

A STUDY ON THE PROBLEMS OF THE BUSINESS COMMUNITY IN OROMIA REGION



ECCSA



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A STUDY ON THE PROBLEMS OF THE BUSINESS COMMUNITY IN OROMIA REGION

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ECCSA



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Executive Summary

The main aim of this report was to identify the major business agendas in Oromia Regional State through identifying challenges and opportunities of the business environment facing the private sector. The study used primary survey data gathered from the business community and major stakeholders (revenue and custom authority, market and development offices and OCCSA branch offices) focusing on tax-related problems, illegal trade practices, organization of trade fairs and bazars and customer services. Issues related to policy barriers, governance were also assessed. Secondary data were also used from various sources to supplement the primary data including official records and reports of relevant offices.

The results of the survey found a number of tax related problems: unreasonable estimation of daily/taxable income; excessive levels of taxes/tax rate; increased tendency of use of subjective estimation/presumptive taxation, and unequal treatment in taxes levied. The tax collection and administration is characterized by underdeveloped system of submitting tax returns; lack of awareness creation and effective education with regard to registration, declaration and payment procedures. Key aspects of the tax administration (such as tax complaint handling system; documentation and file management system) have all been of greater concern to and sources of complaints by the private sector in the region.

Moreover, lack of capacity and professionalism of employees, and lack of accountability at the revenue offices has been seriously complained by the private sector. Governance problems such as corruption and poor law enforcement have been noteworthy problems in the region. Challenges such as lengthy tax clearance procedure; inefficient tax auditing system, back payment and penalty; problems related to cash register; and poor customer handling were also observed. Incompleteness of the tax registration (particularly VAT) continue to challenge the private sector by creating distortions arising from unfair competition.

With respect to trade fair and bazars, there is lack of agreement among stakeholders (specifically between Chambers and government bodies) in terms of a number of issues related to organization of such events. Consequently, the events are poorly organized and the process lacks transparency, resulting in lack of coordination and orderly event management; use of such events as a means of profit-making especially by promotion companies; events becoming scenes of poor quality goods dominated by participation of illegal businesses. Despite the legal responsibility vested in Chambers for organizing such events, a number of parties get involved in the process

wherein the Chambers are not only sidelined, but also often lack the capacity to handle such issues effectively.

As regards illegal trade, anticompetitive practices such as hoarding, poor legal enforcement related to taxation, incomplete business/tax/VAT registration and contraband activities in the region were identified as major problems resulting in illegal trade practices. Unfair trade practices such as state monopoly/dominance in some business sectors; discriminatory/preferential treatments to such organizations; illegal hoarding; lack of transparency in government procurement procedures; inconsistent tax administration and unfair competition were causes for illegal trade practices. Although, trade offices, chambers, revenue offices, police and the members of the business community were identified as the top five stakeholders participating in the fight against illegal trade in the region, these organs haven't been discharging their roles satisfactorily. There is also lack coordination and mutual understanding among these organs. Moreover, efforts to discourage illegal traders were not adequate and there remains a lot to be done by the government to promote fair competition in the region.

Finally, with respect to service delivery, lack of capacity of frontline staffs coupled with lack of conducive working environment, and high staff turnover have resulted in poor service delivery. Chambers were in most cases unable to properly defend the interests of the business community. Lack of capacity and institutional organization of stakeholder organizations was also a key challenge underlying lack of coordination among stakeholders serving the business community. Chambers of commerce have seriously complained that they do not have a good relationship with the public offices in the region in general. Challenges to the use of the region's office language was also one of the barriers constraining service delivery and support to the private sector in the region. Specifically, service delivery, communications and notices in all three organizations (Revenu, trade and Chamber) do not follow the language policy in the region which deserves attention and correction.

Accordingly, the following recommendations were made in order to address the key challenges identified.

1. With respect to tax related issues, designing the tax system that is capable of ensuring equitable distribution of the tax burden with minimal distortions and inefficiencies in the private sector as well as making tax administration responsive to the problems of

taxpayers; designing of structured taxpayer education programs to reduce the compliance cost; establishing transparent administrative procedures and to ensure the existence of efficient tax appeals system with independent institutional structures; establishing a more fair daily income and taxable income assessment; avoid the practice of tax assessment for three years based on one time supervision/enumeration for category 'C' taxpayers; design systematic capacity building of employees and officials; at different levels of revenue authorities and institutionalize efficient accountability matrix based on benchmarking of efficient revenue and custom offices in emerging developing countries; awareness creation to calculate financial statement especially income statement report by certified accountants is quite beneficial for the private sector and the nation at large; and reshuffling them at least with zones or woredas of the region may help reduce corruption.

2. Regarding challenges related trade fair and bazar, there is a need to revise existing rules of the game should also be clearly legislate chambers' roles in event organization; ensure better mutual understanding and coordination of efforts among stakeholders, strengthen the capacity of city Chambers through better collaboration with OCCSA, ECCSA and other regional/international Chambers and also creating collaborative ties with public universities in the region
3. Concerning challenges related to illegal trade practices, raise awareness about the consequences of illegal trade practices in the region; ensure sustainable coordination of actions against illegal trade in a structured manner with key actors (trade offices, chambers, revenue offices, police, municipalities, and the members of the business community); transform current campaigns on illegal trade in the region into a formal structure with sufficient resources allocated; address policy barriers with regard to unregistered business operators; organizing consultative workshops for actors to discuss the issues of illegal trade development, implementation of periphery cross border trade and related service provision
4. In terms of service delivery related challenges, priority must be given to both supply and demand-side functions of service delivery; through sustained and structured capacity building plans should be mandatory especially in all the three organizations (Chambers, Revenue offices, and Trade offices); set up proper service delivery to ensure quality of service delivery; conduct periodic customer satisfaction survey to optimize users' satisfaction

1. Introduction

1.1. Background

In the emerging business environment, characterized by greater reliance on market forces and private enterprise, there is an increasing recognition of the need for stronger private sector involvement in developing national economies. However, business organizations representing the private sector find themselves increasingly challenged as they continue to face considerable challenges constraining their overall performance and success. More specifically, the private sector faces a number of problems such as poor access to finance, severe scarcity of foreign currency, difficulties related to accessing, shortage of electricity supply, inefficient logistics and customs system, poor tax administration, and unfair trade practices to site a few of them. There are also gaps related to key business policies, laws and procedures affecting the interest of the business community. The design and implementation of government policy and laws is particularly not participatory process ultimately resulting in poor governance.

The situation in Oromia region is no different. The private sector in the region has been repeatedly raising number of complaints. Among the many issues that were repeatedly complained by business community in different forums, the most critical ones included problems related to tax collection and administration, trade-fair and bazar, unfair trade practices and customer service, business licensing, access to investment and infrastructure, access to loan delivery, access to foreign currency, land and construction permit, corruption. Of these problems, four of them, namely: problems related to tax collection and administration, trade fair and bazar, unfair trade practices, service delivery and customer handling are particularly critical areas of concern to the private sector and business community in the region.

Any attempt of preparing a workable regional business agenda and government intervention without assessing the triggering factors for issues frequently complained by the private business community and their magnitude is not sensible. The OCCSA is expected to implement strategies that will ensure the achievement of Chamber objectives outlined in proc.341/2003. Hence, assessment of the depth of constraints identified by the private business community is imperative in providing very useful input that can be used for continuous private-public dialogue (PPD) and sustainable change of business environment. It is, therefore, critical to examine these challenges facing the private sector in the region with the aim of making recommendations that inform

policy decision-making process in terms of addressing these challenges.

It is against this background that this study was commissioned by the Private Sector Development (PSD) Hub, to provide valuable input to the process of public-private dialogue. In particular, the study seeks to assess the key problems and gaps related to taxes, trade fair and bazaar, illegal trade, and service delivery; identify the business policy and procedures barriers associated with these problems; and forward recommendations that could help address those challenges.

The study attempts to provide answers to the following specific questions:

- What are the issues the business community is repeatedly complaining? Why?
- What are the key problems related to daily income estimation, trade fair, and bazar, illegal trade, and service delivery implementation gaps?
- Are the Revenue and Custom Authority and Trade and Market Development office activities adequate to ensure the creation of conducive business environment? Why or why not?
- Do the Revenue and Custom Authority and Trade and Market Development office as well as city level Chambers have the necessary capacity (human and facilities) to execute the mandates vested on them?
- What are the business policy and procedures barriers to daily income estimation, trade fair, and bazar, illegal trade, and service delivery?
- Why the business policy and procedures and techniques implemented failed to guarantee reasonable daily income estimation?
- What are the practices of good governance in the business environment as per the rules of the country with regards to tax related issues, illegal trade and service delivery excellence?
- What are the priority needs of the private business community?
- Is there a strong national-regional chambers relationship and innovative educational program?
- How can the overall business policy and procedures be designed to reflect those needs and priorities of the private business community, for improved PPD and better achievement of the Chambers objectives (Proc. 341/2003)?

1.2. Objectives of the study

1.2.1. General objectives

The general objective of the study was to investigate the key challenges and problems facing the business community in Oromia region to inform dialogues and policy formulations aimed at promoting private sector development in the region.

1.2.2. The Specific objectives are:

- To assess the overall problem related to taxation, illegal trade and unfair business practices, trade fair and bazar management, and service delivery with special attention to Revenue and Custom Authority and Trade and Market Development office as well as .OCCSA
- To identify policy and procedural barriers and gaps specifically related to the four areas of focus (taxation, illegal trade and unfair trade practices, trade fair and bazar management, and service delivery)
- To identify challenges related to good governance in the business environment as per the rules of the country with regards to tax related issues, illegal trade and service delivery

1.3. Significance of the study

Any attempt of preparing a workable regional business agenda and government intervention without assessing the triggering factors for issues frequently complained by the private business community and their magnitude is not sensible. The OCCSA is expected to implement strategies that will ensure the achievement of Chamber objectives outlined in proc.341/2003. Hence, assessment of the depth of constraints identified by the private business community is imperative in providing very useful input that can be used for continuous PPD and sustainable change of business environment. Such investigation is crucial as it clearly shows the needs, challenges and limitations underlying the development of the business environment so that the OCCSA can take advantage of its strengths and recognize obstacles to be addressed through PPD and government intervention. In particular,

the evidence generated from this study helps address the following issues:

- Suggest solutions that could be used as inputs to formulate policies and promote PPD forums on identified business agendas for the region
- Create conducive business environment that enables the private sector to act confidently on its own agendas
- Support to develop sense of ownership on behalf of the business community up on their vanguard organization (Chamber)

1.4. The scope of the study

The study is limited to assessment of primary data collected from a sample of business taxpayers and tax practitioners/experts and officials about the challenges and opportunities related to tax administration procedure, service delivery and good governance, and illegal trade, bazaars and trade fair organization practices as well as internal strength and weaknesses of tax administration and service delivery offices in the region using data gathered from a sample five major cities/towns of Oromia Regional State.

2. Methodology

2.1. Study Design

The study was carried out in Oromia Regional state. Specifically, it was conducted in five major cities of the Oromia national Regional State with large number of licensed business community. The cities, which included Adama, Jimma, Nekemte, Metu, and Woliso, were purposively selected in consultation with the OCCSA. The survey for the study was carried out from April to August 2018.

A cross-sectional study design was employed to achieve the study objectives. Specifically, a survey of licensed businesses in the selected cities was conducted for the assessment of problems of business community in Oromia regional state. Besides, three key actors; namely, City Chambers under the Oromia Chamber of Commerce and Sectorial Associations (OCCSA), Revenue Offices and Trade and Market Development Offices in the five study cities were also surveyed to examine the internal strengths and weaknesses, in terms of their roles, and the services they deliver to the private sector.

To this end, the study employed both quantitative and qualitative methods to collect primary and secondary data. First, a survey of different categories of taxpayers in the sample cities was conducted to gather quantitative (primary) data focusing on problems related to taxation, trade fair and bazaar organization, illegal trade practices and service delivery. The primary data gathered covered a range of information on challenges and opportunities to business community. The data was collected from a sample Category A, B, and C taxpayers.

Secondly, with the purpose of triangulating and further strengthening the findings of the quantitative data (tax payers' survey), qualitative data were also gathered from purposively selected practitioners/ experts and officials working in the City chambers under the Oromia Chamber of Commerce and Sectorial Associations (OCCSA), Revenues and Custom Authority, and Trade and Market Development Offices in Oromia regional state using semi-structured key informants interviews (KIIs) and observation checklists protocols. More specifically, data collected from practitioners/experts and officials include issues related to the four themes of the

study¹ as well as the strength and weakness of tax administration and service delivery. Issues/challenges related to policies and procedures and the conduct of good governance pertaining to the four areas of focus of the study were also explored through these qualitative techniques.

Secondary data were also sourced from various sources to supplement the primary data. This mainly such sources as official records and reports of concerned offices (including publications of ECCSA) working on issues related to private sector and development including empirical literature focusing on topics related to the study themes. Among others, Negarit gazeta No 186/2002, ECCSA (2005), Income tax proclamation No. 286/2002; VAT proclamation No. 285/2002; Proclamation No 377/2002; Proclamation No. 341/2003 (Chambers Of Commerce and Sectorial Association Establishment) were reviewed.

2.2. Sampling Technique and Sample Size

For the purpose of the tax payers' survey, a multi-stage sampling technique was applied to select a sample of registered businesses in the target cities of Oromia. First, five cities in the region; namely, Adama, Woliso, Jimma, Metu and Nekemte were purposively selected. Next, the total number of registered businesses in each selected city were stratified into three on the basis of their tax payer categories (i.e., categories A, B and C). The list of all tax payers belonging to each strata (category) was then obtained from the Revenue offices of each city. Finally, the required number of sample respondents was selected from each stratum using simple random sampling technique with allocation proportional to the size of each category. Accordingly, a sample size of 254 registered taxpayers (Category A, B, and C taxpayers) among the business community was determined as the sample size for questionnaire survey. The number of tax payers in final sample became 48 from category A, 85 from category B and 121 from category C, representing 19%, 33% and 48% of the total sample respondents surveyed.

