



# **Effect of Smuggling of Goods on Malawi Economy: Case Study of Malawi Revenue authority**

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## **ABSTRACT**

The objective of this paper was to investigate the effect that smuggling of goods has on Malawi's economy with reference to MRA annual revenue collection. The study was descriptive used only primary data from revenue authority employees in the northern region MRA office and northern region business operators through structured questionnaires. The targeted respondents were selected using stratified random sampling and judgmental sampling technique for MRA employees and business operators respectively. The collected data were analyzed statistically with statistical software. The findings shows that the motivating factor of smuggling of goods were high profitability due to prices disparities between countries, high importation and exportation taxes, lack of formal jobs, demand-supply gap in formal system, corruption of tax authorities and security personnel, favourable unchartered routes away from the customs checkpoints, weakness of border enforcement, and political influence. The result also revealed that some business operators do not engage themselves into smuggling for various reasons such as fearing of losing their business after their goods have been confiscated (seized), fearing of being caught and punished, and fearing of tarnishing their reputation and integrity. The findings revealed that smuggling of goods has some benefits that may enable people indirectly pay taxes to government because it improves socio-economic status of people as if offers reasonable price of goods and allow people to gain huge profits, it act as a source of employment to some people who are not employed and be able to have disposable income, allows people to pay for the education, housing and other basic needs, enable people to buy goods that are not manufactured locally at a lower price and improve their lives, and also enables small entrepreneurs to escape poverty. The study revealed that smuggling of goods undermines government tax revenues, may remove formal business operators from formal system to join the informal non-tax paying system, distorts competition in the market, increases tax burden on formal business operators, creates unfair competition for official traders and suffocate the private sector's contributions to economic growth and employment. Moreover, it encourages the act of corruption, undermines investment, innovation and distribution and also fostering the development of other criminal activities which distracts revenue authority from focusing on revenue collection and divert substantial amount of resources towards dealing with the problem and associated effects such as corruption instead of collecting revenue. The process of controlling smuggling of goods faces numerous challenges such as corruption, coalition and bribe, insufficient checkpoints to control all cross border activities, complex geographical transportation and uncharted routes, poor salary for controlling units such as police officers, extensive informal sector in the economy, inadequate enforcement and penalties, lack of adequate modern technological instruments and infrastructure, insufficient skilled and competent human resource, lack of ongoing trainings on how to control contraband and ineffective respond to tax evasion in the smuggling prone areas. Accordingly; to mitigate smuggling of goods, government should strengthen domestic innovations and manufacturing and human resource capacity development, strengthen strong enforcement of the rules and punishments, create the conducive environment for effective coordination and communication among controlling unit and the general public. Government should also continue conducting awareness campaign among citizenry, and providing tax incentives to those that tip-off smuggling activities, reducing trade taxes besides introduction and enhancement of information technology infrastructure in order to reduce contraband activities and be able to collect much needed revenue for national development and improvement of economic performance.

**Keywords:** *Contraband, Customs, Malawi Revenue Authority (MRA), Revenue collection, Smuggling*

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## **1. INTRODUCTION**

### *1.1 Background of the Study*

Illegal trading activities across a border such as smuggled goods are invasive socio-economic perils deep-rooted in the global trading system. Sadeghi, et al. (2014) described smuggling as a covert and illegal import or export of goods and people through formal and informal borders without payment of customs duties. Karafo (2018) concurred that when goods are conveyed secretly or illicitly into or out of the country without the payment of customs duty and taxes, the government loses much revenue. Enforcement agencies such as Malawi Revenue Authority (MRA) face the formidable task of facilitating the flow of legal trade while dismantling organisations involved in smuggling operations. Smugglings dampen the economy in multidimensional ways. According to Bakhtiyari and Salarzai (2016), illicit trade destabilizes the legal industry, restrains innovation and investments, reduces government revenues, fuels transnational organised crime and hampers the health and safety of consumers.

Malawi is a landlocked economy and is amongst the poorest countries in the world. According to World Bank (2018), economic growth in Malawi has been historically more volatile and lower than the rest of Sub-Saharan Africa (SSA). "The tax-to-GDP ratio in Malawi decreased by 0.5 percentage points

