

Editorial Note

Cool Harmattan Episodes in the Northwestern Region of Nigeria (1961

– 2020), by Alex Folorunsho, Adewale Francis Olatunde, Samuel Ibbi Ibrahim , Nokshuwan

Emmanuel Jidauna

4

6

*Practices of Conflict Early Warning System and Police Timely Response
in Selected Areas of Ethiopia*, by Abdo Beshir and Fikadu Kassa

21

*Customer Satisfaction with Ethio-Djibouti Railway Transportation
Services: An Analysis Using the KANO Model*, by Tareke , KM

35

*The Impact of the Urban Local Government Development Program
on Service Delivery and Household Livelihoods: Evidence from
Selected Small Towns in the Amhara Region, Ethiopia*, by Abeje

Ewunetu

50

Illicit Trade and Tax Revenue: Evidence from Ethiopia, by Solomon Molla

65

Illicit Trade and Tax Revenue: Evidence from Ethiopia, by Solomon Molla¹

Abstract

The study has an objective to investigate an illicit trade and lost tax revenue in Dire Dawa and Jigjiga routes. This is conducted by employing descriptive research design and concurrent mixed research approaches. To achieve this objective the study has collected data from 726 officials and taxpayers through questionnaire and from 8 higher officials of Ethiopian custom commission and revenue offices of Dire Dawa and Jigjiga branches. These respondents were selected through simple random and judgmental sampling techniques, respectively. The data were analyzed using descriptive statistics like relative importance index to show the most important challenges to integrate illicit traders into the tax system and inferential statistics like Chi-square. The result of the study indicates that the forms of illicit trade undertaken in the routes are in legal checkpoints by faking values and quantity on invoices with bribe and though illegal check points by smuggling contraband and uncustomed goods but there is no gender difference on the involvement in illicit trade. Each involvement in illicit trade makes a government lose a significant amount of tax revenue annually. Easing of the licensing and certifications process for illicit traders to be engaged in the legal forms of trading, provide tax incentives to illicit traders who voluntarily joined to the tax system and taking punitive and educative measure on the involved in illicit trade can be opportunities to put illicit traders in the legal form of trade and tax system.

Key Words: Illicit trade, contraband, lost tax revenue, Diredawa and Jigjiga route

¹ Assistant Professor, Accounting and Finance, Ethiopian Civil Service University, Email: solomonabate1987@gmail.com

JADS Vol. 11, No. 2, DOI: <https://doi.org/10.56302/jads.v11i2.11213>

Background of Study

The term "illicit trade" describes the cross-border unauthorized sale, acquisition, exchange, or transportation of products, people, animals, or technology (Kemp and Rebecca, 2020). The illicit trade may involve products that are deemed hazardous and must go via the tax system, as well as products that avoid laws, restrictions, or other controls. Notwithstanding, these commodities may be produced, employed, or resold in a lawful, informal, or illicit manner while remaining concealed from the nation's tax and regulatory framework.

Government attempts to safeguard international supply chains are significantly impacted by the illicit trade in excise items, which also deprives nations of money necessary to maintain and fund public services (Ahsan et al., 2014). Like other types of illicit commerce, there is also a significant reason to be concerned about the fact that criminal earnings from these unlawful operations will almost certainly be used to fund additional illicit activities, which will further jeopardize lawfulness, good governance, and public safety. Moreover, there is a risk of commercial fraud, which includes, among other things, undervaluation, misclassification, abuse of origin and preferred tariffs, and drawback fraud.

Custom commissioners are important in making sure that international trade complies with local and international regulations and that all taxes are paid. According to Kilimanjaro International Corporation Limited (2012), there may be a significant level of corruption and a lack of transparency in Ethiopia's customs clearance process. Indirect taxes on the sale or use of certain goods—imported or used—are known as excise duties or taxes. They are frequently levied to safeguard domestic markets or to limit the use of goods. Goods liable to taxes or excise charges may differ between nations' authorities.

Ethiopia's economy grew at an unexpected rate between 2010–11 and 2019–20, averaging about 10% year, even if the COVID 19 pandemic had an impact on real GDP, which decreased to 6.1% in 2019–20 (World Bank, 2021). It's possible that the amount, kind, and value of illegal goods and contraband in Ethiopia are increasing over time (Belaynesh et. al., 2015). However, several issues have an impact on the nation's economic growth. The primary one is corruption, which encompasses illegal trade and contraband, along with inflation, an increase in the foreign

exchange rate, a shortage of foreign exchange because foreign trade has not expanded to the required or desired level, an increasing amount of foreign debt, and a growing gap between domestic saving and investment (Hailu, 2018).

Ethiopia has a lower tax to GDP ratio than the sub-Saharan average, which may be influenced by the volume of illegal commerce. Ethiopia's primary markets, import and export channels, and economy all face challenges from the illicit or contraband trade, which also poses a threat to the country's tax system (Addis Fortune, 2016). In Ethiopia, the trafficking of illegal goods poses a challenge to the government's ability to collect income from the revenue sector.

Statements of the Problem

Illicit trade is the outcome of the imbalance between demand and supply but illicit trade in developing countries that have low production focused on the demand side to explain the illicit trade and argues that illicit trade arises because of high taxation (Merriman, Yurekli and Chaloupka, 2000). Taxation and illicit trade or contraband have a substantive effect on each other. In some circumstances, the higher the taxation leads to the higher the illicit trade to gain more profit margin from the illicitly traded items and vice versa. However, the easiness of the tax evasion in a country fuels the illicit trade by traders and accounts for the high levels of smuggling in these low-income countries (Titeca, Joossens and Raw, 2011).