For the qualitative data gathering, a sample of purposefully selected respondents (practitioners, experts and officials working on tax administration and service delivery at the three target

¹ Tax administration, Trade fair and Bazaar organization, Illegal business practices, and Service delivery

offices²) were surveyed for triangulation and further strengthening of the study results. Accordingly, two employees, who were knowledgeable, experienced and had the required level of expertise related to the four themes of the study were purposively selected for in-depth interviews (KIIs) from the three offices under the survey. To ensure knowledgeability, senior staffs (such as officers and those at managerial positions of middle level and above) were included.

Moreover, members of the business community identified on the basis of experience (length in business) and familiarity of the areas of focus of the study (the four thematic areas studied) were identified to participate in the in-depth interviews to get their opinions at greater depth. In all, 15 participants were selected for in-depth interviews held in the five sample cities studied.

Although, FGDs were planned to be conducted in each sample city, the study didn't make use of analysis of FGDs. While this was mainly because of irregularities and inconveniences encountered during the survey period, the fact that rich information was gathered from the semi-structured interviews (KIIs) was considered fairly sufficient for triangulation and enrichment of the findings from the quantitative data. Besides, additional information from complementary observation³ techniques employed by members of the study team during the survey period has also added extra dimensions to the range of data gathered for the study. Consequently, this report was largely based on the results of the KIIs for the qualitative analysis together with inputs from the observations in some cases as seen fit.

2.3. Data Collection Methods

The study employed different instruments for the collection of the primary data. A structured questionnaire covering range of topics including the four major themes of the study with emphasis on gathering the challenges and problems tax payers are facing. The questionnaire, which is composed of a series of logically sequenced and arranged questions composed of mix of open- and closed-ended questions (majority closed-ended) was employed for gathering the

² That is., city branches of the OCCSA, Revenue and Custom Authority, and Trade and Market Development Offices

³ In particular, a combination of non-participant method and some participant techniques (particularly with interrupted involvement) were employed for gathering aspects of the thematic areas that lent themselves well suited for observation methods

quantitative data. The questionnaires were administered by trained enumerators after pilot testing it with six respondents for possible changes and modifications needed to allow for gathering reliable and correct data.

For the in-depth interviews with key informants, a semi-structured interview was employed to gather a deeper understanding insights and expert opinions into the issues of focus of the study from the respondents' perspective. Guiding questions prepared in line with the study objective pertaining to the four major themes of the study were prepared for use in the interview process.

Last but not least, observation techniques guided by an observation checklist on some aspects of the research thematic areas/questions was also implemented as to gather supplementary information. In particular, information on key aspects related to service delivery, customer handling, institutional organization and capacity, facilities, transparency of procedures, working environment/facilities, documentation issues, communication, and use of modern technologies are some of the information items covered under the observation method.

The in-depth interviews was managed by members of the study team, who served as facilitators and recorders (note-taking and recorded). The team members also made close supervision during the quantitative data collection. To obtain genuine and reliable data, the data collection tools was refined and updated based on the feedback from stakeholders – PSD and ECCSA during inception phase. Moreover, enumerators recruited for the quantitative data were given orientation and training before the start of the survey.

Overall, detailed information were gathered using the three methods outlined above to adequately address the study objectives. More importantly, the four study thematic areas; namely, tax related issues/problems; illegal trade practices; issues related to trade fair and bazaar management; and customer handling/service delivery, were examined in detail to investigate constraints faced by business community in Oromia regional state.

Moreover, in order to assess the internal strength and weakness of tax administration and service provision organizations (OCCSA, City chambers, the Revenues and Custom Authority, and Oromia Trade and Market Development Offices), the perception and satisfaction level of practitioners/experts and officials was captured in relation to key factors such as organizational

culture; people, structure, rules and regulations, system and process, service delivery, and compliant handling.

2.4. Data Entry, Processing and Analysis

Quantitative data was entered and, edited using computer and analyzed using SPSS for windows version 23. Then, results were summarized using tables. Qualitative data analysis was carried out manually using thematic framework approach. Data analysis step was followed by familiarization of ideas, themes and concepts by immersion, identification of key concepts, charting and finally mapping and interpretation.

2.5. Quality Control Measures

Very close supervision was employed during the data collection process. Data entry and analysis process were carried out by the team members using SPSS version 23 and Stata version 13 respectively. Both qualitative and quantitative data collection techniques were employed for methodological triangulation.

2.6. Ethical Considerations

Permission of the respondents was secured through an official letter from the Dean of Business and Economics College, Jimma University. Subjects were clearly told about the benefits of participating in the study through formal letter. Consent of subjects was secured before the initiation of data collection and subjects were assured about the confidentiality of the information they gave. Moreover, to maintain confidentiality the names of subjects not be registered on the data collectors-administered questionnaire.

3. Theoretical Background and Literature Review

3.1. Overview of Oromia Chamber of Commerce and Sectorial Association

In Ethiopia, the establishment of chambers of commerce is governed by public law. Accordingly, the Ethiopian Chamber of commerce was first established in 1978 under proclamation No. 148 /1978, representing several thousand members, most of which belonged to trade and service

sectors. Later, a successor association by the name ‘the Ethiopian Chamber of Commerce and Sectoral Associations - ECCSA’ was reconstituted under proclamation No. 341/2003, effective April 24, 2007. According to proclamation no. 341/2003, the Chamber (ECCSA) seeks to achieve four major objectives: (1) provision of different services to the business community; (2) safeguarding the overall rights and benefits of their members; (3) promotion and publicity of the country’s products and services; and (4) serving as a bridge between the business community and the government (OCCSA IGF)

The Oromia Chamber of Commerce and Sectoral Associations (OCCSA) is one of the members of the Ethiopian Chamber of Commerce established on February 2007. It is an independent representative and voice of the Business community of Oromia regional state. The OCCSA has its own vision, mandates, and goals align with the ever-changing regional and national business environments and needs of regional Business Community. The vision statement of OCCSA states that it strives to create a vibrant private sector with better business environment in Oromia region. OCCSA’s mission describes it as a regional Chamber engaged in the promotion of trade, industry, and investment in Oromia region. It is also entrusted with advancement of public private dialogue and/or discussions with stakeholders that will enable it identify and address current and future problems/needs of the business community through identification and prioritization of Business Agendas of the region. Serving the business community through organizing effective and efficient capacity building training services and support schemes to its member associations and city chambers in collaboration with Private Sector Development Hub (PSD Hub). Therefore, it is committed to working to achieve its mission of representing and addressing the problems and interests of its business community (OCCSA IGF).

Though young in age, the OCCSA has thus far achieved remarkable performance in a number of areas. For instance, it has been working on establishing and organizing new city chambers, in addition to supporting and strengthening the existing city chambers. In 2017, OCCSA had 33 member associations, of which 3 are sectoral associations organized at the regional level and the rest were City level chambers. Moreover, it has got extensive exposure in identifying and prioritizing Business Agendas of the region by conducting a series of consultation meetings and discussion forums with stakeholders. It was also able to expose City Chamber Board members of

Oromia towns to the training session on Business Environment Scanning organized by PSD Hub (cite).

Despite these achievements, the private business community is facing so many problems that should be addressed through PPD and government intervention. In line with the vision and mission of OCCSA, the private business community is expecting the OCCSA to implement the following 5 objectives stipulated in proclamation 341/2007 (OCCSA IGF).

- 1) To provide different services to the business community
- 2) To safeguard the overall rights and benefits of its members
- 3) To promote and publicize products and service of the country
- 4) To enhance trade and investment in the country and
- 5) To serve as a bridge between the business community and the government.

Of the 30 member city chambers of OCCSA, seven namely Adama, Jimma, Asela, Bishoftu, Metehara, Nekemte and Shashemene were established long before its establishment. Since its establishment, OCCSA, apart from performing the main objectives and or responsibilities for its existence as was set out under proclamation no. 341/2003, it was also engaged in cultivation and organization of the business community besides the task of establishing new chambers in different parts of the Oromia region (OCCSA IGF).

3.2. Taxes and Private Sector Development in Developing Countries

Taxes and Tax is defined as an amount of money levied by a government on its citizens and used to run the financial activities of the government. However, there is no direct relationship between the tax payment and the benefit to be received by the taxpayers. The general purpose of a tax is to fund the operations of the government i.e., to raise revenues for the government expenditures. It primarily aims to mobilize the revenue required to finance public goods and services (Abdella and Clifford, 2010). Taxes differ from fines and penalties in those taxes are not intended to punish or prevent illegal behavior (Brian C., 2018).

In many countries there are various tax rates, tax rate structures, and different types of taxes imposed by federal, state, and local governments. The tax regime forms a critical element of the

environment for investment, private sector development and growth. However, the tax system and hence tax administration in many developing countries failed to become efficient in encouraging voluntary compliance of taxpayers and private sector development.

3.2.1. Tax policy related problems in developing countries

The tax systems in most of developed countries are characterized with a broad base for the direct and indirect taxes with tax liability covering the vast majority of citizens and firms; in developing countries tax systems are confronted with social, political and administrative difficulties in establishing a sound public finance system. As a result, developing countries are vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations. This may be considered as a reasons for large differences in the ability to mobilize own resources between developed and developing countries (GIZ Sector Programme Public Finance, 2010).

Tax policy should be guided by the general principles of neutrality, equity, and simplicity. Since taxes have a pervasive influence on economic decisions of individuals and businesses, and on social equity, the first principle of efficient tax system is that it should achieve the appropriate level of revenue as efficiently and fairly as possible. Thus a well-designed tax system should be effective in raising revenue, efficient in its effects on economic decisions of households and businesses, and equitable/fair in its impact on different groups in society (Abdella and Clifford, 2010).

Another important challenge for developing countries taxation system is to find a way to levy fair taxes in a way that ensures public revenues while encouraging compliance and that the way governments raise revenues can have an important implication on private business and growth in general (Abdella and Clifford, 2010). That is, daily income and taxable income estimation will be fair and equitable if it is estimated based on the 3Es principle; which means Enumeration of the goods sold by private sector, Estimation of monthly income generated monthly and then dividing by 30; and Enforcement-penalizing the taxpayers for noncompliance. They also noted that many developing countries have tax system that impose a heavy burden (or tax rates) on the private sector not adhering to the 3Es principle, forcing firms either to go bankrupt or to go informal or illegal.. Overall, an estimated 71 % of the profits in Sub-Saharan Africa are taken by tax on average, compared to only 47% for OECD and 45% for South Asian countries.

Moreover, the often lengthy tax repayment process, high tax rates, and the poor public service delivery in many developing countries has been forcing many businesses to turn into informal sector, which, in turn, constrains government capacity to raise the highly-needed revenue. In Burundi, the informal sector accounts for more than 75 percent of urban employment. In Ethiopia, informal employment grew by 144% between 1999 and 2005 compared to 16% in the formal sector (World Bank, 2009).

3.2.2. Tax Collection, Administration and Governance Problem

In developing countries tax administration performance is low because of complexity of tax system and widespread of corruption (Crandall and Bodin, 2005). Furthermore, informal businesses and inflation is also another factor that affects tax collection and administration (Emran and Stiglitz, 2005). According to Ola (2001) revenue collected from business community is inadequate because of tax literacy, poor relationship between taxpayers and tax collectors, insufficient qualified and competent staff of tax authorities.

Though taxation has significance importance for development of the country, revenue generated from taxes is not sufficient to finance the government expenditures because of collection and administration problem in developing countries. The problems arise primarily due to the fact that developing countries face many kinds of problems and challenges in the massive task of tax collection process and approaches. Secondly, their chances of tax collection are further diminished on account of predominantly cash transactions with no trails, a huge black economy, and rampant tax evasion. There is also lack of political will power to collect revenues resulting in a narrow tax base on account of a number of politically motivated tax exemptions and deductions (Rai, 2004). Among numerous reasons adduced for the low tax revenue generation in developing countries, tax noncompliance appears to be key (IMF, 2015). Kebede and Tegegn (2016) also found that problems of the taxpayers such as great resistance, hiding their actual taxable income intentionally and illegal business due to poor tax collection and administration.

Since the majority of the workforces in developing countries are engaged in subsistence agriculture and in small enterprises or in the informal sector, most of the operators in these economic activities have limited ability to keep accounts and hence do not keep accurate records of sales and inventories. This in turn makes it difficult to determine the tax base and to raise more revenue and, in many cases, cash income falls below the threshold for tax liability. As a

result, it is difficult to build an efficient tax administration due to an absence of research and studies, and lack of highly-educated and well-trained staff in public finance, tax accounting, tax laws, and similar professions. Moreover, governments in developing countries often take the path of least resistance or develop tax systems that allow them to exploit whatever options are available rather than establishing rational, modern, and efficient tax systems.

A sound tax system provides the opportunity for real income; saving and investment for accelerated economic growth, and minimizes price distortions that would help reduce the impacts on the private sector development. Tax compliance costs form an important element in the ease of doing business. In a study conducted by Richard et al. (2016), the actual cost of collecting taxes in developed countries is roughly one percent of tax revenues depending on the types of tax. The internationally accepted standard for collecting \$100 ranges from \$3 to \$6.

In this regard, research by World Bank (2010) indicated that the tax collection cost in Ethiopia for Birr 100 was Birr 0.217 in 2007 and rose to Birr 0.488 in 2008. This suggests that the federal revenue operation is still underfinanced, which will tend to push more of the cost of collection onto the private sector and hence increase compliance costs. Moreover, the World Bank (2009) report shows that a 10% increase in the effective tax rate for corporate income was associated with a decrease of up to 2 percent in the ratio of investment to GDP, thereby discouraging private investment, and a decrease of about 1% in the rate of business entry.

In order to improve tax administration efficiency, a number of countries have introduced electronic filing and payment system. Angola, Kenya, Mauritius, Mozambique and South Africa all offer electronic tax filing and repayment options to businesses. If properly implemented and adopted by businesses, electronic tax systems speed up processing, improve data collection and reduce error rates (Ibid). Nevertheless, this option works well where there is reliable telecommunications infrastructure to support tax administration.