from 12.8% in 2019 to 12.3% in 2020. While over the same period, the tax-to-GDP ratio in Malawi has increased by 1.0 percentage points, from 11.3% to 12.3%. The highest tax-to-GDP ratio in Malawi was 13.2% in 2017, with the lowest being 9.0% in 2005 and 2006” (OECD, 2022). Data from Domestic Revenue Mobilization Strategy 2021 - 2026 document from Ministry of Finance indicated that “Domestic Revenue Performance 2004/05- 2019/20 (revenue excluding grants) has increased by an average of 6% of GDP by 2016/17, from 14% of GDP in 2004/05 to circa 20% of GDP by the end of 2016/17 fiscal year. For the same period tax revenues also increased by an average of 6% of GDP, namely from 12% of GDP in 2004/05 to 18% of GDP by the end of 2016/17 fiscal year. However, following the rebasing of GDP in 2020, domestic revenue to GDP ratio was 13.4% in 2019/20 fiscal year, while tax revenue to GDP ratio became 12.6%”. Despite the increases in average revenue collections over the years, Malawi’s domestic revenue performance is below the average performance for the SADC, SACU and Sub-Saharan Africa countries. In this connection, Malawi generally needs to strengthen revenue mobilization efforts given the low revenue and tax to GDP ratios that are below the international standards” (Malawi. Ministry of Finance, 2021). However, according to data presented by the Ministry of Finance, the increase and decrease of the economic performance was largely attributed to good performance of the agricultural sector, debt relief, climatic change which induced floods and droughts, and systematic pilferage of large amounts of government funds (cash gate) which resulted in withdrawal of budgetary support besides the country’s intermittent power supply, fuel and foreign exchange shortages as well as increased inflation. Nevertheless, according to Bakhtiyari and Salarzaei (2016), another contributing factor of low economic performance is illicit trade activities conducted outside the formal business activities which evade and avoid tax revenue from government. Bakhtiyari and Salarzaei (2016) stated that the illicit trade destabilizes the legal industry, restrains innovation and investments, and reduces government revenues among other coverts.

### ***1.2 Problem Statement***

Smuggling is covert and illegal import or export of goods through formal and informal borders without payment of customs duties (Sadeghi, et al., 2014). The main reason for smuggling is tax evasion which deprives the government of its legitimate revenues. Karafo (2018) stated that smuggling remain a great challenge for countries in generating tax revenue for long periods of time. Increased evading of tax revenue from government treasury by smugglers has a potential to disappoint those who operate in legal economy and eventually forcing them to shift their activities to illegal markets. However, for a long time in Malawi, smugglers have been smuggling goods into and out of Malawi in spite of all laws and regulations governing customs and excise taxes enforced by Malawi Revenue Authority. They smuggled products like food and other agricultural commodities, electrical goods, cosmetics, drugs, beverages, etc. The products are smuggled to and from neighbouring countries like Zambia, Tanzania, Mozambique, and other countries such as Zimbabwe, South Africa, etc. Karafo (2018) pointed out that smuggling effects are numerous and economically significant, with serious problems and its impact is far-reaching, affecting various stakeholders including government, domestic industries and citizens of the country. Therefore, it is against this growing problem that this study tries to investigate the effects of smuggling of goods on the Malawi’s economy with regards to MRA revenue collection.

In line with the stated research problem, the study was to answer the following research questions:

- i. Why do people involve themselves in smuggling activities?
- ii. What are the benefits and effects of smuggling activities on government revenue?
- iii. What are the challenges faced by the Malawi Revenue Authority in taming out smuggling?
- iv. What are the actions taken or planned to be taken against activities?

### ***1.3 Objective of the Study***

#### ***1.3.1 General Objective***

The general objective of this study is to investigate the effects of the smuggling of goods on the Malawi’s economy with regards to MRA annual revenue collection.

#### ***1.3.2 Specific Objective***

1. To assess the reasons why people engage themselves in smuggling activities.
2. To assess the benefits and effect of smuggling activities on government revenue.
3. To find out challenges faced by the Malawi Revenue Authority in taming out smuggling.
4. To examine the actions taken and planned to be taken against smuggling activities.

### ***1.4 Significance of the Study***

This study focuses on the effects of smuggling of goods which is an illegal activity undertaken against government revenue and the economy at large. Therefore, it is believed that the findings of this study can help tax authority to establish ways that will help them to eradicate if possible or reduce

smuggling and enhance its tax revenue potential. It is also believed that the findings of this study can help the government to establish policies that will reduce the level of informal economy in the country. Furthermore, this study can also act as a basis for further research on the same area.

### ***1.5 Scope and Limitations of the Study***

Smuggling of goods has social, political, cultural and, more importantly, economic consequences. Numerous studies revealed that informal cross-border trade (ICBT) is thriving almost everywhere in Africa which in one way or the other dampens their economy. Therefore, this study will concentrate on the effects of smuggling of goods on the Malawi's economy with reference to the annual revenue collection given to MRA by the Central Government because of the time and cost that it takes to cover other African countries.

### ***1.6 Organisation of the Thesis***

The study has been organised in five chapters. Chapter one consisted introduction and background information, problem statement, main and subsidiary research questions. Chapter two of the thesis is literature review containing theoretical and conceptual review. Chapter three presents the methodology and methods that were applied during the conduct of the study which includes research paradigm, research design, research site, study population, sample and sampling techniques of the study, data collection, and data collection tools as well as data analysis. Chapter four covered findings and discussion of the findings, and finally chapter five covered the summary of the major findings of the study, conclusion and recommendations.

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## **2. LITERATURE REVIEW**

### ***2.1 Theoretical Framework***

#### ***2.1.1 Collaborative Advantage Theory***

The theory of collaborative advantage has been developed through extensive research undertaken since 1989 (Vangen & Huxham, 2013). Collaborations emerge when there is a belief that by working together there can be some sort of competitive advantage achieved, and has been described as 'the situation when participants work together to pursue a meta-mission while also pursuing their individual missions' (Huxham and Macdonald, 1992, p. 53). In this case, the theory holds that organizations can attain some outcomes that they cannot achieve on their own through collaboration or partnerships. These outcomes are called collaborative advantages or rewards. These advantages may include resource and risk sharing, efficiency and greater information flow.

