

**AN ASSESSMENT OF IMPORT DUTIES AND THEIR
IMPACT ON NON-GOVERNMENTAL
ORGANIZATIONS DEVELOPMENT PROJECTS IN
MALAWI**

Masters in Business Administration Thesis

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University of Malawi

The Polytechnic

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A thesis submitted to the Faculty of Commerce, The Malawi Polytechnic, University of Malawi, in partial fulfillment of the requirements for the degree of Masters in Business Administration.

September 15, 2009

Declaration

I declare that this thesis is my own unaided work. It is being submitted in partial fulfillment of the requirements for the degree of MBA in the University of Malawi and has not been submitted before for any degree or examination in any other university.

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Certificate of Approval

We declare that this thesis is from the candidate's own work and effort. Where he has used other sources of information, it has been acknowledged. This thesis is submitted with our approval.

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Dedication

To my late father Merighetta Ogubamichael Tedla whom I always remember as hard working, visionary and great thinker. Dear Dad you taught me how to be persistent and how to find a way without giving up regardless of obstacles and hardships. Your insurmountable diligence always shines in my soul. My mom your love never fails.

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Abstract

This study examined both the administrative and tax aspect of the government intervention in the donor funded projects that are implemented by NGOs. In order to get valid and reliable results data were collected from donors, government offices and NGOs. These three dimensions are the major stakeholders on NGO development activities in Malawi. A self administered questionnaire was designed and administered to a stratified sample of 46 NGOs, 7 major donors and 8 government offices who have directly or indirectly linkage to NGO. The data collected were analysed using an SPSS, Microsoft excel and data analyst.

The results of the research were cross tabulated and groups of responses were analysed using descriptive and inferential statistics. Correlation between the variables was computed and analysed. The results of the study shows that most of the NGOs and donors rated import tax and tax rate as high, with the process at customs causing unnecessary delays and inefficiency. Furthermore, the administrative aspect of the government intervention is viewed in terms of coordination, regulation, employment permit procedure and licensing and registration of new NGOs. The outcome of the study shows the coordination, regulation and licensing and registration of new NGOs are very important; and the employment permit procedure is less important. Furthermore, the correlation part of the study shows: - there is a positive and significant correlation between cost of the projects and 1) the relative import tax rate (Malawi import tax rate compared to other countries rate), 2) the portion of import tax from the total NGO project budgets; on the other hand, quality of projects is significantly negatively correlated with 1) administrative payment 2) the value added tax. On the administrative aspect of government intervention- a significant relationship between independent variables and dependent variables is observed.

Formulation of sound socio-economic policies, promoting partnership with NGOs and donors on information provision, aid harmonization and coordination, removing development barriers such as corruption and bureaucracies are highly recommended. Moreover, Reliance on the internal source of funding to finance the recurrent and investment budgets and promoting trade and investment are the only ways for sustainable development.

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List of Abbreviations and Acronyms

| | |
|----------------|--|
| ADMARC | Agricultural Development and Marketing Corporation |
| AFDB | African Development Bank |
| AFRODAD | African Forum and Network on Debt and Development |
| CONGOMA | Council of Non Governmental Organizations in Malawi |
| DCs | Developed countries |
| DFID | Department For International Development |
| EC | European Commission |
| E-SEA | Eastern-South East Asia |
| ESCOM | Electric Supply Corporation of Malawi |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GTZ | Deutsche Gesellschaft Für Technische Zusmmen Aibeit (German Agency for Technical Cooperation) |
| IMF | International Monetary Fund |
| IN-NGOs | International Non-Governmental Organization |
| JICA | Japan for International Cooperation Agency |
| JIT | Just In time |
| LDCs | Less Developed Countries |
| MDGs | Millennium Development Goals |
| MDGS | Millennium Development Goals and Strategies |
| MDGS-GM | Millennium Development Goal and Strategies –Government of Malawi |

| | |
|---------------|--|
| MGDS | Malawi Growth and Development Strategy |
| MHC | Malawi Housing Corporation |
| MRA | Malawi Revenue Authority |
| NGOs | Non Governmental Organizations |
| NSO | National Statistics office |
| ODA | Official Development Assistance |
| PRSP | Poverty Reduction Strategy and program |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade And development |
| UNDP | United Nations Development Program |
| USA | United States of America |
| USAID | United States Agency for International Development |
| VAT | Value Added Tax |
| WB | World Bank |

Chapter 1 Introduction

1.1 Introduction

The primary role of any government is to provide socio-economic services, security and protection, and other vital and basic services to its citizens (Jacob 2004). Economic services include salaries of workers, foreign missions and embassies; financing social projects such as hospitals, schools, clinics and building of roads dams and other infrastructures; and the safety and protection comprise defence force, setting up of legal and police institutions and so on. Annually governments spend billions of dollars to cover these expenses, and these expenses are growing from time to time (Irbas 1999). Therefore, the government must undertake various policy measures to collect sufficient revenues to cover up the growing expenditures and to promote and ensure impartial and sustainable economic development of the country. These policy measures may involve making appropriate choice between fiscal and monetary policies. For example when pursuing fiscal policy, a government may instigate taxation changes that could increase its revenue so as to meet the ever increasing government expenditures. However, an increase in government revenue should not be balanced by a decrease in the other part of the economy as most experts agree.

Taylor (1970) stated that under normal circumstances in a self sustaining economy government budget is covered from internal sources of funds (i.e. by collecting direct and indirect taxes, charges and fees). However, due to weaknesses of the economy and lack of adequate skills, mechanisms and infrastructures in collecting internal revenues, particularly less developed countries are experiencing chronic and large budget deficits. As a result these countries have developed state of dependency on foreign aid, loans and donations (Todaro 2000).

As Bulir & Lane (2002) pointed out foreign aid is considered as part and parcel of the economy of the less developed countries (LDCs). Therefore, change in this component has a considerable influence on the LDCs economy in general and to the beneficiary part of society

in particular (Addison *et al*, 2004).

The aid that flows from rich countries to the least developed countries is in various forms (McGillivray 2000). As he pointed out foreign aid can be financial aid directly given to the governments to finance trade and budget deficit; it can be bilateral funding to implement NGO programmes; it can be material aid (cars, drugs, health and educational equipments); it can be in terms of sending professionals, experts and skilled personnel that could help the governments in policy formulation and strategic guidance.

According to Todaro (2000) less developed countries (aid recipient countries) are also expected to make market reforms, build institutional capacities and execute efficient and effective forms of governance. Furthermore, recipient countries must come up with clear policies, regulations and strategies that can help them avoid the unconstructive aspect of foreign aid and to capitalize on every possible opportunity. This will help them to know the shortfall of their economies and work jointly with donors and NGOs for possible remedies.

It is on the basis of the above realities as a background that this paper has made an assessment of the impact of the expansion of import duties on NGO Development Projects in Malawi. More specifically the study has concentrated on non-profit NGOs that are working in partnership with one or more of the ministries and are assisting the government to achieve the millennium development goals.

1.2 The Malawi Economy

According to the economic indicators Malawi's economy is characterized by one where most people live below the poverty line (AFDB, 2007). According to the world bank report (2007) agriculture is the dominant sector, industrial capacity is very limited, mineral sector seems reviving especially in the northern region, and tourism has a potential for growth but is undeveloped.

The government of Malawi has the responsibility to carry out administrative, socio-economic development of the country. In order to accomplish the above and other duties and

responsibilities the government must have adequate funds. As it has been stated above these funds are obtained from internal sources such as taxes, fees for different services, charges and foreign aid (foreign aid is in the form of loans and grants or donations). The internal source of the fund is collected by the Malawi Revenue Authority. According to the Parliament Act of (2000) Malawi revenue authority (MRA) is an agent of the government designated for assessment, collection, and accounting of tax revenues. This authority believes the tax revenue as a single most important resource that the country must have for any meaningful development activity. So far, according to the MRA accounts (Anchor 2008) the agent has been collecting 55% (estimated) of the annual government budget and the rest 45% (estimated) of the annual budget is covered from foreign aids and donations.

Malawi is no exception to the Sub-Saharan region problems. Although it has a very huge reserve of natural resources and relatively a very stable political climate, its economic achievement and annual growth in GDP is less than its neighbouring countries World Bank report (2007). This trend has been there since long time and the economy is under continuous budget deficits and inflation. Currently, according to the information published by the national statistics office (NSO, 24th July 2008), inflation rate has reached 8.5%. Moreover, the economy of the country is substantially dependent on foreign aid than on domestic resources (AFRODAD 2007). However, the government of Malawi is striving to revive the bed-ridden economy towards self sustenance. According to the information in the Millennium Development Goals and Strategies of the Government of Malawi (MDGS-GM 2006), the government has identified the main constraints of the economy and is laying a foundation (for example, building the country's infrastructures, investing on agriculture and fishery) that could transform the economy from consumer and importer to producer and exporter. One of the main manifestations of the government activities towards self sustaining economy is the recognition of tax revenue as the single most important resource that a country must have for any meaningful economic development to take place (MRA 2007/08). Based on this principle the Malawi Revenue Authority is determined to provide a conducive environment for both trade and investment by introducing an efficient mechanism that would help in levelling the tax field counteracting tax fraud, promoting voluntary tax compliance to the highest degree and providing improved and high quality tax payer service and creating

awareness among the society paying tax as an inevitable responsibility and expanding the tax payers net so as to collect more revenue to the government. Moreover MRA is pursuing multifaceted customer focused approach to tax administration including provision of tax information education and assistance (MRA 2007/08).

1.3 Sources of the Government Revenue

Currently the government of Malawi has internal and external source of funds to finance its expenditures. Some of the internal sources include: - service charges, dividends, and taxation. And the external sources include aid or donation and soft loans.

1.3.1 Internal Sources

Service charges: - these are means of collecting revenue to the government in return to the service provided by the government institutions such as fees for passport, licenses, postal services, municipality fees etc.

Dividend income: - this is an income to the government from the state owned companies. Some of the main companies include- ESCOM (Electric Supply Corporation of Malawi), MHC (Malawi Housing Corporation), ADMARC (Agricultural Development and Marketing Corporation) and others.

Taxes: - these are the main internal source of government revenues. Taxes are mainly aimed as a means of covering government expenditure and as an injection to economic growth. The main taxes include direct personal taxes, corporate taxes, customs and excise tax, VAT.

1.3.2 External Sources

The main external source of funding is the finance that comes from the rich countries through donors or aid agencies. These can be soft loans to finance annual budget deficits or grants to finance some government investments or it can be financing projects which are directed to the benefit of the society. These are called Official Development Assistance (ODA). The aid that flows from rich countries to the poor countries of the least developed countries is not necessarily in terms of money or material but it can be in terms of sending professionals, experts and skilled personnel that could help the governments in policy formulation and strategic guidance (McGillivray 2000; Todaro 2000).

1.4 The Taxation System in Malawi

James and Nobes (1985) define tax as a compulsory levy made by public authorities for whom nothing is received directly in return and part of this levy is used to provide public goods in return. Therefore, taxes are transfers of money from the private sector to the public sector but they exclude loan transactions and direct payments for publicly produced goods and services. Beside to its importance as source of government revenue Musgrave (1959) in James and Nobes (ibid) pointed out that in any system of government taxation serves three important economic functions i.e. to overcoming the market inefficiency in allocation of economic resources, helping to move towards 'just' or equitable distribution of wealth and income, and playing a role in smoothing out cyclical fluctuation in the economy and ensuring a high level of employment and price stability.

According to Chipeta (1998), in Malawi since a long time tax was viewed as an important source of government revenue. Since independence, the tax system of Malawi has undergone a number of reforms and individual tax adjustments in response to the need for more revenue and for improving fiscal incentives for economic development. Chipeta (ibid) further explains especially since 1983/84 fiscal year, taxation has failed to generate sufficient revenues to meet the needs of the government. In real terms the tax revenue has kept on increasing up to 1985/86 fiscal year and after that time it has fallen. The reason given for

the fluctuations is to adjust the tax revenue with the government expenditure. However, even during these ups and downs the tax revenue was much lower to rescue the economy from budget deficit. Chipeta's empirical finding reveals a rise in the total expenditure and recurrent government expenditure in real terms up to 1986/87 which was incompatible to the tax revenue. On the other hand he discovered that the tax burden measured by the ratio of the tax revenue to GDP averaged 17.6% over the period 1980-1989. And during this period the tax ratio has increased whereas the tax burden has fallen. The failure of the tax system to generate sufficient revenue to finance recurrent government expenditure has led the economy of the country to experience a continuous budget deficit especially since 1980/81 fiscal years. This situation has led Malawi to become highly dependent on domestic borrowing (which is the major cause for inflation) and on foreign aid and loans that led to higher external debt and debt service.

To overcome the problem of tax collection and administration, since 2000 the government of Malawi setup a commission called MRA as a government agent supervised by the ministry of finance in the administration of tax (MRA brochure 2007/08). According to the information obtained from the MRA documents, currently in Malawi taxes are generally divided in to two categories i.e. direct and indirect taxes. Direct taxes are governed by the Taxation Act-Chapter 41:10 and include all income taxes normally levied on individuals and companies or corporations. Indirect taxes are taxes imposed on expenditures of goods and services such as customs and excise and duties and value added tax (VAT). Moreover, according to the MRA accounts the commission is now better organized and determined to make a rapid progress in contributing a substantial amount towards the country annual budget, and provide a convenient environment for both trade and investment by making various arrangements in the tax field. This shows the government of Malawi's determination to make the tax system more exhaustive, efficient and effective to cover a substantial part of the government budget.

1.5 The Relationship between Fiscal Policy and Foreign Aid

Todaro (2000), defined foreign aid as all official grants and concessional loans in currency or in kind that are broadly aimed at transferring resources from developed to less developed countries on development or income distribution. Foreign aid is disbursed to developing countries in two forms. One is in the form of public (official) bilateral and multilateral assistance and the second one is private (unofficial) assistance provided by international aid agencies or non governmental organizations. The source of Official Development Assistance (ODA) such as bilateral grants, loans, and technical assistance as well as multilateral flows is from World Bank IMF and other various U.N agencies. Todaro (ibid), shares the idea that foreign aid is a crucial and essential ingredient in the development process of less developed countries (LDCs). It is largely believed that foreign aid supplements scarce domestic resources, it helps transform the economy structurally, and it contributes to the achievement of less developed countries take off into self sustaining economic growth.

Fiscal policy on the other hand focuses on the internal source of revenue and expenditure of the government. As it has been repeatedly stated in most LDCs the revenue collected through taxation, fees and charges is not enough to cover all the government expenses and carry out social projects. As a result the governments are heavily depending on donors and aid agencies fund to complement and carry out development projects. For example in Malawi 45 % of the recurrent and capital expenditures of 2007/08 of the government budget was covered by foreign aid (MRA brochure 2007/08).

1.6 The History of NGOs and their Activity in Malawi

The world famous encyclopaedia Wikipedia (2008) defines NGO as a legally constituted organization created by private organizations or people with no participation of any government. Although their establishment is without government participation in some cases they are funded totally or partially by governments. NGO maintains its non-governmental status insofar as it excludes government representatives from membership in the organization. Todaro (2000), also endorses the view that NGOs are local and

international interest groups with concerns as diverse as providing emergency, relief, protecting child health, promoting women's right, alleviating poverty and protecting the environment etc. Therefore, their activities cover social, political, economical, financial and religious aspects of the country. Today their number and the range of their activities are increasing more than ever and they are actively engaged almost in each and every sector of the economy of a country. Many analysts have noted and commented on the scale of the growth of NGOs { Fowler (1991), Carroll (1992), Clarke (1993), Fisher (1993), Farrington & Lewis (1993), Kothari (1993), Rademacher and Tamang (1993), Princen & Finger (1994), Fowler & James (1995), Edwards & Hulme (1996a) } in Fisher (1997).

