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Identity, norms, narratives, and state bureaucracy: **Evidence from tax administration in Afghanistan**

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Commission on
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Abstract

The effectiveness and legitimacy of a public organisation may depend to a large degree not only on institutional arrangement but also on the behaviour of actors within institutions and the interactions between the two. This paper argues that beliefs, in the form of identity, norms, and narratives, significantly affect bureaucratic effectiveness. They can have various sources and are, at least in part, often acquired through participation in networks. Institutional arrangement, however, can partially explain bureaucratic effectiveness and, to a large extent, legitimacy. It focuses on the structure of institutions, underestimating how actors behave within and relate to those institutions and how the institutions evolve in response. Institutions may thus be one thing and, while related, how actors within these institutions behave is another. By using Afghanistan as a case study, in this paper I examine how the behaviour of tax collectors and inspectors, being shaped by identity, norms, and narratives, affects the performance and legitimacy of tax administration.

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About the commission

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Introduction

1

The process of building state effectiveness and legitimacy is lengthy and far more complex in transitional societies and contexts of fragility. Each fragile society is different, but perhaps a common feature is that the spatial structure of identity often diverges radically from that of the structure of power. While identity is localised, power is centralised. This socio-political setting means power does not automatically convert into legitimate authority. This failure results in less citizen acceptance and therefore, less compliance with state authority.

A lack of legitimacy makes it more difficult to build key public organisations (e.g. taxation, police, and judiciary). These public services are crucial for societies to reduce poverty, build resilience to shocks, and prevent conflict. Ultimately, the effectiveness of the state depends upon the functioning of its organisations. Where cultures of corruption are pervasive, public services may be severely weakened. The state becomes locked into dysfunction, not due to elite interests, but to values (identities), norms, and narratives that circulate in the social networks associated with these public organisations.¹

How public servants behave affects bureaucratic effectiveness. Institutional arrangement can only partially explain bureaucratic effectiveness and legitimacy. Focusing on the structure of institutions underestimates how actor behaviour within organisations affects institutional outcomes and how institutions evolve in response. 'Policy formation in a democracy can not only be hijacked by special interests, it can be misled by false narratives perpetrated by those who genuinely believe them. Further, the outcomes of many policies depend upon effective implementation by public organisations'.²

This paper examines two questions: First, how can key public organisations be built? Second, how do identity, norms, and narratives affect the behaviour of public servants and in return bureaucratic effectiveness? To address these questions, the paper uses tax administration in Afghanistan as a case study. The study employs a qualitative method. It uses primary and secondary data collected from the Afghan government and international development institutions as well as a survey and semi-structured interviews.

Thirty semi-structured interviews were conducted with policymakers, tax officials, foreign advisors and experts, taxpayers, beneficiaries of the projects funded through the government budget, as well as civil society and politicians. The survey involved 100 participants, including taxpayers, media and civil society activists, and senior officials who at some stage interacted or worked with the

¹ Collier, 2016.

² Ibid., 5.

government or were affected by its fiscal policies.

The analytical framework for this study builds upon and integrates recent analytic developments. This includes the work of Timothy Besley and Torsten Persson on state capacities (2011) and their work on the co-evolution of institutions and values (2016), the work of George A. Akerlof and Rachel E. Kranton on identities and values (2011), and its extension by Paul Collier who introduces social networks and narratives (2016).³ These approaches, which will be discussed later, enable a more accurate account of organisational effectiveness.

After considering the process of building public organisations, the so-called state building, and the role of social networks in that process, the paper then examines how beliefs affect public organisations. The third section examines the case of tax administration in Afghanistan. It examines both tax enforcement and compliance. The aim is to study the behaviour of tax collectors in the former and the perception of taxpayers about the tax administration in the latter. The last section summarises the key findings and implications of this study.

³ Besley, 2010; Akerlof and Kranton, 2010; Collier, 2016.

State building and tax administration

2

The process of building a public organisation or government department can be referred to as state building, defined as a process in which new government departments are built or the existing ones are strengthened.⁴ This process, however, is highly complex. A classic example is tax administration. Historically, the need to finance government operations ignited the process of building tax administration. In modern times, taxation became an inseparable part of the state.

In Europe, since the eighteenth century, the need for revenue because of war and perceived threats created increasing incentives to establish and strengthen taxation as a permanent institution. The legislature in Britain used its “power of the purse” to hold the government accountable for the use of tax revenue by seeking regular reports. Government departments thus became more skilled and sophisticated in responding to demands from the legislature.⁵

Unlike modern bureaucracy, earlier systems of administration were ‘personal’, based on loyalty to a particular individual, such as a king or a minister. In the United States (US), the United Kingdom (UK), and Europe, the reform movement starting in mid-nineteenth century significantly influenced the administration. Max Weber and Woodrow Wilson firmly established the theoretical foundations of bureaucracy. The former emphasised the need for a hierarchical, rule-based and impersonalised bureaucracy while the latter emphasised a distinction between politics and administration.⁶ However, these reforms and subsequent ones (e.g. New Public Management) mainly focused on the institutional aspect of administration.