The central argument made by the proponents of collaborative advantage theory is that there are some benefits received when organisations work together towards certain common goals (Johnsen & Ennals, 2012). This theory is based on assumption that organisations exist in nested arrangements and so they depend on each other in one way or the other (Brown & Lambert, 2012).

Collaborative advantage theory is relevant to this study because it brings out understanding that problems such as smuggling can be tackled through working together with other agencies within and outside Malawi. For Malawi Revenue Authority (MRA), it has to partner with agencies such as the Malawi Police Service (MPS), National Intelligence Bureau, Competition and Fair Trading Commission (CFTC) Malawi Defense Force (MDF), World Customs Organisation (WCO) and Interpol as well as the general public in order to have common approach to deal with smuggling problem through different interventions. A country can also collaborate with neighbouring countries by constructing one stop boarder post in order to deal with complicated custom processes. The theory is important as it indicates that custom authority needs to collaborate with other agencies such as Interpol to investigate cases of smuggling involving certain high risk goods such and vehicles (Odago, 2019). In short, the theory emphasises on cooperation in areas of common problems such as smuggling that negatively affect many government revenues.

#### ***2.1.2 Social Impact Theory***

Social impact theory was proposed by Bibb Latané in 1981. The theory holds that most changes in behaviours, attitudes, feelings, motives, and beliefs of individuals are caused by real, implied, or imagined presence or actions of other individuals (Perez-Vega, Waite & O'Gorman, 2016). In other words, the theory postulates that influence, be it at individual or organisational level, is as a result of social forces namely people, rewards (profits or punishment) and pressure they put. According to Latané and Wolf (1981), the effects of the influence depend on the strength, immediacy and the number. Strength is the intensity of a given influence while immediacy is the closeness in space and time with the given influence. Number implies the magnitude of attempts, rewards or people who exert that influence (Stangor, 2015).

This theory is relevant to this study because it explains how people's decisions and behaviours that results to smuggling are influenced by social pressures. It implies that smugglers are more likely to continue with their criminal activities if they are backed by a group of powerful individuals, the magnitude of the rewards they get or the probability of being caught. According to Franz (2012), social impact theory implies that influence from a number of powerful people is more likely to succeed. The strength of influence is a determinant of individual behaviour according to social impact theory. In other words, this theory suggests that human behaviour such as smuggling of goods is primarily motivated by social forces.

For the Malawi Revenue Authority, the theory implies that political support is required for the organisation to succeed in curbing smuggling. Hogg and Tindale (2013) argue that according to social impact theory, influence is a function of power of individuals exerting pressure on a target. Malawi Revenue Authority is more likely to change its processes and procedures when it is under pressure from higher authorities like a minister, etc. Initiatives such as one stop border posts constructed at Mwanza, Songwe and Chipata borders are as a result of political influence exerted by leaders.

Social impact theory also recognizes that majority also play an important role in shaping the behavior of individuals and organizations (Franz, 2012). Actions such as faster clearance of goods at the ports and borders can reduce smuggling behaviours. These actions influence the behaviour of traders in a positive way. Traders may find no justification if they are aware that clearance of goods is much faster at specific customs exit points. In this, the One Stop Border Post (OSBP) facilitates faster clearance of goods hence reducing smuggling behaviours. It is one of the approaches used in several African countries and adopted by Malawi in particular to promote a coordinated and integrated means of simplifying trade processes and movement of goods across the borders of nations. OSBP simplifies the process of importation and exportation of goods in that it eliminates the need of traders to stop twice in terms of border formalities (Bergqvist et al, 2016).

## **2.2 Conceptual Review**

### **2.2.1 Reasons why people engage themselves in smuggling activities**

Smuggling is often associated with efforts by authorities to prevent the importation and exportation of certain contraband items or non-taxed goods. According to Uganda Revenue Authority (2019), countries impose prohibitions and restrictions to certain goods for the protection of their economies by protecting local industries, local markets and primary production; protection of society against health and environmental hazards; and for security purposes by restricting the importation of fire arms. However, what is still a mystery by many people, government and even international organisations was, why do people engage themselves in such illegal activities despite its associated risks and penalties? The existing literature presents a number of factors that contribute and thrive smuggling activities around the world, and this study has depicted only the major factors that fueled people to indulge in smuggling.