The mushrooming of NGOs captivated and aspired Africans that the role of NGOs will be not only in reducing the rural urban poverty gap (i.e. by investing on social service projects in rural areas such as promoting school opportunities in villages, hospitals, clinics, building bridges, roads and other social services) but also in alleviating the chronic poverty and transforming less developed countries economy into modernization. Today the total number of international NGOs in the world is estimated to be 40,000 (Beyer 2007). The local or national NGO number is much higher than the international ones. This growth in number and in function of NGOs is also complicated and is becoming more complex by their wide range of formal and informal linkages with one another, with government agencies, with social movements, with international development agencies, with individual international NGOs (IN-NGOs), and with trans-national issue networks (Carroll 1988; Finger 1994a, b; Fisher 1995b; Lopez et al 1995; Shaw 1992; Sikkink 1993, 1995; Peterson 1992; Princen & Finger 1994) in Fisher (ibid). As we can observe from the global situation these relationships have profound impact both on globalization and on local lives.

Despite the fact that the name 'non-governmental organization' implies independence from the governments, some NGOs depend on government for their funding. According to Gupta *et al* (2006), all rich countries make donations or give aid to less developed countries less than 1 % of their gross national income (GNI) annually called Official Development Assistance (ODA). This donation or foreign aid flows to the less developed countries either through bilateral and multilateral disburse agreement with the NGOs to implement certain projects or private official grants or loans to the recipient countries. So far the major

donors are EU states, USA, Australia, Canada, UN, IMF & World Bank, and recently Japan and China.

In Malawi according to the CONGOMA accounts as at October 2008 the total registered number of national and international NGOs is 251 among which 103 are international and 148 are local or national NGOs. Historically, Non-Governmental Organizations have been key partners in the development process in Malawi since the colonial period of 1930s (CONGOMA report, July, 2008). Over the years their number has increased tremendously and this growth has been accompanied by the diversification of their functions. However, their activities essentially parallel and complement those of the state. Nevertheless, their role has been felt especially in far-off districts and in remote settings of the country where the state's service provision has been wanting due to a variety of factors. But when one considers basic services as a whole, the NGO sector is a micro-actor compared to the state.

1.7 Statement of the problem

Malawi being one of the least developed countries, with 52.4 percent of the population living below the poverty line, has insufficient domestic resources (finance) to fund social projects, to implement the required level of investment, and to achieve a significant economic development (AFDB, 2007). In order to narrow the finance gap, the country considerably depends on foreign aid (AFRODAD, 2007). Moreover, most of the foreign aids coming to Malawi are for project support and are inflexible (AFRODAD *ibid*). This donor funded/ supported projects are implemented by various local and international NGOs (Bendell, 2006). This is because many donors believe that projects that are implemented by NGOs are directly channelled to the beneficiaries and are development investments in nature (Khan, 1998; Kilbey, 1998).

Therefore, NGOs as the recipient of this funding are responsible to the donors to ensure that it is accounted for and used as was agreed upon (Bendell, 2006).

The host country government like Malawi government as a responsible agent of the country

on the other hand has to prepare a very conducive environment for NGOs (on the registration and operation) and acknowledge the validity of the role of NGOs in civil society (Svensson, 1999).

Non-Governmental Organizations in order to carry out development programs and to bring service to the beneficiaries they have to get materials. The materials include motor vehicles, office furniture and stationary, spare parts, office supplies, drugs and clinic equipments, agricultural materials and supplies. These materials have to be either imported or bought from the local market. On the other hand some of the funds are tied up to the donors' requirements. In other words Donors when they fund projects through NGOs may insist on (or sometimes put as a precondition) the materials to be imported from the donor country (Todaro, 2000). Moreover, in most LDCs like Malawi, fore example, these materials are not available in the local markets. Therefore, NGOs will be forced to import either from donor country if it is tied up or from any where else. However, under any circumstance, some recipient countries also force NGOs to buy the needed materials from local market. Some of the enforcing mechanisms are treating these NGOs like any profit maximizing organization and imposing import tax and administrative barriers on importation.

Council of Non- Governmental Organizations in Malawi (CONGOMA) report (July 2008) indicates that up to the end of 2001 in Malawi NGOs were tax exempted to import these materials. However, since 2002 the government of Malawi slowly started imposing import tax to importation of these materials by NGOs.

There are different views with regard to the impact of import tax or tariffs on the development projects. Anderson and Neary (1994) view customs are negatively related to performance and Morriset and Pirnia (Anon.) findings show insignificant effect of import tax on investments. Moreover, Morriset and Pirnia (ibid) emphasize on war and political instability as major determinants while favorable investment climate has positive correlation to the growth of investments and their performance (Irwin 2001).

With regard to implementing foreign aid funded projects through NGOs there is disagreement between aid agencies and recipient governments (Cheauvet *et al* 2006). One of

the main arguments is concerning the payment of an import tax. For example in Malawi, to finance the recurrent expenditure, the government wants to increase revenue by expanding the tax net on any taxable activity (including NGOs activity) within the country. Therefore, the government insists on some part of the donors fund to be allocated for the payment of taxes. On the other hand Donors and NGOs argue that since aid agencies are working on development projects that are supposed to be covered by the government, the fund obtained from donors should be directly channeled to support the intended projects and their imports should be tax relieved. According to their argument if the government continues to impose an import tax, cost of the projects will be increased by the same amount and thereby severely hamper and limit implementation of programs.

Therefore, looking at the above argument, the research paper has attempted to find out the effect of import duty in relation to the donor funded projects implemented by non profit NGOs. Considering the following points has helped to investigate the impact of import duty on NGOs performance.

1. The reason behind the imposition of tax to non- profit NGOs who are currently operating in line with the government's development objectives.
2. Discovering whether government import tax policy has affected project performance.
3. Observing the relationship between government intervention (import duty, governance) and NGOs project performance.
4. Contrasting the imposition or waiver of tax on donor agencies and NGOs affect the degree to which the Malawi government can capitalize on.

1.8 Research Objectives

The main objectives of the study are:-

- To assess the effect of the import tax on the aid agency project performance.
- To investigate if there is any significant relationship between project performance and government intervention in general and import tax in particular.
- To identify the major problems of NGOs in their development activity in Malawi.

1.9 Research Questions

The following questions were designed to identify the possible factors affecting NGO development activities in Malawi.

- What factors would be causing the import tax to influence NGO activities in Malawi?
- Is there any significant relationship between the import tax factors and NGO performance variables?
- What are the major factors that affect NGO activities?

1.10 The Rationale Behind the Study

Less developed countries have been facing practical problems of coping with fluctuations in economic activity due to the disproportionate state in international trade (Todaro 2000). Furthermore, unfair economic relations with the rest of the world and the growing pressure of increasing government expenditure and without corresponding proportional increase in government revenue has exacerbated the vicious poverty (PRSP 2006). Apparently, Malawi being one of the non-oil exporting least developed countries; it is not exception from the above problems. The economy relies heavily on traditional farming and exporting primary products to the most unreliable world market and unstable prices (MGDS 2007). On the other hand like any other LDCs it imports fuel, raw materials, finished and semi-finished industrial

products to promote domestic investment and to satisfy the ever increasing domestic demand of foreign products (Todaro *ibid*). This implies that Malawi imports are by far higher than its exports and it is continuously under trade deficits. From the fiscal point of view government expenditure is higher than government revenue and hence it is also under importunate budget deficit to finance the recurrent government expenditure (World Bank, 2007). Even under the budget deficit situation the government fails to meet the current social needs and implement development projects. Therefore Malawi requires foreign aid assistance as an offsetting mechanism in order to tackle the above dual problems of budget and trade deficits and implement some development projects.

On the other hand, the government of Malawi has to set out policies and strategies for increasing efficiency and effectiveness in the mobilization and aid utilization so as to achieve the development objectives contained in the Malawi Growth and Development Strategy (MGDS, 2007).

The rationale behind the study is therefore, based on the importance of how the proper use of foreign aid is critical to the economic development of Malawi and thus the need for examining the relationship between government administrative and tax policies and NGO performance in various projects. More specifically this paper will attempt to make an assessment on the effect of the expansion of the tax net on aid agency's imports on the NGO development projects. As it has been indicated in the MRA documents, prior 2002 aid agencies imports (that are used in their projects) were tax relieved. However, after 2002 the government of Malawi has slowly expanded the import tax net and has obliged aid agencies and NGOs to pay tax for their imports. As the result according to the CONGOMA documents (July 2008) most of the international aid agencies are expressing their concern on the pros and cons of taxation relative to the development projects and programmes carried out by NGOs in Malawi. As it is indicated in the CONGOMA documents, in Malawi as at October 2008 there are 103 and 148 international and local NGOs respectively. From this total number some of them are non-profit organizations and others are not. Nevertheless, their contribution to the economic stability of the country is substantial.

In this paper the researcher is particularly interested in non profit NGOs that initiate and

implement development projects in line with government strategic development plan and that are critically important to the community i.e. donor funds which are directly channelled towards the projects through the NGOs. The study will help to find out whether expanding the tax net and imposing duties on NGO imports that are used to facilitate development projects have the following costs or burdens:-

- An increase in the cost of the projects and its effect on the probability of getting enough funds from donors and their influence on the projects that are on process and to set off new projects
- Additional administrative costs to the governments i.e. cost of collecting the tax and then redirecting the collected tax towards funding projects. Because of the costs incurred in tax collection such as paying salaries and allowances to tax collectors and other administrative costs.
- The time spent by aid agencies on adjusting the required funds due to import tax imposition and getting these funds from donors.

Based on the above potential problems that generally apply to tax impositions, this study will make investigations what specific measures the NGOs in Malawi are likely to take or are in the process of taking in response to the recent tax net on aid agency imports and how these measures would affect donor funded projects.

1.10 Important Assumptions

In order to come up with valuable and reliable outcome, the researcher has made the following important assumptions:

- 1) Fiscal behaviour of the government is assumed to reflect the actions set off by the public decision makers i.e. act of the parliament or council of ministers. And it is largely assumed that the government will carry out its duty and is responsible to the society and the economy by collecting tax and other charges and fees.

- 2) Tax is aimed at boosting the economy than distorting economic decisions in the country by creating excess burden.
- 3) NGO work is assumed to be focused on assisting Malawi in achieving Millennium Development Goals (MDGs) and the Malawi Growth and Development Strategy (MGDS).
- 4) NGOs under this research study have an objective of implementing development and social projects to the society and are not profit making organizations.
- 5) It is assumed that aid agencies initiate and implement development projects within the framework of the Malawi strategic development plan and they implement projects funded by donors to directly benefit the society/ the community who are desperately in need or assistance.
- 6) It is assumed that aid agencies obtain funds from donors and are financially accountable to the donors.

1.11 Theoretical and Conceptual Framework

This research is based on the premise that government intervention (in terms of taxation and other administrative rules and procedures) is aimed at promoting economic development of the country in general and support NGOs projects and activities in particular. The literature review has identified independent (government intervention) and dependent (NGO performance) variables. Furthermore, independent variables are categorized as administrative and tax policies. The independent variables that lie under the administrative category include licensing, employment permit, coordination, and regulation. The independent variables that lie under the tax policy also include the import duties, tax processes, and customs clearance procedure.

The dependent (project performance) variables include cost, quality, time, and sustainability of the project.

Both the independent and dependent variables that have been outlined in the theoretical framework will be dealt in this study within chapter 2 of the research paper. Government policy as an independent variable will be dealt under two categories –administrative and tax policy which are some of the main instruments of the government to regulate any private and public activities within the country. And these independent variables as a cause will directly correspond to the effects, such as the cost, quality, time and sustainability. The list of independent and dependent variables are presented on Figure 1.1.

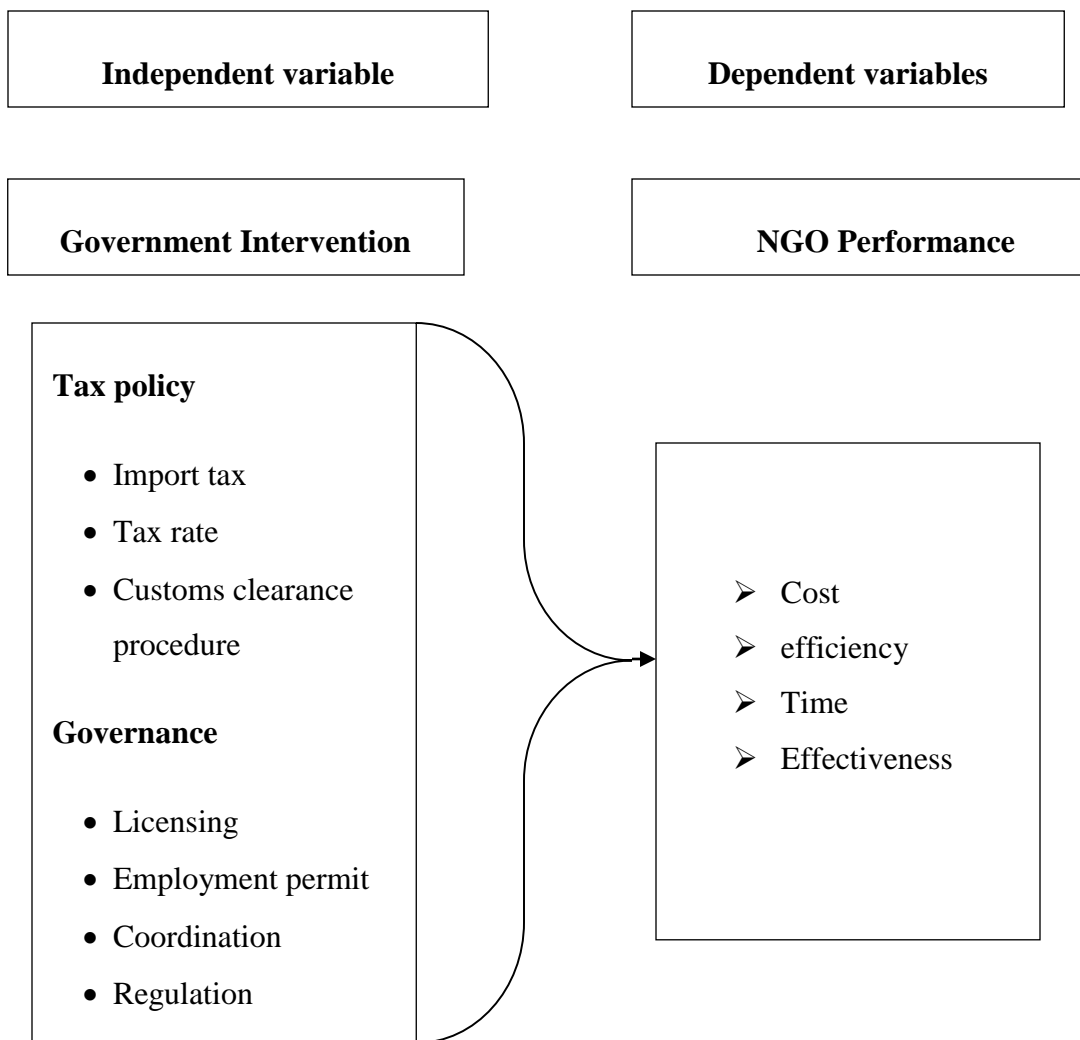


Figure 1.1 Conceptual Framework

1.13 Research Limitations

Although data was collected from both local and international non-profit making NGOs in a reasonable time period, there were many difficulties in collecting the data being a foreigner. Some of the difficulties were related to get the exact physical location of the offices, limited knowledge of some respondents concerning the relationship between the government and NGOs, some of the respondents were extremely busy and they did not have enough time to respond on the appointment time and responded hurriedly and this may affect the validity of finding negatively.