Globally the size of the illicit trade varies across countries, 11.6% globally, 16.8% in developing and 9.8% in developed countries. The total amount of lost revenue due to illicit trade was about \$40.5 billion a year, eliminating illicit trade would enable to gain at least \$31.3 billion a year (Joossens et. all., 2010).

The trend of illicit trade in Ethiopia becomes steadily increased form period to period in terms of kinds, volume and values of items (Addi's fortune, 2016). The increased trend of contraband is challenging for the revenue sector due to inadequate manpower, insufficient check points, incompetent knowledge and skill with the control unit and inconvenient physical working conditions (Zemzem and Teklu, 2019). Provided to that the Ethiopian Custom Commission (ECC) reported that, Ethiopia has seized a contraband amounted to ETB hundreds of million every week (<http://www.ecc.gov.et/>). Furthermore, during the past nine months of the fiscal year 2014, the commission has seized 3.5-billion-birr worth of contraband items (Dejene, 2022). As a result, contraband costs Ethiopia significant amounts of tax revenue. For instance, from 2013 to 2019, Ethiopia has lost ETB 157 million of VAT revenue at a minimum due to contraband (Dejen, 2019).

Therefore, this study tried to examine the forms of illicit trade, challenges and opportunities to integrate illicit trades in the tax system and amount of government revenue due to involvement on illicit trade in the route of DireDawa and Jigjiga routes.

Review of Related Literature

Basic Concepts of Illicit Trade

Illicit trade, or contraband, constitutes an organized activity that encompasses both business and criminal elements. It is defined by the unlawful importation or exportation of goods and services, alongside tax evasion, with the aim of maximizing profit in a short timeframe (Jibril, 2014). The Economic Forum (2012) defines it as 'money, goods, or value obtained from illegal and typically unethical activities, which result in economic, social, environmental, or political harm.

A wide range of goods and services are involved in illicit commerce, which gives rise to black markets all over the world. According to the World Economic Forum, illicit trade is the exchange of commodities, money, or other assets obtained by generally accepted unethical behavior that is illegal and results in "economic, social, environmental, or political harms." Trans-national smuggling is the logistics method used by illegal traffickers to get their goods to market. Any illegal substance or material that an inmate possesses, including alcohol,

cigarettes, cell phones, weapons, drugs, illicit financial flows, forbidden appliances, and clothing, is considered contraband. The rise in violence and drug trafficking is exacerbating political tensions, endangering public health and safety, and undermining security measures.

A robust, globally coordinated response is necessary due to the toxic and corrosive nature of illicit trade and organized trans-national crime, which undermines the rule of law, harms economic growth and job creation, robs governments of much-needed revenue, and threatens human rights and quality of life (Illicit trade report, 2013). Since it encourages rebellious behavior that leads people to dangerous and reckless behaviors like using drugs and alcohol, which raises the likelihood that someone would commit a crime, contraband increases the criminality of those who are incarcerated (Adamson, 2003). This might result in indiscipline and excessive escape attempts (Kennison & Bradley, 2012). The government's annual revenue is reduced because of contraband, which also generally worsens economic subordination, making it harder for the government to adopt reasonable solutions. Additionally, state social sponsorship is awarded with insufficient accuracy because even individuals with substantial incomes from illegal activity can obtain it, and residents and legal entities frequently disregard the law. It is good to issue more money into turnover if the government is experiencing financial difficulties to balance revenue and expenses (Bakhtiyari, 2016).

Models of Illicit Trade

There are two ways that illicit trade might happen: 1) through legal entry points when control is passed, or 2) through illegal entry points (Bhagwati, 1981). Depending on the ways of occurring illegal trades, there are also different models stated by different scholars for the explanations of illicit trade.

Fictitious invoicing of Unit Values or Prices, without Bribing of Customs; Fictitious Invoicing of Quantity, without Bribing of Customs; False Invoicing of Unit Values, with Bribe; and Faked Invoicing of Quantity, with Bribe are the models for illicit trade through legal checkpoints (Bhagwati, 1981 and Nayaka, 1977). On the other hand, the smuggling of untaxed commodities by businesses engaged in illegal commerce as well as the smuggling of untaxed commodities by businesses engaged in both illegal and legal trade simultaneously serve as the model for illicit trade through illegal checkpoints (Bhagwati, 1981; Nayaka, 1977; and Alok, 1978).

Empirical Literature

The effects of illicit trade are numerous and have a substantial economic impact. It is a significant issue for emerging nations and has wide-ranging effects on the government, domestic industry, and citizens of the nation.

One of the tax violations that targets a nation's tax structure is the smuggling of goods or products. It reduces the volume of money received by state agencies from different tariffs and levies and dampens legitimate imports. The Central Government's income stream, which has been declining over the previous few years, is mostly derived from customs duties (FICCI, 2016). Because illicit goods cross borders without paying taxes, the unlawful trade in goods deprives the government of tax income. The government loses a lot of money when commodities are transported covertly or illegally into or out of the nation without paying taxes and customs duties (Ahsan et al., 2014 and Joossens et al., 2010). Development projects are ultimately hampered by the lost government revenue. As a result, the government may need to raise taxes or modify other revenue streams to finance and make the development projects possible. Since honest taxpayers bear the brunt of covering these shortages, higher commodity prices may contribute to the expansion of black markets. Alternatively, as taxes rise on imported and domestically produced goods, many consumers may turn to a variety of illegal and alternative channels in search of lower-priced goods. (Ahsan et al., 2014). The primary goal of taxes, which are often levied through a progressive tax system, is to lessen income disparity among the population. Rich people pay their fair share of taxes under this system, and so do the poor. Contraband businesses, on the other hand, go against this and widen the gap in income between the affluent and the poor. They comprise most of the group that is officially recognized

as lawfully avoiding paying taxes to the government. These illegal traders conceal their items from the government's eyes and sell them covertly when they enter or exit the nation. They pay the impoverished to transport the contraband goods from the border to their store by foot or by other methods. Because they are not paid like official business professionals, many people's living standards stagnate as they amass fortunes.