According to Deflem and Kelly (2001), people engage themselves in smuggling activities with the objective of evading taxes and any other measures prohibiting or restricting the importation or exportation of such goods. Golub (2015) identified the weakness of border enforcement as one of the main causes for informal cross-border trade. In this regard, Cantens and Raballand (2016) stated that customs officials operating in borders tend to tolerate petty smuggling for various reasons, sometimes due to corruption, but also in order to avoid the risk of riots or creating political instability by blindly applying the same tax burden to all. Aliu, et al. (2021) expressed that people engage in smuggling owing to selfish purpose which includes making extra profit by boycotting the appropriate agency in charge of ascertaining the nature of goods before they are allowed into the country. Miri and Ghasemi (2019) added that government subsidies for domestic goods causes a difference in the price of consumer goods inside and outside the country, which made the goods to be smuggled from cheap country to expensive countries. However, Miri and Ghasemi (2019) stated that the price difference between commodity prices and foreign markets, especially in subsidized commodities such as flour, fuel, and medicine, encourages some small holders to smuggle this type of goods, because this difference price increases the profitability of smuggling goods, and in some cases, the profitability of smuggling may be so high that it overwhelms the riskiness and risks of smuggling. People also engage in contraband trade as a way to escape poverty and unemployment through false job creation (Nyambishi, 2020). Karafo (2018) concurred that people participate in contraband activities directly by themselves or assign agents that will act on behalf of them for commission base in order to make a living and to escape from the unemployment prevailed in the country. Additionally, Karafo (2018) stated that increased taxes move the business peoples to smuggling creating higher tax evasion in that country. High taxes imposed by the country's revenue authority causes smuggling as the taxes and restrictions are an impediment for most smugglers who will devise a way to evade the system. Pitt (1981) concurred that these trade taxes and restrictions cause price disparity among domestic and international markets and those mark-ups on imported goods provide an incentive for illegal imports and tariff evasion. In Malawi, a report by the Parliamentary Committee on Industry, Trade and Tourism says government policies on tax and overpricing of goods by some producers are among enablers for smuggling (Mkweu, 2021). Corruption as well influence people to be engaged in contraband activities. However, Customs continues to be perceived among the most corrupt of government institutions in many countries (McLinden and Durrani 2013). "Virtually all customs processes are vulnerable to corruption as traders have strong incentives to evade high tariffs or circumvent burdensome rules and procedures to speed up the clearance of goods. Corruption can permeate: the assessment of origin, value and classification; cargo examination; the administration of concessions, suspense, exemption and drawback schemes; post-clearance audit; transit operations; passenger processing; the issuing of various licences and approvals" (Chene, 2018, p.8). Furthermore, Karafo (2018) stated that countries with low innovations and lower level of technology of the domestic industries to produce new products that contend smuggled products in quality and price may experience a higher number of peoples involved in contraband activities. However, ambition value of imported goods with the perceived better quality compared to domestic commodities, coupled with enhances purchasing power tends to provide impetus to smuggling (Karafo, 2018).

### **2.2.2 The effects of smuggling activities on government revenue**

Although smuggling exists outside formal system, Sadeghi, et al. (2014) stated that it has some benefits to the economy of a country. For instance, Karafo (2018) reported that contraband enables people to meet the education, housing, and other basic needs, employs people in their home countries and in the countries where they source their goods and it is also a supplementary source of family income to people who are under-employed. Additionally, Sadeghi, et al. (2014) described that smuggling also benefits consumers through lower prices of the informally imported products.

Despite that smuggling can have some positive effects, Oladejo (2010) stressed that the negative effects of smuggling are usually significant in an economy. The major impact of smuggling according to Aliu, et al. (2021), is loss of revenue, because smuggling is an act of tax evasion which deprives government of revenue for public expenditure. It diminishes legal imports and severely decreases the number of revenues collected from various duties and levies by state agencies. For instance, in its report MRA revealed that smuggling is costing the Malawi Government over K1 billion in potential revenue every year (Malawi Revenue Authority, 2022). Sala (2013) concurred that contraband trade has many demerits among others: the government loss tax revenue since contrabandists are illegal and they do not pay tax, contraband reduce the income of export revenue of the government, mainly because of goods transferred through border by illegal traders. Miri and Ghasemi (2019) opined that the failure to pay government revenues from smugglers will reduce investment in industries, reduce the volume of productive activities within the country and, as a result, reduce employment and given the fact that domestic industries are forced to operate under their capacity, resulting in higher production costs within the country. Oladejo (2010) concurred that smuggling lead to distortion of market prices because it under-cuts prices of locally manufactured goods and thus destroy the market for local products (goods which are smuggled into the country are often sold a lot cheaper than goods brought onto market through the right procedures, smuggling therefore deprives traders of free competition). This is also supported by the works of Babuta and Haenlein (2018) who note that smuggling results in the decline in production and results in the lack of purchase of the local goods. In this case, the local business thus suffers huge setbacks and cannot compete smuggled goods hence the production of some commodities ceases. As asserted by Oskoe and Goswami (2003); Rauch and Evans (2000), the aforementioned effects lead to collapse of local industries which also resulted to unemployment due to downsizings of which the labour market (employment base) is eroded, thus professionals, skilled and unskilled personnel remain jobless. Eventually, Oskoe (2003) stated that since the largest share of Government's revenue is through taxes, especially income taxes followed by value added tax (VAT), as well as customs and excise levies, collapse of local industries which lead to unemployment and low productivity negatively affect revenue collection base. According to Malawi Revenue Authority (2022), smuggling distracts MRA from focusing on revenue collection because a lot of resources are diverted towards dealing with the problem instead of collecting revenue. Smuggled goods, which most of the time are restricted or prohibited, could pose a health risk and could be detrimental to the social wellbeing of citizens. Furthermore, smuggling is a criminal offence and punishable in accordance with the Customs and Excise Act and or any other related laws. However, there is information gap on how smuggling affect MRA revenue annual collection target. Therefore, this study sought to investigate the effects that the smuggling of goods has on annual revenue collection that the central government allocate to Malawi Revenue Authority.