1.14 Organization of the Study

This paper is organized into five chapters. The first chapter introduces the general background of the topic and the main research problem. Chapter two is the review of the relevant literatures concerning the study. Based on the theoretical and conceptual framework it compiles all the relevant variables pertaining to the study. Chapter three discusses the methods and methodologies used in the study along with the ethical considerations. Chapter four reviews the results and discussions. In this chapter the findings of the survey and the interview in terms of the characteristics is presented. Chapter five is the topic for conclusion and recommendation. The major research findings and outcomes are summarized. Furthermore, the paper is concluded by suggestions to the possible challenges, recommendations, research limitations and indication for future areas of studies.

Chapter 2 Review of the Literature

2.1 introduction

This chapter is a summary that compares various studies prior but related to this research i.e. what others have written about the topic (Babbie, 1995). The literature review is designed in to review related studies focussing on the variables that are indicated in the theoretical and conceptual framework. Subsequently the literature will also present the various past studies that are related to the dependent variables of the topic. Thereafter, a summary of key conclusion will be provided.

2.2 Government Intervention

Following the experience of the great depression (1929-1933) many economists observed government intervention as regulatory (Fu and Yu 2000), as coordinator (Cashore, 2002 Evans, 1997) or as imperative. Fu and Yu further remark that society allows a minimum government intervention as a “nightwatchman” in the private life of citizens. In the context of developing economies government intervention is classified in to two broad categories (Wint, 1998). According to Wint’s argument the first category is functional intervention that seek to affect the entire economy and that seek to be neutral in their impact on firms offering the prospect of the creation of a ‘level playing field’ and improvement in the functioning market. This includes government participation in generic education and general infrastructure development. The second category is selective intervention, incorporating those government interventions that favour particular sectors or firms. This category includes placing incentives in the form of promoting exports or import protection, allocated credit, government-financed industry-specific research or training. However, the phrase in this literature is used in the context of NGO work environment as a vital component in affecting

the performance of various development projects that are carried out in the less development countries. Furthermore, contextually this government intervention is viewed in terms tax (Ross, 2007) and administrative intervention (Amsden1993). The tax interventions that are relevant to the study (as described in the conceptual frame work) are the import tax (McCluskey et al, 2005), tax rate (McCaffery, 2002) and the customs clearance procedure. And the appropriate presentation of the Government administrative intervention (in relation to the topic) of the literature will focus on the licensing, employment permit, coordination and regulation.

2.2.1 Government intervention in imposing the Tax policy

James and Nobes (1985) defined tax as a compulsory levy made by public authorities for whom nothing is received directly in return and part of this levy is used to provide public goods in return. However, according to this definition, taxes are transfers of money from the private sector to the public sector but it excludes loan transactions and direct payments for publicly produced goods and services. Musgrave (1959) in James and Nobes (ibid) elaborates taxation in any system of government serves three important economic functions i.e. to overcome the market inefficiency in allocation of economic resources, helping to move towards 'just' or equitable distribution of wealth and income, and playing a role in smoothing out cyclical fluctuation in the economy and ensuring a high level of employment and price stability. In developing countries however, taxation serves as a means to attract FDI (Foreign Direct Investment) and as a source of revenue to finance public expenditure (Todaro 2000).

Tax policy of government is a very broad concept. However, in this literature the researcher will be limited to important complements of taxation that are related to the import duties that directly affect the performance of NGOs such as import tax, tax rate and customs clearance procedures. The literature will try to present the past findings that are related to the described variables.

2.2.1.1 Import Tariff

An import tariff (also called customs duty or impost) is a charge for the movement of goods through a political border i.e. from foreign country to the country of destination (McCluskey *et al*, 2005). The primary motive for imposing an import tariff could be to deter or distort international trade (Hillman, 1991; Thornsby *et al*,1998) in Beghin and Bureau (2002) i.e. in order to protect domestic industries and the economy of the country in general. For example, Beghin and Bureau (*ibid*) explained the impact of tariffs on foreign supplies and on domestic prices of the imported commodities. They held the view that import tariff discourages foreign supplies by causing domestic prices of imported goods to increase equal to the imposed tariff. This helps domestic products to become more competitive and cheaper than imported goods. As the result the demand of the domestic products will be higher than imported goods and gradually the society will be tuned to the locally produced goods. However, in some cases countries can have a comparative advantage to produce certain goods or services than the rest of the world. The comparative advantage can be as the result of many factors such as: - technological advancement, availability of skilled labour, cheap labour, natural resources etc. In such cases therefore, according to their view the ultimate bearer of import tariff is the consumer. However, globally, tariffs with aim of protection local or infant industries are viewed as main cause for decreasing world production and welfare (Mahe, 1997).

The other important reason for imposing import tariff is to raise the fiscal revenue of the government and proportion of the tariff revenues are often hypothecated to pay government to maintain a navy or border police (Johnsson, 2004). For example, in Malawi according to MRA documents (Anchor 2008) import tariffs are viewed as main source of raising government revenue and for protection of the infant industries.

2.2.1.2 Tax rate

Tax rate- is tax system that is most often levied as a percentage of the value or price of the commodity (McCaffery 2002). It is used to distinguish between the marginal rate and the

effective (average) rate. The tax rate on trade (imports and exports) in most developing countries is generally high (Gemmell and Morrissey, 2003). For example according to the data shown in their studies the tax rate on trade in low income countries in the years 1994-1998 is 34.8% of their GDP and in high income countries it is 0.8% of their GDP. Their argument was based on the information that formal tax structure in developing countries is very narrow, reflecting the fact that the formal sector accounts for a relatively low share of employment and even of business activity. On the other hand as it has been noted in many literatures most of the non oil exporting LDCs, their economy is based on the rain fed agricultural system and it is the main employer of the countries' labor (Kanbur, 2000). Furthermore, Khattry and Mahon Rao (2002) (in Gemmell and Morrissey, *ibid*) held the view that the continuous deterioration of tax revenue to GDP ratio in the 1990s is due to trade liberalization in many LDCs. Therefore, it is not hard to conclude that the tax system in LDCs is dominated by indirect taxes which, unlike income taxes, cannot be levied directly on individuals, but rather depend on the goods and services consumed. Although the above being the dominant fact of the taxation system of LDCs it has been described as inefficient, inequitable, beset with complications and anomalies and unable to cope with the rising expenditure requirements and external shocks (Coady, 1997) in Gemmell and Morrissey, (*ibid*). Despite of the reforms and various changes, the revenue GDP ratio of the LDCs in the 1990s tended to worsen rather than to improve (Heady, 2001).

Therefore, the general policy advice to LDCs is to increase the domestic sales taxes especially by introducing and promoting VAT (Value Added Tax) and expanding the tax mesh in all sectors of the economy of the country (Dean et al, 1994).

2.2.1.3 Customs Clearance Procedure

This is a procedure required from importers or exporters to fill goods declaration form with a supporting document to the customs clearance office (Hibbert, 1998). The customs clearance procedures for imports include- filing an import declaration, preparing supporting documents, document verification by customs, payment of import duty and taxes and

inspection and release of cargo. The time taken to finish all the procedures and processes depends on the institutional system, bureaucracy and flow of information, between the customs clearance offices (Tybout, 2000). For example the customs clearance times in Hong Kong take one day Netherlands two days Ireland and Mauritius 21 days (Hausman and Lee 2005). According to Hausman and Lee these procedures and the time taken are even worse for landlocked countries. The efficiency of these procedures is an important factor in affecting the performance both in terms of cost and time (Hausman and Lee (ibid)). For investment performance, and economic growth the efficiency of customs clearance procedures is more important than the physical condition of the road or rail (Subramanian 2001); Subramanian and Arnold 2001). Beghin and Bureau (2002), for example has held the view that one of the major discouraging factors for US exporters is neither the tariff nor the tariff rate or the standard requirements, but the administrative burden and the clearance procedures both in terms of delays and lack of predictability.

2.2.2 Administrative Aspect of Government intervention

2.2.2.1 Government intervention Role in Coordinating NGO Activities

Fu and Yu (2000) explained the role of the government as an institution is very important to coordinate various governmental and non-governmental agencies activities in the country. The coordinating role of the government is very crucial in the rapidly changing environment (Fligstein 1996). At the time where globalization is at the highest stage NGOs need government to coordinate mainly in the following areas: - coordination of various programmes and projects, flow of information, resources, and economic activities (both micro and macroeconomic activities) (Leijonhufvud 1981) in Fu and Yu (ibid) Lack of coordination and failure to harmonize policies are the leading problems that cause of foreign aid ineffectiveness in many less developed countries and Malawi is also suffering due to these problems (AFRODAD 2007). According to AFRODAD in Malawi, debt and aid management and coordination of donor assistance has always been the responsibility of the

ministry of finance Debt and Aid Management division of the government of Malawi.

The task of coordination should not be left to the recipient governments only (Dante, Anon). According to him aid effectiveness which is the heart of aid coordination requires both the recipient countries and the donors to move from rhetoric to practice. Both sides are expected to coordinate their efforts in order to identify the major problems and capitalize the opportunities. Moreover, there must be consensus between the donors and recipient countries on the strategies and priorities that are needed to be addressed. However, as Mick and Fozzard (2000) pointed out, government has to play a leading role in coordinating donor and aid agencies activities in order to avoid uneven provision of services and a lack of sustainability of development programmes.

2.2.2.2 Government intervention Role in Regulating NGO Activities

The neo-liberal thinking (Bennett 1991) has put in to practice through the ideas of liberalization, stabilization and structural adjustment programme and reduced the role of the government as a regulatory body in the country. Furthermore, the new conventional view towards the role of the state is, it should not directly regulate unless there is a market failure that bring on government intervention (Bennett *et al* 1996; UNCTAD, 2004). The above argument implies government regulation is not needed in the economy and it emphasises regulation by the market mechanism. However, Bennett and others (*ibid*) on the other hand support the idea of having minimum government intervention as a regulatory body in the economic, social and process (Guasch and Hahn 1997) to encourage competition, managerial and social responsibility and accountability (MacAvoy 1992) in (Guasch and Hahn *ibid*), and consumer choice thereby achieve efficiency (Wint 1998), responsiveness and quality of service delivery. Proponents of free trade and free competition like Adam Smith and Alfred Marshal strictly oppose government intervention and monopolistic behaviour. However, as it has been outlined in UNICTAD (*ibid*) in most developing countries the conditions for perfect competitions are far from being met and the possible benefits of competition do not necessarily always translate in to additional growth and social welfare. At the same time efforts to deregulate markets that are intended to benefit the society don not always work.

Sometimes such deregulation efforts can have negative effects such as inflation and imperfect monopolistic competition which is totally anti-social welfare. In order to ensure economic growth and maximize the economic wellbeing of the society economists argue trade liberalization and minimum government regulatory role. This is because as Gill (1999) pointed out countries with fewer legal barriers (with minimum regulatory role) of entry to their market and economy, will show the greatest amount of economic diversity and participation. Highly regulated markets on the other hand impose costs to the market participants and in case where the regulation favours one participant in the economy. This will tend to create monopoly and eventually lead to monotony and tight economy.

2.2.2.3 Employment permit

Employment permit is one of the mechanisms countries use to restrain the inflow of migrants from their home countries (Chand and Paldam, 2004). The reason behind is to reduce further influx of migrants and to disallow migrants from sharing the benefit and welfare of the citizens of the country. The migration can be from LDCs to DCs or vice versa however, it is practiced by all sovereign states of the world. All migrants are required to have an employment permit in the host country if they are going to be employed or involve in any income/ profit generating activity (Andersen, 2004). This requirement or entry barrier has resulted both advantages and disadvantages in the Nordic states (Chand and Paldam, *ibid*). According to them the possible advantage could be protecting the natives from sharing the earning (employment opportunities) and welfare benefits that can be obtained from the governments and the reduction of the costs of integrating the immigrants to the host country cultures. The probable disadvantages of employment permit requirements could be in deterring free movement of labour and different talents from country to country and this could have a negative consequence on transfer of skills, raise wage inflation (Choi *et al* 2000), reducing the possibility of reaping the full advantages of globalization (Chand and Paldam, *ibid*) and limiting the flexibility of the labour market (Ruhs 2005). In most countries the employment permit requirements are frequently viewed as lengthy, complex and costly processes that may delay or create a barrier of entry to the host country labour force.

2.2.2.4 Licensing

Licensing is a regulatory instrument exercised by officials to control entry to the market (Ogus, Anon.). Walker and Jones (2002) held the view that in most developed countries' licensing scheme is introduced in order to establish tighter controls in hygiene standards especially in food processing industries. However, in most cases LDCs are characterized by low educational attainment and skills, poor informational channels and networks, which are important tools for widespread monitoring businesses, they highly depend on ex-ante licensing system (Johnson *et al* 1998, Djankov *et al*, 2002) in Ogus (ibid). An ex-ante licensing system scrutinizes business before it starts operation while ex-post licensing obliges all businesses and operations in the market to comply with on-going standards but do not have to demonstrate compliance prior to commencing business activities or operations (Ogus, Anon). This implies that under licensing regime all suppliers must have their application scrutinised to ensure that they satisfy, or in some cases are deemed capable of satisfying the entry standards. More practically developing countries in general and sub Saharan African countries in particular their government institutions are full of bureaucracy, red tape and often time consuming (Bowles 2000; in Ogus, Anon), corruption(Ogus, ibid), inadequacy of basic inputs (Fisman and Khanna, 2000), required to support an organized economic activities. Many research work shows that licensing procedures are very time consuming, cumbersome (Dana, 1987, 1990; Young and Welsch 1993; Fogel 1994) in (Jesselyn and Mitchell, Anon).

Some argue that excessive government regulations are created to benefit particular interest groups not the society (Loayza, 1996), and make the formal economy less attractive by imposing high entry costs to legality-through licenses fees and registration requirements (Marry, 1993), i.e. high costs to remain legal through taxes, red tape and other environmental regulations. These cause the informal economy to flourish and undermine the political institutions and the market economy.

2.3 NGO Performance

Performance is a general term implying the amount of useful work accomplished in relation to the time and resources used (Eccles and Pyburn 1998). It influences the attitudes and behaviours of not only existing and potential stakeholders but also those of regulators and the voice of local communities, pressure groups and the media (Neely *et al* 2002). Currently there is a strong interest in measuring performance {Bourne *et al* 2000; Skinner, 1971 in Neely *et al* 2000; (Hackman, 1987; Bettenhausen, 1991; Campion *et al*, 1993; Cannon-Bowers, *et al*, 1995; Wageman, 1995; Guzzo and Dickson 1996; Cohen and Bailey, 1997; Hoegl and Gemuenden, 2001; Werner and Lester, 2001; Adams *et al*, 2002; Thamhain, 2004) in Ross *et al* 2008}. This is because performance measurement helps to identify the competitive position of the organization (Neely *et al* *ibid*) and its manufacturing strategy (Maskel 1989) in Neely *et al* (*ibid*). However, most previous studies concerning company performance evaluation focuses merely on operational efficiency (Ho and Zhu, 2004). Operational effectiveness and other variables, however, which might directly influence the survival of the company is usually ignored. As the result the paper will attempt to evaluate the performance of NGO projects in terms of cost, quality, sustainability and the time taken.

2.3.1 Cost

In a narrow sense cost is interpreted as the amount of money forgone, however, in a wider sense it means all sacrifices that are necessary to introduce, produce, use, and maintain (Van der voortd, 2004). From economic point of view the cost concept refers to input factors of capital and labour (Balkin *et al*, 2001) in (Van der voortd, *ibid*). Moreover, in our daily life cost can also be used for non monetary negative effects such as time spent, resistance, decrease in productivity, lose of human, financial and other resources. Cost in projects refers to the amount money or budget required to finish a given project El-Haram and Agapiou (2002), i.e. cost is the budget needed starting from the inception and feasibility up to the completion of the project. This may also include the budget required to devote to project related expenses beyond “bricks and mortar” (McCarthy, 2004). This implies that project

cost is higher than building cost. This is because project costs include building costs plus the different components that are needed to accomplish a given project.