More recently, identity has captured increasing attention. Four prominent works are notable in this area. Political scientist, Francis Fukuyama, in his book, *The End of History and the Last Man* (1992), recognises the central role of non-monetary incentives. He argues that thymos, the desire for self-recognition, is key for self-motivation. Accordingly, man’s sense of self-worth and the demand to be recognised have been presented as a source of noble virtues (e.g. courage and generosity) and the seat of resistance to tyranny. However, thymos also has a dark side — many philosophers believe that it is the fundamental source of

⁴ Fukuyama, 2004.

⁵ Brautigam, 2008.

⁶ Huges, 2012, 43-73.

human evil.⁷

Fukuyama argues that “Most contemporary political scientists, following Hobbesian psychology that reduces will to desire and reason alone, would interpret such disputes as conflicts between “interest groups”, that is, between the desire of the managers and the desire of the workers to have a greater part of the economic pie.”⁸ The striking worker does not carry a sign saying, “I am a greedy person and want all the money I can extract from management.” Rather, the worker thinks that he/she is “a good worker” and worth much more than he/she is being paid by his/her employer. While a higher wage certainly helps workers to pay for their mortgage and purchase food, they want it as a sign of their worth.⁹ Fukuyama’s recent book, *Identity: The Demand for Dignity and the Politics of Resentment* (2018), reiterates that identity defines world politics in 21st century.¹⁰

The philosopher, Cristina Bicchieri, in her book, *Norms in Wild: How to Diagnose, Measure, and Change Social Norms* (2017), challenges a fundamental assumption of the social sciences. She argues that in regard to human behaviour, social scientists emphasise rational deliberation. However, she asserts that many choices occur without much deliberation.¹¹ Individuals react automatically to the social norms that govern their social choices. Bicchieri argues, “When dealing with ongoing, long-term practices that involve many connected behaviours and considerable monitoring, sustainable behavioural change requires a paradigm shift from economic incentives to the establishment of new norms.”¹² Once a norm has been internalised, “beliefs become an independent motivation to conform, as deviations are often accompanied by guilt.”¹³

In their book, *Identity Economics* (2010), later Nobel Prize-winner, George Akerlof, and economist, Rachel Kranton, show how our identity — and not just economic incentives — influence our decisions.¹⁴ They demonstrate how our conception of who we are and how we want to be may shape our economic lives more than any other factors. It affects how hard we work and how we learn, spend and save. Akerlof and Kranton treat identity as a preference changer. When facing the same economic incentives, a worker who has internalised the identity of an insider will perform better than the one who has an identity of an outsider. In this case, by stating that a norm has been internalised, we refer to the development of moral beliefs that correspond to societal standards. They argue that identity is thus central to what makes organisations work.¹⁵ These approaches can enable a more accurate understanding of state effectiveness and an effective approach to address it.

⁷ Fukuyama, 1992, 181.

⁸ *Ibid.*, 173.

⁹ *Ibid.*, 172.

¹⁰ Fukuyama, 2018.

¹¹ Bicchieri, 2017.

¹² *Ibid.*, 156.

¹³ *Ibid.*, 32.

¹⁴ Akerlof and Kranton, 2010.

¹⁵ *Ibid.*

Beliefs and bureaucracy

3

Identity can have a significant effect on the behaviour of actors. If we comprehend this concept and explore beliefs, they can be observed in three forms: Identity, norms, and narratives. To apply the above concept to the study of public organisations, Paul Collier proposes a practical analytical framework (2016): Individuals can hold to three types of beliefs: Identities, norms, and narratives.¹⁶ First, identities, as also noted above, influence preferences and shape decisions, sometimes more powerfully than the effects of incentives. Second, narratives influence how actors understand the causal relationship by which a particular sequence of actions is determined. Third, norms influence self-imposed constraints, which an individual internalises. For example, the behaviour of an actor who believes that violence against others is wrong differs from the one who thinks that violence is a source of pride.¹⁷

Beliefs are acquired pre-rationally, at least in part, through participation in social networks, and the subsequent choice of the participation seems to be path dependent.¹⁸ This concept can be applied to an individual, firm, and society. The culture that characterises an organisation can be locally stable, even if dysfunctional. This stability may depend on two distinct processes. The first is that beliefs are mutually reinforcing, and the second is that the networks that an actor participates in reinforce their beliefs. How different components of beliefs interact at the level of an individual thought process is thus important. The processes can be reduced into interactions between the three types of beliefs. Some narratives support some identities while others undermine them. This interaction can also run in the other direction. The same can happen when the two other sets of beliefs interact.

Collier's framework includes a common testable structure. It suggests that incentives and beliefs are the two most important factors affecting the behaviour of individuals. Beliefs are generated not only by experience but also participation in social networks. In each context — chief executive officers (CEOs) with respect to organisations, heads of households with respect to families, and governments with respect to societies — may wish to improve the outcomes. The principles have two strategic instruments at their disposal: Conventional

¹⁶ Collier, 2016.

¹⁷ Ibid., 6.

¹⁸ Ibid.

incentives and strategies that influence culture. Bicchieri claims these assure long-term change.¹⁹ However, what is crucial in the process is how incentives interact with other means of changing behaviour.