Additionally, a contraband operator brings goods that pose a risk to the public. They deal with commodities that are illegal, such as drugs and tobacco, which pose a major risk to the lives of many inhabitants of the nation (WEF, 2012). Additionally, pornographic materials that offend others by displaying genitalia and engaging in suggestive behavior undermine societal moral standards. Despite the nations' legislative prohibitions against importing certain items, more and more of them are crossing the border as demand for them rises. Dangerous substances that become a habit degrade and demoralize young people's moral sensibilities. People who use illicit drugs for recreational purposes or due to addiction also experience a wave of illness when they are unable to continue using them (Shibuya et al., 2003). Smuggled commodities of poor quality have the potential to cause health issues for society. Federal police officers apprehend individuals and tourists who bring illegal narcotics into the nation to combat drug trafficking (Ahsan et al., 2014).

In summary studies in the past, abroad, are concerned with the illicit trade of tobacco smuggling on tax revenue (Chaloupka, 2014; Ahsan et. al., 2014; and Joossens et al., 2010). Additionally, studies conducted in Ethiopia were also focused on challenges and opportunity of contraband trade in general (Ahsan et. all., 2014); license trade and contraband (Dejene, 2019); and study by Abreha (2018) was focusing on the burden of contraband on revenue and custom duty collection. Studying the effect of contraband (illicit trade) on Ethiopia's tax collection is crucial.

Research Methodology

Research Design and Approach

A research design is a plan or process for the research; it consists of different methods and procedures of conducting and analyzing the data (Creswell. 2012). For this research work, the researcher used a descriptive research design to achieve its objectives. In addition, the study adopted a concurrent mixed research approach since the data were collected from both quantitative and qualitative data from respondents to support the research designs

Sources of Data and Collection Methods

For this study the primary source of data was taken into consideration. The primary data of this study were collected through questionnaires from Traders/clients and employees of Ethiopian Custom Commission and Ministry of Revenue of Ethiopia. The interview from higher officials of Ethiopian Custom Commission and Bureau of revenue at Diredawa and Jigjiga branches were also used a source of data.

Sampling Design

Respondents were selected from traders/clients and employees of Ethiopian Custom Commission and Bureau of revenue at Diredawa and JigJiga branches that were also selected based on the frequency of seized contrabands in months of April and May 2022. From these routes 768 sample size respondents (384 from each route) were determined, based on the unknown population sample size determination formula of Cochran (1953). In selecting respondents, additionally, the researcher has used convenient sampling techniques for clients/traders around Diredawa and Jigjiga and employees of the commission and revenue office were also selected based on simple random sampling techniques, since it accessible to have their lists form the commission.

Method of Data Analysis

The quantitative data collected under this study were analyzed using descriptive statistics like frequency, mean, standard deviation and Relative Importance Index and inferential statistics to test the association between gender and engagement on illicit trade and hiding of tax with the help statistical software package called SPSS 21. Whereas the qualitative data collected under the study were transcribed and reported in themes and sub-themes manually. The results of the quantitative data were triangulated with the results of the qualitative data on the interpretation of the results. Therefore, the study was dominated by quantitative bud supported with the qualitative data analysis for triangulation.

Results and Discussion

Profile of Respondents

From the distributed total number of 768 questionnaires 726 of them were collected back. This indicates that the response rate was 94.53%, which is more than adequate to study illicit trade and lost tax revenue in Dire Dawa and Jigjiga route.

Table 1: Respondents' Profile

| Variables | | Frequency | Valid Percent |
|----------------|-----------------------|-----------|---------------|
| Category | Officials | 309 | 42.56 |
| | businessmen | 417 | 57.44 |
| Sex | Male | 323 | 48.07 |
| | Female | 349 | 51.93 |
| Education | Elementary completed | 210 | 30.52 |
| | High school completed | 159 | 23.11 |
| | First degree | 193 | 28.05 |
| | Master's degree | 100 | 14.53 |
| | Others | 26 | 3.78 |
| Marital Status | Bachelor | 208 | 29.25 |
| | Married | 397 | 55.84 |
| | Divorced | 69 | 9.70 |
| | Widowed | 37 | 5.20 |
| Experience | 1-4 years | 132 | 44.59 |
| | 5-8 years | 67 | 22.64 |
| | 9-12 years | 54 | 18.24 |
| | above 13 | 43 | 14.53 |
| Age | between 15 and 29 | 196 | 28.24 |
| | between 30 and 54 | 407 | 58.65 |
| | 55 and above | 91 | 13.11 |

Source: Own Survey (2022)

Table 1 indicates that 42.56% of respondents were officials from both custom commission and revenue offices of Dire Dawa and Jigjiga branches and the remaining 53.44% of respondents were businessmen/women or traders in the Dire Dawa District and jigjiga routes. These respondents were categorized as 48.07% men and 51.93% as women.

Among the total respondents, 30.52 % of them are elementary education completed, 23.11% of respondents are high school complete, 28.05% of respondents had first degree, 14.53% respondents have also master's degree and above, but the remaining 3.78% respondents replied that they have other types of educational qualification like diploma, level 3 and 3 educational qualifications. Therefore, respondents for this study are literate and educated.

The above-mentioned respondents were also categorized as bachelor (accounts for 29.25%), married (accounted for 55.84%), divorced (accounted for 9.70%), and widowed (accounted for 5.20%).