3.2.3. Value-Added Tax (VAT)

A majority of the countries in the world have introduced VAT, which is a tax on consumption. VAT is usually introduced as a replacement for sales tax and (unlike sales tax, which is charged only to the final consumer) it is levied at all stages in the value chain. Thus, a VAT-registered

business pays VAT on the goods and services it purchases as inputs and charges VAT on the output, i.e., goods or services it sells.

The difference between the input and output VAT charges is the tax on the value added by the business and this tax is paid over to the government. The business itself (at least in theory) pays no tax but only collects the tax on behalf of the government one of the reasons for its popularity with governments around the world. In practice, in competitive markets or where there are significant numbers of non-VAT-registered competitors, a business may not be able to pass on all of the VAT to customers and thus part of the cost of the VAT may be borne by the business rather than its customers.

According to dos Santos, an ideal VAT should be applied to the sales of all goods and services. Exemptions should be kept to a minimum to broaden the tax base and to facilitate compliance by taxpayers and control by the tax administration. There should be only one positive rate. Multiple rates make administration more complicated and encourage evasion. Zero rates should be applied exclusively to exports. If they are extended to other sectors it increases the difficulty of control and also increases the number of refund claims. The threshold should be established at a level that, without sacrificing too much revenue, keeps the number of registered taxpayers to manageable levels.

Arguments used against the introduction of VAT are: weakness of the tax administration; absence of a “culture” of issuing invoices by businesses; and a low adult literacy rate. This latter factor can certainly complicate the introduction of taxes such as VAT. VAT is a transaction-based tax, and consequently should be reported and controlled on a regular basis. Many countries (of which Ethiopia is one) require monthly filing and payment. However, this results in a large number of returns and payments, which the tax administration may struggle to process, and which involve significant work for taxpayers. Thus, some tax administrations have adopted a system of quarterly returns and payment for most taxpayers (Dos Santos, 2002).

VAT supporters argue that income tax discriminates against saving by taxing consumption only once but taxing saving more than once, because the income from saving is also taxed. Thus, substituting VAT for income tax should stimulate saving since taxing consumption instead of

savings from income would reduce or eliminate that discrimination. Empirical results of a study of OECD countries by Miltzer and Ontscherenki found no statistically significant relationship between the introduction of VAT and the domestic savings rate. Though this is not conclusive (as many other economic and social factors were not controlled for in the study) it does suggest that the claimed beneficial effect is at best a very weak one.

The literature asserts clearly that VAT can increase the potential for saving and investment (Price and Porcano, 1992). It is, however, not clear whether the increase in investment would be in the public or the private sector. Some researchers consider VAT as an income-generating machine for the government; hence it is more likely that investment in the public sector would increase after VAT application. Consequently the public sector would be larger than it already is. It is also well recognized in the literature that larger public sector crowds out private investments.

Miltzer and Ontscherenki argue that although VAT is a consumption tax, in practice some of the cost is likely to fall directly on business. It is a tax purely on consumption only when businesses are able to shift the tax fully on to the final consumers in the price of their products. If businesses are unable to do this, it reduces their profit margins and, in consequence, this may hinder the growth of the private sector.

3.2.4. Tax Compliance

Tax compliance costs are broadly defined as costs incurred by the private sector in complying with the requirements of a tax system. A high level of tax compliance costs (due partly to the complexity of a tax system) may result in taxpayers' noncompliance of intentional and/or unintentional nature. Taxpayers' noncompliance can be viewed as a problem on, at least, equity, efficiency and spending capacity of governments.

Roth et al., (1989:21) defined tax compliance as compliance with reporting requirements means that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations, and court decisions applicable at the time return is filed. In this premise, tax noncompliance may be thought of as the failure of taxpayers to keep the required records, file accurate returns and pay the taxes due at the

proper time and in line with the requirements laid down by the pertinent tax law, regulations, court decisions and administrative procedures.

Tax noncompliance can be intentional (deliberate) or unintentional. Intentional noncompliance occurs when taxpayers consciously opt not to meet the requirements of (obligations levied upon them under) the relevant tax regime. As McKerchar (2002:27) noted that intentional/deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebates or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; fail to lodge returns and pay; lodge returns and pay late; or do not keep the required records.

In this case, deliberate noncompliance may be observed in a variety of ways including those arising from a taxpayer's intentional failure of claiming deductions, credits, hiding income involving complex treatment (hiding sales involving complex VAT treatments), and reducing the number of VAT sales invoices to be processed and declared. These measures may result in overstatement or understatement of the tax liability. Further, these deliberate actions by taxpayers may be motivated by such factors as the difficulty of dealing with a complex tax system, and the amount of time and effort needed to comply with the requirements of the tax system (Wolela, 2009).

On the other hand, unintentional noncompliance emerges when taxpayers fail to fulfil the requirements of any aspect of the tax system without any deliberate action. Unintentional noncompliance may result in either overstatement or understatement of the tax liability. Unintentional noncompliance is not necessarily motivated by financial benefits to the noncompliant taxpayer. Unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns (Ibid).

The literature on tax compliance theory has identified some categories of factors that overlap each other in explaining tax compliance behaviour. These factors include the effectiveness of

tax enforcement (including the probability of detection and the size of fines); the structure of government and constitution (including the role of pressure groups and responsiveness of policymaking to public opinion); and the perceptions and attitudes of taxpayers towards the above influences. The perceptions and attitudes of taxpayers category also includes personal characteristics of taxpayers such as their fiscal knowledge, social class, economic wellbeing, risk aversion, deference to authority, familiarity with, and acquaintance to tax evaders, income, occupation, and personal tax-compliance costs (Witte and Woodbury, 1983, cited in Mc Kerchar 2002:73)

Although different disciplines are involved in studying tax compliance behaviour, Mc Kerchar (2001) noted that there are three approaches namely economic deterrence, social psychology and fiscal psychology model; with the latter being a mix of the first two. The economic deterrence model was developed by Allingham and Sandmo (1972) was an attempt to study the impact of economic and structural features on compliance, which in turn rely on enforcement as deterrence to noncompliance. The model assumes that a taxpayer will evade tax as long as the benefit of evading is greater than the expected cost of being caught and punished. That is, taxpayers evade taxes if their decision maximizes their expected profit (or utility). From the theoretical analysis, they concluded that an increase in the penalty rate would increase the fraction of actual income declared and an increase in the probability of detection would also lead to a larger income being declared.

3.2.5. Tax regulation in Ethiopia

Tax administration convenience requires classification of taxpayers into different groups as it is not possible to extend the same treatment to all; taxpayers at the same time. The Ethiopian income tax law classifies taxpayers into 3 categories⁴.

Category “A” taxpayers are composed of two groups. Those business whose annual turnover for a single tax year is equal or greater than 500,000 Birr annually and any company incorporated under the laws of Ethiopia is category “A” taxpayer irrespective of their annual turnover, are expected to keep books and accounts. If a taxpayer failed to keep books and accounts for one

⁴ See www.mor.gov.ett and www.mor.gov.et/ecaweb/index.html

year he shall pay 20% of the tax assessed as an administrative penalty. If a taxpayer failed to keep books and accounts for one consecutive year the licence of tax payers will be suspended.

Category “B”, on the other hand, includes businesses with annual turnover greater than 100,000 Birr but less than 500,000 Birr. Such businesses are also expected to keep books and accounts (incorporating mainly profits and loss statement for the particular year), but is less complicated than Category “A” tax payers. Their income tax liability will be assessed based on books and accounts kept by the taxpayers.

Finally, tax payers with annual turnover less than 100,000 Birr are grouped under Category “B”. Small business are the main type of businesses incorporated in this category. These tax payers are not expected to keep books and accounts. Their income tax liability is determined through a special procedure known as presumption taxation.

Taxes in Ethiopia have an explicit legal basis as taxations are possible under the authority of law. The application of tax laws is subject to procedural and legal safeguards. Major taxes comprise direct taxes such as personal income tax and corporate tax and indirect taxes such as VAT, customs and excise duty. There are tax legislations and procedures specified under these taxes (see Income tax proclamation No. 286/2002; VAT proclamation No. 285/2002; and Proclamation No 377/2002). Taxpayers have also the facility to contest tax liability through a well-functioning appeal structure involving quasi-legal tribunals and ultimately the judicial system of the country.

The tax legislation in terms of its clarity and scope for administrative discretion leaves much to be desired. In the Ethiopian tax system the scope for administrative discretion is considerable in practice due to the existence of large numbers of exemptions and reliefs and frequent changes in tax provisions, making the tax laws relatively complex.

Tax evasion, fraudulent declaration, and non-registration are offenses for which the administrative penalties are designed in the tax system. According to the Ethiopian tax system, the amount of penalty leviable depends upon the nature of default. To this ends the relevant section of tax legislation prescribes the minimum and maximum penalties which can be levied. In most cases, penalty is imposed on those persons engaged in taxable transaction without VAT

registration; issued incorrect tax invoices resulting in a decrease in the amount of tax or increase in accredit or in the event of failure to issue tax invoice; not registered for issues a tax invoice; and fails to maintain records required. That is, if an assessee fails to furnish a return of income/wealth or files a false return or fails to produce accounts and documents, penalty is leviable. The assessee is also liable to be prosecuted for the offence.

Penalty is also leviable for failure to deduct or late payment of taxes. A person who fails to file a timely return is liable for a penalty of 5% of the amount of tax underpayment for each month during which the failure continues, up to 25% of such amount. The penalty is limited to 5000 Birr for the first month in which the return is filed. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest is set at 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter.

If the taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, the Tax authority has five years to amend the assessment. The five year assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his/her income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the tax authority. (EACC, 2005)

3.3. Illegal Trade Practices

Illegal trade practices are business practices that are not legally allowable and are punishable by law. Such practices typically fail to meet the minimum standard by which a business must abide as set by legislation. This may relate to the minimum requirements and standards related to product quality, including safety standards, or may involve other limits, such as age-related restrictions. Often illegal trade practices are considered synonymous or closely relate to unfair trade practices. However, there is an important distinction to be made between the two concepts. Although all illegal practices are unfair, not all unfair practices are illegal.

The Investopedia⁵ defines unfair trade practice as the use of different deceptive, fraudulent or unethical methods to make business. That is, unfair trade practices can be any business practice or act that is deceptive, fraudulent, or causes injury to a consumer. Unfair business practices can also involve business behaviour by an owner or corporation which is unethical, oppressive, or immoral, such as interfering with a competitor's contracts with a client or industrial espionage. Such practices can include acts that are deemed unlawful, such as those that violate a consumer protection law. For instance, practices such as the false representation of a good or service; false free gift or prize offers; non-compliance with manufacturing standards; false advertising; or deceptive pricing are considered unfair trade practices. However, the deceptive practices are not against the law.

Illegal business practices, on the other hand, refer to unlawful practices which occur when a person or business engages in business activities. Illegal trade practice is also related to the conduct of trade practices that is either fraudulent, illicit or illegal activities in the process of doing business. Businesses are illegal if the product itself or the exchange of it violates legal stipulations. As a consequence of the posited illegality, the state declines to protect property rights in such markets, does not define and enforce standards for product quality and can prosecute the actors in the market. To distinguish illegal markets from simple economic crime in legal markets both sides must know that the trade involves a contravention of law. Since illegality is defined by law, what constitutes an illegal market differs between legal jurisdictions and over time (Beckert and Wehinger, 2013).

There are a number of causes for businesses to resort to illegal trade practices. For instance, Farzanegan (2009) argues that an illegal trade happens in order to avoid legal taxation and duties on goods that can be imported legally. On the other hand, there is also an incentive to smuggle goods that are prohibited on legal or religious grounds such as alcoholic beverages and drugs in many countries (Farzanegan, 2009). The cost of formalization is also a factor driving businesses from formal to informal businesses mostly unregistered and evading taxes (World Bank, 2009). The incentive for individuals to evade regulations specifically due to stringency of regulations themselves and the effort of governments to enforce regulations are also potential factors forcing businesses into illegal practices (Smith, 1976).

⁵ <https://www.investopedia.com/terms/u/unfair-trade-practice.asp#ixzz5Wl5B5xhU> (accessed on 20 August 2018)

Tariff and non-tariff barriers, strict control of foreign exchange transactions, pervasive corruption, and high price disparities between Iran and her neighbours (because of considerable subsidies on fuel products) have also been identified as causes of illegality and smuggling (Farzanegan, 2009). In general, four major types of illegality namely, (1) illegality due to the outlawing of the production of specific goods or services; (2) illegality of the market exchange of an otherwise legal product; (3) illegality of exchange due to theft or product forgery and (4) illegality due to the violation of regulatory stipulations have been identified in Beckert and Wehinger (2013). More specifically, in some cases, the market exchange of the product category itself is illegal (as in the case of the first two scenarios; while in other cases, the illegality is rather due to the nesting of illegal markets within legal markets, as in the case of the latter two (Beckert and Wehinger,2013).

Illegal trade, organised crime and corruption are major challenges today. Illegal trade practices is capable of harming the legal business and the state economy too. It can possibly negatively contribute to the development of the private sector in many ways. It can have a negative effect on tax revenues ultimately affecting the national economy. Instances of state failure, terrorism and geo-political conflict are directly proportionate to rising instability, nepotism, chronic negative business trends and systemic economic breakdowns. Financial mismanagement, money laundering, and tax evasion have severely undermined the efficiency of global governance, increased global risk and adversely affected global stability. Meanwhile, incentives to operate in such parallel economies continue to increase both dangerously. This has been detrimental to economic development, as it raises the cost of doing legitimate business within and between countries. It also reinforces the power of the privileged. In most developing countries, due to the lack of a robust legal framework, illegal networks have continued to grow. They use the international financial system to evade tax authorities: crippling the revenue system in their home country. Finally, all of the above affect business and economics due to higher transaction costs. It also overburdens regulatory bodies in spending more on fighting illegality. It increases customers to the circulation of unhealthy, substandard products. The cost of capital and investment goes up and there is constant pressure to participate in corrupt practices, leaving a country with zero competitive advantages on the global scale (World Bank, 2009; Beckert and Wehinger, 2013).