Pfeiffer (2003) endorses the idea that over the past 20 years, major donors and multilateral agencies have been increasingly channelling their development funds to be implemented in LDCs, through nongovernmental organizations. This is deliberately promoted- to raise awareness of cost and resource effectiveness, to promote the policy of privatization, to bring the necessary effect on the needy, and projects that are implemented through NGOs are considered development in nature (World Bank, 1993, 1997; USAID, 1995; Buse and Walt, 1997 Green and Matthias 1997; Khan, 1998; Kilbey 1998; De Beyer, Preker and Feachem 2000) in Pfeiffer (ibid),. NGOs on the other hand, depending on their area of interest, implement donor funded projects in developing countries Pfeiffer (ibid). The project proposals and plans that are prepared by NGOs include the costs and the benefits of the projects, the time needed to complete the project, sustainability of the project, location, community participation and motivation etc (Jonathan and Kaufmann, 1999).

In developing project proposals different NGOs emphasise on minimizing cost without compromising the quality and sustainability of the project (Kilbey, 2000). This is because it is largely believed that donors prioritize their funds based on the least cost of projects in different countries. Therefore, minimizing cost is considered as an important element of success. Cost efficiency entails an optimum utilization of resources and facilities, reduced energy consumption, better organization, proper human and asset management system (Larcher, 1998), using advanced technology, increase productivity and an effective time management. Many researchers (Rad 1979; Arditi *et al*, 1985; Al-Hammad, 1993; Taha *et al*, 1993; Assaf *et al*, 1995;) in Koushki and Kartam (2004) have observed that rising costs as the result of time overruns is a common phenomenon in the construction industry.

2.3.2 Time

Time can have different meaning to different individuals and to different societies because of different events and differences in the dominance form of time. However, contextually time is referred to the period required to finish particular project.

In today's fast changing environment time is an increasingly valuable and precious commodity (Thomas and Ayres 1998). Time is duration that can be, indeed must be timed (Davies, 1993). Organizational theorists have failed to examine how time is perceived and used in organizations (Burke, 1978; Mintzberg, 1980; Peters, 1992; Hassard, 1993; Weick 1995) in Goddard (Anon). An underlying assumption of this analysis of organizational theory is that time is defined and used by all the people in organizations in a similar manner i.e. it is viewed as clock time, it can be measured however, time has value associated with the flow (Argries, 1992, 1993; Wright, 1997) in Goddard (ibid).

In modern times due to the major change in economic development, time is one of the main factors of production (Daudelin 1996). Davies (1993) also supports the recent marketing view that time is an asset, a resource, a utility and money which must be allocated purposefully. The central hypothesis for the marketing approach is individuals seek to minimize the time taken to complete a given task so as to create further opportunity to undertake other activities. Similar view is advocated by proponents of industrial marketing such as Just in Time (JIT), faster new product development and supply chain analysis (Maskell, 1987) in Davies (1993).

Despite the fact that time is a very precious and scarce resource, in many LDCs projects are hampered and are not finished on time. For example, an examination of the records of more than four thousand construction projects by Morris and Hough 1998 showed that projects were rarely finished on schedule time (Koushki and Kartam, 2004). As the result of time elapse so many projects are either abandoned, cost increased, or quality deteriorated (Al-Hammad 1993). As it has been noted above proponents of modern and industrial marketing believe that time and performance are inversely related. The more the time taken to finish a particular job the less the efficiency and the poor the performance is (Davies, 1993).

2.3.3 Quality

Quality is an added value to a product to meet several requirements such as customer satisfaction and its consequent customer loyalty and market share, soliciting new customers improved productivity financial performance and profitability (Collet, *et al* 1990; Lewis 1989, 1993; Julian and Ramaseshan, 1994; Llosa *et al* 1998) in (Chi Cui *et al*, 2003). Deming (1982) in Rippin *et al* (1994) shares the view that quality is all about empowerment: about getting the employees to own their jobs together in small groups to improve every aspect of their work “constantly and forever”. Quality has a subjective meaning and it depends on who is defining it (Mennell, 1994). For example quality may mean durability; quality may mean highest performance; quality may mean consistency. Davidson *et al* (2001) emphasised that quality starts with the design process where the results of research science and market intelligence are used to develop new products and processes that will satisfy, surprise, and delight internal and external customers in all parts of the system. Haag *et al* (1998) hold the view that production is a dynamic process requiring the commitment, co-operation and integration of suppliers, customers, employees and the management. These quality components support each other and failure in any one of the elements results a substantial decline in one of the features of the product. NGOs as agents of the donors (the suppliers), the people (the customers), supervised by the governments (management) the concept of product quality is a very essential part of their operation (Kilby, 2000). This shows that their development plan and strategies should be approved and appreciated by donors, the government and the beneficiaries. In some instances the stakeholders do involve when the development plans and strategies are formulated to ensure that the outcome of the plan is superior. Inconveniency or unacceptability of the development plans and strategies by either of the partners or stakeholders definitely results poor quality or makes projects no to be executed. Therefore, this implies that quality is the result of joint work of the partners toward superior outcome.

2.3.4 Sustainability

The concept of sustainability from the development perspective emerged in the early 1970s as a response to the challenges posed by economic development without consideration for the

natural resources or the environment (Filcak, *et al*, 2004).

The word sustainability has so many definitions for example, (Pezzy, 1989), in Sathiendrakumar (1996), environmentalist defined as balancing between economic growth and environmental preservation (Todaro 2000), and other economists view it as meeting the needs of the present generation without compromising the needs of future generation (WCED 1987, in Sathiendrakumar (ibid); Todaro (ibid). Sustainability of a project refers to the continuous usability of the scheme or programme after they are ready for use (Barbier *et al* 1989) in (Narian *et al* 1991). Sustainability has been an important and central issue to development initiatives by NGOs in developing countries (Hossain 2001). From an NGO perspective Hossain (ibid) explains “development project is said to be sustainable if it can provide an appropriate service for an extended period of time even after a major financial, managerial and technical assistance from an external donors is terminated”. The previous concept however, is not clear in terms of the requirements for sustainable development. In other words the factors for sustainable development should be clearly stated or defined so that during the course of action every development activity will take the necessary steps. The key words or components of sustainability according to Hossain (ibid) are- continuous flow of benefits from the project for indefinite period of time, maintaining of supporting activities and institutions, the ability to create permanent institutional capacity. Therefore, Hossian (ibid) further emphasises the major factors of sustainability are government policies; management, organizational and local participation; finance; technology; socio-culture; environment and ecology, and external political and economic circumstance.

2.4 Summary of the literature review

In summary, the chapter has reviewed various studies and literatures that are pertinent to the study. The literature review is organized in such a way to substantiate and support by previous studies to the variables indicated in the theoretical and conceptual framework.

The independent variable is identified as government intervention in terms administrative and taxation. The administrative part of the independent variable includes licensing,

employment permit, the coordinative role, regulatory role of the government. The taxation part of the independent variable also tried to look for the literatures that have been exploring around the work environment of NGOs. To make it more exhaustive the taxation aspect of the literature review is also disaggregated in to import tariff (custom duty), tax rate, and customs clearance procedure.

The dependent variable of the study focuses on the performance of NGOs. As Ho and Zhu (2004) pointed out, historically performance was evaluated merely on operational efficiency of the organization. Other aspects such as operational effectiveness and other important factors that are critical to the survival of the company are usually overlooked. To avoid the fallacy of being narrow and solicit comprehensive ideas and analysis of various literatures performance is viewed in terms of cost of the project (El-Haram and Agapiou, 2002); time as a main factor of production (Daudelin, 1996); sustainability (Todaro, 2000) the continuous usability of a scheme or programme after they are being ready for use; quality (Haag *et al*, 1998), which is an added value and an outcome of the joint effort of the management, the suppliers, customers and producers.

Chapter 3 of the paper will focus on the methodologies which were employed in carrying out the study. The data collection methods and tools will be discussed along their limitations. Moreover, ethical issues and analytical techniques which were used when analyzing the collected data will be discussed.

Chapter 3 Research Methodology

3.1 Introduction

This chapter focuses on the overall research plan and data collection procedures and techniques that are based on the research questions described in chapter one. Furthermore, it also discusses the method of data analysis and tools employed to test the validity and reliability of the research results.

3.2 Research Strategy

Lewis *et al* (2000) identified five distinct research strategies: - survey, case study, experimental, longitudinal and cross-sectional. Research methods are specific tools for conducting a research, which includes interviews, questionnaires, document analysis, and participant observation. Out of the aforementioned research strategies only one is relevant for this study: a survey research.

According to Lewis *et al* (ibid) a survey research is the most common, fastest and the most popular strategy for collecting data from a sizeable population in an economic way and thereby makes comparison. However, although the basic aim of survey research is to describe and explain statistically the variability of certain features of the population, it has limitations to use it to investigate complex social relationships. This is because, it is often dependent up on the results of the questionnaire that is filled by respondents, and the outcome of the questionnaire also depends on the honesty and deliberation of the respondents. Furthermore, it does not involve in-depth interviews and direct observation techniques. To avoid this inadequacy the researcher has managed to distribute and collect the data by himself, and to conduct face to face interview with some respondents.

3.3 Research Design

The overarching purpose of the research is to explore the impact of the over all government intervention in general and import duty in particular in the development activities of NGOs in Malawi. Therefore, in order to answer the research question a descriptive, non-experimental research design using a combination of qualitative and quantitative research methodologies was applied. While a descriptive study describes a given state of affairs as scientifically and

careful as possible; descriptive research is carried out to describe existing conditions without analysing the relationship among variables (Fraenkel and Wallen, 1996). Qualitative research on the other hand allows the investigator to study naturally occurring phenomena in all their complexity for the purpose of discovering the underlying meaning and patterns of relationships (Fraenkel and Wallen, *ibid*).

In this study the use of open ended questions has helped the respondents to provide and add their own ideas and knowledge which has helped to enrich the qualitative aspect of the study. The answers that were provided were coded and categorized for analysis.

3.4 Population Size

The population size examined in this study consists of three parties i.e. NGOs, major donors, government offices and ministries (see table 3.1). These sectors are thoughtfully included to solicit and secure a balanced view and outcome of the study.

As it has been stated in previous chapters, in Malawi as of November 2008 there are 251 national and international NGOs (148 national and 103 international). The population size for the study thus comprises 251- NGOs, 7 major donors, 8 government ministries and other government offices which have a work relationship with NGOs development activity within Malawi. It is important to note that from the total number of NGOs, the area of concern is on non profit NGOs that are actively engaged in various projects and in far-off districts within Malawi. Table 3.1 shows the characteristics of the research population.

Table 3.1 Population Characteristics

| Population size | Characteristics of subjects | Reason for inclusion | Population source |
|-----------------|-----------------------------|----------------------|-------------------|
|-----------------|-----------------------------|----------------------|-------------------|

| | | | |
|---------|-----------------------------------|--|---|
| 251 | Both local and international NGOs | Have a long history and experience in development activities | Council of Non Governmental Organization (CONGOMA) July 2008 |
| 7 | Major Donors in Malawi | Have long history of funding and knowledge of development projects in LDCs | World bank report of 2007 |
| 8 | Government ministries and offices | Have a direct link with NGO development activities | |
| N = 266 | | | |

3.5 Sample Size

In the case of NGOs, to include the desired target in the sample, a stratified sampling technique was used. This is because; mainly stratified sampling method helps to collect data from heterogeneous population. Basically stratification is the process of grouping members of the population in to relatively homogenous subgroups before sampling. Moreover, this technique is superior to focus on important subpopulations and ignore the irrelevant ones. Therefore, in this research the procedure was as follows: - First NGOs were divided into national and international NGOs. Second, they were categorized in to profit making and non-profit organizations. This is because the focus of the study is on non-profit NGOs which support, administrate and or/ fund social development projects in Malawi. In the case of the major Donors and Government ministries since they are small in number the whole

population was included in the study.

As a result a sample of 46 local and international non profit NGOs were identified. These organizations are considered to have a long tradition and history in social development and social welfare work in Malawi and other LDCs. Furthermore, donors such as IMF, World Bank, EC, USAID, Irish Aid (DFID), and UNDP and from the government side- MRA taxation staff, ministry of finance, ministry of health, ministry of education, ministry of agriculture and ministry of economic cooperation and development are considered.

Geographically the research was conducted mainly in Blantyre, Lilongwe and Zomba. This is because although these NGOs and donors are operating all over the country, their head offices are based on the mentioned cities. Furthermore, the main government and donors' offices are located in these cities. The sample structure has comprised 46, and 7 of the currently operating NGOs and donors respectively and 8 government offices that are believed to have a direct link with NGOs development activities within the country. This is done in order to gather pertinent, apparent and valid information from the respondents. See table 3.2 for the sample size.

Table 3.2 Sample size for the study

| Subject Characteristics | Population size | Sample size | Remarks |
|---|-----------------|-------------|-------------------------|
| Non profit local and international NGOs | 251 | 46 | 18.3% of the population |
| Major Donors | 7 | 7 | Small Population size |
| Government offices | 8 | 8 | Small Population size |
| Total | 266 | 61 | |

3.6 Instrumentation

In research, measuring independent variables using different measurement scales is known as instrumentation. Data is collected by using a questionnaire prepared in a 5 point likert scale format. See table 3.3

Table 3.3 Example of 5 point likert scale used in the questionnaire

| | | | | |
|------------------|-------------|----------|-------------------|-------------------|
| Strongly Agree | Agree | Not Sure | Disagree | Strongly Disagree |
| Very fast | Fast | Average | Slow | Very slow |
| Very significant | Significant | Not sure | Insignificant | Not related |
| Very Important | Important | Not sure | Little importance | Not important |
| 5 | 4 | 3 | 2 | 1 |

3.7 Pilot Study

Before collecting the data, the researcher has to make sure that the questions in the questionnaire are clear and valid. To ensure this a pilot study was administered in NGO and government offices around Blantyre on 19th of March 2009. A small pilot sample of 8 respondents which is 13% of the main survey sample, comprising 5 NGOs, 1 donor and 2 from the government offices was involved. The main purpose of the study was to see if the questions in the questionnaire were easy, clear, valid and important. See table 3.4 for the results.

Table 3.4 Results of the pilot study

n = 8

| Variables | Yes | No | No of participant |
|------------|------|------|-------------------|
| Easy | 6 | 2 | 8 |
| Clear | 6 | 2 | 8 |
| Important | 5 | 3 | 8 |
| Valid | 7 | 1 | 8 |
| Percentage | 75 % | 25 % | 100% |

The results in the pilot study (table 3.4) shows that the questions in the questionnaire are 75% easy, 75% clear, 62.5% important and 87.5% valid. However, some of the questions in the questionnaire were less consistent and ambiguous. Necessary corrections were made before the questionnaire was distributed to the respondents of the main survey.

3.7 Coverage of the Questionnaire

The questionnaire has attempted to cover the variables and sub variables identified in the theoretical and conceptual framework. These include the independent variables and dependent variables. The independent variable is government intervention on NGO development activity which is in the form of governance and taxation, and the dependent variable is NGO performance.

3.8 Data Collection

The researcher collected data from both primary and secondary sources. The primary source of the data entails the researcher to distribute a self administered questionnaire to the respondents personally and collect the response at the agreed date of appointment. However, even though the respondents were given sufficient time period to finish and give feedback, the researcher made several follow-up calls to remind the respondents.