Majority of official respondents have working experience between 0 and 4 years which accounts for a total of 44.59%, respondents with experience between 5 and 8 years accounted for 22.64%. But the remaining 32.77% of respondents have a working experience of above 9 years (of which 18.24% have work experience between 9 and 12 years and 14.53% of them have above 13 years working experience) in both custom commission and revenue offices of Dire Dawa and Jigjiga routes.

Respondents, which accounted for 28.24% of them, are categorized young (under the age between 15 and 29 years), 58.65% of them were also categorized as adult (between the age group of 30 and 54 years). But the remaining 13.11% of respondents was categorized old (in the age group of above 55 years). Therefore these indicate that most respondents were adult based on the criteria of UN classification of age. This indicates that majority of respondents are adults, educated and reach with experience in the sector.

Forms of Illicit Trade in the Route

Forms of illicit trade where illicit traders are involved are assessed based on a Likert scale question ranging from a strong disagreement to strongly agree. The responses of both Officers and traders in the following table. Table 2 reflects that illicit traders have used Using fictitious unit value or price invoices without bribery of customs (with the mean value of 2.715 and St.dev.1.533), have used Faked Invoicing of Quantity but without Bribing of Custom (with the mean: 2.643 and st. dev. 1.401). Illicit traders have also used Using faked Invoicing of Unit Values but with Bribe (Mean 3.035 and St.dev. 1.356) and fictitious invoicing of quantity with Bribery (Mean 2.912 and St. dev. 1.377). Additionally, according to the respondents, smuggling of untaxed commodities by firms involved in illegal trade (mean 2.964 and stdev. 1.489) and smuggling of untaxed commodities by firms involved in both illegal and legal trade simultaneously (mean 3.390 and stdev. 1.540) are two ways that illicit traders engage in illicit trade.

Therefore, respondent agreed that illicit traders are engaged in Illegal trade through legal check points mainly through faked invoicing of unit values quantity with Bribe Bhagwati (1981) and Nayaka, (1977), Smuggling of Untaxed Commodities by Firms Engaged in Illegal Trade and Firms Engaged Simultaneously in Legal and Illegal Trade, as most trades between horns of African countries are made unofficial and unrecorded (Tegen and Alemayehu, (2002),(1981), Nayaka (1977) and Alok (1978). These kinds of engagement, which enable them to trade without the payment of customs duty and taxes, have an implication to lose of much revenue of the government (Ahsan et. al., 2014 and Joossens et al., 2010).

On the other hand, the KIIs witnessed that most legitimate traders are involved in both legal and illegal trade. Illicit traders mostly engaged in costing government revenue by not providing invoices for the goods or service they provide. Even if they provide the invoice, invoices are fake (invoices with false information about value and quantity), selling illegally smuggled goods and hiding the sales income. Smugglers often conduct their business in an organized manner, using vehicles and camel during night to hide from the public.

Table 2: Descriptive Statistics on the Forms of Illicit Trade in the Route

| Variables | Mean | Std. Dev. | Frequency | | | | |
|---|-------|-----------|----------------|--------|---------|----------|-------------------|
| | | | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
| Using fictitious unit value or price invoices without Bribing of Custom | 2.715 | 1.533 | 144 | 83 | 114 | 125 | 221 |
| | | | 20.96% | 12.08% | 16.59% | 18.20% | 32.17% |
| Using False Invoicing of Quantity but without Bribing of Custom | 2.643 | 1.401 | 93 | 111 | 145 | 134 | 204 |
| | | | 13.54% | 16.16% | 21.11% | 19.51% | 29.69% |
| Using Fictious Invoicing of Unit Values but with Bribe | 3.035 | 1.356 | 128 | 134 | 184 | 116 | 125 |
| | | | 18.63% | 19.51% | 26.78% | 16.89% | 18.20% |
| Using Faked Invoicing of Quantity but with Bribe | 2.912 | 1.377 | 112 | 128 | 182 | 106 | 153 |
| | | | 16.4% | 18.8% | 26.7% | 15.6% | 22.5% |
| Smuggling of Untaxed Commodities by Firms Engaged in Illegal Trade | 2.964 | 1.489 | 152 | 112 | 162 | 81 | 180 |
| | | | 22.13% | 16.30% | 23.58% | 11.79% | 26.20% |
| Smuggling of Untaxed Commodities by Firms Engaged Simultaneously in Legal and Illegal Trade | 3.390 | 1.540 | 237 | 133 | 125 | 38 | 151 |
| | | | 34.65% | 19.44% | 18.27% | 5.56% | 22.08% |
| Valid N (listwise) | | | | | | | |

Source: Own Survey (2022)

Involvement in the Illicit Trade and Lost Tax Revenue

Table 3 reflects that among the traders in the Dire Dawa district 76.89% of them have a legal trading license but the remaining 23.11% have no legal trading license to do their business in the route. 42.765 % of respondents believed that there are illicit traders on the route but the majority (57.24%) of them don't. In addition, 83.58% of traders on the route confessed that they are involved in the illicit trade but the remaining 16.43% of them are not. A chi-square test was performed, and no association was found between gender and involvement in illicit trade in the route ($\chi^2=1.998$ df =1; <0.158).

Table 3: Involvement in the Illicit Trade

| Variables | | Frequency | Valid Percent |
|--|-----|-----------|---------------|
| Do businesses have trade license? | Yes | 539 | 76.89 |
| | No | 162 | 23.11 |
| Are illicit traders available? | Yes | 127 | 42.76 |
| | No | 170 | 57.24 |
| Have you been involved in illicit trade? | Yes | 336 | 83.58 |
| | No | 66 | 16.42 |

Source: Own Survey (2022)

The involvements of traders in the illicit trade are in different forms. This involvement as per the response of respondents is summarized in figure 1. Traders of the route are highly involved in smuggling contraband products, which account for 308 responses, and uncustomed goods, which account for 307 responses, respectively which is supported by the model on illicit trade by Bhagwati (1981). Additionally, traders in route are involved in illicit trade in the form of smuggling and trading of substandard goods (accounted 87), restricted goods, which might have potential damage on health and society (accounted 67), counterfeited goods (accounted 40), pirated goods (accounted 34) and other goods not allowed by government due to social and security reasons.