In Ethiopia, literature on illegal trade practices in relation to the private sector is largely neglected, with the exception of a 2009 study conducted by the World Bank. According to this study, the issue of illegal trade is closely inter-linked with unfair trade practices in general and unfair competition in particular. Unfair competition or competition from the informal sector is a major constraining factor to the private sector. The study further indicated that competition from the Informal Sector is the top ranked complaint by the business community and that a major underlying reason for this problem was contraband trade accounting for about 85% of the merchandize trade according to the study participants. The application of VAT which has also been reportedly problematic (in relation to the distortions in the threshold value, the estimation of taxable income, the lengthy appeal system, and the opportunity for possible corruption) together with the introduction of a 10% sur-tax has rendered formal businesses uncompetitive relative to contraband trade (World Bank, 2009).

Controband trade is also a growing practice with far reaching consequences. Not least, the practice of smuggling important merchandise goods in and out of Ethiopia is threatening and undermining the growth of the private sector in the country particularly those in the import and export business. Contraband trade has a long history in the country, with smuggled goods illegally and increasingly crossing borders into and out of Ethiopia in spite of all laws and regulations. The seizure of contraband goods has become an everyday occurrence. Almost daily, federal police and other law enforcement organs mandated to seize contraband goods intercept many criminals involved in smuggling.

Manufactured goods such as electronic and electrical goods, garments of various kinds, perfumes, cosmetics, pornography, medicines, addictive drugs, and armaments are among the commonly smuggled contraband items frequently captured while being smuggled into the country mainly from and/or via Sudan, Eritrea, Kenya, and Djibouti. On the other hand, coffee – the country's major export commodity – and other important export items such as livestock, cereals of various types, animal skins, and forest resources including timbers are some of the goods smuggled out of the country to the neighboring countries mentioned.

Either way, the damage inflicted on the country's economy in general and various sectors of the economy and sections of the society including the private sector in particular is quite huge and

visible. The nation is being flooded with cheap, counterfeit and sub-standard merchandise goods smuggled into its borders making legal importers less competitive. Exporters are also not immune. More importantly, the smuggling of the country's major export goods through such illegal means is affecting its reputation owing to the stringent safety standards and requirements in the international market. It also poses considerable risks including public health threats due to the circulation unsafe and largely expired medicines and drugs.

3.4. Customer Service

In today's constantly changing business environment, providing a superior service quality, through an adequate and a strong focus on customer (Chiara, 2007), is one of the key factors enabling firms to gain a lasting competitive advantage in winning the market. However, in most developing countries, there is growing dissatisfaction with the public service delivery. Deficiencies in the coverage, access and quality of basic services and infrastructures are common (OECD, 2008). Most developing countries in general and African countries in particular have major difficulty in providing effective and equitable public services (ECA, 2005b).

While several factors have contributed to this phenomenon, the basic problems are mainly related to governance issues where transparency, responsiveness and effective accountability mechanisms over services are lacking. In particular, on the supply side (providers) factors such as low levels of transparency, and responsiveness of governments and service providers to users' rights and needs. Restricted access to customers is also a key factor on the supply side resulting in informational asymmetries since the information possessed by service providers is often is not available affecting users' ability to complain. Although restricted access to information can be motivated by protective nature of the providers (say to avoid challenges from media who may publicize problems and flaws in the delivery of service), poor communication technologies could also affect effective dissemination of information to the public. Lack of capacity (skill and customer handling) are also among the supply side factors affecting service delivery (OECD, 2008; Brown et al. 2008).

The supply side, however, are not the only ones for poor quality service delivery. Factors on the demand side are also responsible for the lack of effective and efficient public service delivery in

that citizens have to request for better service delivery and seek accountability for decisions made and actions taken by officials. This supply side of service delivery function is, however, affected, by, among other things, illiteracy, because peoples' capacity in voicing and demanding better service or access is greatly affected by their level of knowledge and skills (Brown et al. 2008; Rouse, 2007).

In the past, there has been a growing attention on the customer, which resulted in an increased focus on Customer Relationship Management (CRM). More recently, as the number of contact points between a company and its customers increased, such attention revealed the fundamental importance of monitoring the many experiences that originate from those contact points. Thus, nowadays, customer experience plays an increasingly significant role in determining the success of any offering. (Chiara, 2007)

In line with the growing emphasis on the need for public organizations to see the public (citizens) as customers in the past years, the Ethiopian government has recognized the need for appropriate service delivery policy to encourage public service organizations improve their services to attain user satisfaction (Fikre 2010). The same is true for chambers of commerce. Although, not much has been documented regarding customer handling/service delivery challenges focused on chambers of commerce, a brief profile documentation of the Addis Ababa Chamber of Commerce & Sectoral Associations (AACCSA) highlights customer-centeredness as one of its core values. The document also indicates that provision of demand driven services to the best satisfaction of members and stakeholders and others based on best practices is a key principle underlying its mission of promoting trade and investment as well as mission of advocacy for favorable business environment. Result-orientation, and institutional capacity building are also some of the guiding principles for service delivery. Likewise, these principles are important for OCCSA as well. In fact, organizing effective and efficient capacity building training services and support schemes to its stakeholders and member associations is a stated mission of OCCSA.

However, studies conducted on some public service providers in Ethiopia have shown that the performance in providing quality service is not in a position to meet the expectation of service users (Fikre, 2010; Akele, 2012, Teshome, et al., 2012).. Poor service quality and poor

performance in service process like new connection, complaint handling and recovery of service failure procedure were some challenges in this regards (Fikre, 2010). .Consequently, studies have highlighted the need for setting up of proper service delivery standards, proper complaint handling systems, relevant training for frontline employees, devising of employee incentive mechanisms and adequate resource management in order to give quality service to its customers ((Fikre, 2010; Abebe, 2012).

It is, therefore, crucial to gain an understanding of where the various levels of Chambers stand in terms of customer handling, the successes they have achieved and their weaknesses so that mutual learning opportunities would be created ultimately making positive contribution towards the private sector development in the country.

4. Results and Discussions

This section presents sample characteristics based on analysis of the surveys conducted: (1) the main quantitative data gathered from a sample 254 of businesses drawn from the five study areas (cities/towns); and (2) qualitative data gathered from professionals and people in managerial/leadership positions coming from the three institutions (Chambers, Customs and revenue authorities and trade and development offices) in the five cities.

4.1. General Background of respondents

Among the selected cities, the largest share of the businesses studied were drawn from Adama (26%) followed by Nekemte (21%) and Mettu (20%). The remaining samples were allocated to Woliso (17%) and Jimma (16%). Majority (72%) of businesses in the sample were run by male entrepreneurs. The distribution of the respondents by age indicates that all business owners were within the economically active population, most of which (about 72%) were adult and about 22% belonging to youth category aged between 18 – 31 years (Table 1).

Table 1 Background Characteristics of Respondents

	Number	%
City/town		
Adama	66	26
Woliso	42	16.5
Jimma	41	16.1
Mettu	51	20.1
Nekemte	54	21.3
Sex of respondents		
Male	186	73.23
Female	68	26.77
Age category of respondents		
18-24 years	10	3.94
25-31 years	45	17.72
32-38 years	76	29.92
39-45 years	65	25.59
46-52 years	43	16.93
>52 years	15	5.91
Marital status		
Single	43	16.93
Married	192	75.59
Separated	16	6.30
Widowed	3	1.18
Education level of respondents		
No education	4	1.57
Ready and write only	45	17.72
Primary education complete	82	32.28
Secondary (some and complete)	85	33.46
College Diploma	32	12.60
Degree	6	2.36

Source: Study survey, 2018

Majority (about 76%) of the business owners were also married. One of the requirement for efficient tax administration is that the level of awareness of taxpayers. In this regards, nearly 50% (48.42% to be specific) of the sample taxpayers were literate, in the sense that they have secondary level of education or above and hence are capable of understanding of both the tax laws and filling appropriate tax forms (Table 1).

4.2. Business type, experience, and growth prospect

In terms of business type, the largest shares of the sampled businesses were service sector operators (31%), followed by merchandizing (28%), and agriculture (13%); whereas SME and construction sector businesses accounted for 12% and 11%, respectively. The remaining (4.7%)

were from the manufacturing sector. Moreover, the legality of the business included in this study indicates that about 93% of them were sole owner or private businesses.

In terms of business experience, 32 % of the sample businesses were run by relatively less experienced⁶ owners while 41% of business owners were had 6 to 10 years of experience in business (Table 2). The rest 28% comprised the most experienced taxpayers with experience of 10 years and above. Therefore, it can be inferred that the majority of taxpayers (about 68%) were having more than 5 years of experience with their current business and tax system implemented in the region.

As described in section 2.2, the sampled businesses surveyed included 48 (18.9%) from Category A taxpayers; 85(33.5%) from Category B taxpayers; and 121 (47.6%) from Category C taxpayers. The sector and tax category business association (cross-tabulation) analysis shows that 50% Category “A” taxpayers from service sector followed by merchandise business (25%). The majority (about 48%) of Category B taxpayers were drawn from merchandise business. On the other hand, about 32% of Category C taxpayers were drawn from service sector (see Table A1 in Annex A).

Table 2: Type of business, experience, and prospect of growth

	Number	%
Sector of Business		
Agriculture	34	13.39
Merchandizing	72	28.35
Service	78	30.71
Manufacturing	12	4.72
SME sector	30	11.82
Construction	28	11.02
Legality of Business Type		
Sole ownership or Private	235	92.52
Partnership/shareholding	19	7.48
Length of operation years		
Less than 5 years	80	31.50
6 – 10 years	103	40.60
11 – 15 years	52	20.50
Over 15 years	19	7.50
Taxpayer category		

⁶ Businesses who have been in business for five years or less

A	48	18.90
B	85	33.50
C	121	47.60
Had prior business knowledge/experience		
Yes	192	75.59
No	62	24.41
Source of start-up capital		
Own savings	191	75.20
Family/friend/relative capital	13	5.12
Microfinance loan	35	13.78
Bank loan	14	5.51
No response	1	0.39
Revenue change or business prospect last year		
Increased	158	62.20
Decreased	43	16.93
Remain the same	51	20.08
No response	2	0.79

Source: Study survey, (2018)

More importantly, the majority (about 76%) of the business operators relied on their own saving for start-up. On the other hand, only 14% reported loan from microfinance (14%), while 5% reported banks as their sources of business start-up (see Table 2). All business that received loan from microfinance institutions were Category B taxpayers (18 businesses) and Category C taxpayers (17 businesses). What is more interesting is that almost all (13 of the 14) businesses which received bank loans to start business were small businesses or category C taxpayers (see Table 2A, Annex A). Thus, it can be concluded from this finding that access to finance is one of the major constraint for private business development in Oromia regional state.

Table 2A: Distribution of Tax Payer Categories by Source of Start-up Capital

Tax category	Source of Start-up Capital				Total
	Own savings	Family/friend/relative capital	MFI loan	Bank loan	
A	43	4	0	1	48
B	65	1	18	0	85
C	83	8	17	13	121
Total	191	13	35	14	254

We also tried to analyze whether the revenue change or growth prospect of businesses include in the survey was promising or not last year (during a year's preceding the survey). In this regard, the result in Table 2 indicates that the revenue from their business shows an increasing trend or has promising growth prospect last year for about 62% of the sampled businesses. However, business operators that reported a decreasing trend and no change/no growth in the revenue from their business accounted for about 17% and 20%, respectively. With regards to the latter cases, attempt was also made to understand for which cities; category of taxpayers; and business sectors was the reported revenue change was declining and stagnant.

Table 2B: Distribution of Tax Payer Categories by Source of Start-up Capital

Sector of Business	Revenue growth				Total
	Increased	Decreased	Same	No response	
Agriculture	19	0	15	0	34
Merchandizing	58	2	9	2	72
Service	69	7	1	1	78
Manufacturing	3	1	0	8	12
SME sector	19	3	6	2	30
Construction	23	0	4	1	28
Total	191	13	35	15	254

The result in Annex A (Table 2B) shows that, in 2017 both revenue decline and stagnancy were more severe for small businesses or Category C taxpayers (where, 23 businesses reported declining and 29 businesses reported it remained constant) compared to the other two categories. In the same period, the revenue of 11 businesses within Category A taxpayers (33%) shows declining trend while that of 19 (33%) Category C taxpayers remained the same.

In terms of sectors, tax revenue decline was severe for 14 (or 19% of) merchandise businesses and the revenue change or growth prospect was higher for 10 (29%) of agriculture; 15(19%) of service; and 12 (17%) of merchandise sector (see Annex A, Table A3). Therefore, there is a need to assess the specific business problems and challenges of the business community in Oromia regional state in order to address their real growth and development needs.

Table 2C: Distribution of Tax Payer Categories by Business Sector

Sector of Business	Tax category			Total
	A	B	C	
Agriculture	4	6	24	34
Merchandizing	12	41	19	72
Service	24	15	29	78
Manufacturing	2	0	10	12
SME sector	4	12	14	30
Construction	2	11	15	28
Total	48	85	121	254

4.3. Problems Related to Tax Collection in Oromia Regional State

In this section problems and challenges related tax collection and administration of revenue authority in Oromia regional state will be discussed. The respondents were asked questions about a number of different aspects of the tax system and tax reform, ranging from the perceived simplicity and transparency of the tax system to specific issues such as enforcement and compliance. The results from business taxpayers' survey coupled with additional findings from in-depth interviews (KIIs) are presented.

4.3.1. Tax system in Ethiopia and its implementation in Oromia region

To evaluate the fairness of the tax estimation process, respondents were asked to express their opinion about problems related to the reasonability/fairness⁷ of the estimation of daily income, taxable income and the level of tax levied; and were also requested to provide their perception regarding the severity of those problems. The results are summarized in Table 3. Accordingly, over 93% of them reported the daily income estimation as unreasonable and unfair. Besides, over 96% of the respondents considered the process of taxable income estimation unreasonable. What is more, all the businesses surveyed (100%) considered the level of tax levied "unfair".