### ***2.2.3 Challenges faced by the revenue authorities in taming out smuggling***

Efforts of taming out smuggling trade come with their own implications (Babuta & Haenlein, 2018). Customs and border control agencies conduct their own operations to stop and deter illicit trade to minimize transnational smuggling operations, reduce the supply of contraband goods and disrupt criminal networks. The process by which these agencies achieve their objectives is through border interdiction, collection of information and intelligence, investigations into criminal networks, deployment of anti-smuggling technologies, prosecution of individuals associated with professional smuggling rings, facilitation of training and education, and the fostering of cooperation between international customs agencies (Clark & Sanctuary, 1992). Global customs and border control agencies face an interesting paradox in managing two parallel mandates (Basu, 2014). The first mandate deals with the effective facilitation of legitimate and legal trade flows of goods, services, people and capital. The second relates to the interdiction of and halting the flows of illicit commodities, services, and the apprehension and prosecution of individuals facilitating illicit trade. This parallel mandate can lead to operational inefficiencies within legitimate supply chains leading to increased cost, delivery disruption, time delays, interruptions in the smooth flow of products and services, traffic and port congestion, and longer cycle times (Lee & Whang, 2005). However, it is not possible for the government to fight against lots of frontiersmen for whom smuggling is the only way to subsistence and, on the other hand, fighting against smuggling gangs is not possible due to different reasons including the corruption in the authorities (Basu, 2014). Karafo (2018) revealed the major challenges affecting the fight against contraband trade which include; poor salary for controlling units; lack of competent and skilled man power in control unit; lack of ongoing training on how to control contraband; insufficient checkpoints to control all cross border activities; lack of adequate modern technological instruments and infrastructure; insufficient checkpoints to control all cross border activities; corruption and coalition; complex geographical transportation; insufficient enforcement and penalties, and weak institutional capacity.

### ***2.2.4 Measures undertaken to curb smuggling activities***

Prevention of contraband needs a wide range of actors including government, both regional and local administrators, and the society at large. As stated in collaborative advantage, the government by itself cannot stop informal trades, so should work together with the community where the contrabandist were located and conceal their products after crossing the border. Sweeting, Johnson and Schwartz (2009) brought forward the effectiveness of ten anti-contraband policies namely: licensing, enhancing enforcement, tax-markings/stamping, tracking and tracing, record keeping/control measures, tax harmonization, tax agreements/compacts, legally binding agreements with the industries, public awareness campaigns and export taxation. Additionally, the World Health Organisation (WHO) and Intergovernmental Negotiating Body (INB) (2019) created an illicit trade protocol that countries can choose to utilize when addressing the contraband problems. The draft protocols emphasized on the concentration on three key areas namely; the supply chain, enforcement and international cooperation. The requirements to control the supply chain are verification, tracking and identification. To enhance enforcement is to establish a set of comprehensive set of offences, measures to hold large cooperates liable as well enable seizures and recovery of unpaid taxes. Enlightening the general public and creating awareness about the effects of smuggling on the economy of a given country plays a vast role in challenging the increasing informal crossborder trade activities (Karafo, 2018). Karafo (2018) stated that providing education is necessary to infuse into the hearts and minds of citizens the necessity for proper respect traditional law and to let them stand against contraband. Educating the society about the proclamations, regulations, directives and operational systems of customs using various media and customs website awakens the people to stand up for

their country (Sadeghi, et al., 2014). Hyginus and Nwosi (2020) summarized solutions to smuggling in Nigeria which include: (i) a well-targeted policy by the government where government can tackle the sources of smuggling by up scaling its anti-smuggling drive so that confiscations of merchandises from smugglers will make smuggling activities hostile; (ii) combat smuggling activities by enforcing heftier punishments in other to dipping the economic practicability of smuggling operations whereas decreasing importation duties; (iii) stiff border checkpoints monitoring of supply and distribution chain that can facilitate formal trade via elimination of redundant governmental processes in reducing informal trade; (iv) the urge of fostering patronage, usage and promoting of locally made goods among the entire populace as well as increased transparency within governmental settings, e.g. launching new traditional programs by the Ministry of Trade and Investment to encourage the use of domestic goods; (vi) reducing import duties to zero might also help to combat smuggling of certain commodities; and (vii) coding system will enable ministry of trade and investment to trail the illegal imports commodities anywhere in the supply network.

### 3. RESEARCH METHODOLOGY

#### 3.1 Research Design

The study was descriptive, describing the effect of smuggling of goods on the Malawi's economy with regards to Malawi Revenue Authority tax collection. A descriptive survey gathers data at a particular point in time with an intention of describing the nature of existing condition or determines the relationship that exists between specific events (Mugenda and Mugenda, 2003). The study used a descriptive research design given that the study quantities was its major characteristics and that it targeted a large population spread in the custom department and partly traders perceived to have been in contraband trade. The descriptive survey data was collected through structured questionnaires.