However, a Chi-square also conducted to test associations between gender and forms of trade. The result reveals that no association was found between gender and engagement in trading of counterfeited goods ($\chi^2= 0.934$; $df =1$; <0.335), Pirated goods ($\chi^2=2.983$; $df =1$; <0.084), contraband goods ($\chi^2=0.872$; $df =1$; <0.35) and sub-standard goods ($\chi^2=3.911$ $df =1$; <0.048) in the route. Perhaps their association between gender and engagement in trading of restricted goods that potentially affect the society ($\chi^2= 6.80$; $df =1$; <0.009) and uncustomed goods ($\chi^2= 6.467$; $df =1$; <0.011)

Therefore, here we can conclude that most of illicit trade activity taken by traders in route are involvement in the smuggling of contraband with n gender difference and uncustomed products, which mostly done by male compared to female illicit traders, through the legal and illegal checkpoints with bribes and not.

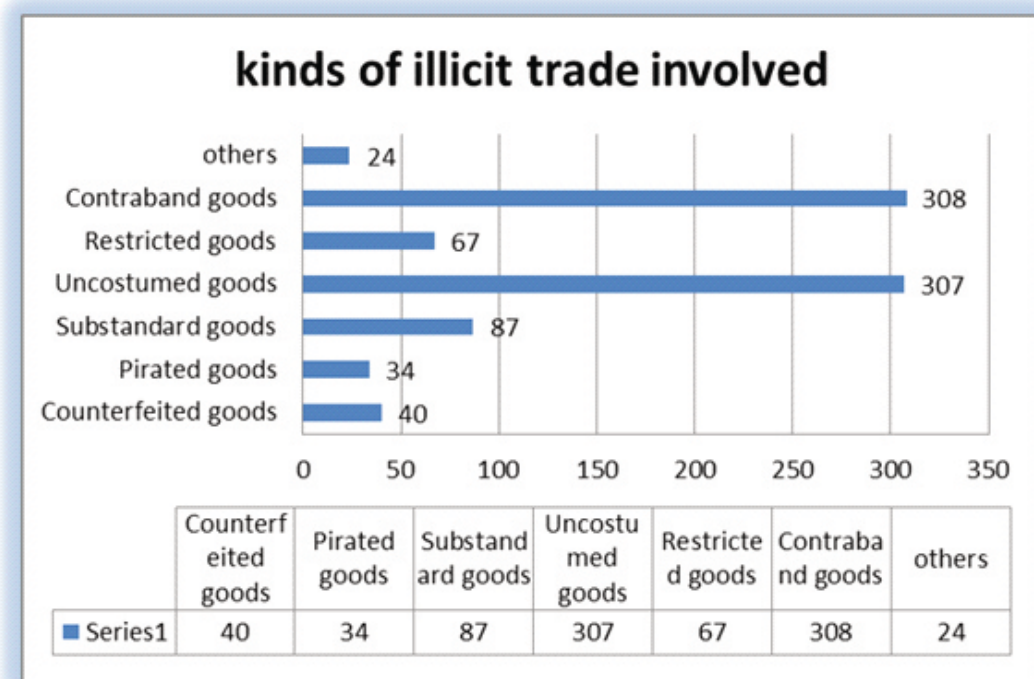


Figure 1: Kinds of Illicit Trade Involved in Businesses

Source: Own Survey (2022)



While traders are engaged in illicit trades, they were asked for their engagement in hiding government revenue, which tax. Their response is summarized in the following table 4.4. The majority of respondents, which accounts for 55.24%, replied that traders who are involved or not in illicit trade were engaged in hiding the government's tax revenue, but the remaining 44.76% respondents replied that traders were not engaged in hiding government tax revenue. A chi-square test was performed, and no association was found between gender and engagement in hiding of tax revenue from your trade in the route ($\chi^2=0.558$ $df =1$; <0.455). This result is in contrary to the findings of D'Attoma, Volintiru, Malézieux (2020) study that states women are more honest than their counterparts.

Table 4: Engagement in Hiding Tax Revenue

| Variables | | Frequency | Valid Percent |
|--|-----|-----------|---------------|
| Have you ever engaged in hiding tax revenue from your trade? | Yes | 369 | 55.24% |
| | No | 299 | 44.76% |
| | | 668 | 100% |

Source: Own Survey (2022)

As majority of respondents believed that majority of traders in the route are engaged in hiding of the illicit trade, they were also asked how traders involved in illicit trade can save in tax revenue for their involvement in illicit trade. Table 5 summarizes the amount of tax illicit traders can save for their involvement in illicit trade. According to the replied that in average they can save a tax Payment of Birr 90,123.02 a year. The maximum amount of tax payment they can save in a year is Birr 10,000,000.00 but the minimum amount tax liability they can save is Birr 100. Therefore, involvement in illicit trade in the route makes government lose tax revenue of Birr 90,123.02 a year per each involvement in illicit trade. This much amount of loss government revenue may have occurred due to the highly involvement of traders on illicit trade in the form of smuggling of Untaxed Commodities by Firms Engaging in legal and Simultaneously in Legal and Illegal Trade; and using faked Invoicing of Unit Values but with Bribe (Ahsan et. al., 2014; Bhagwati 1981; Joossens et al., 2010; Nayaka 1977; and Alok (1978).

