

Burden of Cross Border Contraband Goods Trade on Revenue and Customs Duty Collection and the Challenges to Control it in Ethiopian Revenues and Customs Authority (ERCA). Case of Moyale Branch

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Abstract

Citizens pay their taxes (Inland Revenue tax or Customs duty tax) in exchange for public services and goods. At the same time, this exchange legitimates the political equilibrium and the state itself. However, in developing countries the link between the rights and obligations of different actors in paying tax is often weak (Christian Daude, Hamlet Gutiérrez and Ángel Melguizo, 2012). From the above statement and the researcher observations and ERCA annual reports, the researcher observed a gap that, in Ethiopia, the resulting equilibrium is frequently characterized by low levels of tax revenue collection and consequently insufficient public goods and services (in quantity and quality) and there is cross border contraband goods trade controlled market within the country. The study adopted both quantitative and qualitative research approaches and descriptive research methods. Thus, the objective of the study was to look “The Burden of Contraband Goods trade on Revenue and Customs Duty collection And the Challenges to Control It by ERCA. Case of Moyale Branch”. To achieve the objective of the study, the researcher collected both primary and secondary data. Notional price of seized contraband goods of 14years of secondary data was collected from Moyale branch annual reports. And the primary data was collected from 53 randomly selected Customs enforcement officials via distributed hand delivered questionnaires. The collected data was analyzed by both descriptive and inferential statistics. In conclusion, the result indicated that, revenue and customs duty collection potential of the branch failed by 4.478% every year was due to cross border Contraband goods trade/weak controlling activity and there is a challenge to control it mainly, due to many routes at the region which is very difficult to cover by enforcement bodies.

Keywords: Contraband goods, revenue and customs duty,

Introduction

Contraband trade began in Ethiopia long time ago. Since then, smugglers do not hesitate to smuggle goods into and out of Ethiopia and they are still doing it in spite of all laws and regulations, the seizure of contraband goods has become an everyday occurrence, almost daily, federal policemen and other law enforcement bodies mandated to seize contraband goods intercept many criminals involved in smuggling. Sudan, Eritrea, Kenya, Somalia and Djibouti are identified to be the main sources of contraband goods. Contraband is an illicit act which has harmful effect on the socioeconomic development of a country and revenue collections (Zemzem Adem Mohamed and Teklu Kassu Gizaw (Ph.D), vol: 9(13); 2017).

Smuggling refers to activities of port-entering/exiting personnel or relevant personnel evading Customs supervision, evading payable duties, or evading related state administration in violation of Customs law or relevant laws and administrative regulations. It emerges with the development of port-entering/exiting activities as well as the restriction from state administration. Smuggling aims at evading supervision and duties and obtaining illegal profits. It disturbs the economic order, harms national industries and damages state sovereignty by dumping foreign commodities. Since smuggling is so harmful, we must severely strike it in accordance with law (Lian Lian, 2004).

Unless exempted by law, items imported into Ethiopia are subject to a number of Customs and taxes law. The Ethiopian government levies five kinds of taxes (customs duty's) on import items (Customs Proclamation No, 859/2014, ch-4, article: 109).

According to World Bank (2011) Customs are usually a major budget contributor, and sometimes the most important source of Revenue for a Country. Customs also have a unique observation position. They are at the crossroads between trade, the economy, fiscal and budget issues, crime interdiction, environmental preoccupations, and transport, to name but a few. Customs all over the world are used to dealing with people across the border so they are the first exposed to new products, activities, and even ideas.

According to the European International Journal of Science and Technology Vol. 2, (2013) in the current global market's conditions, in order to ensure each country's economic development, the protection of public interests, the business community's stability and transparency, Customs play an important role. Customs control all the aspects of international transactions; receive the information on all the parties operating by the external borders of third countries.

1. Literature review

Border posts are understaffed and some even lack the basic facilities to undertake effective border policing such as facsimile machines, a consistent electricity supply, and proper living quarters for police/Customs/immigration officers, vehicles and proper search and storage facilities. While structures are in place for some time now to facilitate co-operation between the different government departments involved in border control, there are still challenges, including lack of communication, resulting in the loss of valuable information on crime and crime syndicates, lack of trust between the agencies, resulting in mutual accusations of corruption, and the lack of an adequate coordination mechanism, lack of effective service standards and risk management, resulting in delays of service (WCO, 2013).

According to WCO (2013) contraband (Illicit trade) involves money, goods or value gained from illegal and otherwise unethical activity. It also encompasses a variety of illegal trading activities, including human trafficking, environmental crime, illegal trade in natural resources, intellectual property infringements, trade in certain substances that cause health or safety risks, smuggling of excisable goods, trade in illegal drugs, and a variety of illicit financial flows. These activities cause a wide range of economic, social, environmental or political damage. The low detection rates, low levels of prosecution for offenders, lacking cooperation, coordination and information sharing at national and international levels as well as the lacking of a common strategic impetus, as to be regarded as factors contributing to towards illicit trade and consequential money laundering and terror funding to happen.