#### 3.2 Study Population

The targeted population of this study were MRA customs officers in the middle and lower cadre located in the Northern Region MRA office as well as business operators who have knowledge on the subject under investigation. However, there is no clear number of targeted population on part of business operators due to lack of readily available formal active list of business operators both formal and informal business operators. While on part of MRA employees, the total numbers of employees in revenue authority are known to be about 215 employees in the Northern Region MRA office.

#### 3.3 Sampling Techniques and Sampling Size

Collecting enough data from the targeted population is essential for the realization of the research objectives and to arrive at the needed conclusion. The area of investigation lacks formal records about revenue and expense, operates outside the official system of operation and mysterious in number to select the representative sample for the study. Also; they may perceive divulging them for the government for punishment at the time the researcher met them and might refuse to give the data hence their business was informal by nature. Therefore; the researcher picked 50 contraband business operators using judgmental sampling technique considering the ability to fill the questionnaire properly, uniformity of their business and their objectives of preferring illegal business than formal business.

The total numbers of MRA employees in the Northern Region MRA office are known to be 215 so; the researcher used the statistical formula designed by Taro Yamenis' (1967) to calculate sample size of MRA officers.

$n = \frac{N}{1 + N(e)^2}$ ; where  $n$  is sample size,  $N$  is the population, and  $(e)$  is the level of significance (or limit of tolerance error) = **0.05**, while **1** is the constant value. Therefore, sample size of the employees is 140 employees, making the total study sample size of 190 participants.

#### 3.4 Data Collection

This study used only primary data obtained from revenue authority employees and business operators. The study used only primary data because of the illegal nature of the area of investigation, lack of formal records about the revenues of the operators and actual revenue loss of government because of this informal business (contraband).

Primary data were collected through structured questionnaires that contain both open and closed ended questions distributed to the employees and business operators. Also; Lickert scale was used to generate the perception of various study respondents on the magnitude of contraband.

#### 3.5 Data Analysis

After collecting all necessary data from respondents; they were examined for detection of errors and omissions through careful scrutiny of the completed questionnaires and put into a limited number of categories. Therefore, the data collected through questionnaire were quantifiable, so were organized systematically and analysed statistically with Statistical Package for Social Sciences (SPSS 20.0) software in order to come up with accurate calculation of frequencies. Data was then presented in form of themes, percentages, tables and chart.

## 4. RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 *Reasons why people engage themselves in smuggling activities*

The study findings revealed that 76% of the respondents were at one point engaged themselves in smuggling of goods. According to Karafo (2018), it is not surprising that it is raising and even attracting many young generations including those which are in formal business sectors. From the study findings, people are being forced by high profitability of the smuggling business (60.5%). Prices disparities between countries forced smugglers to smuggle goods where prices are lower and sale them where the prices of the same goods are high, hence gaining more profits. The findings revealed that 54.2% of respondents indicated that high importation and exportation taxes force people to engage in smuggling activities. Since many business operators want to make more profits, they find other means to invade the high custom tariffs imposed by custom authorities. From the findings, 51.6% expressed lack of formal jobs to earn income to meet their family responsibilities is another reason that force people to engage in smuggling of goods. The rise in family number and expenses for consumption from time to time with decreasing or zero income pushes the family member into activities that will help them to get income for their families expenses particularly smuggling. Furthermore, the findings revealed that (47.9%) expressed that the demand and supply gap in formal sectors also pushed individuals into informal sector (contraband). If the formal system cannot meet the demand of the people in the formal system, it is clear that the gap will be filled by informal sectors through products smuggled illegally into the country. The findings also shows that (41.1%) indicated that corruption by tax authorities and security personnel drive people into smuggling activities. Similar results were revealed in a study conducted by Goel (2008); Saba, et al. (1995); and Karafo (2018) in US, South Africa and Ethiopia respectively. Miri and Ghasemi (2019) in their study reported that the huge profitability of smuggling is due to the difference in prices on the domestic market with neighboring countries. The findings by the Parliamentary Committee on Industry, Trade and Tourism confirmed that most consumers, especially in the border districts of the country, feel prices of most local commodities are higher than those from neighbouring countries (Mkweu, 2021), hence smuggling of goods is rampant in the Malawian boarder districts.

### 4.2 *Positive and Negative Effects of smuggling activities on government revenue*

The findings revealed that the benefits that people gain and can that affect the country's economy are that smuggled goods can be sold at a reasonable price and gain huge profits and improve socio-economic status of people with response of 66%, it act as a source of employment to some people who are not employed with response of 62%, and it allows people to meet the education, housing and other basic needs with 54%, and small entrepreneurs to escape poverty with 42%. In this case, people can have a reasonable amount of disposable income to spend on taxable goods and services, hence, contributing to government revenue. Similar results were also reported in a study which was conducted in Ethiopia by Karafo (2018), in the cases of Benin, Togo and Nigeria by Golub (2012), in a study by Sadeghi, et al. (2014) conducted in Minab City in Iran. Golub (2015) estimated that illicit contraband trade (ICBT) provides income for 43 percent of Africans, and stated that ICBT and related services generate considerable employment for young people.