Table 5: Tax and Custom Revenues Hidden in The Engagement in the Illicit Trade

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------------|------------|----------------|
| What amount of tax payment can you save, if you are involved in illicit trade? Please mention in Ethiopian Birr | 126 | 100.00 | 10,000,000.00 | 90123.0159 | 210634.1758 |
| Valid N (listwise) | 126 | | | | |

Source: Own Survey (2022)

Challenges to Bring Illicit Traders into the Tax System

Responses on challenges to put illicit trader into the tax system are summarized in the following figure number 1. In order to integrate illicit traders into the tax systems the following challenges rated to ineffective respond to tax evasion encourages illicit traders to be illegal; Broader Boarder and poor border management challenge is ranked; Spread of corruption in the tax system is not halting illicit traders; Complex geographical transportation used by illicit traders; and the benefit which illicit traders enjoy in hiding of tax if I engaged in the illicit trade are ranked from number one to five based on relative importance index. However, challenges related to high tax burden on legal traders; ongoing training on how to control Illicit trade and bring it into the tax system; and Insufficient enforcement and penalties are listed from the bottom of all challenges to integrate illicit traders into the tax system. In between these challenges there also other challenges to integrate those traders into the tax system these challenges are Weak institutional capacity with poor coordination within the authority in controlling of illicit trade; incompetent and unskilled manpower in control unit of illicit trade; coalition between officers and illicit traders; Insufficient checkpoints to control all cross border; and lack of adequate modern technological instruments and infrastructure to control.

Therefore the major challenges, where respondents are strongly agreed on, to put tax payers who are involved in illicit trade in the legal tax system are Insufficient enforcement of law and penalties for found in the illicit trade activity, Lack of ongoing training on how to control Illicit trade and bring it in to the tax system for custom commission ant tax authority officials, Weak institutional capacity to treat and bring-in those traders into the system, Lack of competent and skilled man power in control unit of illicit trade, Insufficient checkpoints to control all cross border illicit trade activities, Lack of adequate modern technological instruments and infrastructure to control and bring back to the tax system, the benefit illicit traders enjoy in hiding of tax if they engaged in the illicit trade, Ineffective respond to tax evasion encourages illicit traders to be illegal, Broader Boarder and poor border management challenge which support the findings of Belayneh et al. (2015), , Complex geographical transportation used by illicit traders, Poor coordination within the authority in controlling of illicit traders, Spread of corruption in the tax system is not halting illicit traders, and Coalition between officers and illicit traders.

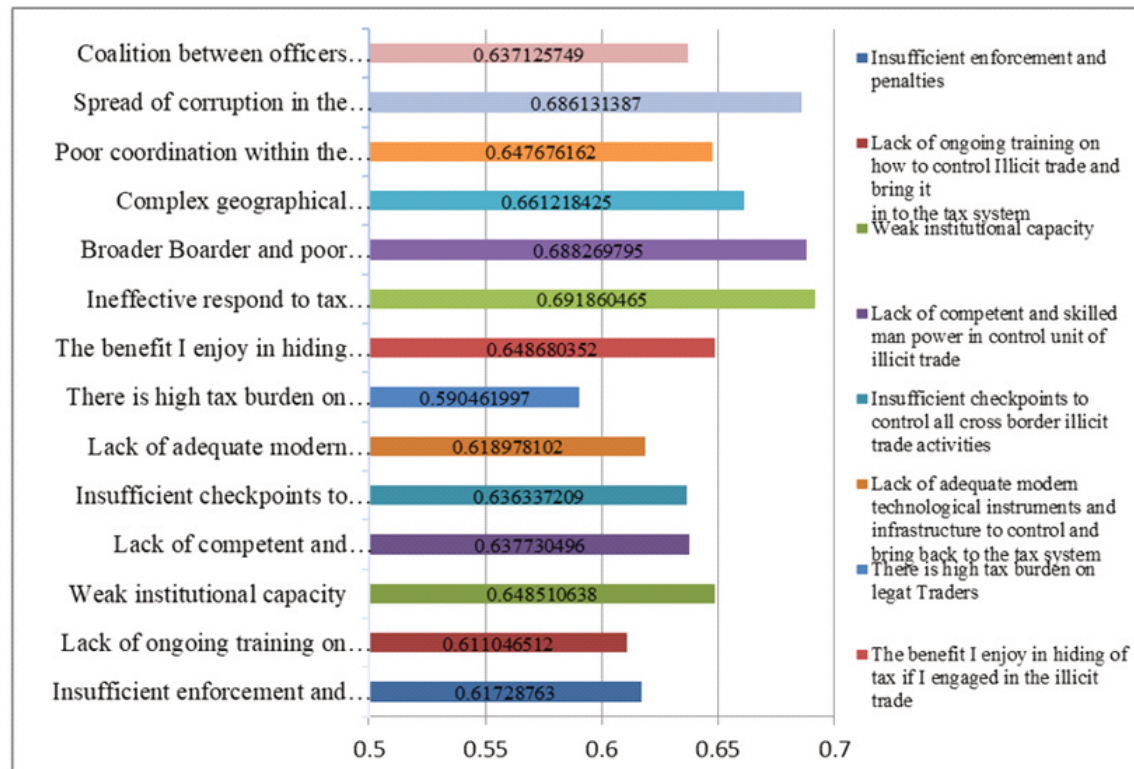


Figure 2: Relative Importance Index on Challenges to Bring-In Illicit Traders into the Tax System

Source: Own Survey (2022)

