Theory*, 19(1), 1-21. doi:10.1093/jopart/mum037
- Smoke, P. (2008). Local revenues under fiscal decentralization in developing countries: linking policy reform, governance and capacity. *Fiscal Decentralization and Land Policies*, 33-69.
- Vitola, A., & Senfelde, M. (2015). The role of institutions in economic performance. *Verslas: teorija ir praktika (Business: Theory and Practice)*, (3), 271-279. doi:10.3846/btp.2015.498
- Wilson, M. (2006). Comment on Geoffrey M. Hodgson's "what are institutions?" *Journal of Economic Issues*, 40(4), 1153-1157. doi: 10.1080/00213624.2006.11506979
- Yin, R. K. (2009). *Case study research: design and methods* (4th ed.). Thousand Oaks, California: SAGE Publications Inc.
- Young, O. R. (2004). Institutions and the growth of knowledge: Evidence from international environmental regimes. *International Environmental Agreements: Politics, Law and Economics*, 4(2), 215-228. doi: 10.1023/B:INEA.0000040421.85165.18
- Zainal, Z. (2007). Case study as a research method. *Jurnal Kemanusiaan (Journal of Humanities)*, (9), 1-6.