Contraband trade is one area that has been eroding the taxation system in Ethiopia. Although the problem has not been quantified, it is understood that illegal trade is rampant and claiming considerable tax revenue (ERCA, 2015). ERCA officials concede that, illegal trade has created a significant leakage of tax revenue from the Ethiopian government. This illegal trade involves various routes and mechanisms involving both imports and exports. Literarily, every border and port seems porous to illegal trade, which takes place through Somalia, Djibouti, Kenya and the Sudan. Illegal imports and exports even pass through the Bole International Airport. This illegal trade involves various mechanisms. Almost all types of exports, which include coffee (the major export item), other crops, and live animals, are illegally exported through the Somalia, Kenya, and Sudan borders (Tsegabirhan Weldegiorigis A., 2010).

Tsegabirhan (2010) noted that, illegal trade of import goods, mainly electronics, textile and medicines, through various corridors; mainly in the eastern part of the country bordering Somalia, Djibouti and Kenya is very common activity. In these border areas, it has been very difficult to control contraband trade as many People depend on it and regional governments recognize this. Thus, administrative control would not be effective. Rather diversifying the sources of livelihood of the people should be the strategic approach to curbing illegal trade and increasing government revenue in these contraband corridors. These contraband goods are transported hundreds of kilometers, through different Customs Checking points and sold in the Capital and other Cities. This is only possible through fraud and corruption, which is the worst manifestation of institutional decadence.

2. Research Methodology

The study has incorporated mixed approach and has applied descriptive research type using the fact that a descriptive research design is used to describe the data and characteristic about “what is” being examined. Descriptive survey additionally empowers to acquire the present data. It is also used in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. Descriptive survey method concentrates on exploring the present status, practice and problems of the under study problem. In this study, both primary and secondary data was used. To collect secondary data, the researcher used annual reports of seized contraband goods of years 2005 to 2018. Primary data was collected from 53 Customs professionals selected by simple random sampling techniques from Moyale branch office and distributed hand delivered questionnaires to them.

Therefore, In order to collect relevant and adequate primary and second hand data, the researcher applied deep survey and observations on primary and secondary sources .The researcher developed simple linear regression model to the first research question (RQ1) (i.e., $Y = \alpha + \beta_1 X_1 + \epsilon$) Where; Y – Revenue and customs duty collection, α - Constant, β_1 - Coefficient indicating burden of contraband goods on revenue and Customs collection, X_1 –contraband goods trade, ϵ -Error term . Both descriptive statistics and inferential statistics method of data analysis methods was applied. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$. Therefore, to achieve the study purpose, two research questions was developed and tested. That is:-

RQ1 or Ho1: Cross border contraband trade have no significant effect on revenue and Customs duty collection potentials.

RQ2: what are the challenges of contraband goods trade controlling at Moyale branch office.

3. Results and discussions

H01: Cross border contraband trade have no significant effect on revenue and Customs duty collection potentials enervation.

3.1. Correlation statistics

		Cross border contraband trade	revenue and Customs duty collection potential
Pearson Correlation	Cross border contraband trade	1	.907**
	revenue and Customs duty collection potential	.907**	1
Sig. (2-tailed)	Cross border contraband trade	.	.000
	revenue and Customs duty collection potential	.000	.
N	Cross border contraband trade	11	11
	revenue and Customs duty collection potential	11	11

In statistics, dependence or association is any statistical relationship, whether causal or not, between two random variables or bivariate data. In the broadest sense correlation is any statistical association, though in common usage it most often refers to how close two variables are to having a linear relationship with each other. Correlations are useful because they can indicate a predictive relationship that can be exploited in practice.

Accordingly, the above table1 indicates the causal relationship of presence of cross border contraband goods trade for revenue and customs duty collection inefficiency. The above association shows the direct burden of contraband goods trade on tax collection. When the controlling strategy is strong; many traders will come to the legal tax system and the tax collection potential of the country increase. The number of legal tax payers will increase, unfortunately, the government revenue collection potential increase.

The most familiar measure of dependence between two quantities is the Pearson product-moment correlation coefficient, or "Pearson's correlation coefficient", commonly called simply "the correlation coefficient". The Pearson correlation is +1 in the case of a perfect direct (increasing) linear relationship (correlation), -1 in the case of a perfect decreasing (inverse) linear relationship (**anti correlation**), and some value in the open interval (-1, 1) in all other cases, indicating the degree of linear dependence between the variables. As it approaches zero there is less of a relationship (closer to uncorrelated). The closer the coefficient is to either -1 or 1, the stronger the correlation between the variables. *The above correlation coefficient (r=0.907 at p=5%) shows very close to 1. And this indicates the strong association of contraband goods burden on revenue and customs duty (tax) collection or tax collection failure.*

However, in general, the presence of a correlation is not sufficient to infer the presence of a causal relationship (i.e., correlation does not imply causation). It needs more in-depth investigations and hypothetical test.