Table 3: Perceived problems related to tax estimation (N=254)

Variables	Percent ⁸
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⁷ Both 'ability to pay' and 'benefits received' are criteria of fairness. Taxation in accordance with appropriately applied standards of ability to pay or benefits received is said to meet the requirements for vertical equity (because such taxation exerts different amounts from people in different situations). Horizontal equity – the principle that people who are equally able to pay and who benefit equally should be taxed equally – is equally important (EACC, 2005:41)

⁸ Percent of respondents reporting each item/problem listed under variables column

Tax related problems Faced	
Unreasonable/unfair daily income estimation	93.30
Unrealistic taxable income estimation	96.10
Unfair tax levy	100.00
Perceived reasonability of daily income estimation	
Yes, very much	2.40
Yes, to some extent	4.30
Not at all	89.50
Don't know	3.80
Perceived severity of problem of taxable income estimation	
Low/minimal	24.50
Moderate	26.90
High	48.60
Perceived severity of the problem of unfairness of taxes levied	
Not severe	2.80
Low/minimal	16.60
Moderate	24.10
High	56.50

After understanding the dissatisfaction of taxpayers on the daily income and taxable income estimation as well as amount of taxes levied on them, we tried to examine the severity levels (perceived). The results indicated that the unfairness of taxable income estimation and the tax levied on them were perceived very severe for about 49% and 57% of business operators, respectively (Table 3). To further triangulate these responses of the business community regarding unfairness and severity of taxable income estimation and tax levied on them; we also asked their views regarding how high the tax rates were. In this regard, about 82% of responders confirmed that they are subjected to high tax rates (Table 3A); implying the amount of tax they pay was not computed based on their ability to pay (mostly category A and B taxpayers).

Table 3A: Problems related to tax rates (N=254)

High tax rates	Percent ⁹
Yes	82.30
No	17.70

⁹ Percent of respondents reporting each item/problem listed under variables column

In explaining the unfairness of their tax liability, taxpayers from Category C stressed that the taxable income estimation was based on the presumptive estimation, tax estimation standard committee members being only from the tax collecting authority, inconvenient, and tiresome complaint procedure. Therefore, it can be inferred from the above findings that the Ethiopian tax system lacks of the first principle of efficient tax system – its neutrality and equity and imposes a heavy burden (or tax liability) on the private sector. Hence, the high tax rates, which create heavy burden on taxpayers, might be one of the reasons for decline and stagnant revenue of the private business in Oromia regional state sector in recent years.

The income tax collection in Ethiopia is based on the self-assessment principle. The taxpayers provide information on their income and tax liabilities which are also assessable by the tax administration. The administration also collects third party information on various investments and expenditures to match the information provided by the taxpayers. The practice of daily income assessment and estimation method which is based on mainly subjective assessment of the daily income and/or taxable income could as well explain category A and partly B businesses who normally should not be subjected to such a procedure by law. In this regard, the evidence from participants of the KIIs was indicative of the high level of mistrust between the tax payers and the revenue authorities. On the one hand, most if not all tax payers (regardless of their category) tend to under-report their incomes and over-state their expenses. On the other hand, employees of the revenue offices often reject the evidences presented/declared to them by tax payers and either gather indirect evidences (such as invoices, reports or contracts) from third parties as a cross-checking or in the absence of such third-party evidences, they totally opt for independent estimation of the income the same way category C businesses are treated. This was what came up clearly in most of the discussions held during the KIIs. It has become quite common to conduct income assessment and estimation based on subjective methods even for categories A and part of category B contrary to what is stipulated in the current tax regulation. This assertion is also consistent with complaints from category A and B taxpayers and representative of the City Chambers who took part in the qualitative survey.

More importantly, such a mistrust, which leads to reliance on subjective estimation of daily incomes by the tax assessors would have problems. It may impose a high tax burden on the tax payers negatively affecting the profitability and growth of the private sector. Some if not most of

the businesses may also be forced to evade taxes or even become illegal abandoning their business licenses. The increased practice of such a subjective estimation could also create the opportunity for corruption, which was also confirmed by the findings from the qualitative analysis (Annex A). Specifically, employees of revenue offices who participated in the KIIs complained that tax assessors are made to work for quite long in the same place has been increasingly putting them under pressure to engage in favoritism relations with the larger tax payers. They even suggested reshuffling of such employees throughout the region to reduce such opportunities for corruption.

Literature on taxation also indicates that treatments are another indicator of fairness or equity among taxpayers. The results in Table 3B also reveal that, most of the businesses believed that the taxation system is discriminatory as can be observed from the proportion of respondents who reported unequal treatment (i.e., 79.2%). Consequently, the respondents made it clear that some private sector businesses are either exempted from paying taxes or pay much less than their counterparts, even compared to small businesses for reasons unknown to man. This creates distortions detrimental to the growth of the private sector.

Table 3B: Problems related to tax rates (N=254)

Do you believe there is unequal treatment in taxation?	Percent ¹⁰
Yes	79.20
No	20.80

4.3.2. Tax collection and administration problems in Oromia

Taxation theory suggests that an efficient tax administration facilitates voluntary compliance through the provision of quality taxpayer services in which taxpayer education with regard to registration, declaration and payment procedures and that taxpayers' access to information on tax liabilities and administrative procedures are important elements. Consequently, the efficiency of tax collection and administration in Oromia regional state was analysed taking these principles of efficient tax administration into account. Accordingly, the perception of taxpayers pertaining to various issues that create problems to their business premises; ranging from access to information by the taxpayers to appeal and compliant handling mechanisms, quality of taxpayer

¹⁰ Percent of respondents reporting each item/problem listed under variables column

services, capacity of tax offices as well as professionalism or ethics of employees and administrators in revenue and custom authority offices were assessed.

Secondary sources indicate that the government of Ethiopia exerts efforts to avail information to taxpayers on the national tax rules, regulations, and procedures through various means, including issuance of decrees and proclamations and websites (see www.mor.gov.et and www.mor.gov.et/ecaweb/index.html). Despite such efforts, however, our survey results revealed that about 51% of the taxpayers face difficulties in accessing information on national tax rules, regulations, and procedures as well as their tax liabilities and administrative procedures (Table 4). The implication of this finding is that business owners do not have enough access to and clarity of information regarding tax laws, which limits awareness their on tax rules and regulations and exposes them to penalties in cases of failure to observe the law.

The existence and functioning of tax appeal mechanism was also another severe tax administration problem complained by about 32% of taxpayers in Oromia regional state implying that there is lack of an efficient tax appeal system with independent institutional structures exists following transparent administrative procedures and appropriate checks and balances. Moreover, the result in Table 4 clearly indicates that more than a quarter (or about 78%) of taxpayers were unsatisfied with the quality of services provided by revenue and custom authorities.

Table 4. Tax collection and administration problems (severity)

Variables	No.	%
Lack of information on tax laws & regulation	129	50.78
Poor appealing system for tax related problem	82	32.28
Quality of services provided by tax authorities	199	78.35
Inconvenience in completion of tax forms	13	5.12

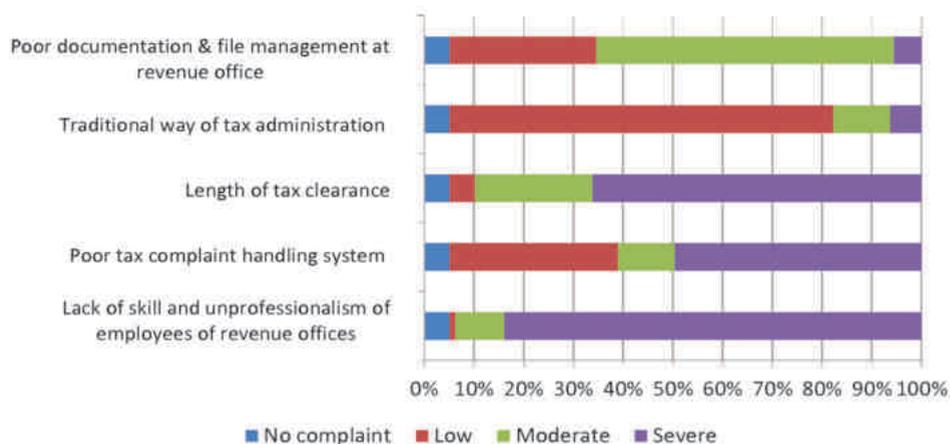
Source: Study Survey, (2018)

The results from the qualitative analysis also highlighted that the reasons for poor quality of services is due mainly to two reasons: (1) a system of submitting tax returns electronically is underdeveloped; and (2) structured taxpayers education with regard to registration, declaration and payment procedures is either missing in some cities or trainings conducted in some cities were not effective in encouraging voluntary compliance of taxpayers to tax rules and regulations

in Oromia regional states (see Annex A). Among others, the poor quality of services has raised the compliance cost¹¹ of taxpayers; as indicated by high penalties levied on taxpayers for non-compliance. Despite the above severe problems related to tax collection and administration, however, problems related to filling up the appropriate forms in specified tax and custom offices of Oromia regional state remains a challenge only to about 5% of respondents. That is, the emphasis given to correctly filling up the required tax forms did not often put the taxpayers in difficulty.

Respondents were also asked to rate the severity of key challenges related to tax administration, particularly focusing on the institutional capacity of the revenue and custom authorities. Key issues included were tax complaint handling system; modernity of the tax administration; documentation and file management system; skills and professionalism of employees of revenue and custom offices; and the overall effectiveness of the tax administration system. The results are summarized in Figure 1 below.

Figure 1: Institutional capacity of the revenue authority (N=254)



Source: Study Survey, 2018

¹¹ Compliance costs are defined as costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities (Sandford, 1995:1).

With the exception of the aspect related to the modernity of the tax administration system where relatively larger proportion of the sample respondents seemed to have no complaints, the remaining challenges were all reported as issues of concern to the businesses surveyed. As shown in Fig 1, lack of skill and professionalism of employees at the revenue offices is the most widely complained problem rated as 'severe' followed by poor tax complaint handling and ineffectiveness and lack of modernity of the tax system in that order.

Specifically, over 88% of respondents rated the lack of skill/competency and professionalism of employees and administrators in revenue and revenue and custom offices in Oromia regional state as severe, while poor documentation and file management at the revenue and custom offices were a major concern for over 68% of the subjects, which adds to taxpayers compliance cost (Fig 1 and Table 4). Moreover, over 64% business sector taxpayers perceived the complaint handling system by revenue offices was another severe tax administration problem which impacted their business premise adversely with 64.31% of respondents rating it as moderate to severe. The reason for taxpayers' perception of the complaint handling system as poor and severe was that about 66% of taxpayers feel that the time required to process and address taxpayers compliant by the revenue offices was too lengthy, beyond which taxpayers can tolerate (see Fig 1).

The result from KIIs also confirmed most of these issues. More specifically, the existence of limited knowledge, skill/competency, and unethical behaviors of some employees and officials working in revenues offices have been emphasized by participants, potentially add to the complexity and severity of tax collection and administration procedures (see Annex A). In particular, KII participants have highlighted the considerable capacity problem that revenue offices have in areas of tax audits (tax auditors not only few in number but also they lack capacity and skills), which in turn affects the tax levy and administration. Other important problems identified by participants include:

- Lack/ shortage of experienced, highly qualified employees and administrators (e.g.: in the department of daily and taxable income estimation)

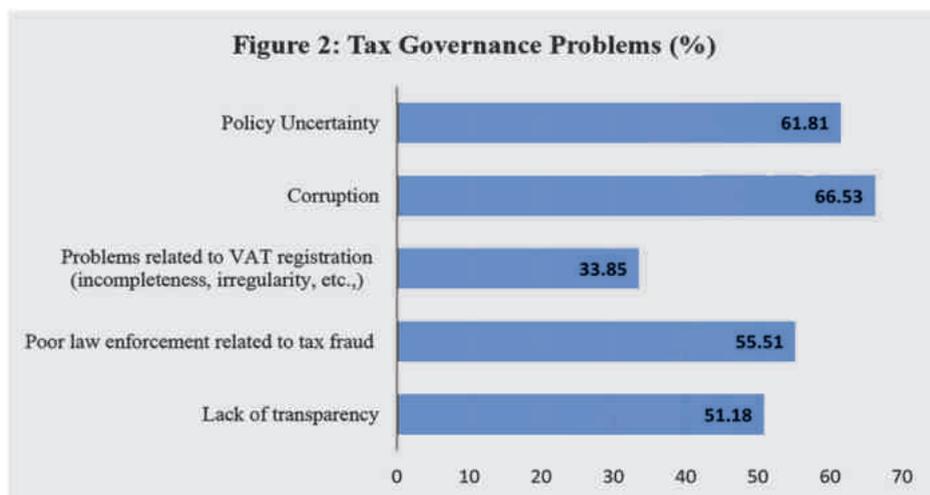
- Assignment of employees and administrators to tax and custom offices and promotions are not Merit-based (i.e., it is not based on their skills/competency) but based on other criteria such as political assignments, nepotism, etc.
- Absence of accountability for not executing duties and responsibilities effectively
- The job itself is not incentive compatible in a sense there is no reward system by doing assignments extraordinarily and there is no punishment for underperforming or unethical behaviours
- High staff turnover due to poor working environment, infrastructure, & inadequate salary
- Absenteeism of employees and officials from job on the pretext of ‘meetings’
- Taxpayers compliant not handled appropriately (a means for rent seeking)

Therefore, the above findings reveal that the Revenue Authority offices in Oromia regional state failed to execute the mandates vested on them efficiently and adequately to ensure the creation of conducive business environment. Since the dimensions of the tax burden and administration problems on businesses matter for investment and growth, the problems could discourage formal business operations and encourage businesses to consider informal operations. Hence, in order to improve the tax collection and administration system and reduce tax compliance cost of taxpayers in Oromia regional state, the revenue offices need to plan for a regular and structured taxpayer education program covering various aspects of tax payment and design a system whereby taxpayers can submit tax returns electronically. Moreover, there is also a need for designing efficient strategies for capacity building of employees and officials; merit based assignments, making the job incentive compatible, and institutionalize efficient accountability matrix based on benchmarking of efficient revenue and custom offices in emerging developing countries.