[E]conomic behaviour remains the results of decisions which maximise utility, as in conventional economic analysis. But the entire decision process is subject to preferences, perceived causal relationships, and internalised constraints on choices which are the outcome of interactions between beliefs and networks that have generated a locally stable cultural equilibrium.²⁰

This paper focuses on the behaviour of workers in a public organisation. Two notable examples from the previous studies are the behaviour of tax inspectors and taxpayers in the Democratic Republic of Congo (DRC) and the UK, respectively. In both cases, organisational norms and narratives were not compatible, resulting in poor tax enforcement and compliance. In the DRC, when value added tax (VAT) was introduced, it led to the loss of revenue because the rebate component of the tax was exploited by fake receipts, while the payment component was being evaded.

The tax administration in the DRC was not able to create a belief system in which the tax inspectors would internalise the objective of the organisation. An identity, “I am a good tax inspector”, which was internalised by many, was not accompanied by a norm that “a good tax inspector is one who raises revenue for the nation”. Instead, they internalised a norm such as “a good tax inspector uses the opportunity to extract bribes to help his/her family”. The norm and identity were supported by a narrative that “if you pass revenues up the tax system somebody else will steal them”, and “if you help your family, they will help you”.²¹ This case represents a locally stable belief system because identity, narrative, and norms are mutually reinforcing.

In the second case, the work of Besley et al. (2019) examined the adaptation of a poll tax in the UK in 1990 to fund local government.²² This tax was perceived as highly unfair, leading to widespread evasion. The study demonstrates that there was a tension between preferences and norms (Ibid). People would prefer not to pay taxes but believed that they should do so, showing how norms influence behaviour. In addition, the work of Nematullah Bizhan (2017) on tax reform in Afghanistan post-2001, shows how a narrative among shopkeepers such as “why [should] I pay tax if my neighbour is not paying,”²³ which was generated through self-observation and interaction with a network of peers, was not compatible with the formal norms, which severely undermined tax compliance.

¹⁹ Bicchieri, 2017.

²⁰ Collier, 2010, 17.

²¹ Collier, 2010, 21.

²² Besley et al., 2019.

²³ Bizhan, 2017.

Tax administration in Afghanistan

4

The performance of tax administration depends not only on the institutional arrangement but also on how tax collectors and inspectors behave. Whether optimal tax revenue is collected, and whether the revenue is then passed up to the government budget or pocketed by tax collectors and inspectors, affects the performance and effectiveness of the tax system. To improve the performance of tax inspectors, governments often use conventional (monetary) incentives. However, such incentives have limits.²⁴ When they are removed, “the motivation to perform a task without the additional monetary incentive can be permanently removed.”²⁵ The case of Tax Administration in Afghanistan offers an important case study in this regard.

Taxation was an essential institution under the Samanid (819-999), Ghaznavid (977-1186) and Durrani (1747-1826) empires in Afghanistan.²⁶ However, in more recent history, the development of tax administration has been inconsistent and undermined by multiple regime collapses and war as well as failed reforms. Tax administration remained weak and ineffective until the new state building agenda post-2001, which created the momentum to reform and strengthen it. The attainment of this objective was, however, much more complex than expected, especially, as the state had weak fiscal and legal capacities.²⁷

There is no such thing as “tax administration” as a single entity in Afghanistan. What we refer to here as tax administration consists of multiple departments under the leadership of the Finance Ministry, which collects domestic revenue. These departments include the Directorate General of Revenue and its provincial branches through *mustofiates* (provincial financial directorates), which are in charge of collecting tax and non-tax revenues. The Directorate General of Revenue, which this study largely focuses on, as defined by the Ministry, is responsible for the administration and collection of tax and non-tax (e.g. fees) revenue. Other Ministries also collect non-tax revenue, but they transfer it to the single treasury account of the Finance Ministry. The Finance Ministry thus plays a central role in both revenue collection and redistribution (through the National budget).²⁸

In 2002, the tax administration lacked skilled staff, a modern legal system,

²⁴ Khan et al., 2014.

²⁵ Bicchieri, 2017, 154.

²⁶ Ghulam and Ghubor, 2009.

²⁷ Bizhan, 2019.