Table2:Regression Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.907 ^a	.824	.804	1.469

a. Predictors: (Constant): contraband goods sized by moyale branch

b. Dependent Variable: revenue and Customs duty collection

From the above table2, the coefficient of determination is 0.824; therefore, about 82.4% of the variation in the revenue and Customs duty collection in the 2005 to 2018 budget years was due to contraband goods trade escalated at market. The domination of market by contraband goods can result about 82.4% failure in revenue and Customs collection; because these contraband goods traders are not tax payer at all. They are killers of legal trader's. From this we can understand that, contraband goods trade can disturb market as well as the fairness of tax collection in a nation.

The researcher observed a practical example that, in the budget year of 2017 there was 140 importers via Moyale Branch Office. However, in the budget year 2018, the number of importers via that branch office decreased to 111 importers. One of the factors decreased the number of importers was the increase of cross border contraband goods trade in the country, especially via Ethio-kenya border (research done by the branch, 2018).

Table3.ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	90.587	1	90.587	41.997	.000 ^b
	Residual	19.413	9	2.157		
	Total	110.000	10			

a. Dependent Variable: revenue and Customs duty collection

b. Predictors: (Constant), cross border contraband goods trade

Table 3 above indicates, test of model adequacy. Regression model is adequate if and only if 'sig' is 0.05 or smaller, if so, we can conclude that, the value of 'F' is so large that is unlikely to have occurred by chance; the regression line is a significantly better fit to the data than a model based on using the mean of the values of the predicted variables. Therefore, the model is adequate if and only if Ho is rejected.

Statistical hypothesis

Ho: $\beta=0$ (Cross border contraband goods trade have no significant effect on revenue and Customs duty collection potentials enervation.)

H1: $\beta \neq 0$ (Cross border contraband goods trade have significant effect on revenue and Customs duty collection potentials enervation.)

From the above table 3, at the test statistic, $F=41.997$ and $P\text{-value}=0.000$, **Ho is rejected**. Since $p\text{-value}=0.000 < 0.05$, the researcher shall reject the null hypothesis. So, the table shows cross border contraband goods trade have significant direct effect on the failure or enervation of revenue and customs duty collection and the regression model is adequate.

Table4.Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2011.743	.518		.000	2010.571	2012.915
	Cross border contraband goods trade	4.478	.691	.907	6.480	.000	2.915

a. Dependent Variable: revenue and Customs duty collection

The researcher is 95% confident that, the slop of the true regression line is somewhere between 2.915 and 6.042. In other words, other things (factors) remain constant, the researcher is 95% confident that, the 4.478% failure in revenue and customs duty collection each year was due to cross border contraband goods trade increase and the abandon of legal tax payers in the branch. As the cross border illicit trade controlling mechanism is weak, revenue and customs duty collection capacity may fail by 4.478%.

RQ2: what are the challenges of contraband Goods trade controlling at moyale Branch.

Descriptive statistics

There are five (5) Customs check points (Customs stations) under Moyale branch. These are Moyale station, Yabelo station, Bulehora station, Negle borena station and Dolo ado station. The first three (3) stations are on the main route of Nairobi- Addis Ababa road. Where, Negle borena station is 250-km far from Moyale and Dolo ado station is 700 km far. Being so far from the main route, it is difficult to communicate with them easily. Especially Dolo ado station, it has no telephone access till the near time.

Friedman test

Statistical hypothesis:

HO: There is no statistical significant median deference between the cross border contraband goods trade controlling challenges.

H1: At least two of the cross border contraband goods trades controlling challenges are significantly different.

Table 5.Mean Rank of cross border contraband trade challenges

	Description	Mean Rank
1	lack of political commitment by stake holders	1.80
2	corruption of officials and stakeholders	2.00
3	development of rural road infrastructure	2.20

Source: fieldwork, 2018

The above table5 indicates, the mean ranks of contraband goods trade controlling challenges by Ethiopian Revenues and Customs Authority Moyale branch office. According to the respondents, the development of rural road infrastructure in the region has high mean rank. Such that the roads constructed in everywhere, to connect all rural societies also created great opportunity to contraband goods traders. Contrabandists can easily transport theirs contraband goods without touching the main roads. It is also difficult to the Enforcement agents to control every corridor of the border. The purpose of the Friedman procedure is to test whether these observed differences are statistically significant or not. The SPSS output to Friedman test is shown below.