Like the primary data, secondary data are useful source of information. Because these data are thought to be based on the empirical studies and it is largely believed that they can provide very useful and reliable information to the study. To capitalize on the advantages and to avoid the short coming of the secondary data an extensive exploration of different documents and other secondary data sources was carried out.

Secondary data was collected from official documents of aid agencies, CONGOMA, donors and their representatives and other international non-governmental organization offices, MRA documents and other government offices. From the government documents since MRA is a government agency designated to collect tax and implement tax laws and regulations in the country, the data were very resourceful to supplement the desired research objectives.

3.9 Interview Data

As a research strategy, a semi structured face-to-face interview was conducted to collect very reliable and in-depth information about the comments and past experience of aid agencies in Malawi and their current practices in different part of the world and the responsible staffs

from MRA and other government offices. The method used was as a way of obtaining first hand information which is a necessary condition to the reliability of the research results.

3.10 Interview Responses

As it has been indicated in the research methodology one of the methods of soliciting in-depth and reliable information from the designated respondents i.e. concerning the activities and the relations of NGOs and the government in Malawi is an interview. The researcher conducted a semi-structured interview with 17 respondents from all sides of the study (NGOs, Government and the Donors). To familiarize the topic of the study and to give the respondents enough time to prepare for the interview, the researcher had distributed open ended questions as a second part of the structured questionnaire earlier (see appendix). A summary of the interview results are presented in the next chapter

3.10 Questionnaires

This title specifies the type of questionnaire used in collecting data from the primary source. Therefore, foremost the questions in the questionnaire were standardized questions. Subsequently the questions were designed in such a way to enable respondents to think exhaustively with the list of choice of answers. Third in order to obtain fair and balanced results questionnaires were distributed to government managers who are working in collaboration with NGO projects, NGO directors and representatives and donors. Finally the questionnaire was a self-administered with the necessary information on the cover page about the purpose of the study.

To minimize bias, proper caution was made in questionnaire preparation in order to avoid leading questions. Questions were prepared in advance and good care was taken to avoid wording and framing errors.

3.11 Data Analysis

The primary purpose of research is to provide new information, to face and solve new challenges and problems (Cooper and Schindler, 2003). In order to provide accurate information the researcher has to collect data pertinent to the topic. Unless it is analysed and interpreted the collected data are raw. Therefore, data analysis is an inevitable task after the data collection. Data analysis usually involves inferring or giving meaning to certain figures, reducing accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques (Cooper and Schindler (ibid)).

The responses from the questionnaire were coded for all the variables that are under consideration and quantitative data was analysed using an SPSS. To assess NGOs project performance, performance measurement results were computed to determine mean and standard deviation. Data were also analysed to assess the effect of the import tax policy and governance for each category- such as import tax, tax rate, customs clearance procedure, licensing, employment permit, coordination and regulation by computing mean and standard deviation for each category.

Correlation is tested by means of cross tabulation between:-

- Overall government import tax policy and overall NGOs project performance. Furthermore correlation of each sub-variable, such as Import tax, Tax rate, Customs clearance procedure with the corresponding performance sub-variables quality, time and sustainability are tested.
- Overall governance and general NGOs project performance. And each sub-variable of governance (licensing, employment permit, coordination, regulation) with the corresponding sub-variables of project performance (time, cost, quality and sustainability)

3.12 Research Ethics

Precaution was exercised to secure confidentiality and anonymity of the respondents and

their information. An introduction letter from the Department of Management Studies University of Malawi –The Polytechnic was presented to respondents in advance. Moreover the researcher gave an explanation about the purpose of the study to the respondents. (See Appendix A)

Chapter 4 Results and Discussions

4.1 Introduction

This chapter presents the analysis of the findings of the impact of the government intervention in terms of import tax and administrative procedures on NGOs project performance. More specifically, this section is organized to include the following points: - the attributes of the study, the rank order of the independent variables in terms of their effect on the dependent variables (according to the respondents view point), the mean score rating of the factors, qualification of the respondents, discussion of the interview results and the correlation between the dependent and independent variables.

4.2 Attributes of the respondents

The attributes of the study consist of NGOs, donors and government offices. Apparently most of the NGOs (local and international) have a long working history in development activities in Malawi and other LDCs. Major donors are believed to have profound knowledge and expertise in funding various projects across the world. Moreover, the government offices included in the study are the ones which are directly or indirectly linked to NGO development activities. Furthermore, in terms of experience all respondents have almost similar qualification in different offices and positions that ranges from 8-20 years of experience. This indicates they have high level of responsibility for financial decisions, and this will be important facet when analyzing their responses.

Figure 4.1 shows the rate of responses from the respondents according to the characteristics. NGOs are the largest constituents of the study representing 75 % of the sample size. Out of the 46 distributed questionnaires for this sample category, 31 were returned. This represented 69.6 % of the distributed questionnaire for NGOs. From the Government category which is a

much smaller sample size 71 % of the distributed questionnaire were returned and the return rate was 75 % for donors.

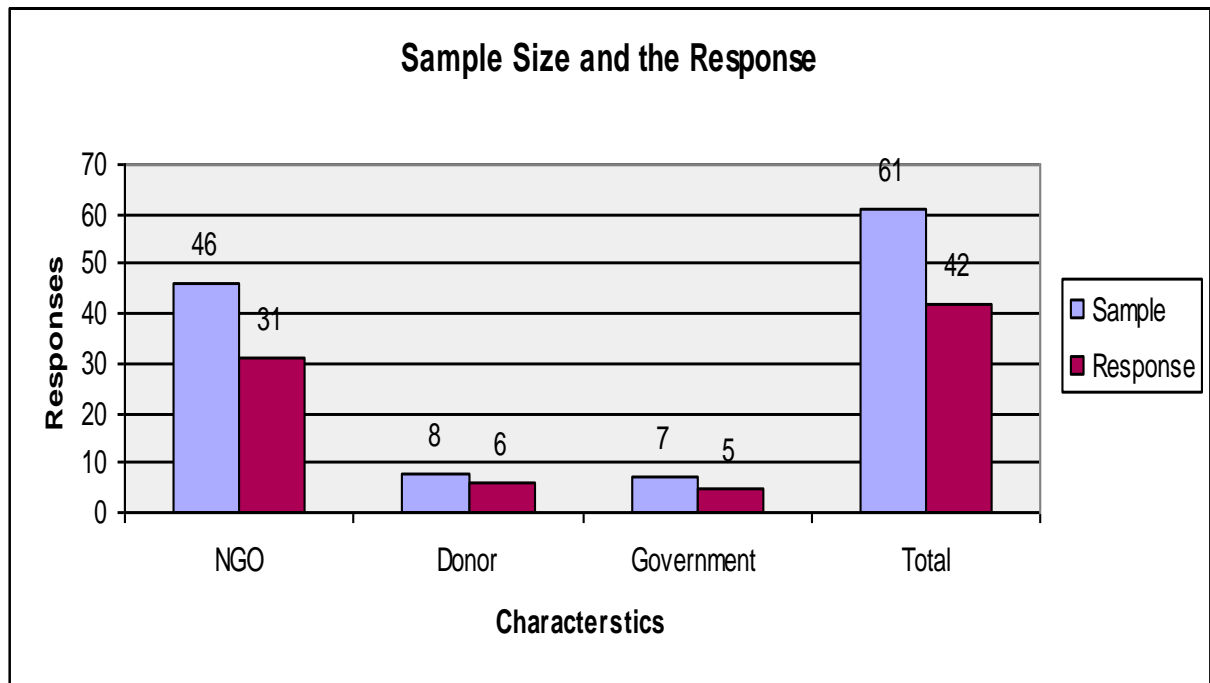


Figure 4.1 the characteristics, the sample size and their response

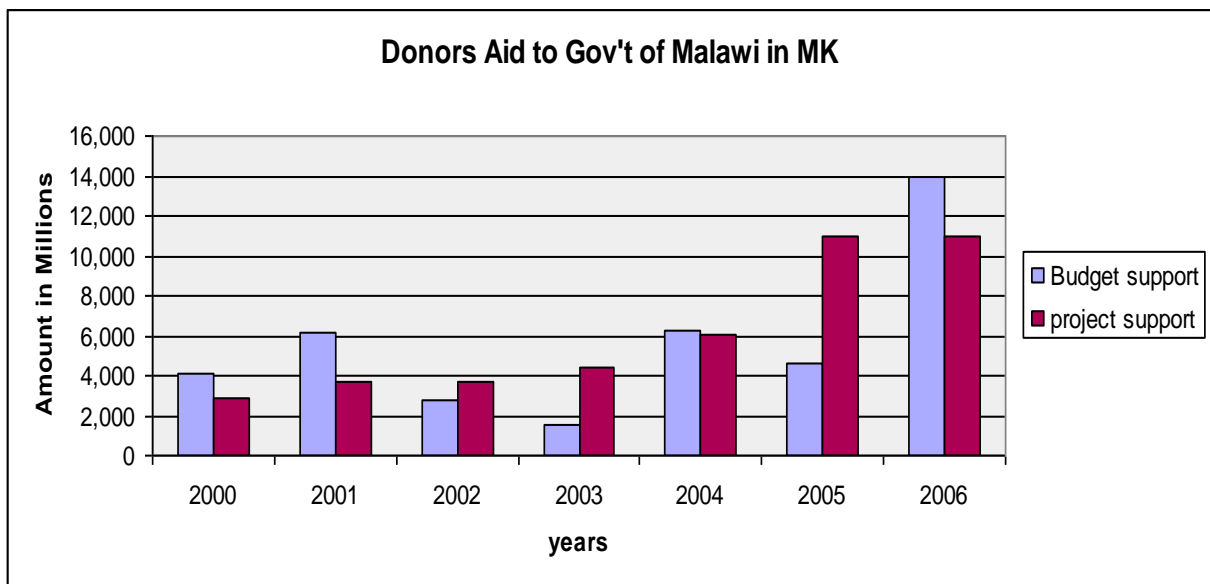
4.3 Local and international NGOs

Local and international NGOs, although they have differences in their organizational set-up, (the number of expatriates, the fund, experience of the organization, staffs are from different countries, organizations' size and capacity), their common characteristics and goals outweigh their differences by far. Most importantly, these common characteristics derive from a set of values they all share regardless of their size, purpose, scope and environments. These values are based on the desire to advance and improve the human condition, voluntarism and philanthropy. In Malawi, the researcher has confirmed the existence of differences and diversity in strategy among the NGOs but remarkable similarities in their overall objectives to be achieved.

4.4 Major Donors in Malawi

Malawi gets substantial amount of foreign aid as Official Development Assistance from donors. The major donors include DFID (Department for International Development of Irish Government) World Bank (WB), European Union (EU), United states Agency for international Development (USAID), United Nations Development Program (UNDP), German Technical Cooperation (GTZ), Japan for International Cooperation Agency (JICA) and China. According to the information obtained from the ministry of finance DFID is the largest donor to Malawi in 2005/06 followed by EU.

Figure 4.2 below demonstrates donors support (as a budget and project support) to the government of Malawi is not uniform. However, starting from 2002, it increases at an increasing rate. Moreover, as the figure shows from 2002 onwards donors' aid slowly shifted towards project support than budget support. This implies that NGOs are getting more funds to implement development projects in Malawi than before.



Source: *Prepared on the basis of Data sourced from the ministry of Finance*

Figure 4.2 Budget and project support to the Malawi government from 2000-2006

4.5 Qualification of the Respondents

As discussed in the research strategy, the researcher has used the survey method to solicit relevant information to the study. The researcher distributed an open-ended and a self administered questionnaire to the aforementioned respondents. From the total sample of 56 (NGOs, Donors and Government), 15 responded to the open ended questions. The respondents to the open ended questions provided their experience in development projects and shared different and extensive viewpoint on the pros and cons of the imposition of import duties on NGOs development activities in particular and the economy of the country in general. Furthermore, most of these respondents to the open ended questions were having positions as country directors, and officers in the head office of the NGOs and government offices where they hold positions of direct responsibility for the implementation of various development projects in Malawi.

4.6 Results of the study

The result of the survey presents the effect of government intervention in terms of governance and tax policy on the NGO project performance in Malawi. The outcome of the survey reveals each of the three characters included in the study have different threshold for various government interventions. The following tables show the results of the rank order of government intervention measures in terms of their effect on performance of NGO projects.

4.6.1 Ranking of the Variables in terms of their effects on the project performance by NGOs, Government and Donors

a) NGOs ranking of variables in terms of their effect on project Performance

n = 31

As the table 4.1 below shows, Import Tax was ranked as first by a big majority of the respondents from NGOs (19 out of 31 or 61.3 %) in terms of its effect on project performance. This was followed by Tax rate with 4 respondents ranking it as first and 14 ranking it as second. The first two variables which received the highest ranking in term of their impact on project performance are clearly Import Tax and Tax Rate.

Table 4.1 Ranking of variables by NGOs

| Variables | Ranks | | | | | | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1 st | 2 nd | 3 rd | 4 th | 5 th | 6 th | 7 th |
| Import Tax | 19 | 4 | 5 | | 3 | | |
| Tax Rate | 5 | 14 | 4 | 4 | 1 | 3 | |
| Customs Clearance Procedure | 4 | 3 | 8 | 9 | 3 | 3 | 1 |
| Licensing & Registration | 1 | | 2 | 3 | 4 | 3 | 18 |
| Employment Permit | | 6 | 8 | 7 | 7 | 2 | 1 |
| Coordination | 1 | 2 | 2 | 1 | 6 | 16 | 3 |
| Regulation | 1 | 2 | 2 | 6 | 5 | 7 | 8 |
| Total Number of NGOs | 31 | 31 | 31 | 31 | 31 | 31 | 31 |

b) Government Offices ranking of variables in terms of their effect on project Performance

On the Government side the variables which received the top two ranking are: Import Tax and Employment permit as indicated in Table 4.2 below.

Table 4.2 Ranking of variables by government

n = 5

| Variables | Ranks | | | | | | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1 st | 2 nd | 3 rd | 4 th | 5 th | 6 th | 7 th |
| Import tax | 2 | 1 | | 1 | | | 1 |
| Tax rate | | 1 | | 1 | 1 | 1 | 1 |
| Customs Clearance procedure | | 1 | 1 | 1 | 1 | | 1 |
| License and registration | | | | | 1 | 2 | 2 |
| Employment permit | 2 | | 2 | | | 1 | |
| Coordination | | | 1 | 1 | 2 | 1 | |
| Regulation | 1 | 1 | 1 | 2 | | | |
| Total Number of Gov't offices | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

C) Donors' Ranking of variables in terms of their effect on project Performance

The overwhelming majority of Donors (4 out of 6) ranked Import Tax as number one in terms of its impact on project performance followed by Tax Rate which received first and second ranking by 1 and 3 respondents respectively.

Table 4.3 Ranking of variables by donors

n = 6

| Variables | Ranks | | | | | | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1 st | 2 nd | 3 rd | 4 th | 5 th | 6 th | 7 th |
| Import Tax | 4 | 1 | 1 | | | | |
| Tax Rate | 1 | 3 | 1 | | | 1 | 1 |
| Customs Clearance Procedure | | | | 3 | 2 | | |
| License and Registration | | | | | 2 | 2 | 2 |
| Employment Permit | 1 | | 2 | 2 | 1 | | |
| Coordination | | 2 | | 1 | 1 | 1 | 1 |
| Regulation | | | 2 | | | 2 | 2 |
| Total Number of Donors | 6 | 6 | 6 | 6 | 6 | 6 | 6 |

The above tables (4.3, 4.4, and 4.5) show the three characteristics of the study that reveal different attitude and perceptions towards the variables. For example- NGOs and Donors view import tax as the highest factor that affect the performance of NGOs followed by the tax rate and the customs clearance procedure.