4.3.3. Tax Governance problems in Oromia

One of the important features of a transparent tax structure is the ability to close rooms for a case by case negotiation of tax liabilities between officials and taxpayers since such practices encourage corruption. Hence, though people need to pay taxes based on the rational of vertical and horizontal equity, it is not always the case. Consequently, the survey results in figure 3

depict that the tax system was not comprehensible and transparent to about 51% of taxpayers, particularly for the less illiterate business operators (taxpayers with primary education, read and write only, and no education at all). The KII results also confirmed that tax systems are usually not elaborated after proper consultation with business community and there were no frequent contacts between taxpayer and tax administrator, which leads to non-transparency and discretion (see Annex A).



Source: Study Survey, (2018)

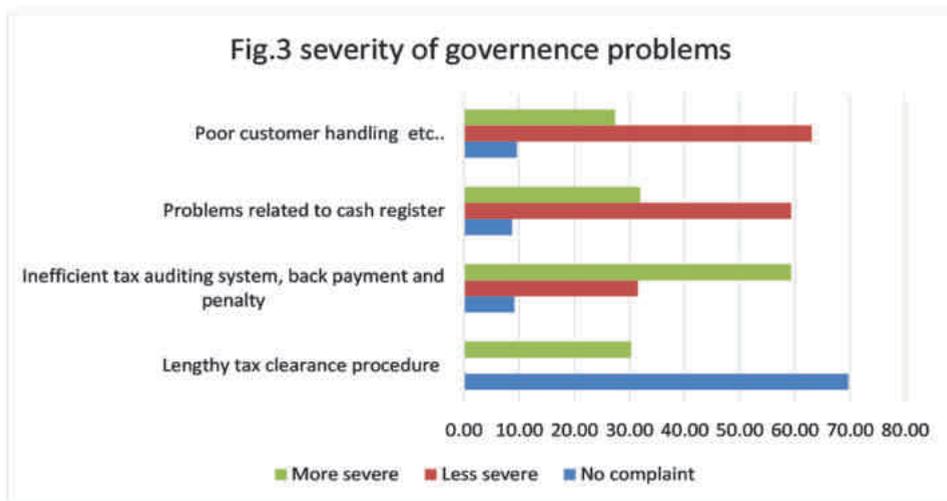
It is also widely acknowledged that paying tax is citizens' obligation regardless of the political ideology of the government in power. This may not be the case always and public attitude toward taxation or tax compliance can be adversely affected when government officials, particularly those responsible for tax administration and governance are highly corrupted. In this regard, the majority of sample taxpayers (about 67%) believed the existence of corruption in Oromia regional state, indicating existence of considerable governance problem.

Moreover, poor law enforcement related to tax fraud by tax collectors and administrators was also a serious governance problem reported by about 56% of private businesses in Oromia regional state. Though the severity declines, problems related to VAT registration, specifically incompleteness and irregularity in the registration process was also a widely held view and source of contention by about 34% of the business community in the study areas, implying a

widespread problem of bias and inequity and lack of level ground manifesting itself in resentment and motives to evade taxes (see Fig 3). This finding implies that, there needs to be designing of a sound tax system that distribute the tax burden equitably and create minimal distortion in economic decision-making as well as correct inefficiencies in the private sector and make tax administration responsive to the problems of taxpayers.

A tax structure abounding with exemptions and relief is usually characterized as non-transparent and these features add to the discretionary power of lower level tax administrators. In Ethiopia, however, the direct taxes, both personal and corporate income taxes, are replete with exemptions and incentives resulting in inequity across sectors and unjustified discretion as confirmed by about 67% of taxpayers for the existence of policy uncertainty.

Moreover, respondents were also asked to rate the severity of key governance problems of the taxation system. Specifically, key issues such as lengthy tax clearance procedure; inefficient tax auditing system, back payment and penalty; problems related to cash register; and poor customer handling were the focus of the analysis. The results are summarized in figure 3 and table 5.



Source: Study Survey, 2018

Accordingly, system inefficiency pertaining to tax auditing, back payment and penalty was the most complained problem with 60% of respondents rating it as very severe, followed by problems related to cash register (35%) and lengthy tax clearance procedure (30%)

Table 5: Severity of governance problem on tax

	No complaint	Less severe	More severe
Lengthy tax clearance procedure	69.71	0.00	30.29
Inefficient tax auditing system, back payment and penalty	9.13	31.54	59.34
Problems related to cash register	8.71	59.34	31.95
Poor customer handling etc...	9.54	63.07	27.39

Source: Study Survey, 2018

4.3.4. Compliance and Enforcement

Tax penalties are one of the important mechanisms of enforcement on the part of the tax administrators or as deterrence to noncompliance. With a significant portion of the businesses (over 64%, table 6) complaining of excessiveness of the tax penalties imposed by revenue offices on the one hand, and with widespread perception of the severity of the problem in both the appeal system and the complaint handling procedures, this situation could ultimately discourage formal business operations and encourage businesses to consider informal operations. The aggregate effect could be shrinking of the private sector with most formal businesses opting out of normal operation into the informal and further slipping into the underground economy or the illegal trade practices and the attendant problem of tax evasion and subsequent problems on revenue collection.

On top of that, about 81% of the respondents also reported that they know business operators that do not issue receipt while making sales. Respondents also affirm that they know business operators in their locality not paying taxes levied on them. This indicates the existence of sizable amount of business community who have the capacity to pay taxes but not actually paying. In other words, it shows there is high tax evasion in the region. The possible reasons for the existence of tax non-compliance or evasion include lack of awareness on tax laws by taxpayers, corruption, negligence/poor and tiresome tax collection procedures. Therefore, it can be

concluded that while the penalty or legal enforcement mechanism is designed to act as a deterrent for tax evasion and other fraudulent activities, it has not proved to be that effective in discouraging tax non-compliance or evasion. In other words, the penalties have not yielded adequate results as the administrative and judicial process is expensive, slow and detrimental in terms of revenue collection. This will enable the Government to come up with voluntary disclosure schemes to bring undisclosed income and wealth into the mainstream.

Table 6: Tax Compliance and Enforcement mechanism (severity)

	No complaint or low	Moderate	Severe
Know businesses not issuing receipt	9.06	10.24	80.17
High tax penalty	14.78	21.05	64.17
Poor law enforcement related to tax fraud	9.13	35.27	55.60
Inefficient tax auditing system, back payment and penalty	9.13	31.54	59.34
Problems related to cash register	11.73	56.32	31.95
Representation of chamber offices	71.68	9.23	19.09

Source: Study Survey, (2018)

Moreover, about 59% of taxpayers believe that the system of tax auditing, back payment and penalty is inefficient. This implies that internal audit system has also not been strengthened to ensure accountability of tax collection staff and adherence to established tax administration policies and procedures in their dealings with taxpayers. The KII results show that the use of IT in tax administration is not sufficiently widespread to eliminate opportunities for discretionary action or to provide for effective monitoring of arrears, appeals, and payments (see Annex A).

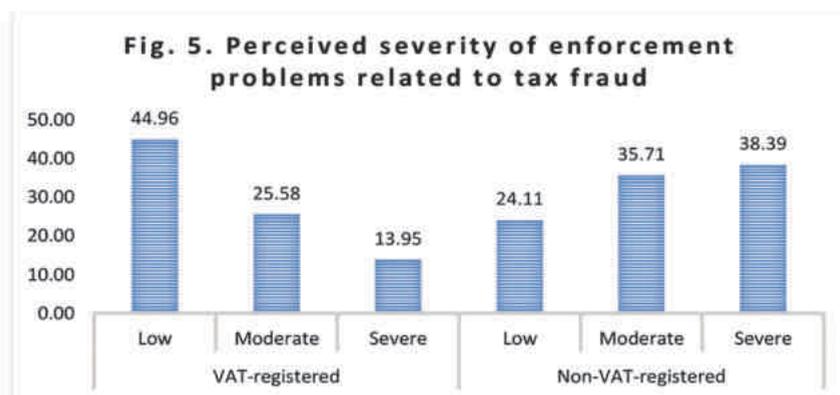
Taxpayers revealed that the tax enforcement system doesn't seem to properly identify 'offenders' and penalize them, thereby encouraging businesses to consider tax fraud rather than facing the risk of high penalty for sticking to formality through tax compliance. This view is further strengthened by the differences in perceived severity of the enforcement lapse in relation to VAT-registration status. Figure 5 shows that about 66% of the VAT-registered respondents consider the tax-fraud-related enforcement problems to be moderate or very severe, which is by

far smaller than those of non-VAT-registered businesses, representing the views of over 74% of them.

Furthermore, poor law enforcement related to tax fraud was perceived as severe problem by over 90% of the respondents. The implication is that the tax enforcement system doesn't seem to properly identify 'offenders' and penalize them, thereby encouraging businesses to consider tax fraud rather than face the risk of high penalty for sticking to formality through tax compliance.

That is, such a system would rather discourage businesses from entering the system. On the contrary, it encourages informality of businesses who would be motivated by the objective of avoiding the risk of having to deal with a tax administration that is viewed as being strict to business.

This view is further strengthened by the differences in perceived severity of the enforcement lapse in relation to VAT-registration status. As Figure 7 shows, about 40 % of the VAT-registered respondents consider the tax-fraud-related enforcement problems to be moderate or very severe, which is by far smaller than those of non-VAT-registered businesses, representing the views of over 70% of them.



Source: Study Survey, (2018)

The greater proportion of businesses who are not VAT-registered rating the enforcement problem pertaining to tax-fraud as severe or very severe may induce a sense of confidence to get away with offenses as serious as tax frauds the same way it is as for VAT-registration. This will

ultimately create a motivation for tax non-compliance, whose effects are bad for the tax collection as well as for the private sector.

Further, since VAT registration is an important aspect of the tax administration system, it warrants a closer look. However, the analysis of our survey reveals that nearly half of the businesses were not registered (Table 7). This is indicative that there might be problem related to VAT registration, suggesting a serious problem in the tax collection and administration system. This result confirms the report about the severity problems related to VAT registration (incompleteness, irregularities) by 34% of the samples in Table 10 above.

Table 7. Businesses by VAT-registration status

Response	Frequency	*Percent
VAT registered	130	51.2
Not registered	124	48.8
Total	254	100

Source: Study survey, 2018

Moreover, only 53.1% the businesses surveyed reported that they are issuing VAT receipts while 46.9% of them were not issuing VAT receipts to their customers (Table 8), further indicating problem with the tax collection system. According to participants of KIIs, the reasons for not issuing receipts to customers include to underestimate sales and hence evade taxes to be paid for the government. Participants of KIIs (especially those from revenue offices and trade and development offices) indicated that most customers, particularly purchases made for private purpose do not request for the issuance of receipt. Trade office experts further complained that such practices are sometimes affecting even the customers themselves as the office becomes sometimes helpless to settle disputes over purchase of poor quality items or forged items discovered by customers after purchase who often fail to produce invoices.

Table 8. Do you always issue VAT RECEIPTS?*

Response	Frequency	Percent
Yes	135	53.1
No	119	46.9
Total	254	100

Source: Study survey, 2018

On the other hand, of the total VAT-registered businesses, only 31.5% perceived that there were no challenges related to VAT-registration, while majority of them, i.e., 68.5% reported problems albeit with differing severity (Table 9).

Table 9. Severity of reported challenges related to VAT registration

	Frequency	Percent
- Not Severe	80	31.50
- Low/Minimal	127	50.00
- Moderate	13	5.12
- Severe	34	13.39
	254	100

Source: Study survey, 2018

To understand the compliance status of the businesses studied, we also asked them whether they issue receipts and document invoices on regular basis, disaggregating by VAT registration status. Accordingly, 80% of the VAT-registered and 57% of those businesses not VAT-registered do not issue receipt for the sale they made on regular basis. Pearson's test of association was conducted to analyze whether the compliance varied by status of VAT registration (see Table 10) shows that, the compliance decision between the two groups is statistically significant at 1% level significance.

Table 10: Issuance of receipts by VAT-registration status

VAT registered	Do you always issue receipts?		Total
	Yes	No	
Yes	26 (20%)	104 (80%)	130 (100%)
No	54 (43.55%)	70 (56.45%)	124 (100%)
Total	80 (31.5%)	174 (68.5%)	254 (100%)

Pearson chi2 (1) = 177.1158, pr = 0.000

Source: Study Survey, 2018

4.4. Problems Related to Trade Fairs and Bazaars

The survey respondents were also asked questions about the conduct of trade fairs and bazars and the problems associated with its organization, implementation among others. The results are presented as outlined in the following sections.

Asked whether respondents have ever participated in trade fairs and bazars in recent years, majority (98.8) indicated that they haven't as shown in Table 11. Similarly, majority of the respondents also believed that the existing practice of event organization is very poor (65%) and lacks transparency particularly in terms of efforts by stakeholders to make such events sustainable and beneficial to the intended beneficiaries (100% of respondents answered this in the negative, see table 11 below). Moreover, respondents rated all five key challenges presented to them with overwhelming assertion in the affirmative (based on responses rating each challenge as 'severe') suggesting and possibly justifying the low level of their participation in such events.

More specifically, lack of coordination and orderly event management was the top most challenge complained (by over 99%), followed by the that such events were becoming a gathering of poor quality goods (89.8%) and of hijacking of event organization for mere profiting beyond its goal (83%). Majority of respondents also believed the events were typically dominated by participation of illegal businesses (82%) and also marred by lack of levelling ground for fair competition (78.7%).