Table6: friedman Test Statistics^a

1	N	53
2	Chi-Square, (χ^2)	6.733
3	Df	2
4	Asymp. Sig.	.035

a. Friedman Test
 Source: fieldwork, 2018

The computed chi-square statistic is 6.733. Since the asymptotic significance (p-value) is less than 5%, the null hypothesis (Ho) is rejected. Thus, the observed differences in the mean rank among the contraband controlling challenging variables are not just by chance. Their degree of challenge is statistically different. Then having performed Wilcoxon signed ranks test for two related samples of multiple comparison on the group medians, the analysis has done and the most challenging of contraband trade controlling is identified as followed below.

Wilcoxon Signed Ranks Test

Statistical hypothesis:

Ho: The statistical median difference (M) between the contraband goods trade controlling challenges are equal to zero (M=0).

H: The statistical median differences (M) between the contraband goods trade controlling challenges are not equal to zero (M ≠ 0).

Table 7: Wilcoxon Test Statistics^a of contraband controlling challenges

	corruption of officials and stakeholders - lack of political commitment by stake holders	development of rural road infrastructure - lack of political commitment by stakeholders	corruption of officials and stakeholders - development of rural road infrastructure
Z-score	-1.090 ^b	-2.855 ^b	-1.356 ^c
Asymp. Sig. (2-tailed)	.276	.004	.175

- a. Wilcoxon Signed Ranks Test
- b. Based on negative ranks.
- c. Based on positive ranks.

Table6 shows the statistically significances among the contraband controlling challenges at, $\chi^2 (2) = 6.733$, P=0.035. Table 7 Wilcoxon signed rank multiple comparison test also shows that, there is statistical significance difference among the development of rural road infrastructure and lack of political commitment by stakeholders to control contraband at (Z=-2.855 and P=0.004). The negative value of Z-score indicates that, the development of rural road infrastructure have great opportunity to escape contraband goods and have negative impact to control it. Currently in Ethiopia, there is huge rural road construction to connect every Kebele with zones and regional state towns. It is true that this road construction have met so many advantages to the society. In other way, this road also created good opportunity for illegal trader's too. The nationally recognized international road/route to Ethiopia via Kenya is:-

Moyale Kenya → Moyale Ehiopa → Mega (100km from moyale) → Yabelo (200km) → Bulehora (300km) → Dila town (420km) → Hawasa town (500km) → Shashemane (525km) → Adis Abeba (774km from Moyale). With in this 774km far, there are six (6) Customs check points. These Customs Chek points controle all kind of ilegal movements within the Country. However, most of these ilegal movements couldn't fellow these street routes. To hide themselves from the Customs investigations they use other tributary rural roads which are constructed for social facilitation of the rural societies. Leaving the main road, they transport contraband goods to the center of the country via these rural routes. It is also difficult to put Customs Check points in every roads. Look unemperical example from table8 below.

Table8. Notional price in Ethiopian Birr(ETB) of seized contraband goods

No,	Name of Customs Stations	Notional price of seized contraband goods		
		2015(yr)	2016(yr)	2017(yr)
1	Abosto	22,692,038	19,128,295	33,128,319
2	Shashemane	28,066,085	23,865,841	15,727,572

Source: ERCA Customs Enforcement survey, 2018

The table8 above shows, notional price of seized contraband goods by Hawasa branch in three consecutive years. These Customs stations are found 500Km far from Moyale border to center of the country. These contraband goods was fal under control after they escaped from Moyale station → Yabelo station → Bulehora stations. This shows how much contraband goods are availabel in the country and indicates ERCA hase weak controlling activity. From this example, it is not difficult to estimate how much contraband goods accomadated in the country from difrent directions.

Summery and Concluding remarks

Unless exempted by law, items imported into Ethiopia are subject to a number of taxes. Ethiopian government levies five kinds of taxes on import items. These taxes, in their sequential order, are Customs duty (5-35%), excise tax (10-100%), VAT (15%), surtax (10%) and withholding tax (3%). Taxes on imported goods are collected by the Ethiopian Revenues and Customs Authority (ERCA). Goods are categorized as free goods, prohibited goods and restricted goods. These free goods are allowed to import into the country following the legal customs procedures for any importers. Prohibited goods are forbidden to import into the country even following the legal procedures. Example, used wears and shoe, bullets etc. Restricted goods can import into the country only by limited organizations after some requirements are fulfilled and allowed by the responsible body. These restricted and prohibited goods are highly taxable goods and they have great demand at market.

Hiding themselves from paying tax and Customs duty, Contrabandists import these restricted and prohibited goods into the country using the routes free from enforcement body look and they control the market. These illegal acts mad legal traders out of market and dried Governments revenue collection potentials. So, the researcher recommended to the Government and the Authority (ERCA) that, the Government should have to be looked at the import policy (if it may be amendment is needed), ERCA should have strengthen the Customs Check points control and create knowhow on the society about the badness of contraband trade and create political commitment on state administrators.

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