Therefore, in general all respondents of the survey ranked import tax and the tax rate as the first and second highest factors affecting the performance of NGOs respectively. This implies that development projects in Malawi are adversely affected as the result of the import tax and the tax rate. Most of the NGOs complain the tax rate is very high as compared to the other countries.

4.7 Analysis of the Interview Responses

As the results of the interview indicate, all interview respondents evaluate NGO activities in Malawi as good and effective. According to their view the role of NGOs particularly on the rural development and in meeting the needs of the poor is insurmountable. Moreover, 12 out

of 17 respondents agreed on the idea that NGO activities are in line with the development plans of the Malawi government and is largely focusing on supporting the government on short and long term plans set in the millennium development goals. However, the coordination effort of the government is apathetic and the respondents pleaded for effective coordination effort to enhance and achieve sustainable and comprehensive development objectives.

On the question that deals with the role of NGOs on expanding the opportunity of equitable distribution of the country's wealth and social services, 14 out of the 17 respondents agreed on the notion that NGOs' role as very supportive and promising. Nevertheless, the respondents revealed the areas where NGOs are not efficient in Malawi. These are areas of governance and institutionalization. Like many African countries, the Malawi government has a problem in tackling these two areas and NGOs are expected to assist and guide the governments to challenge these problems. Having good governance and efficient institutionalized system is a pre requisite for sustainable development. In addition all respondents have the same opinion on the idea that without NGOs poverty could have been at its worst stage and provision of social services to the disadvantaged could have been more challenging and could lead to social unrest.

Questions regarding the amendment of the public finance and management act (.i.e. an act that limits the discretionary power of the ministry of finance to remit and waive customs duties), some (5 out of 17) respondents argued the reason behind is to create fair ground for issuance of duty waivers for all NGOs. Others upheld the claim that some NGOs were abusing the tax waive and were importing materials that are not related or are excess to their programs.

15 out of the 17 respondents mentioned the following points on the questions that deal with the factors that induced the government of Malawi to introduce the administrative and tax policy on NGO imports. The major ones are: - government wants to rely on local resources (a move towards self reliance); government wants to expand the tax net in order adjust its fiscal position in addition to the foreign assistance, to deter the misuse of the tax privilege for

private purpose.

On the questions regarding the comparative advantage of NGO and government investments, some viewed NGO investments as superior in assisting the disadvantaged and said NGO investments are specifically directed to help out the poor where as government investments are general to all citizens and may not necessarily focus on the needy ones. Moreover, others supported the idea that government investments are more advantageous and are accountable to the parliament, but donors are not accountable to the government. However, all respondents had the same opinion that both investments are complement to each other and are equally important to the people of Malawi.

Furthermore, the interview results has helped the researcher to examine the negative impact of these duties on implementation, completion and initiating of new projects because in most instances NGO projects are time bound and any delay as the result of the import duty and the other related bureaucracy can have multiplier effect on the economy.

The researcher confirmed the following concept from the interview respondents. “Usually donors give their support fund based on the least cost of projects of different countries. If other less developed countries present less cost for similar projects, the fund will be directed to the country to the least cost country than to Malawi”. Therefore, if this phenomenon is not properly addressed and evaluated, foreign aid flow may be redirected to other countries than otherwise could be.

Due to the above problems it is not hard to imagine whether aid agencies are gradually going to shrink or shift their programmes and restrict their activities. The reduction in activities will definitely lead to retrenchment and further streamlining on the employment opportunities.

4.8 Evaluation of the Relationship of Government

Offices and NGO Work Environment

The work relations of recipient government offices and NGOs are complex, dynamic and changing as the nature and purposes of NGOs have evolved and as the overall context of the work of both sides have been transformed. The work relationship of both sides in Malawi includes service delivery, mobilization of resources, broader change and development activities. This and other work relations are carried out in partnership and in some cases NGOs devote considerable part of their resources in accomplishment of those activities. Most of the NGOs in Malawi emphasize open and accessible information between NGOs and government as a base for good relationships.

Chapter 5 Discussion

5.1 Results of taxation factors of government intervention

5.1.1 Factors that contribute high level of import tax

Table 5.1. and figure 5.1. demonstrate the mean score ratings of the factors that cause high level of import tax. Although the mean score rating shows an average ($2.5 < \text{mean score} < 3.5$ corresponds to level 3 on the likert scale), majority of the respondents agree, apart from the administrative payments, all factors of an import tax are above the average (high) level of five point likert scale ($3.5 < \text{mean score} < 4.5$ represents point 4). Furthermore, the results indicate that there is no significant difference among the mean scores of the factors. However, the mean score for administrative payments show the lowest level in the likert scale ($1.5 < \text{mean score} < 2.5$ represents level 2). This is because according to the respondents import tax is the sum of: - the customs duty for finished products (25% of the value of the imported material), plus the excise duty (depending on the type of the product which can be more than 50%) of the value plus the VAT (16.5%) of the total value of the commodity.

Mathematically the import tax for commodity with a price X is calculated as follows

$$\text{Import tax} = .25x + .5(.25x) + 16.5[.5(.25x)]$$

Table 5.1 Factors that contribute to high level of import tax

| Analytical tool | Determining Factor | Validity of factors | | | | | | |
|-----------------|----------------------------|---------------------|------|---------|-----|----------|------------|-------------|
| | | Very High | High | Average | Low | Very low | Mean Score | Ranking |
| frequency | Import duty | 6 | 26 | 5 | 4 | - | 3.83 | 1 |
| | Excise tax | 9 | 29 | 1 | 3 | - | 3.79 | 2 |
| | Value added tax | 7 | 14 | 16 | 5 | - | 3.75 | 3 |
| | Administrative payments | 3 | 7 | 12 | 15 | 5 | 1.69 | 6 |
| | Payment to clearing Agents | 10 | 21 | 5 | 4 | 1 | 3.59 | 5 |
| | Travel allowances | 6 | 19 | 9 | 6 | 2 | 3.67 | 4 |
| | Mean of means | | | | | | | 3.46 |

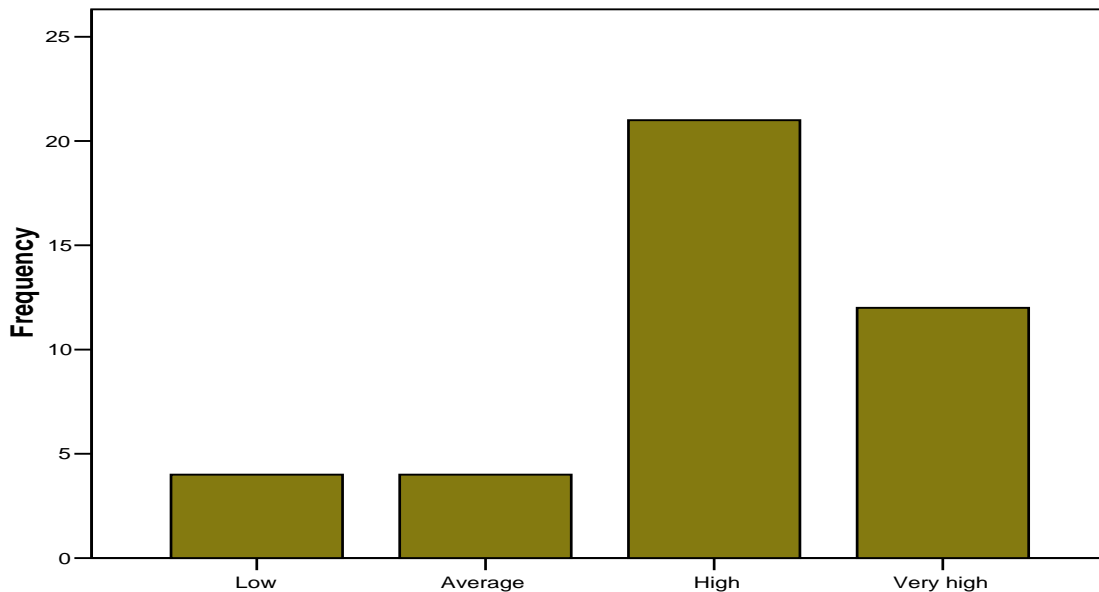


Figure 5.1 Evaluation of import duty on imported materials

5.1.2 The extent of which the tax rate is high

Table 5.2 and figure 5.2 shows the result of the survey in which most of the respondents categorize tax rate as very high. According to the mean score rating of the factors tax rate is rated as high as 4 point in the likert scale (i.e. 3.50 < mean score < 4.5 corresponds to

4). The actual tax rate is ranked the highest followed by the relative tax rate. This indicates the respondents believe that Malawi's tax rate is very high compared to other countries tax rate and slashes considerable part of their development budget.

Table 5.2 The extent of which the tax rate is high

| Analytical tool | Determining Factor | Validity of factors | | | | | | Mean Score | Ranking |
|-----------------|-----------------------------------|---------------------|------|----------|-----|----------|------|--------------------|---------|
| | | Very High | High | Moderate | Low | Very low | | | |
| frequency | Relative taxes of other countries | 12 | 15 | 7 | 7 | - | 3.78 | 3 | |
| | The actual tariff rate | 20 | 11 | 10 | - | - | 4.24 | 1 | |
| | Share of the project budget | 12 | 19 | 5 | 3 | 2 | 3.88 | 2 | |
| | Mean of means | | | | | | | <u>3.97</u> | |

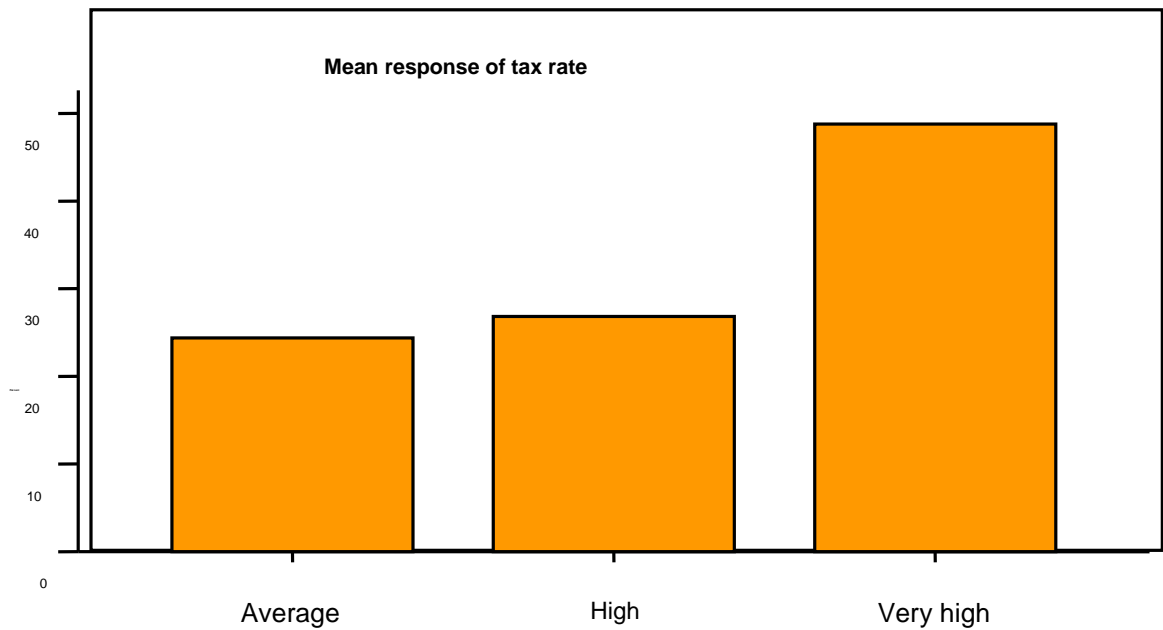


Figure 5.2 Evaluation of the tax rate

5.1.3 The extent of which customs clearance services and the system is timely

A close observation of the table 5.3 shows the extent of which the customs clearance procedure is at the lower level of the mean rating score. (i.e. $1.5 < \text{mean} < 2.5$ corresponds to level 2 in the likert scale. The finding of the survey reveals almost all respondents have the same opinion on the services and the systems at the customs office are low and weak. Furthermore, the human element of the customs office is rated the lowest.

Table 5.3 The extent which Customs clearance service and system is timely

| Analytical tool | Determining Factor | Validity of factors | | | | | | |
|-----------------|----------------------------------|---------------------|------|----------|------|-----------|------------|-------------|
| | | Very fast | fast | Moderate | slow | Very slow | Mean Score | Ranking |
| frequency | Efficiency of the human element | - | 1 | 5 | 22 | 14 | 1.88 | 3 |
| | Delays at border crossings | - | 1 | 9 | 23 | 9 | 2.12 | 2 |
| | Efficiency of the custom offices | 1 | 4 | 5 | 18 | 13 | 2.12 | 2 |
| | Port services | 1 | 5 | 10 | 16 | 10 | 2.21 | 1 |
| | Mean of means | | | | | | | 2.08 |

5.2 Discussion of the results of the administrative aspect of the government intervention on NGO development activities

5.2.1 The role of government coordination effort

A close observation of the results of table 5.4 indicates that government coordination effort is as important as the funds they get from the donors. The result of the survey indicates it is only the mean score of coordination effort of the government on project initiation is low. However, all the means are as high as level 4 in the likert scale (i.e. $3.5 < \text{mean score} < 4.5$ represents 4). The role of the coordination effort in overlapping of projects is rated the highest in the mean rating scale followed by the mean of project concentration.

Table 5.4 The importance of government coordination role in NGO activities

| Ana-lytical tool | Determining Factor | Validity of factors | | | | | | |
|------------------|---------------------------|---------------------|-------------|--------------------------|--------------------|---------------|------------|-------------|
| | | Very important | impor- tant | Moder- ately im- portant | Little impor- tant | Unim- portant | Mean Score | Rank- ing |
| fre- quency | Projects iden- tification | 3 | 28 | 7 | 4 | - | 3.71 | 4 |
| | Overlapping of projects | 16 | 21 | 5 | - | - | 4.26 | 1 |
| | Diversifica- tion | 7 | 24 | 5 | 6 | - | 3.76 | 3 |
| | Information dissemination | 6 | 19 | 10 | 7 | - | 3.57 | 5 |
| | Community participation | 3 | 27 | 5 | 4 | 3 | 3.55 | 6 |
| | Project quality | 1 | 25 | 10 | 6 | - | 3.50 | 7 |
| | Project con- centration | 10 | 23 | 3 | 5 | 1 | 3.86 | 2 |
| | Project initia- tion | 3 | 8 | 8 | 17 | 6 | 2.64 | 8 |
| | Mean of means | | | | | | | 3.61 |

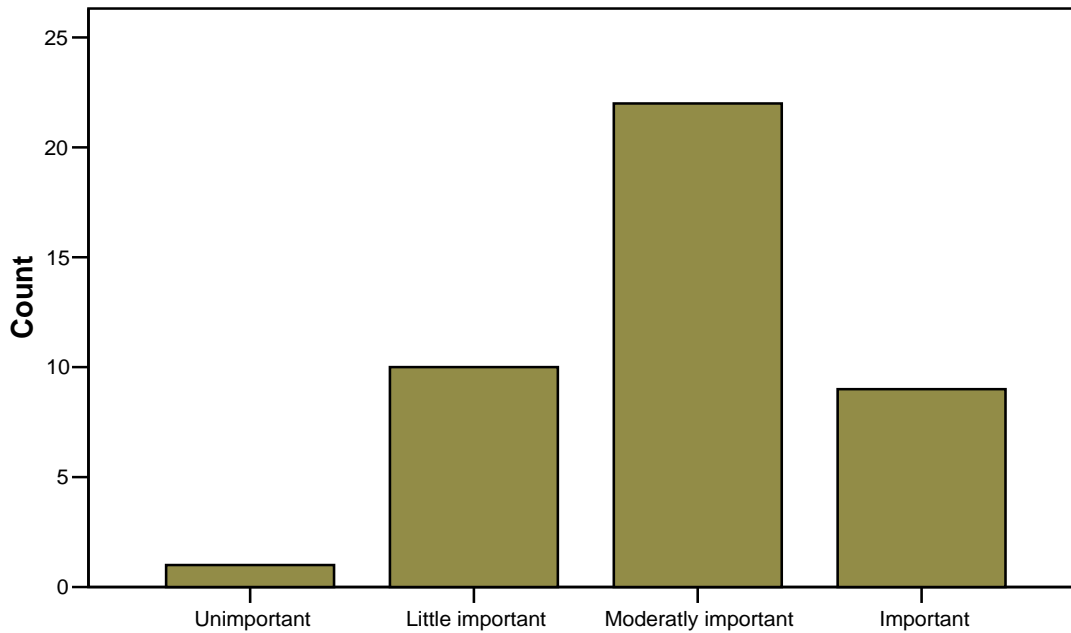


Figure 5.3 Evaluation of the importance of government coordination effort

5.2.2 The regulatory effort of the government

Table 5.5 presents the results of the survey of factors of the regulatory effort in regulating NGO activity. The results indicate that government’s regulation effort is average and hence the mean score in the likert scale is in between 2.5 and 3.5 (2.5<mean score<3.5 represents level 3). Furthermore, as the table shows the mean score of regulation effort on project quality is rated the highest and on project initiation the lowest.