Some of the negative effects as indicated by respondents revealed that smuggling of goods undermines the government revenue (100%) because the operators are outside formal system and also are difficult to be taxed. Since the smugglers are outside formal system and are difficult to be taxed, their goods are sold informally causing the government revenue to drop. This in return increase tax burden on formal business operators as revealed in the study with (73%). In such a way that two of them (contrabandist and formal business operators) are selling the products in the same country for similar customers, but one is paying tax on the returns, but the other one didn't pay tax (Karafo, 2018), the expansion of non-tax paying business lowers revenue of the government that is needed to cover its expenditures, as a result government tries to raise it through growth of tax bases or raising tax rate which will fall only on formal operators. This according to the study findings discourages formal business operators 80%. The findings also revealed that smuggling of goods distorts competition in the market with response of 75%; and creates unfair competition for official traders with 71% response rate. This, also, may remove official business operators from legal system to join informal non-tax paying system, hence creating revenue deficit. The findings further found out that smuggling of goods encourages corruption with response of 61%, and also foster the development of additional criminal activities with 50% response rate, undermines investment, innovation and distribution with response of 57%. These negative effects of smuggling of goods have also been identified in various studies done by various scholars such as Oskooee (2003), Sala (2013), Karafo (2018), Babuta and Haenlein (2018), Miri & Ghasemi (2019), Ihenetu and Nwosi (2020), TRACIT.Org (2021), and Aliu, et al. (2021).

### 4.3 *Challenges faced by the Malawi Revenue Authority in taming out smuggling*

Efforts of taming out smuggling trade come with their own implications (Babuta & Haenlein, 2018). However, the study findings revealed that MRA is facing numerous challenges in taming out smuggling of goods. The result findings revealed some of the challenges encountered by MRA such as corruption and coalition with response of 83%. The findings are in line with various media reports which shows that most security and tax authority personnel are soliciting bribes from business operators (Chimjeka, 2022). From the findings, respondents also indicated poor salaries for controlling units with response of 61%. It is a fact that staff members whose salaries are unsustainable can be susceptible to easily be bribed by smugglers who are always ready to pay more for their business to be protected. In a study conducted in Ethiopia by Karafo (2018), 68% of the respondents expressed similar challenge that poor salaries for controlling units expose them to easily accept hefty bribes offered by smugglers. The study also indicated other challenges which include insufficient checkpoints to control all cross-border activities with response of 68%; complex geographical transportation and uncharted routes with response of 64%; extensive informal sector in the economy with response of 60%; insufficient enforcement and lenient penalties with response

of 57%; and lack of adequate modern technological instruments and infrastructure with response of 52% are also hampering MRA's effort to tame smuggling of goods. Martin and Panagariya (1984) stated that the costs of smuggling depend on the probability of being caught and punished by the authorities, so intensifying enforcement increases the costs of smuggling in the form of punishment, confiscation, and detection. From researcher's observations and experiences confirmed that shortage of security personnel that can be assigned to man the various routes connecting neighbouring countries is indeed a challenge. Malawi's media reports also indicated that smuggling of products from neighbouring countries is on the rise due to the porous borders (Kadewere, 2021). These challenges faced by tax authorities in taming smuggling of goods have also been identified in the scholarly works of various authors such as McLinden & Durrani (2013); Sadeghi, et al. (2014); Bakhtiyari & Salarzaei (2016); Girma & Gezahagn (2016); Karafo (2018); Chene (2018); Babuta & Haelein (2018); Nduti & Odhiambo (2020); Kadewere (2021); and Mozayani (2021).