Table 11: Participation in trade fairs/bazars and challenges

Items/questions	No.	Percent
Participation in trade fairs and bazars		
- Yes	3	1.18
- No	251	98.82
In your judgment, how do you rate the existing practice of Trade Fair and Bazaar aspect of the area?		
- Very poor	166	65.35
- Poor	28	11.02
- Fair	14	5.51
- Good	1	0.39
- Very good	45	17.72

Challenges (perceived severity, problems rated as "severe")		
- Problem related to using event organization as profit making	211	83.21
- Participation/gathering of illegal businesses at such events	208	82.22
- Lack of coordination and orderly event management	252	99.61
- Gathering of poor quality goods	227	89.72
- Lack of sound and fair competition	199	78.66
Are there promotions and advertisements by government bodies to sustain the Practice of Trade Fair and Bazaar Event in the area?		
- Yes	-	-
- No	254	100%

To further understand the possible reasons underlying the low level of participation, attempt was made to explore their knowledge and awareness about the benefits of such events. Accordingly, the results indicated that respondents had a good understanding and awareness of the benefits as can be seen from the high level rating (over 80%) to the eight parameters of trade fair/bazaar benefits presented to them (Table 12). This suggests that there is a fairly good level of understanding about the benefits and hence cannot be a possible reason for the low level of participation observed among the sample respondents.

Table 12: Summary statistics of perceived benefits of trade fairs/bazars

Variable	No.	%
Opportunity for trade promotion, targeting potential markets and creating brand awareness	206	81.10236
Opportunity for networking and ties among businesses (B2B)	206	81.10236
Opportunity for consumers' access to variety of products in one site, freedom of choice	204	80.31496
Creates consumer confidence due to availability of quality products	226	88.97638
Creates economic opportunities for the areas they being held	240	94.48819
Exchange of culture and traditions will take place.	228	89.76378
Provide the advantage of advertising to target markets and create brand awareness	219	86.22047
Stimulated event based economic opportunities for small scale enterprises	206	81.10236

Source: Study Survey, 2018

To further understand if there were problems related to organization of events, we asked respondents if they have faced any difficulties. As shown in table 13, inconvenience of event sites (including security concerns), timing and length of the events, and issues with organizers themselves were the major problems complained by majority of the respondents (67%, 55% and 52% respectively), while problems associated with registration was also reported by about 39%

of respondents. These findings could explain why the observed level of participation in the study population was very little as shown in table 11.

Table 13: Roles of stakeholders in organization of trade fairs/bazars

Bazar/trade fair related problems	No.	Percent
Registration of participation	98	38.74
Timing & length of the event organization	140	54.94
Problems related to location of event, security	167	65.61
Problems related to organizers	133	52.17

Furthermore, respondents were asked about stakeholders' roles in the organization of such events with emphasis on the role of the Chamber of commerce. The results indicated that nearly 70% of respondents believed that Chamber of commerce is responsible for organizing such events, despite the fact that in reality the chamber had very little involvement as confirmed by responses to a follow-up question on the actual practice (not reported here¹²) to which respondents indicated otherwise. About 94% of respondents also believed that the Chamber doesn't even have a reasonable role in the decision process of event organizations (for instance issuing permissions).

Table 14: Roles of stakeholders in organization of trade fairs/bazars

Items/questions	No.	Percent
Who is responsible for organizing trade fairs?		
- Chamber of Commerce & Sectoral Association	177	69.98
- Trade & Market Development Office	64	25.31
- Municipality	43	17.01
- Private promotion/advertising companies	43	17.00
- Youth and women associations	39	15.42
- Administration offices (kebele, city, z	33	13.05
- Football clubs, sport clubs	32	12.65
Is the Chamber currently participating in the decision making process of Trade Fair and Bazaar organization?		
- Yes	1	0.39
- No	239	94.09
- Don't Know	14	5.51

¹² These figures can be obtained from the study team on request.

Do you think that the Chamber of Commerce has capacity to fully own and run such events?		
- Yes	2	1.00
- No	90	35.00
- Don't Know	162	64.00

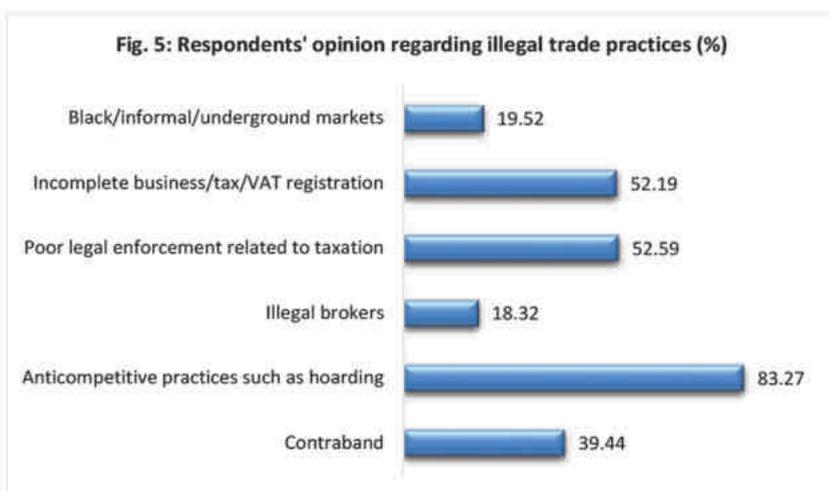
Even worse, only about 1% of the respondents believed that the Chamber is the capacity needed to fully own and handle such events, while the remaining 99% believed to the contrary (who either didn't believe so or weren't able to judge as shown in table 13 above). Consequently, the implication of these findings are largely suggestive of serious problems in the implementation of such events in the region. The results of the qualitative survey were also largely supportive of most of these findings. See the summary results outlined in detail in Annex A.

Overall, what the study results show is that there is a deep-rooted problem in the whole conduct of trade fair/bazar organization in the region on multiple fronts. Lack of clarity on several issues: mandate issue (as to who is mandated by law for organizing such events); roles of stakeholders in the process (task division, who should do what?); clarity on rights and obligation of each stakeholder including the business community; the process (ensuring its fairly participatory, transport and mutually beneficial to all, selection of participants; coordination of efforts); clarity of purpose (including cost and benefit sharing).

4.5. Problems Related To Illegal Trade

In this sub-section we assess problems related to illegal trade practice, in terms of contraband, hoarding, black market and unregistered trade practice are our main focus. And also, we identified the situation of the stated illegal trade and the severity in Oromia regional state.

First, respondents were asked their understanding about what constitutes illegal trade. The results are presented in figure 5. Accordingly, among the trade related practices they considered illegal, anticompetitive practices such as hoarding ranked top with 83%, followed by poor legal enforcement related to taxation (53%), incomplete business/tax/VAT registration (52%) and contraband (39%). A quick observation emerging from these findings is that respondents' understanding of the concept of illegal trade and the underlying causes is roughly similar to what is outlined in the literature presented in section 2.



Asked to give opinions on factors that may have contributed to occurrences of illegal trade in response to a list of factors put to them, respondents have identified several factors presented in table 14 below.

Table 14. Factors contributing to illegal trade

Factor	Percent
State monopoly/dominance in some business sectors	63.75
State-owned businesses and discriminatory/preferential provisions to them	61.03
Illegal hoarding	68.92
Market distortions (labor market)	62.83
Lack of transparency in government procurement/bid procedures	66.85
Financial market related problems/distortions	68.92
Inconsistent tax administration	82.07
Unfair competition	60.01

In the same vein, respondents have also identified a number of stakeholders whom they believe are responsible in the fight against illegal trade practices as presented in table 15 below. Accordingly, trade offices, chambers, revenue offices, police and the members of the business community themselves (the private sector) are the top five stakeholders identified to have crucial roles in this fight.

Table 15. Stakeholders' roles in the fight against illegal trade...

Stakeholder	Percent
-------------	---------

Chamber of commerce	90.58
Local trade & market development office	99.59
Customs and revenue authority	47.13
Local administration	31.75
Consumers	28.28
Business community	39.56
Municipality	0.25
Courts	25.82
Police	42.13
Consumer groups (shemachoch)	31.97
Finance office	34.59
Banks/financial institutions	32.62

However, in terms of discharging the roles expected of them, slightly fewer respondents perceived that these stakeholders accomplished their roles as shown in table 16. In fact, findings from the KIIs indicate that factors such as lack of coordination and active participation of some stakeholders (revenue offices in particular) and irregularity/unsustainability of the efforts (only done in occasional campaigns, although in Woliso, they do this on a quarterly basis) have weakened the efforts made to curb illegal trade practices.

Table 16. Perceived levels of discharging roles in the fight against illegal trade

Stakeholder	Percent
- Chamber of commerce	58.19
- Local trade & market development office	80.07
- Customs and revenue authority	72.54
- Local administration	64.68
- Consumers	59.83
- Business community	60.25
- Municipality	54.76
- Courts	66.39
- Police	66.8
- Consumer groups (shemachoch)	42.62
- Finance office	53.69
- Banks/financial institutions	0.5

The survey results also highlight that majority of the respondents (72%) do believe that efforts and measures taken so far for discouraging illegal traders were not adequate further

strengthening the finding above (table 16). Moreover, 69% of respondents also indicated that government efforts to promote fair competition has not been successful, lending support to the same conclusion made above (table 16).

Table 16. Perceived levels of discharging roles in the fight against illegal trade

Question	No	Percent
Do you think measures taken so far adequate in terms of discouraging the illegal traders?		
- <i>Yes</i>	2	0.79
- <i>No</i>	182	72.23
- <i>Don't</i>	68	26.98
Do you think government is committed to minimize (if not eliminate) illegal trade to encourage fair competition?		
- <i>Yes</i>	2	0.79
- <i>No</i>	174	68.5
- <i>Don't know</i>	78	30.71

4.6. Other problems (Coordination, Representation, Service Delivery)

In this part, we present results of assessments done on issues related to service delivery by stakeholders working with the business community, issues of coordination in serving the business community (primary clients) and the roles of the city chambers in serving, representing and advocating for the business community.

4.6.1 Assessment of service delivery

To look into the issue of service delivery, respondents were asked to rate a list of assessment items for regarding services delivered to them by the three organization studied. The ratings were on a five-point scale (1 = very poor, 2 = poor, 3 = fair, 4= good, 5 = very good). Table 17 reports the percent of respondents rating each item below 'fair' scale. Although these assessments may not be without criticisms on grounds of objectivity, they nevertheless reflect the reality.

Quite different patterns emerged from the analysis. First, revenue offices were the most complained about for poor services on most of the evaluation items followed by trade and market development offices. While this might possibly reflect the fact that most of the dealings of the

business community with these two offices in that order, it nevertheless is indicative of the level the gap and the considerable efforts needed to bring satisfaction to clients of these two offices. This could also be a reflection of the inter-relationships that exists in some aspects of the services offered by these two offices to the taxpayers. For instance, annual licence renewal at trade offices is subject to presentation of clearance from revenue offices. And the qualitative analysis has indicated how delays in tax clearance affect the renewal process calling for joint and coordinated actions in this regard (Annex A).

Secondly, the relatively high percentages of ratings in areas of provision of relevant information and clarifications of rules and procedures seem to worsen the problems of service delivery. Issues of capacity of employees (particularly of frontline staffs) that came up in the qualitative analysis might be a possible cause coupled with related issues such as lack of conducive working premises, high staff turnover among others (as highlighted in Annex A). The consequence of this could have possibly resulted in the elevated level of dissatisfaction the respondents indicated in terms of speed of service delivery (Table 17).

Table 17. Service delivery assessments (% rating each item below ‘fair’)

Items of service provision	Trade (TMD)	Revenue (RCA)	Chamber (CCCSA)
Complaint handling	24.80	74.02	46.38
Provision of relevant information	59.06	64.96	52.68
Clarifications of rules and procedures	61.42	77.56	40.31
Speed of service delivery	72.18	89.58	33.23
Quality of service delivery	66.80	35.04	42.99

Note: Figures indicate the sum of % of responses rating each item ‘poor’ and ‘very poor’

Thirdly, although the ratings for chamber of commerce seem better on most items evaluated particularly given the relatively less points of dealings with/services to its clients, the figures are nevertheless still quite large and hence there is still a long way to bring the delivery to its clients satisfaction.

Further, a closer look into the details of these ratings for the revenue office reveal that the underlying causes ultimately affecting the speed and quality of services are complaints related to the speed and quality of income estimation procedures as can be seen from the highest

percentages of ratings in both cases (table 18). This finding agrees with much of what was presented in section 3.3.

Table 18. Service delivery assessments for revenue offices (RCA)

Items of service provision	Percent ^a
Speed of service delivery	89.58 ^b
- Speed of service delivery in revenue estimation	93.73
- Speed of service delivery in payment procedures	89.28
- Speed of service delivery in dispute handling	85.73
Quality of service delivery	35.04
- Quality of service delivery in revenue estimation	59.45
- Quality of service delivery in payment procedures	22.44
- Quality of service delivery in dispute handling	23.23

Note: ^a Percent is for the sum of % of responses rating each item 'poor' and 'very poor', ^b averages

Last but not least, one of the barriers constraining service delivery and support to the private sector in the region is use/application of official language. Effective communication and exchange of information among service providers and their customers/clients is critical for effective customer handling. In this regard, the use of official language policy in the region warrants serious attention. While Afaan Oromo is the official language of the region, all three organizations (Revenue, trade and Chamber) do not observe and deliver services in the language properly. Members of the business community in majority of the cities are speakers of different languages and ethnicities, where some of them can use the region's official language, while others don't/can't. Consequently, clients who can't communicate well in Afaan Oromoo are being served well in Amharic, which is a good thing as it is an excellent practice contributing to the improvement of customer handling/service delivery. This has been confirmed both through observation made by members of the study team and the KIIs conducted.