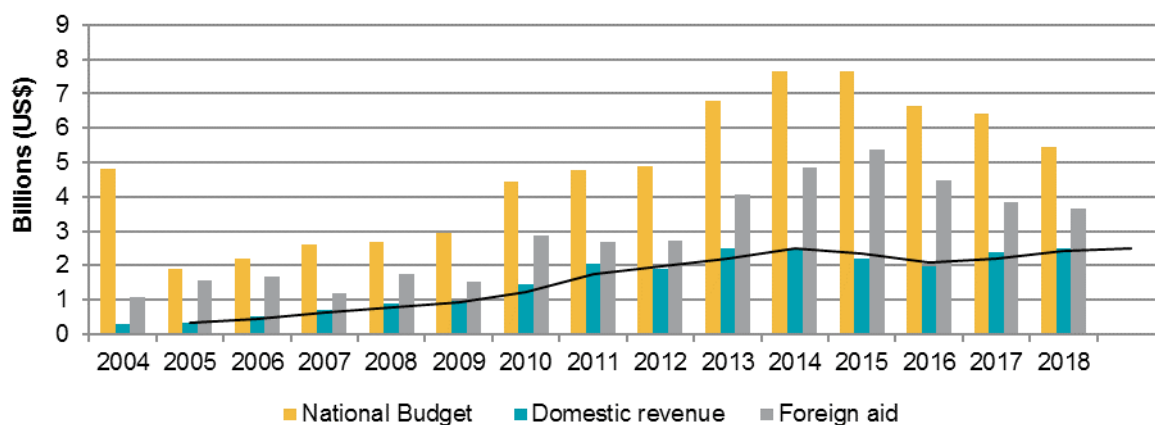
²⁸ Bizhan, 2017, 104-32.

and necessary physical infrastructure (e.g. customs buildings). To improve the performance of tax collectors and inspectors, the government relied on incentives, such as increasing the public servants' wages and hiring well-paid consultants, and on improving the legal system and restructuring the administration. Tax reforms included short- and long-term initiatives. The development of new tax policies was swift. However, the tax law reform and restructuring of the tax administration took much longer. The reforms aimed to modernise the tax system and increase revenue collection. The government also increased the wages of tax officials, who were contracted as permanent civil servants, as part of a new civil service reform initiative. Consultants and advisors (national and international) were also hired through projects funded by donors.

By 2017, the Finance Ministry had 8,410 employees; both ordinary civil servants recruited based on the existing civil service law and short-term contractors (1,250 people). The Directorate General of Revenue had 797 employees, including 287 contractors. The contractors received between AFN 40,000 to AFN 75,000 (US\$ 524 - 983) per month, while the ordinary civil servants received between AFN 6,500 to AFN 32,500 (US\$ 85 - 426) per month.²⁹

As Figure 1 below shows, domestic revenue has significantly increased since 2004, although starting from a very low basis. However, on average, it funded 31% of the national budget between 2004 and 2018, while the rest was financed by foreign aid (mostly grants). Tax revenue; such as personal taxes, income taxes, and business receipt taxes, comprised a small portion of the domestic revenue, growing from less than 1% in 2003, to 1%, 2% and 2% in 2009, respectively.³⁰ The fiscal state of the country shows the importance of domestic revenue for the provision of public service and sustaining of state building project (See Figure 1).³¹

Figure 1: National budget, domestic revenue and foreign aid in Afghanistan (2004-2018)



Source: Afghanistan's Ministry of Finance, 2018.

²⁹ Afghanistan's Ministry of Finance, 2018. Afghani is converted to US dollars (US\$ = 76 AFN) based on the online exchange rate on 4 April 2019.

³⁰ Bizhan, 2017, 108. Also see Islamic Republic of Afghanistan, 2012.

³¹ For more discussion see Bizhan, 2017.

However, the efforts for building and modernising the taxation system did not meet the expectations in improving the effectiveness of tax administration and building public trust in the system. Tax compliance remained extremely low. The compliance rate against withholding and business receipt (BRT) taxes was below 50% in 2009.³² This situation did not improve much in subsequent years. A World Bank study estimates that in 2015 there was a 7% GDP gap between the actual revenue that the Afghan government collected (10% of GDP) and potential revenue.³³ Tax administration remained weak and susceptible to graft and misconduct by personal and network gains. The public had very low trust in the system. An Afghan Ministry spokesperson interviewed for this study assessed the situation as follows:

People perceive that government officials mean corruption. When they do the shopping and introduce themselves, instead of appreciation of their wealth, they are seen as something negative. People think that government revenue sources are sources of corruption and that their tax payment will be wasted. As a government official, I do not know where my tax payment was spent. The public does not have any awareness in this regard. They say that the government wants to monopolise corruption.³⁴

The above perceptions are quite common. Most of the interviewees for this study argued that graft and misuse of the system was a major problem. An area that exposes the behaviour of tax officials includes areas where they have discretion in assessing tax dues. An Afghan Deputy Minister interviewed claimed that non-monetary factors matter. He argued that in areas where there is an opportunity for bribery, moral commitment of the tax officials plays an important role in resisting or committing such misconduct. He stated, “Taxpayers offer money in exchange to be exempted or assessed below the exact amount, but the outcome depends on the moral commitment of the tax officials. This is [especially] the case with shopkeepers where tax officials assess their assets and daily income”.³⁵ For instance, an employee of the *mustofiat* that was interviewed said, “If the tax due for a shopkeeper is AFN 10,000, the shopkeeper will pay AFN 3,000 as tax to the government and another AFN 2,000 as a bribe to the tax collector. Therefore, the shopkeeper will pay 50% less than his actual tax due.”³⁶ Furthermore, tax collectors often use their power and the taxpayers’ lack of awareness about tax policies and procedures for their benefit. “When [tax inspectors] visit shops and appraise the shopkeepers’ taxable income, if they do not pay their taxes, tax officials would say that approximately 40% of your capital would be appropriated to pay your tax

³² Ibid., 118.