Table 5.5 The Extent of the influence of the government regulatory role in the NGO activities

| Analytical tool | Determining factor | Validity of factors | | | | | | Mean Score | Ranking |
|-----------------|--------------------|---------------------|------|---------|-----|----------|------|--------------------|---------|
| | | Very good | Good | Average | Bad | Very bad | | | |
| frequency | The mechanism | 1 | 14 | 10 | 15 | 2 | 2.98 | 4 | |
| | The contents | - | 16 | 13 | 11 | 2 | 3.02 | 3 | |
| | The timing | - | 1 | 15 | 24 | 1 | 3.39 | 2 | |
| | Consistency | 1 | 13 | 11 | 14 | 6 | 2.88 | 5 | |
| | Project quality | 5 | 19 | 9 | 5 | 2 | 3.50 | 1 | |
| | Project initiation | 3 | 8 | 8 | 17 | 6 | 2.64 | 6 | |
| | Mean of means | | | | | | | <u>3.12</u> | |

5.2.3 The degree of importance of employment permit for expatriates in relation to NGOs programmes

Table 5.6 represents the result of the survey of the importance of employment procedures that have an impact on NGO development activities. As the result indicates the mean score is below average (1.5<mean score< 2.5 represents point 2) in the likert scale. The mean score of the length time taken to get the permit (length of appointments) shows the least followed by the amount of money paid to get the license. Which means it takes long time to get the permit and the amount of money paid for the permit is high.

Table 5.6 The extent of the importance of the employment procedures

| Analytical tool | Determining Factor | Validity of factors | | | | | | |
|-----------------|------------------------|---------------------|-----------|----------------------|------------------|-------------|------------|---------|
| | | Very important | important | Moderately important | Little important | Unimportant | Mean Score | Ranking |
| frequency | Permit procedures | - | 5 | 10 | 27 | - | 2.48 | 1 |
| | Payment fee | - | 8 | 4 | 10 | 20 | 2.00 | 2 |
| | Length of appointments | - | 8 | 8 | 15 | 15 | 1.98 | 3 |
| | Mean of means | <u>2.15</u> | | | | | | |

5.2.4 The extent of importance of registration and license for new NGOs

The results of the survey in table 5.7 reveals the registration and license aspect of government intervention on NGO development activity is significant. Furthermore, the mean rating score of licensing procedures and accountability of NGO are equally important and are above average in the likert scale (i.e. $3.5 < \text{mean score} < 4.5$ represents level 4). The variable that indicates licensing requirements is on average.

Table 5.7 the extent of the importance of registration and license for new NGOs

| Analytical tool | Determining factor | Validity of factors | | | | | | |
|-----------------|------------------------|---------------------|-----------|----------------------|------------------|-------------|------------|---------|
| | | Very important | important | Moderately important | Little important | Unimportant | Mean Score | Ranking |
| frequency | Licensing procedures | 2 | 23 | 5 | 3 | 2 | 3.78 | 1 |
| | NGOs accountability | 7 | 25 | 4 | 3 | 2 | 3.78 | 1 |
| | Licensing requirements | 1 | 17 | 14 | 5 | 4 | 3.15 | 2 |
| | Mean of means | <u>3.77</u> | | | | | | |

5.2.5 Experience from other countries regarding Tax exemption for NGOs

The tax preferences for NGOs in some countries in E-SEA (Eastern-South East Asia) are not very extensive. In Thailand, for example, only about 300 NGOs qualify for tax exemption because of the strictness of the requirements to obtain exemption. Tax deductibility in Japan is limited by legislation enacted in 2001 to a small group of "Tax-Deductible Specified Nonprofit Activities Legal Persons," which qualify along with the older form of "public interest legal persons." And there are currently no special tax benefits for NGOs in Vietnam.

On the other hand, some countries, such as the Republic of Korea, grant fairly extensive benefits to NGOs and their donors. Taiwan, which has rather strict criteria for tax exemption, has liberal deduction limits for donations to such entities (10% for companies and 20 percent for individuals). In China, where the "Public Welfare Donations Law" of 1999 specifies that both corporations and individuals may qualify for a tax deduction for donations, the regulations implementing the rule provide for a 30% limit for individuals and a 3% limit for corporations.

5.3 Results of Correlations of Taxation Policy and Administrative Aspect of Government Intervention on Time, Cost, Quality and Sustainability

Basically this section tries to find out if there is any relationship between the government intervention in terms of tax policy and administrative policies which is termed as independent variable (in the theoretical and conceptual framework of the research study) with the dependent variable .i.e. NGO performance that is measured in terms of time cost, quality, and sustainability. The relationship between the abovementioned variables can be positive negative or no relationship.

5.3.1 The Correlation of the Government Tax Policy to Time, Cost, Quality and Sustainability

First, Table 5.8 shows how the government tax policy correlates to the time, cost, quality and sustainability. The values of the correlation coefficient show the strength of the relationships and the sign is the direction of the correlations. On time no variable is significantly correlated at $p < .01$ and $p < 0.05$ significance level. Although it is not significant three of the variables of the tax factors (value added tax, import tax rate and share of the import tax to project budget) are negatively correlated to time.

Second, the cost column on the table below shows import duty, the import tax rate relative to other countries rate, and share of import tax to the NGO project budgets are positively and significantly correlated to the cost of the projects at $P < 0.02$ significance level. The remaining variables do not have significant correlation to the cost.

Third, the quality section of the table below indicates, the administrative payment and the value added tax have a negative and significant correlation with quality at $p < 0.01$ and at $p < 0.05$ significance level respectively. The rest of the import tax factors do not have a significant relationship with quality.

Fourth, the sustainability part of the table below shows no significant correlation between the import tax factors at both significance levels. Furthermore, almost all results of the correlation table indicate the correlation is very weak and insignificant.

Table 5.8 Correlation of import tax factors with time, cost quality and sustainability

| Tax policy factors | Time | Cost | Quality | Sustainability |
|---|-------|----------|-----------|----------------|
| Import duty | -.014 | .551(**) | .039 | .240 |
| Excise tax | .131 | .206 | -.143 | .264 |
| Administrative payments | .019 | .238 | -.523(**) | -.035 |
| Clearing Agents payments | .129 | .102 | .084 | .262 |
| Travel allowances | .073 | .199 | -.017 | .193 |
| Value added tax | -.258 | .135 | -.342(*) | .181 |
| Relative import tax rate. | .037 | .666(**) | -.034 | -.069 |
| Import tax rate | -.221 | -.275 | .024 | .157 |
| Share of Import tax to project budgets | -.197 | .545(**) | -.009 | .221 |
| Efficiency of the human element in customs office | -.005 | .079 | .167 | -.137 |
| The port service | -.094 | -.023 | .028 | .242 |
| Delays at boarder crossing | .148 | .127 | .011 | .237 |
| Efficiency of custom office | -.087 | -.050 | -.010 | -.090 |

** Correlation is significant at the 0.01 level (2-tailed).

Number of respondents 42

* Correlation is significant at the 0.05 level (2-tailed).

5.3.2 Correlation between the Administrative Aspect of Government

Intervention on Time, Cost, Quality and Sustainability

The following table (table 5.9) shows how the variables of administrative aspect of government intervention on NGO development activity are correlated with time, cost, quality and sustainability. The first column of the table indicates the concentration of projects on specific region is positively significantly correlated with time at $P < 0.05$ significance level. The rest of the administrative factors have weak or insignificant relationship with time.

The second column is for cost in which there are only three factors that have a significant correlation with cost, such as project diversification, community participation and initiate new projects. The relationship between project diversification and community participation with cost is positive and significant at $p < 0.01$ level, by the same token the correlation between cost and initiate new projects is positively and significant at $p < 0.05$ significance level. Furthermore, as the table indicates the rest of the factors are not significantly correlated with cost.

The third column of the table is the correlation between quality and administrative factors of the government intervention. The licensing and registration procedure is positively significantly correlated with quality at $p < 0.05$ significance level. Almost all the rest have weak or no insignificant relationship with quality.

The fourth column of the correlation table shows the correlation of the factors with sustainability. As the table indicates 8 of the variables of administrative factors are positively significantly correlated with sustainability at $p < 0.01$ level. These are project identification, project diversification, cost of the projects, project quality, community participation, project concentration in specific region, project initiation, and timing. Furthermore, one factor .i.e. payment fee is negatively significantly correlated with sustainability at $p < 0.05$ level. Where as the rest of the variables are not significantly correlated with the administrative factors.

Table 5.9 Correlation of administrative factors with time, cost, quality and sustainability

| Variable | Administrative factors | Time | Cost | Quality | Sustainability |
|------------------------------|--|---------|----------|---------|----------------|
| Coordination | Project identification | .140 | .121 | .037 | .389(*) |
| | Overlapping of projects | -.017 | -.005 | .047 | .286 |
| | Project diversification | -.174 | .484(**) | .087 | .483(**) |
| | Cost of the projects | -.042 | .155 | -.072 | .537(**) |
| | Project quality | .156 | .290 | .074 | .471(**) |
| | Community participation | .142 | .414(**) | .119 | .456(**) |
| | Project concentration in specific region | .322(*) | .158 | .099 | .495(**) |
| | Project initiation | .094 | .235 | .033 | .456(**) |
| Regulation | Mechanism | -.071 | .013 | .010 | -.138 |
| | Contents | -.162 | .110 | .127 | .289 |
| | Timing | -.094 | .059 | .134 | .348(*) |
| | Consistency | .074 | -.069 | .261 | .079 |
| | Quality of projects | .232 | -.178 | .068 | .176 |
| | Initiate new projects | -.167 | .317(*) | .032 | -.018 |
| Employment Permit procedures | Permit procedures | .069 | .031 | -.102 | -.220 |
| | Payment fee | -.140 | -.110 | .056 | -.327(*) |
| | Time taken to get an employment permit | .240 | -.057 | .195 | .133 |
| Licensing and Registration | Licensing and registration procedures | .241 | -.071 | .328(*) | .113 |
| | | .130 | .663 | .037 | .481 |
| | NGOs accountability | -.110 | .245 | .012 | .196 |
| | Requirements | .002 | -.278 | .245 | .170 |

* Correlation is significant at the 0.05 level (2-tailed). Number of respondents=42

** Correlation is significant at the 0.01 level (2-tailed).

Chapter 6 Conclusions and Recommendations

6.1 Introduction

This chapter is organized as follows:- First a summary is presented and this is followed by conclusion of the outcome of the study. Second the major lessons to be learned from the study are presented and third the researcher's suggestions are made on the possible solutions to the challenges NGOs face on their programs and development projects. Finally a recommendation is presented for further studies in this area.

6.2 Summary

The first chapter of the research paper presented the historical development of foreign aid in the less developed countries in general and African countries in particular. In the introductory part it was explained that the fiscal position of the less development countries is always in deficit, weak and the citizens are continuously living in abject poverty. The reasons for this vicious poverty could be as many as the problems however, the major ones are, weak and narrow economy mainly dependent on agricultural output, informal and incompetent business and service sector, poor infrastructure, inefficient economic policies, corruption tribal conflicts, internal and external political influences and interferences etc. Moreover, globalization and the rapid growth in the communication industry made the economy of LDCs consumer and importer of the goods produced in industrialized nations than producer and exporter. As the result, the economy is unable to sustain and become independent without foreign aid support. Furthermore, nowadays most LDCs have developed a dependency behavior and consider foreign aid and the projects implemented by NGOs as part and parcel of their national budget.

On the other hand most of the donors and rich countries these days are in favor of implementing development projects through development agents. That is why most of the foreign aid that comes from the developed countries to LDCs is channeled through NGOs.

The paper surveyed the sources of Malawi government revenue and the taxation system. It was observed that the revenue collected from the internal sources is far from enough to fund the recurrent and investment budgets. Moreover, the economy is continuously under trade deficit. Recently, in order to alleviate the budget and trade deficit the government has started to expand the tax net and impose taxation on every activity within the country. As the result, at various CONGOMA meetings NGOs are expressing their views on the inconvenience of the imposition of the import duty on their development programs. The rationale behind the study was therefore, based on how the proper use of foreign aid is critical to the economic development of Malawi and thus the need for examining the relationship between government administrative and tax policy and NGOs project performance.

The paper identified the dependent and independent variables on the theoretical framework. Based on the outlined framework a comprehensive search on the literatures and other secondary data sources was made. Appropriate research approach and methodology was formulated and followed.

On the results and discussions part of the paper the attributes of the study, the rank order of the independent variables in terms of their effect on the dependent variables (according to the respondents view point), the mean score rating of the factors, qualification of the respondents, discussion of the interview results, the correlation between the dependent and independent variables were computed and analyzed.

6.3 Conclusion

As the analysis of data and the results show, the paper has managed to address the main research objectives: The outcomes of the ranking order, the mean rating score of the collected data, the correlation between the factors of the taxation and the administrative aspect of the government intervention against the dependent variables that are known as NGOs development activities are properly analyzed.

The results of this study fairly indicate what factors the government needs to consider in

order to enhance NGO activities and make them more effective in accomplishing their development projects thus capitalizing on the development opportunities they provide by avoiding the possible hurdles they face.

Special attention needs to be given to import tax and the tax rate related rules, regulations as well as the customs clearance procedures which all need to be revised in order to create a conducive situation for donor assisted projects

The result of the survey also reveals the administrative aspect of government intervention is very important. In this part the coordination effort of the government is above average, the regulation effort is on average, the employments permit procedures is rated below average and the registration and licensing procedures are significant and are rated above the average.

The finding of the study on the correlation part suggests the following points. There is a positive and significant relationship between the tax rate and cost of the projects. This implies as the tax rate increases the cost of the projects also increases. On the other hand, there is no significant relationship between import duty and time. Moreover, quality and some factors of import duty are negatively significantly related. This means as import duty increases the quality of projects decreases or deteriorates.

The correlation of the administrative aspect of the government intervention with the variables of project performance the following conclusion is made. Coordination efforts have significantly positively correlated to all factors of dependent variables (sustainability, time and cost of projects). This means as coordination effort is intensified projects are more sustainable; the more projects are concentrated on the specific region the more the time it takes to complete a given project.

On the other hand, more community participation increases the cost of the projects. Furthermore, the regulation effort is positively and significantly related to sustainability; employment permit procedures is significantly negatively related to sustainability; and the licensing and registration of new NGOs are significantly positively related to quality of projects. These are good indicators that the Government also needs to take the necessary

measures to correct the problems.