#### **4.4 Measures undertaken to curb smuggling of goods**

Smuggling business in a given country has different socio-economic, political and cultural effects. To protect their country from negative outcomes of that activity and even to secure their tax revenue continuously, it is necessary for governments to reduce the effect. In this regard, this study sought to find out measures undertaken by MRA to curb smuggling of goods. From the findings, 80% indicated that it is essential for a government to strengthen domestic innovations and manufacturing as a measure of curbing smuggling of goods. This shows that smuggling business is to some extent the result of the demand and supply gap in the formal system. The official business operators in a country like Malawi provide products with low quality. This supply gap pushes not only those who are not participating in authorized business, but also those that have business to fill that gap. The findings also revealed that human resource capacity development with response of 76%, strengthen strong enforcement of the rules and punishments with response of 70%. Similar results were also reported by Sala (2013); Karafo (2018); Miri & Ghasemi (2019); Ihenetu and Nwosi (2020) and Aliu, et al. (2021) in their studies conducted in Somalia, Ethiopia, Kenya and Nigeria respectively. There is great perception that poor expand illegal trade activities, so it is better for the tax authority and security officers to be well trained so that their work of enforcing and implementing the existing rules and regulations should be effective. Moreover, the findings revealed that creating conducive environment for effective coordination and communication among controlling unit and the general public with response of 68%, conducting awareness campaign among citizenry with response of 65%, are other measures to tame out smuggling of goods. This means that the MRA together with police officers cannot mitigate that illegal activity unless they collaboratively work with the general public. They must create a conducive environment for effective coordination and communication among controlling unit and the general public. Collaborative advantage theory used in this study clearly stipulates that organizations can attain some outcomes that they cannot achieve on their own through collaboration or partnerships. Common themes in the theory include shared aims, interdependence, trust, communication, and accountability (Huxham & Vangen, 2013). Similar measures were also reported to be have been used in Benin, Togo, Negira, Ethiopia, Kenya, and Zambia (Golub, 2012; Karafo, 2018; Odago, 2019; Nduti & Odhiambo, 2020; Nyambishi, 2020). The result findings revealed that providing tip off anonymous service with response of 62% can be regarded as another way of taming out smuggling. Despite that there is no much literature describing this services as a measure used to curb smuggling and tax evasion, it has been reported that from July 2018 to June 2019, MRA paid out over K282 million to successful informants across the country (Malawi Revenue Authority, 2022). In its report Malawi Revenue Authority (2022) stated that as one way of rooting out cases of tax fraud, evasion, bribery, smuggling and dishonesty, the Malawi Revenue Authority (MRA) introduced Tip Offs Anonymous Service in conjunction with Deloitte. It was further revealed from the study that reducing trade taxes with response of 59% can reduce the number of business operators intending to evade taxes and defraud government revenue through smuggling of goods. Since many business operators strive to earn more profits, they try as much as possible to find a way of evading imposed high government tariffs (Karafo, 2018). However, reducing the taxes may stimulate many business owners to be confident enough of getting their estimated profits even after paying taxes. Similar counter measures of smuggling of goods were also reported in various studies by various scholars such as Chipeta (2002); Buehn and Farzanegan (2012); Golub (2012); Karafo (2018); Odago, 2019; Nduti and Odhiambo (2020); Nyambishi, 2020

## **5. CONCLUSION AND RECOMMENDATIONS**

Smuggling of goods or produce is considered as one of the tax violations that attack a country's tax system. Despite different methods being designed to cut smuggling business, it is not surprising that it is raising and even attracting many young generations including those which are in formal business sectors. Some of factors that push or motivates peoples to engage in such illegal activity according to the result of the study are high profitability due to prices disparities between countries, high importation and exportation taxes, lack of formal jobs, demand-supply gap in formal system, corruption of tax authorities and security personnel, favourable unchartered routes away from the customs checkpoints, and weakness of border enforcement. However, political influence also has gained a recognition in the study, that people do engage themselves into smuggling due to political influence. Some of the benefits that people get from smuggling of goods include offering reasonable price and they gain huge profits and improve socio-economic status of people, it act as a source of employment to some people who are not employed, allows people to pay for the education, housing and other basic needs, enable people to buy goods that are not manufactured locally at a lower price and improve their lives, and also enables small entrepreneurs to escape poverty. The aforementioned benefits create an environment where they can ably have a source of income and pay for some goods and services which the tax authorities collect revenue and improve country's economy. The study further revealed some of the negative effects associated with smuggling of goods which include; undermining government tax revenues, may remove formal business operators from formal system to join the informal nontax paying system, distorting competition in the market, increasing tax burden on formal business operators. Moreover, it creates unfair competition for official traders and suffocate the private sector's contributions to economic growth and employment, hence undermining central government revenue collection. Besides, the study revealed that smuggling of goods encourages the act of corruption, undermines investment, innovation and distribution and



also fostering the development of other criminal activities which distracts revenue authority from focusing on revenue collection and divert substantial amount of resources towards dealing with the problem and associated effects such as corruption instead of collecting revenue.

Controlling smuggling faces numerous challenges such as corruption, coalition and bribe, insufficient checkpoints to control all cross border activities, complex geographical transportation and uncharted routes, poor salary for controlling units such as police officers, extensive informal sector in the economy, inadequate enforcement and penalties, lack of adequate modern technological instruments and infrastructure, insufficient skilled and competent human resource, lack of ongoing trainings on how to control contraband and ineffective respond to tax evasion in the smuggling prone areas. These challenges continue impinging on the work of tax authority's drive to maximize government revenue collection. Therefore, the study revealed some of the measures which should be undertaken with the aim of taming smuggling of goods which include government effort to raise domestic innovations and manufacturing and human resource capacity development; strengthen strong enforcement of the rules and punishments and even create the conducive environment for effective coordination and communication among controlling unit and the general public. Moreover, government should also continue conducting awareness campaign among citizenry, and providing tax incentives to those that tip-off smuggling activities, reducing trade taxes besides introduction and enhancement of information technology infrastructure in order to reduce contraband activities and be able to collect much needed revenue for national development and improvement of economic performance. Therefore, the study recommended that Malawi Government should strengthen its enforcement machineries such MRA and police officers in order to ably reduce contraband activities, and also it should invest heavily in technological and other communication infrastructures in order to facilitate tip-offs and detection of contraband activities and goods that might be intentionally hidden in awkward places. Moreover, stiff penalties should be imposed to those found smuggling goods in or out of the country to pose as a lesson to other prospective smugglers.

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