³³ World Bank, 17-8, 2016; Bizhan, 2018.

³⁴ A Ministry Spokesperson, Kabul, 4 March 2018.

³⁵ An Afghan Government Deputy Minister, Kabul, 6 March 2018.

³⁶ A Mustofiate Official, Kabul, 18 March 2018.

dues. Such a statement scares the shopkeeper to avoid taxation. This is the point where corruption breeds and the tax inspector provides a low assessment for the shopkeeper in exchange for a bribe.”³⁷

The patterns above show the importance of values among tax officials, which the reform project neglected. The survey findings also emphasise this issue. Seventy-five percent of the respondents agreed that the culture of tax collectors and inspectors is very important, affecting whether they work on the basis of self-interest or common interest (see Table 1). To further unpack the role of non-monetary incentives in the process, the following section examines how identity, norms, and narratives shape the behaviour of tax collectors and inspectors as well as the culture of tax administration.

a. Identity

Overall, two types of identity could be observed among tax collectors and inspectors: The first is the officials who adhere to the formal rules and policies, and the second is the officials who do not. According to Akerlof and Kranton, these officials could be divided in the former case into insiders and in the latter case into outsiders.³⁸ This study, however, shows that there can also be a third group of actors who remain neutral and adhere to neither the formal norms nor the oppositional ones. Both groups, outsiders and insiders, can influence them, but they can also maintain a neutral identity. However, for analysis and comparison, this study focuses on the first two.

Akerlof and Kranton argue that when faced by the same economic incentives, a worker who has internalised the identity of an insider will perform better than the one who has adopted an identity of an outsider. This could be true if the concern is about their performance in relation to the organisation’s norms. However, if we remove the incentives and assess the performance based on the identities adhered to by the tax inspectors, then we may get a different result. The outsiders may perform better, as measured by complying with the informal norms they hold to, which undermines organisational performance.

Why do outsiders in this case perform better? Outsiders in tax administration hold the position of power. This situation can be partly explained by their point of entry into the administration and the power position of networks they are a part of. Most of the interviewees of this study argued that those who aim to misuse the system and pocket public money get help from networks within the tax administration and influential politicians and strongmen to be appointed. This process helps them to not only be employed but also hold positions of power compared with those with the insider identity. A Financial Manager interviewed stated, “Appointments in tax administration and other government departments depend on the relationship and payment of bribes. It is obvious that when people are appointed this way, they only think of their role to make money rather than a profession to serve the nation.”³⁹ This study also reveals that the networks within tax administration are quite influential. Some interviewees called them ‘good’ and ‘bad’ networks, depending on whether they misuse the system or are honest and

³⁷ Director of a Private Company, Kabul, 22 February 2018.

³⁸ Akerlof and Kranton, 2010.

³⁹ A Finance Director in a Private Company, Kabul, 8 March 2018.

stick to *qawanin* (laws). If someone is a member of a powerful network, he/she may enjoy impunity when committing misconduct, while other fellows may face harsh punishment. The rules are therefore applied selectively.

The appointment mechanism seems to be a major identifier of tax officials' identity, even a dominant one. An official of a mustufiat interviewed confirmed this problem by stating:

In the current situation, [most people] joining the department aim to fill their pockets, not serve the state. For example, if a tax collector reduces taxpayers dues by 50% and pockets another 50%, then people will think that tax payment is nothing but filling the pocket of tax officials.⁴⁰

A senior tax official interviewed stated, "Unfortunately, some people bother me a lot. In the last six months, I have received more than 1000 CVs, who follow up on their demands on a daily basis. Even Members of Parliament make recommendations. I will stop illegal appointments."⁴¹ Other factors also play a role in the process of recruitments. These include ethnic politics or politics of locality, both of which pose a challenge to the effectiveness of tax administration, as well as other government institutions. While this topic is beyond the scope of this study, the result of this process is that a particular department becomes dominated by people from the same region or community. Networks inside and outside the administration play an important role, resulting in resentment and distrust within and outside the administration.

b. Norms

The progress, as noted above, in establishing new policies as well as redefining organisational structure, has been significant. However, not all tax officials adhere to the formal norms, something also common in other government departments. While income tax law, for example, states that domestic revenue will be used to provide public goods and that tax inspectors and collectors are in charge of achieving this goal,⁴² it does not mean that all of these norms constrain their behaviour. In this case, tax inspectors or collectors are not necessarily constrained with the norm to collect revenue for funding public goods.

The process by which tax officials join tax administration and their subsequent behaviour can also offer insights about the norms they tend to uphold. Two types of norms exist in tax administration: Formal and informal. The constraining effects of norms on preferences of tax officials and collectors can be observed through their behaviours rather than through their attitudes. A difference is observed between the attitudes and behaviour of the tax officials who can be referred to as outsiders. While they express the view that they have an important role

⁴⁰ A Mustofiate Official, Kabul, 18 March 2018

⁴¹ A Senior Tax Official, Kabul, 6 March 2018.