6.4 Recommendations

- 1) The government of Malawi in general and MRA as a designated body in collecting and monitoring the tax revenue aspect of the country is aware of the fact that internal source of revenue is the only sustainable income the country should depend for any meaningful development activity. As the result the government should encourage investments and NGO activities that are directed towards developing human resource, expanding the economy in trade (both foreign and domestic), entrepreneurship, hotel and tourism industry, commercial agriculture and the mining sector. Focusing and expanding the economy will help the country to expand the tax mesh and collect more proceeds and become dependent on its domestic source of revenue than foreign aid.
- 2) The Government of Malawi should make an effort to work in partnership with NGOs in information provision and consultation in all matters affecting the work and interests of NGOs; and cooperation on matters of mutual benefits such as seeking funds from international and intergovernmental bodies.
- 3) The government of Malawi should lay the foundations for a sound policy environment that enables it to implement global agreements to better harmonize and coordinate donor practices and procedures.
- 4) In order to create an enabling environment for NGOs the government of Malawi should promote voluntarism and acknowledge the validity of the role of NGOs in civil society. Furthermore, aid coordination meetings and annual reviews with NGOs can also help to get the right information that can help to formulate an appropriate policy.
- 5) The government of Malawi should have an appropriate legislation and official procedures concerning the duties and rights of NGOs. And these official

procedures should be distributed to all NGOs on time.

- 6) To escape from the poverty trap a joint action (good national and international policies) is required. Good national policies are a pre requisite for success in reducing the poverty and good international policies are equally necessary. Therefore, the government of Malawi should prepare a common framework for development cooperation with its partners.
- 7) Finally the researcher would like to recommend the following areas were the government of Malawi should focus in order to realize long term and sustainable economic development of the country.
 - The government should be aware of the fact that the economic purpose of taxation is to stimulate, improve and maintain economic growth through multiplier effect of the government expenditure financed by those taxes i.e. the collected revenue from taxation should be directly invested to the benefit of the society and there by reinforce the economy. Moreover, the government should not spend the tax revenue exactly as the consumers would if they had received the money.
 - The government of Malawi should be aware of the fact that one of the major solutions for economic problems and the unemployment rate is to enhance domestic trade by creating conducive environment for competition and removing the stumbling blocks in licensing and permit procedures for NGOs and Donor Governments.. Lessons on trade policy can be learned from neighboring countries such as South Africa, Uganda, and Kenya.

6.5 Suggestions for Further area of study

The data is generated from the selected NGOs, donors and government offices and the conclusions made from the results may not necessarily apply to all NGOs, in Malawi.

Even though this study has attempted to make a modest contribution with the sample size used, a more comprehensive study using more variables and a larger sample size nationwide cross will be needed in order to better assess the extent of the problems.

This study has found only the effect of the government policy on the outlined variables from the designated characteristics perspective but it has not addressed the possible consequence at micro and macro level. At micro level the study should be conducted to measure the socio-economic impact of the government intervention measures directly on the beneficiaries and at macro level the study should focus on the economy of the country at aggregate level. Therefore a comprehensive study that take into account the cause and effect of different government policies on NGOs development activities is needed.

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Appendix A:

Questionnaire

Cover Letter

Dear sir/Madam

I am from the University of Malawi, the polytechnic, I am currently conducting a study on *“the assessment of import duties and their impact on non-governmental organizations development projects in Malawi”*. It is my sincere belief that the results of the study will shed some light on clarifying the issues surrounding the impact of import duties on the project performance of NGOs. I also believe that the study will make a modest contribution to possible formulation of future policies that can emerge as a result of the import duty issue.

The questionnaire will consist of 59 structured questions followed by 7 open ended questions which will take about 20 minutes to complete.

All information you provide will be kept confidential. Your position, your name or the name of your organization will not appear in the research paper in terms of your responses.

Your kind cooperation in completing this questionnaire is very much appreciated.

Daniel O. Tedla



Appendix B

Arranged questionnaire format

Time

1. Evaluate the time spent in getting funds from donors
2. Evaluate the time spent in budget adjustment
3. Assess the time spent due to delay in customs clearance procedure
4. Evaluate the time spent due to lack of coordination
5. Evaluate the time spent in obtaining employment permit for expatriates
6. Evaluate the time spent to register and get license for new NGOs
7. Evaluate the effect on time as the result of government regulation

Cost

8. Evaluate the effects of import duties to cause financial and material shortages on projects as the result of increasing costs.
9. Evaluate the extent in which imposing tariff increases cost of the projects
10. Assess the extent in which import tariff causes difficulty in obtaining

additional funds as a result of increasing the cost of the projects.

11. Evaluate the extent in which import tax increases cost of the projects/programs significantly
12. Evaluate the costs as the result of insufficiency locally produced materials
13. Evaluate how cost is affected as the result of lack of government coordination effort.
14. Evaluate how high is the cost of projects due to the locally produced goods are rare and expensive.

Quality

15. Evaluate how often regulation affects project quality does
16. Assess how far the country's infrastructure affects project quality
17. Evaluate the regularity of the efforts to produce durable projects
18. How frequent is the coordination effort to ascertain project quality
19. Evaluate the duty exemption to affect project quality
20. Evaluate the extent in which the consultation service to affect project quality

Sustainability

21. Evaluate Community participation to ensure sustainability
22. Evaluate projects to meet the peoples' needs
23. Evaluate the efforts in importing quality materials to guaranty sustainability

24. Assess the coordination effort to produce sustainable projects
25. Evaluate the expatriate skills on project sustainability
26. Evaluate the efforts to warrant durability of projects

Import Tax

27. Evaluate the extent of the Import duty
28. Assess the level of the Excise tax
29. Evaluate the degree of the Value added tax to affect the import duty
30. Evaluate the Administrative payments during importation
31. Evaluate the Payment to clearing Agents for facilitation during importation
32. Evaluate the travel allowances during importation

Tax Rate

33. Evaluate the tax rates of Malawi relative to neighboring countries
34. Evaluate the actual tariff rate in Malawi
35. Evaluate the tax rate as the share of the project budget

Customs Clearance Procedure

36. Evaluate efficiency of the human element in the custom office

37. Evaluate the extent of the delays at border crossings of imported materials
38. Evaluate the efficiency of the Malawi custom offices and the materials they use
39. Evaluate the Road Port services

Coordination

40. Evaluate coordination effort in Projects identification
41. Evaluate the coordinator's role in reducing overlapping of projects
42. Evaluate the coordination effort in project diversification
43. Assess the importance of coordination in information dissemination
44. Evaluate the coordination effort to encourage Community participation in NGO projects
45. Assess the role of coordination in ensuring project quality
46. Evaluate the role of coordination in minimizing project concentration in specific region
47. Evaluate the importance of coordination in project initiation

Regulation

48. Evaluate the regulation mechanism of the government of Malawi in relation to NGOs development activity
49. Assess the contents of the regulations

50. Evaluate the timing of the regulations
51. Evaluate the Consistency of the regulations
52. Assess the contribution of the regulations to ensure project quality
53. Asses the role of the regulations in project initiation

Employment Permit

54. Assess the importance of employment Permit procedures in relation to NGOs in Malawi
55. Assess how reasonable is the payment fee for employment permit in Malawi
56. Assess the time taken or the Length of appointments given by the Malawian authorities for an employment permit

Registration and license for new NGOs

57. Assess the reasonability or the importance of the Licensing procedures in Malawi
58. How significant is NGOs accountability by the government
59. How essential is licensing requirements for new NGOs

Appendix C

Questionnaire

Qualification

Position of the respondent

Experience

1) Please rank order the following government intervention measures in terms of their effect on performance of NGO projects:

- a. Import tax
- b. high tax rate
- c. low tax rate
- d. Customs clearance procedure
- e. Licensing and registration
- f. Employment permit
- g. Lack of government's role of coordination
- h. Excessive coordination
- i. Lack of regulation by the government
- j. Too much regulation by the government

| | Very High | High | Average | Low | Very low |
|--|------------------|-------------|----------------|------------|-----------------|
| The time spent in getting funds from donors | 5 | 4 | 3 | 2 | 1 |
| The time spent in budget adjustment | 5 | 4 | 3 | 2 | 1 |
| The time spent due to delay in customs clearance procedure | 5 | 4 | 3 | 2 | 1 |
| The time spent due to lack of coordination | 5 | 4 | 3 | 2 | 1 |
| The time spent in obtaining employment permit for expatriates | 5 | 4 | 3 | 2 | 1 |
| The time spent to register and get license for new NGOs | 5 | 4 | 3 | 2 | 1 |
| Evaluate the effects of import duties to cause financial and material shortages on projects. | 5 | 4 | 3 | 2 | 1 |
| Evaluate the extent in which imposing tariff increases cost of the projects | 5 | 4 | 3 | 2 | 1 |
| Assess the extent in which import tariff causes difficulty in obtaining additional funds as a result of increasing the cost of the projects. | 5 | 4 | 3 | 2 | 1 |
| Evaluate the extent in which import tax increases cost of the projects/programs significantly | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|--|---|---|---|---|---|
| Evaluate how high the import tax rate is for NGO projects in Malawi | 5 | 4 | 3 | 2 | 1 |
| Evaluate how significant is government coordination effort to affect the cost of the projects | 5 | 4 | 3 | 2 | 1 |
| Evaluate how locally produced goods are rare and expensive to affect the cost of the projects. | 5 | 4 | 3 | 2 | 1 |

| | Always | Often | Average | Rarely | Never |
|---|---------------|--------------|----------------|---------------|--------------|
| Evaluate how often regulation affects project quality does | 5 | 4 | 3 | 2 | 1 |
| Assess how far the country's infrastructure affects project quality | 5 | 4 | 3 | 2 | 1 |
| Evaluate the regularity of the efforts to produce durable projects | 5 | 4 | 3 | 2 | 1 |
| How frequent is the coordination effort to ascertain project quality | 5 | 4 | 3 | 2 | 1 |
| Evaluate the duty exemption to affect project quality | 5 | 4 | 3 | 2 | 1 |
| Evaluate the extent in which the consultation service to affect project quality | 1 | 2 | 3 | 4 | 5 |

| | Very Good | Good | Average | Bad | Very Bad |
|--|------------------|-------------|----------------|------------|-----------------|
| | | | | | |

| | | | | | |
|--|---|---|---|---|---|
| Evaluate Community participation to ensure sustainability | 5 | 4 | 3 | 2 | 1 |
| Evaluate projects to meet the peoples' needs | 5 | 4 | 3 | 2 | 1 |
| Evaluate the efforts in importing quality materials to guaranty sustainability | 5 | 4 | 3 | 2 | 1 |
| Assess the coordination effort to produce sustainable projects | 5 | 4 | 3 | 2 | 1 |
| Evaluate the expatriate skills on project sustainability | 5 | 4 | 3 | 2 | 1 |
| Evaluate the efforts to warrant durability of projects | 5 | 4 | 3 | 2 | 1 |

| | Very high | High | Average | Low | Very Low |
|---|------------------|-------------|----------------|------------|-----------------|
| Evaluate the extent of the Import duty | 5 | 4 | 3 | 2 | 1 |
| Assess the level of the Excise tax | 5 | 4 | 3 | 2 | 1 |
| Evaluate the degree of the Value added tax | 5 | 4 | 3 | 2 | 1 |
| Evaluate the Administrative payments during importation | 5 | 4 | 3 | 2 | 1 |
| Evaluate the Payment to clearing Agents for facilitation during importation | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| Evaluate the travel allowances during importation | 5 | 4 | 3 | 2 | 1 |
| Evaluate the tax rates of Malawi relative to neighbouring countries | 5 | 4 | 3 | 2 | 1 |
| Evaluate the actual tariff rate in Malawi | 5 | 4 | 3 | 2 | 1 |
| Evaluate the tax rate as the share of the project budget | 5 | 4 | 3 | 2 | 1 |

| | Very fast | Fast | moderate | Slow | Very slow |
|---|-----------|------|----------|------|-----------|
| Evaluate efficiency of the human element in the custom office | 5 | 4 | 3 | 2 | 1 |
| Evaluate the extent of the delays at border crossings of imported materials | 5 | 4 | 3 | 2 | 1 |
| Evaluate the efficiency of the Malawi custom offices and the materials they use | 5 | 4 | 3 | 2 | 1 |
| Evaluate the Road Port services | 5 | 4 | 3 | 2 | 1 |

| | Very important | Important | Moderately important | Less important | Unimportant |
|---|----------------|-----------|----------------------|----------------|-------------|
| Evaluate coordination effort in Projects identification | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|--|---|---|---|---|---|
| Evaluate the coordinator's role in reducing Overlapping of projects | 5 | 4 | 3 | 2 | 1 |
| Evaluate the coordination effort in project diversification | 5 | 4 | 3 | 2 | 1 |
| Assess the importance of coordination in information dissemination | 5 | 4 | 3 | 2 | 1 |
| Evaluate the coordination effort to encourage Community participation in NGO projects | 5 | 4 | 3 | 2 | 1 |
| Assess the role of coordination in ensuring project quality | 5 | 4 | 3 | 2 | 1 |
| Evaluate the role of coordination in minimising project concentration in specific region | 5 | 4 | 3 | 2 | 1 |
| Evaluate the importance of coordination in project initiation | 5 | 4 | 3 | 2 | 1 |

| | Very Good | Good | Average | Bad | Very Bad |
|--|------------------|-------------|----------------|------------|-----------------|
| Evaluate the regulation mechanism of the government of Malawi in relation to NGOs development activity | 5 | 4 | 3 | 2 | 1 |
| Assess the contents of the regulations | 5 | 4 | 3 | 2 | 1 |

| | | | | | |
|--|---|---|---|---|---|
| Evaluate the timing of the regulations | 5 | 4 | 3 | 2 | 1 |
| Evaluate the Consistency of the regulations | 5 | 4 | 3 | 2 | 1 |
| Assess the contribution of the regulations to ensure project quality | 5 | 4 | 3 | 2 | 1 |
| Asses the role of the regulations in project initiation | 5 | 4 | 3 | 2 | 1 |

| | Very important | Important | Moderately important | Less important | Unimportant |
|--|-----------------------|------------------|-----------------------------|-----------------------|--------------------|
| Assess the importance of employment Permit procedures in relation to NGOs in Malawi | 5 | 4 | 3 | 2 | 1 |
| Assess how reasonable is the payment fee for employment permit in Malawi | 5 | 4 | 3 | 2 | 1 |
| Assess the time taken or the Length of appointments given by the Malawian authorities for an employment permit | 5 | 4 | 3 | 2 | 1 |
| Assess the reasonability or the importance of the Licensing procedures in Malawi | 5 | 4 | 3 | 2 | 1 |
| How significant is NGOs accountability by the government | 5 | 4 | 3 | 2 | 1 |
| How essential is licensing requirements for new NGOs | 5 | 4 | 3 | 2 | 1 |

Appendix D

Section two of the Questionnaire

- 1) How do you evaluate NGO activities in Malawi?
- 2) How do you evaluate NGO projects, programs in relation to the Malawi Growth and Development Strategies?
- 3) Do you think NGOs are assisting the government in ensuring equitable distribution of social services?
- 4) Imagine a very poor country like Malawi with out any non-profit organization, how would be the country look like? (i.e. in terms social, economical, and political aspects)
- 5) The public finance and management act was amended in 2006 and the discretionary powers of the minister of finance to remit, waive or mitigate customs duties were removed and the minister's discretionary power is reduced and is applicable only during disaster or calamity. Why?
- 6) What are the factors that induced the government to introduce administrative and tax policy on NGO imports that are necessary for their projects?
- 7) Which one do you think advantageous to the society the tax revenue? Or NGOs investments? Why?

End of the document