Opportunities to Integrate Illicit Traders into the Tax System

Table 7: Descriptive Statistics on the Opportunities to Bring in Illicit Traders in the Tax System

| Variables | Mean | Std. Deviation | Frequency | | | | |
|---|-------|----------------|----------------|--------|---------|----------|-------------------|
| | | | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
| Simplify the tax system to enable illicit traders to be entertained in the tax system | 3.263 | 1.530 | 218 | 99 | 145 | 66 | 146 |
| | | | 32.34% | 14.69% | 21.51% | 9.79% | 21.66% |
| Provide work premises to illicit traders | 3.262 | 1.492 | 199 | 137 | 119 | 91 | 133 |
| | | | 29.31% | 20.18% | 17.53% | 13.40% | 19.59% |
| Ease the licensing and certifications of traders in the legal forms of trading | 3.422 | 1.403 | 200 | 164 | 142 | 66 | 106 |
| | | | 29.50% | 24.19% | 20.94% | 9.73% | 15.63% |
| Illicit traders are bored with hiding and seeking forms of trading | 3.079 | 1.363 | 140 | 116 | 208 | 92 | 125 |
| | | | 20.56% | 17.03% | 30.54% | 13.51% | 18.36% |
| Illicit traders are bored with the penalties for the engagement in illicit trade and caught | 3.272 | 1.313 | 176 | 108 | 206 | 123 | 75 |
| | | | 25.58% | 15.70% | 29.94% | 17.88% | 10.90% |
| Provide tax incentives to illicit traders who voluntarily joined the tax system | 3.656 | 1.382 | 254 | 177 | 113 | 54 | 90 |
| | | | 36.92% | 25.73% | 16.42% | 7.85% | 13.08% |
| Punitive and educational measure on the one involved in illicit trade (Contraband) | 3.747 | 1.382 | 303 | 118 | 128 | 49 | 83 |
| | | | 44.49% | 17.33% | 18.80% | 7.20% | 12.19% |
| Valid N (listwise) | 651 | | | | | | |

Source: Own Survey (2022)

Table 7 summarizes opportunities to put illicit traders who are involved in illicit trade into the legal tax system. Simplifying the tax system to enable illicit traders to be entertained in the tax system (with a mean 3.263 and std.deviation 1.530 values), Provide work premises to illicit traders (with a mean 3.262 and std.deviation 1.492 values), Ease the licensing and certifications of traders in the legal forms of trading (with a mean 3.422 and std.deviation 1.403 values), Illicit traders are bored with hide and seek forms of trading (with a mean 3.079 and std.deviation 1.363 values), Illicit traders are bored with the penalties for the engagement in illicit trade and caught (with a mean 3.272 and std.deviation 1.313 values), Provide tax incentives to illicit traders who voluntarily joined to the tax system (with a mean 3.656 and std.deviation 1.328 values), and Punitive and educative measure on the involved in illicit trade (Contraband) (with a mean 3.747 and std.deviation 1.382 values) can be opportunities to put illicit traders in the tax system.

Similar kinds of response were also provided from the KIIs, which states that in order integrate illicit traders into the tax system, government should attract them to be legal through easing of the licensing and registration system for those who are interested to operate, smoothening the bureaucracy in office of traders and provide some tax incentives to legally operating traders, as high tax leads to smuggling and involvement to illicit trade (Gallien, 2024, Merriman et al., 2000, and Titeca et al., 2011) the consequently affects government revenue.

Therefore, the strongly agreed opportunities to put illicit traders in the tax system are easing of the licensing and certifications process for illicit traders to make them trade in the legal forms of trading, provide tax incentives to illicit traders who voluntarily joined to the tax system and taking punitive and educative measure on the involved in illicit trade. Respondents also agreed to simplify the tax system to enable illicit traders to be entertained in the tax system (Gallien, 2024), provision of work premises to illicit traders (Alok, 1978), and fade-up with hide and seek forms of trading by illicit traders can be also opportunities to put illicit traders in the legal form of trade and tax system.

Conclusion and Recommendations

In conclusion, illicit traders are engaged in illicit trade through legal check points mainly through faked invoicing of unit values and quantity with Bribe and in illicit trade through illegal check points which are Smuggling of Untaxed Commodities by Firms Engaging in Illegal Trade and Firms Engaging Simultaneously in Legal and Illegal Trade in the route. Most illicit trade activities taken by traders in route are involved in the smuggling of contraband and uncustomed products through the legal and illegal checkpoints through bribes and not. Involvement in illicit trade in the routes makes government lose a significant amount of tax revenue a year per each involvement in illicit trade.

The major challenges in bringing illicit traders into the lawful tax system are inadequate law enforcement and penalties; absence of continuous training for customs commission and tax authority officers on managing illicit trade; absence of knowledgeable and experienced personnel in the illegal trade control unit; inadequate check points and infrastructure with adequate technological tools to monitor illegal trade across borders.

In addition the benefit illicit traders enjoyed in hiding of tax due to their involvement in illicit trade and ineffective response to tax evasion encourages illicit traders to be illegal, broader boarder and poor border management challenge, complex geographical transportation used by illicit traders, poor coordination within the authority in the controlling of illicit traders, spread of corruption in the tax system which is not halting illicit traders, and coalition between officers and illicit traders are also other major challenges to integrate illicit traders into the tax system.

Easing the licensing and certifications process for illicit traders to make them trade in the legal forms of trading, providing tax incentives to illicit traders who voluntarily joined the tax system and taking punitive and educative measure on those involved in illicit trade, simplifying the tax system to enable illicit traders to be entertained in the tax system, provision of work premises to illicit traders, and encouraging them to stop the hide and seek forms of trading by illicit trader can be also opportunities to put illicit traders in the legal form of trade and tax system.