⁴² Islamic Republic of Afghanistan, 2009.

in revenue generation and uphold organisational norms, in reality they do the opposite, pocketing public money and misusing the system. This study found that an outsider is not a passive or less productive actor. A Deputy Director of a private company interviewed argued, "In fact, you cannot compare the behaviour of tax officials with formal norms and policies. I have not seen any senior officials pay attention to this problem".⁴³

The public also observes this problem of *de jure* and *de facto* adherence to the norms. Most of the people interviewed confirmed that among tax officials and people there are conflicting views about tax officials. People have a strong view that tax officials enrich themselves and pocket public money and that tax administration is highly corrupt. On the other hand, tax officials perceive that they are doing a very important job. However, because people are not aware of the tax system and laws, they see the system as an "exploitive agency that plunders their money". An official of a *mustofiat* interviewed argued, "luckily a system is established in the Ministry of Finance. The employees' views are positive about the existing norms and principles. The problem, however, is that the system and law do not get implemented."⁴⁴ While government senior officials may downplay the problem, perhaps it is hard to hide the problems that exist in tax administration. One of the taxpayers from the private sector criticised the tax administration by calling it 'illegitimate' and preferring to not pay taxes to such a department.⁴⁵

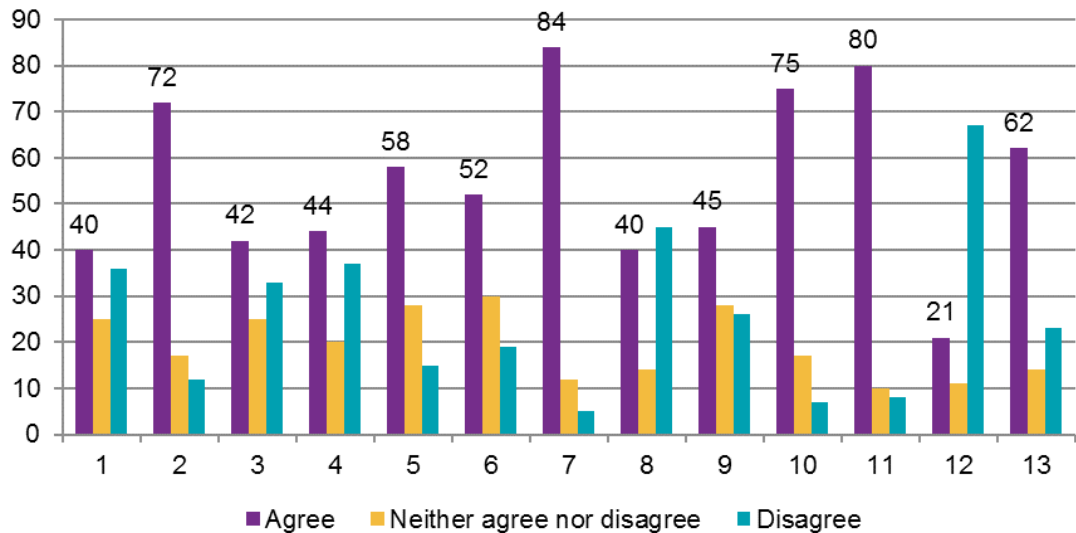
However, some people also regard a limited income through bribery to be acceptable, which a number of taxpayers and civil society activists interviewed also confirmed. Sixty-two percent of the surveyed respondents also agreed that corruption in tax administration exists because people perceive it as an acceptable practice (see Figure 2).

⁴³ Deputy Director of a Private Company, Kabul, 4 March 2018

⁴⁴ A Mustofiate Official, Kabul, 18 March 2018.

⁴⁵ A Ministry Spokesperson, Kabul, 4 March 2018

Figure 2: Survey findings on tax behaviour in Afghanistan*



***Number coding below**

1. People think that tax officials are working to increase government revenue to fund education, health and other public services.
2. People think that tax officials join the tax administration to enrich themselves.
3. Tax officials believe that if they pass the money to the government, it will be pocketed by corrupt officials.
4. Tax officials are relatively rich because they receive a high salary.
5. Tax officials think that a good tax official is one who increases government revenue.
6. Tax officials think that a good tax official is one who helps his family and friends using his/her public position, so they, in turn, help him/her.
7. You will pay more taxes to the government if you know that your money is spent effectively.
8. It is all right if taxpayers are not paying their taxes because the tax administration is corrupt.
9. People think that honest and hardworking people do not want to join the tax administration because they are scared of losing their reputation, as people may think that they are part of a network of people who pockets public money.
10. The culture of tax officials is very important, affecting whether they work on the basis of self-interest or the common interest.
11. The reason for high corruption in tax administration is a lack of oversight.
12. People think that it is acceptable if tax officials get 'bakhshishi' or money from the clients as long as they do not commit excesses because their salary is not enough to support their families.
13. Corruption in tax administration exists because people perceive it as an accepted practice.

c. Narratives

The narrative that public services are of good value and help the nation is not necessarily upheld by all tax collectors and inspectors. A strong factor affecting their behaviour is the coordination of others' behaviour in the department or

conditional preferences, as Bicchieri outlines (2017). [People's] expectations of the consequences of a chosen action will depend not just on their knowledge of the material world but on their knowledge of the behaviour of others.⁴⁶ A senior tax official interviewed said, "Corruption has negative effects in the administration. Employees think that if someone [in my department] has a car; why should I not have one too? Or one pays his/her tax due but not others. This situation creates a negative competition."⁴⁷

Three types of narratives can thus be observed in relation to tax administration by those who can be categorised as insiders and outsiders as well as people: The first is those who have internalised the norms of the administration and are inspired to serve the nation. However, as a number of interviewees argued, this group of people does have power and is vulnerable to be dismissed or sidelined by powerful networks. They may therefore resist corruption but are not sufficiently empowered to prevent it. These people, occasionally, use a famous expression, "shulita bokhor wa pardita boco", literally meaning, "play safe and mind your own business". This infers not creating trouble; otherwise, you will lose what you have — that is, your job.

A financial director interviewed argued, "Corrupt networks affect the views of other employees who are in contact with them and observes different types of illegal activities by these networks. Such behaviours disappoint those employees who are honest".⁴⁸ In addition, this group of tax collectors and inspectors, or insiders, does not receive recognition for their achievements and contribution. In the word of a manager in the Customs and Revenue Department, "The leadership does not motivate and encourage tax collectors and inspectors. There must be a reward and punishment system in place. We get threats for our contribution, instead of rewards, and our role gets ignored."⁴⁹ In addition, 80% of the surveyed respondents agreed that lack of oversight is one of the main reasons for the high levels of corruption in tax administration (Figure 2).

The second group, or the so-called outsiders, even before joining tax administration, buy into a narrative that their jobs offer a temporary but momentous, once-in-a-lifetime opportunity to build a fortune. This narrative is confirmed then by observation of other behaviours in the administration. Some also talk in public about this issue and 'express pride' in their misconducts.⁵⁰ While there is a strong sense of community among people to help family and friends, this group of employees is motivated by self-interest. Family and friends when dealing with the tax administration may expect to accelerate their applications for a certain service or decision, which is quite lengthy and complex. However, by and large, tax evasion and kickbacks are motivated by self-interest, which often may involve significant amounts of money. When the interviewees were asked about the motivation of people in joining the tax administration, most of them argued that helping their family and self-interest were the dominant drivers. The former here indicates a normative expectation that employees use their salary to help their families, which is not a negative motivation. However,

⁴⁶ Collier, 2016, 33.

⁴⁷ A Senior Tax Official, Kabul, 6 March 2018.

⁴⁸ A Finance Director in a Private Company, Kabul, 8 March 2018.

⁴⁹ A Manager in the Ministry of Finance, Kabul, 7 March 2018.

⁵⁰ A Ministry Spokesperson, Kabul, 4 March 2018.

when the survey respondents were asked, 72% agreed that tax officials join the tax administration to enrich themselves (Figure 2).

There is also a third narrative among the public about tax administration: Seeing tax inspectors and collectors as highly corrupt public servants. Jennifer Brick Murtazashvili, in her study, *Informal order and the state in Afghanistan* (2016), also finds that while communities see a need for a central government, they question its effectiveness.⁵¹ A large number of the respondents (45%) in this study, said that honest and hardworking people do not want to work in tax administration because they are scared of losing their reputation as people may think that they are part of a network of people who pocket public money (Figure 2). This narrative influences tax collectors and inspectors, especially those who are honest. A director of a private company interviewed argued, “Since I became familiar with the Department of Income Tax, I pay my tax dues. Most tax collectors take bribes, while appearing to be free of corruption and doing the right thing. You cannot see anything under the name of cooperation but irregularities and playing with papers.”⁵² This general perception demotivates those who adhere to organisational norms.

A survey by The Asian Foundation, now in its fourteenth edition, gathered the views of more than 9,600 Afghans in 2018.⁵³ It shows that public confidence in government institutions is almost the lowest it has been since 2007 and that a large number of people have experienced corruption in dealing with government departments. Public confidence in government Ministries fell to 38% in 2018, from 57% in 2007. In 2018, 49% of the respondents reported that they have experienced corruption in dealing with the Customs Office. They had to give money or a gift or perform a favour for the organisation. In both cases, some improvements were reported but are not yet significant.

Lack of confidence has undermined the legitimacy of tax administration, making tax enforcement far more difficult. A number of interviewees expressed the view that they are not willing to pay their taxes on the basis that the administration is ‘untransparent’ and ‘illegitimate’. A government director also confirmed this problem by saying, “Without any doubt, if we do not know where our tax money is spent, we will not be able to pay tax to the government. This situation leads to delays in tax payments and tax evasion, affecting tax administration.”⁵⁴ The survey respondents overwhelmingly agreed: 84% reported that they would pay more taxes to the government if they knew that their money would be spent effectively.

Some government officials, however, argued that negative perceptions about tax administration are the result of a lack of awareness about the tax system. A senior tax official interviewed blamed people for their negative perceptions. This situation, the official argued, is the result of a poor culture of tax payments. He said, “Since the culture of taxation is not yet institutionalised in Afghanistan, people, therefore, think of tax administration as an exploitive institution”.⁵⁵ There were also some government officials interviewed who remained vocal about

⁵¹ Murtazashvili, 2016.