Finally, it is recommended to monitor and follow up the legal check points for their services in determining values and quantities of cross border product value and quantity and take corrective action for faked invoicing of values and quantity to reduce taxable amount (tax liability). Strictly assessing and closing illegal check points that are used for smuggling uncustomed and contraband goods in the route.

Easing of the licensing and certifications process for illicit traders, provide tax incentives to illicit traders who voluntarily joined to the tax system and taking punitive and educative measure on illicit traders by the government enables Illicit traders to trade in the legal forms of trading

Reference

- Adamson, S., (2003): Diversionary Approaches to Reduction. Available at: <http://extra.shu.ac.uk/ndc/downloads/reports/RR5.pdf>.
- Addis Fortune, (2016, April 26), Contraband challenges tax Authority, Addis Fortune, <https://addisfortune.net/articles/contraband-challenges-tax-authority/> [Accessed at May 25, 2022]
- Ahsan A., Nur Hadi W., Diahadi S., Ryan D., and Anthony D., (2014), Illicit cigarette consumption and government revenue loss in Indonesia, *Journal of Globalization and Health, Vol. 10(75)*., Pp. 1-8
- Alok R., (1978), Smuggling, Import Objectives, and Optimum Tax Structure, *The Quarterly Journal of Economics, Vol.92*, Pp.509-514.
- Bakhtiyari, M., & Salarzaei, A. H. (2016): Causes and Factors Affecting the Crime of Tobacco and Goods Smuggling in Iran. *International Journal of Law 2(2)*, 52–57.
- Belayneh B., Moti M., Abreha M. and Negesse B., (2015), Cross-Border Contraband Trade across the Main Route from Moyale to Hawassa: An Exploration into Causes and Consequences, *Journal of Business and Administrative studies, Vol., 7(2)*. Pp. 67-92.
- Bhagwati J. N., (1981), Alternative Theories of Illegal Trade: Economic Consequences and Statistical Detection, *Weltwirtschaftliches Archiv, Bd. 117, H. 3*, pp. 409-427, <http://www.jstor.org/stable/40438952> [Accessed: 21/07/2022]
- Cochran W. G., (1953), Sampling Technique, John Wiley and Sons Inc, Bombay, India.
- D'Attoma J, Volintiru C, and Malézieux A., (2020), Gender, Social Value Orientation, and Tax Compliance, *CESifo Economic Studies*, Pp. 1-24. <https://doi.org/10.1093/cesifo/ifz016>
- Dejen A. M., (2019), Licensing the crooks? Licensed Trade on Smuggled Goods and Contraband in Ethiopia: The Case of Moyale-Addis Ababa Trade Route, *Elixir Law, Vol. 137, Pp. 53926-53930*.
- Dejene D. B., (2022), The Achievements of The Commission Over the Past Nine Months Show That It Is Possible to Achieve Success In The Face Of Challenges., ECC, ---[Accessed at May 27,2022]
- Hailu A., (2018), Ethiopia: The Economic Challenges Facing the New Premier, *The Ethiopian Herald* April 18.
- Joossens L., Merriman D., Ross H. & Raw M., (2010), The Impact of Eliminating the Global Illicit Cigarette Trade on Health and Revenue, *Addiction, Vol.,105*, Pp. 1640–1649 doi:10.1111/j.1360-0443.2010. 03018.x
- Kemp P. and Rebecca G., (2020), Illicit Trade and Smuggling, *Oxford Bibliography*, available at: <https://www.oxfordbibliographies.com/view/document/obo-9780199743292/obo-9780199743292-0295.xml> Accessed May 21/2022]
- Kilimanjaro International Corporation Limited (2012), Ethiopia Second Corruption Perception Survey, Volume 1 – Main Report, Addis Ababa, Ethiopia.
- Merriman D., Yurekli A., and Chaloupka F.J., (2000), How big is the worldwide cigarette-smuggling problem? In: Jha P, Chaloupka FJ editors. Tobacco control in developing countries. Oxford: Oxford University Press.
- Nayak, S. S., (1977), Illegal Transactions in External Trade and Payments in India: An Empirical Study, *Economic and Political Weekly, Vol. 12*, pp.2051- 2062

Shibuya K, Ciecierski C, and Guindon E, (2003) WHO Framework Convention on Tobacco Control: development of evidence based global public health treaty, *BMJ*; 327, Pp. 154-7

Tegene T. and Alemayehu A., (2002), Cross-Border Livestock Trade and Food Security in the Ethiopia-Djibouti and Ethiopia-Somalia Borderlands; Organization for Social Science Research in Eastern and Southern Africa (OSSREA) Addis Ababa, Ethiopia

Titeca K., Joossens L., and Raw M., (2011), Blood Cigarettes: cigarette smuggling and war economies in eastern and central Africa, *Tob Control, Vol. 20*, Pp. 226–32.

Transparency international (2010 a), Exploring the Relationships between Corruption and Tax Revenue, available at: <https://www.u4.no/publications/exploring-the-relationships-between-corruption-and-tax-revenue> [Accessed at Oct 08, 2021]

Transparency international, (2010 b), East African Bribery Index 2010

World Economic Forum (2012). Global Agenda Council on Illicit Trade. Accessed on 10 August 2015. Retrieved from: [ww.weforum.org/docs/AM12/WEF_AM12_GAC_IllicitTrade.pdf](http://www.weforum.org/docs/AM12/WEF_AM12_GAC_IllicitTrade.pdf)

Zemzem A. M., and Teklu K. Z., (2017), Challenges of Cross Border Contraband Goods Control in Ethiopian Revenue and Customs Authority the Case of Humera Customs Station Office, *European Journal of Business and Management, Vol.9, (13)*, Pp. 80-86.

Acknowledgments

I am grateful for the financial support from the Ethiopian Civil Service University through its Staff Development Research Grant program.