⁵² Director of a Private Company, Kabul, 22 February 2018.

⁵³ The Asian Foundation, 2018.

⁵⁴ Policy Director of a Government Ministry, Kabul, 10 March 2018.

⁵⁵ A Senior Tax Official, Kabul, 6 March 2018.

the problems in tax administration. In the last few years, government efforts in improving the culture of taxation have been limited. For example, media campaigns have been conducted, such as short video clips (a few minutes long) to raise awareness among taxpayers about the importance of their contribution and where their tax money goes. However, these efforts have focused on taxpayers rather than on tax collectors and inspectors, and they have not been persistent.

While the above statement by the government official could be partially true in some cases, taxpayers and non-government officials have an opposite narrative. A member of the business community argued that some taxpayers would be willing to contribute more money through tax payments if they had confidence that their tax money would be used for building schools and the provision of other public services.⁵⁶ “Tax officials portray that their work is legal and very important. However, when they deal with taxpayers, there is red tape and delays involved, which facilitate bribery,”⁵⁷ something which has turned into a culture.

This study shows that between a weak culture of taxation among taxpayers and the culture of corruption in tax administration, the latter is dominant. In both cases, beliefs play an important role in determining the preference of the actors. This notion is supported by those cases in which highly paid or rich tax collectors and inspectors engage in graft and kickbacks.

Most tax officials think that they are doing good work. However, I heard that most of them take bribes and attend parties organised by taxpayers. In return, they appraise tax dues lower than the actual one. Sometimes, they even feel proud of doing so, especially as they are not under investigation by law agencies. Occasionally, proposals are sent to the Ministers’ Cabinet asking for tax exemption of companies to help them. However, the Cabinet does not understand what is going on behind the scenes.⁵⁸

Tax administration in Afghanistan is far from effective; it is falling short and represents a dysfunctional stable equilibrium. The informal identities, norms, and narratives that dominate the organisation reinforce each other. These factors have helped to shape a *de facto* culture in tax administration and sustain a dysfunctional stable equilibrium.

⁵⁶ Bizhan, 2017, 104-32.

⁵⁷ Director of a Private Company, Kabul, 22 February 2019.

⁵⁸ A Ministry Spokesperson., Kabul, 22 March 2019.

Main findings and implications

5

This paper examined how key public organisations can be built and how identities, norms, and narratives affect the behaviour of public servants and in return bureaucratic effectiveness. It reviewed recent developments and literature and used tax administration in Afghanistan as a case study. In particular, it examined how identities, norms, and narratives affect the behaviour of tax collectors and inspectors and in return, how actors' behaviour shapes the effectiveness of tax administration.

Beliefs can be mutually reinforcing, and the networks in which an actor participates reinforce or undermine one's beliefs. Some narratives support, while others undermine, identities. This interaction can also run in the opposite direction. The same can happen when the two other sets of beliefs interact. We found that two types of beliefs could exist in a public organisation — that is *de jure* and *de facto*. The former represents formal norms and narratives while the latter represents informal ones. These types of norms and narratives can be linked to two types of networks operating inside and outside a public organisation. This issue cannot be better observed than when the norms to which a tax inspector adheres do not match his narrative — that is, a good tax official helps to increase the government's revenue.

However, in transitional and weak states, reforms overwhelmingly focus on conventional incentives, such as wages and institutional restructuring. This approach, in the absence of nonmonetary incentives, seems weakly plausible and does not offer the best solution to building organisational effectiveness. Unlike more established public organisations in developed countries with a strong organisational culture, weak and transitional public institutions, as we observed in Afghanistan, represent a more complex setting in assessing the role of identity, norms, and narratives. While insiders, outsiders, and associated networks within a public organisation could be present, the former can hold a less effective and less powerful position. On the other hand, outsiders receive support before they join the organisation, and subsequently, the relevant networks within the organisation, which often hold positions of power, reinforce the norms to which they adhere.

The behaviour of actors is thus crucial for the effectiveness and legitimacy of a public organisation. This behaviour may not go in the same direction that institutional arrangement or reforms aim to go. The neglect of this aspect of organisational effectiveness not only undermines the sustainability of reforms aiming to improve effectiveness but can also create conditions for humiliation of the insiders; either by outsiders and their associated networks or by the negative perception of the public

about the concerned organisation.

Power politics within an organisation, which can be explained by the degree of influence of such networks, puts each actor in a favoured or disfavoured position. The case of tax administration in Afghanistan shows that outsiders are in a position of relative power and enjoy greater political support both inside and outside the organisation. This situation has not been unnoticed by the public, creating a negative and often disturbing perception about tax administration in the country. This paper therefore argues that the effectiveness and legitimacy of a public organisation depends to a large degree not only on institutional arrangement but also on the behaviour of actors within that institution and the interactions between the two. This entire mechanism is not an exclusive result of institutional enclaves; it is also affected by elaborate networks within and across diverse institutions.



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