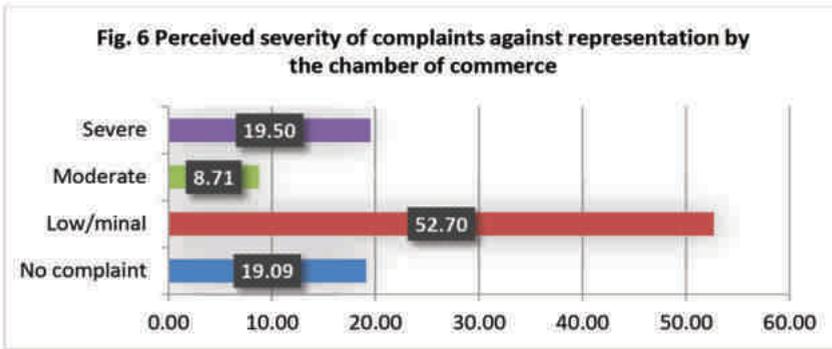
On the other hand, although the employees serving in most of the offices in the region are expected to have adequate mastery of Afaan Oromoo (spoken, written, listening), in most towns this is not often the case particularly at lower levels of the hierarchy. In fact, the way such employees (especially those at lower-levels and frontline positions) apply the language use policy in serving their clients is quite unbalanced and mostly ignores use of the official language. This is a serious complaint raised by the study participants representing the business community and even admitted by the representatives of the three organizations. Our findings from KII and

observations indicate that important announcements in notice boards by Chamber offices are made in Amharic only, while it should have been in the region's official language or at least bilingual (Afan Oromo and Amharic). Members of the study team have also witnessed this themselves.

The same is true of revenue and also trade offices as also confirmed through observation method by members of the research team. Asked about this, a chamber representative in Nekemte confirmed that "I don't even know what language my organization is mandated and expected to use". This, no doubt, would have an impact on service delivery. It would create a rift with sections of the clients whom these organization are supposed to serve and also not help to ensure wider collaboration among themselves closing opportunities for service delivery improvement and ultimately mutual development including the development of the private sector in the region. Thus, there is an urgent need to sort this out and correct without delay.

4.6.2. Issues of representation and advocacy and the City Chambers

One of the problem that came up from the analysis is that the private sector's strong complaints against representation. Specifically, majority of the businesses (over 80%) complained about representation by the chamber of commerce (with varied extents, see Fig. 6). Most businesses considered that the chambers are not strongly working in defending, advocating for and supporting its members and the broader private sector. Opinions obtained from KIIs also reveal that the business community is concerned that the Chambers are not able to safeguard the interests of the business community as per proc. 341/2003. Although, chambers of commerce are dedicated to offer customer-centered services to its members and the wider business community, such services are mostly not in place. None of the KII participants had the guts to claim that the city chambers had adequately equipped (facilities/resources wise) due mainly to limited income mobilization from members.



Source: Study Survey, 2018

Participants of the qualitative survey (KIIs) representing the chambers of commerce have seriously complained that they do not have a good relationship with the public offices in the region (by the organs of the regional government) in general. This, they claim, makes their lives difficult and constrains their capacity to serve their members and the larger private sector. Representatives from Nekemte city in particular complained that they are considered as ‘Opposition party’ representing extremist ideals. The implication of such a ‘negative’ attitude is obviously detrimental for the Chambers as well as the wider business community. Least, this would not help deliver the services they aspire to provide to and advocate for the private sector in the region. It kills their motivation and willingness to contribute positively to the region’s private sector development as per their stated mission.

4.6.3. Problems of coordination among the key stakeholders

Effective coordination of efforts by different stakeholders providing inter-connected services to the private sector in the region is crucial for promoting competitiveness and creating conducive business environment. It is important to also note that much of the problems in the area of coordination relates to lack of capacity and institutional organization of each of the three organizations surveyed. It is to be recalled that lack of skill and professionalism of employees at the revenue offices is a serious problem (as depicted in Fig 1 in section 4.3.1). The same has been observed for city Chambers (see table 14, section 4.4). KII findings also confirm this as outlined in detail in the summary findings of the qualitative analysis presented in annex A. Such a gap in capacity would influence the quality of quantity of service delivery, which in turn would

constrains the level of support to the private sector. Consequently, provision of capacity building training to employees is critical in this regards.

In sum, designing of proper service delivery standards in line with what the literature suggests should be a priority. In particular, such standards should include relevant training for frontline employees, proper complaint handling systems, devising of employee incentive mechanisms and adequate resource management.

5. Conclusion and recommendations

5.1. Conclusions

Majority of the businesses surveyed relied on their own savings for start-up and use of bank loans and credit seemed constraints in the region for business start-up in this regard. The revenue from the businesses also shows an increasing trend or has promising growth prospect for about 62% of the sampled businesses based on the year prior to the survey. However, specific businesses by sector or type showed different trends, with some remaining stagnant and others showing revenue declines. The study also found a number of tax related problems. Large majority of businesses considered the daily income estimation as unreasonable and unfair; the process of taxable income estimation unrealistic; and the level of tax levied and the tax rate “unfair” and excessive.

The results of the survey found a number of tax related problems: the estimation of daily income and taxable income was unreasonable and unfair; and the level of taxes and tax rate was excessive; increased tendency of use of subjective estimation/presumptive taxation even for category A taxpayers, which has further created high tax burdens on taxpayers ultimately affecting their profitability/growth and driving some out of business; the taxation system is reportedly marred by unequal treatment in taxes levied, which is detrimental to competitiveness and creates fertile ground for corruption. The tax collection and administration is characterized by underdeveloped system of submitting tax returns electronically; lack of awareness creation and effective education with regard to registration, declaration and payment procedures, which likely increases compliance costs and penalties for non-compliance. Key aspects of the tax administration (such as tax complaint handling system; documentation and file management

system) have all been of greater concern to and sources of complaints by the private sector in the region.

Moreover, lack of capacity and professionalism of employees, problems employee assignments; high staff turnover due to poor working environment, infrastructure, & inadequate salary; and lack of accountability at the revenue offices has been seriously complained by the private sector. Corruption and poor law enforcement are some of the key governance problems related to taxes in Oromia regional state. Other key problems such as lengthy tax clearance procedure; inefficient tax auditing system, back payment and penalty; problems related to cash register; and poor customer handling were also observed. Incompleteness of the tax registration (particularly VAT) is also hurting the business community by disowning level-ground for fair competition.

With respect to trade fair and bazars, level of participation by the private sector in the region was very low, these events are poorly organized and lack transparency. Moreover, lack of coordination and orderly event management; and the use of such events as a means of profit-making by promotion companies are key problems identified. These events were also becoming scenes of poor quality goods dominated by participation of illegal businesses. The organization process of such events was mainly constrained due to inconvenience of the event sites (security-wise), timing and length of the events, and problems associated with organizers. While the Chamber is responsible for organizing such events by law, in reality the role played by the Chamber is hardly visible and in fact a number of parties disputably get involved in the process in a chaotic manner with the Chambers often sidelined. It was also observed that Chamber doesn't have the capacity and resources needed to handle such issues effectively.

As regards illegal trade, anticompetitive practices such as hoarding, poor legal enforcement related to taxation, incomplete business/tax/VAT registration and contraband activities in the region were identified as major problems resulting in illegal trade practices. Unfair trade practices such as state monopoly/dominance in some business sectors; discriminatory/preferential treatments to such organizations; illegal hoarding; lack of transparency in government procurement procedures; inconsistent tax administration and unfair competition were causes for illegal trade practices. Although, trade offices, chambers, revenue offices, police and the members of the business community were identified as the top five

stakeholders participating in the fight against illegal trade in the region, these organs haven't been discharging their roles satisfactorily. There is also lack coordination and mutual understanding among these organs. Moreover, efforts to discourage illegal traders were not adequate and there remains a lot to be done by the government to promote fair competition in the region.

Finally, with respect to service delivery, revenue offices were the most complained about for poor services on most of the evaluation items followed by trade and market development offices and the Chamber branches. Issues of capacity of frontline staffs coupled with lack of conducive working environment, and high staff turnover were identified as possible causes underlying the poor service delivery. The underlying causes ultimately affecting the speed and quality of services by the revenue offices specifically were complaints related to the speed and quality of income estimation procedures. Finally, the private sector's strong complaints against representation by the city Chambers was one of the key problems that emerged from the analysis. It appeared that the Chambers were not strongly working in defending, advocating for and supporting the private sector and members to the level expected.

Regarding lack of coordination, the problems was mainly related to lack of capacity and institutional organization of each of the three organizations surveyed. The chambers of commerce have seriously complained that they do not have a good relationship with the public offices in the region (by the organs of the regional government) in general. Challenges to the use of the region's office language was also one of the barriers constraining service delivery and support to the private sector in the region. Specifically, service delivery, communications and notices in all three organizations (Revenu, Trade and Chamber) do not follow the language properly, which needs solution.

5.2.Recommendations

On the basis of the findings of the study on tax administration and governance; illegal trade practice; trade fair and bazaar management; and service delivery to taxpayers, the following recommendations are made.

1. Tax related challenges

- 1.1. The issue of mistrust between tax authorities and the private sector and subsequent practice of frequently resorting to subjective taxable income assessments warrant

priority in the region as this is introducing breaks in the system and a rift between the two parties (the tax payer and tax authorities), ultimately leading to unjustified discretionary power and lack of transparency subsequently resulting in rooms for corruption and also inequitable taxation. Thus, there is a need to restructure/design the tax system that is capable of ensuring equitable distribution of the tax burden with minimal distortions and inefficiencies in the private sector as well as making tax administration responsive to the problems of taxpayers

- 1.2. There is also a need for taxpayer education programs should be designed in a structured manner to reduce the compliance cost of the taxpayers. In this regards, forging collaborative ties with Federal Customs and Revenue Authority in terms of exchanging experience and technical support with the region and city tax authorities'. It efforts of taxpayers education (taxpayers awareness program), and computerization/ service automation endeavors in the region. Creating periodic opportunities for experience sharing with different town having good practice (Addis Ababa and Mekele) on tax collection and customer handing could also help improve
- 1.3. Establish transparent administrative procedures and appropriate checks and balances at all levels to ensure the existence of efficient tax appeals system with independent institutional structures.
- 1.4. Daily income and taxable income assessment should be based the three E's principles of taxation to ensure fairness. That is, tax collectors should Enumerate carefully all goods in and out of the business; Estimate carefully the value of transactions made, and estimate the tax to be paid based on the tax laws and proclamation. Finally, tax offices should Enforce or penalize those taxpayers who failed to pay the tax imposed on them following careful enumeration and estimation. Subjective assessment of tax collectors on daily income and taxable income of business firms should be avoided and those involved in such practices (for whatever reasons) should be held accountable
- 1.5. The issue of tax assessment for three years based on one time supervision/enumeration in the region also deserves attention, since it causes

unrealistic tax levy particularly for category 'C' taxpayers. Thus, there is a need to make the supervision on an annual basis to make it up to-date and realistic.

- 1.6. The need for designing strategies for systematic capacity building of employees and officials; at different levels of revenue authorities and institutionalize efficient accountability matrix based on benchmarking of efficient revenue and custom offices in emerging developing countries.
- 1.7. Education and advocacy to create awareness for the business community on why they pay tax, on the various important rules and regulation of government related to business operation. This could be achieved through media, regular forums and awareness creation campaigns. Awareness creation to calculate financial statement especially income statement report by certified accountants is quite beneficial for the private sector and the nation at large.
- 1.8. There is widespread complaint that employees who supervise the VAT are always the same face, assigned and working on same post for quite long period of time. Reshuffling them at least with zones or woredas of the region may help reduce corruption.

2. Challenges related trade fair and bazar

- 2.1. Chamber's mandate as a sole responsible body for organizing such events must be recognized (including by law) and informed to all stakeholders. The rules of the game should also be clearly stipulated and if need be legislated and communicated to the wider community of stakeholders working with the private sector
- 2.2. There is a need for better mutual understanding and coordination of efforts among stakeholders. Specifically, there should be clarity on:
 - *Mandate issue (as to who is mandated by law for organizing such events);*
 - *Roles of stakeholders in the process (especially that of the promotion companies¹³);*
 - *Rights and obligation of each stakeholder;*
 - *Cost and benefit sharing.*

¹³ Some of these companies have been fully owning and organizing such events without any notice and consultation with city chambers or any permission or delegation

2.3. Capacity of city Chambers should be built and sustainably Maintained through better collaboration with OCCSA, ECCSA and other regional Chambers and also creating collaborative ties with public universities in the region

3. Challenges related to illegal trade practices

3.1. Illegal trade practices in the region deserve utmost attention of the government as their effect is detrimental to private sector competitiveness in the region

3.2. Efforts to make sustainable coordination of actions against illegal trade must be planned in a structured manner with key actors (trade offices, chambers, revenue offices, police, municipalities, and the members of the business community). Campaigns currently underway to curb illegal trade in the region in a sporadic manner must be formalized through formally established structure or unit under the current city administration or any other organ

3.3. Policy barriers must be addressed specifically with regard to unregistered business operators. The trade offices, revenue offices and chambers should play greater roles in this regards

3.4. Organizing consultative workshops for actors that might, directly or indirectly, affect trade development in the region such as regional trade bureaus, revenue and customs bureaus, police, finance and economic development bureaus, and other relevant regional offices, the private sectors, and delegates from neighboring regions countries to discuss the issues of illegal trade development, implementation of periphery cross border trade and related service provision

4. Service delivery related challenges

4.1. In line with what is described in the literature review¹⁴, without a well-organized demand-side, service delivery is bound to be ineffective and depend on the good will of the supply-side of the delivery (the service providers), ultimately resulting in loss of quality and subsequent rendering the service delivery to lose its demand-driven and customer-centered nature. Thus, the issue of capacitating and creating awareness for the business communities should get due attention by the regional government in terms of enabling the private sector to fully enjoy their rights the right way while at the same time

¹⁴ See section 3.4

building their confidence to proactively demand their rights when they are unlawfully denied by any of the service providers

- 4.2. In the same vain, effectively responding to and fulfilling users' demands cannot be achieved without building strong supply-side capacity (internal) among service providers. Weak supply-side capacity in turn renders the service delivery system ineffective and incapable of meeting the needs of the customers. Thus, putting in place sustained and structured capacity building plans should be mandatory especially in all the three organizations (Chambers, Revenue offices, and Trade offices)
- 4.3. The need for setting up of proper service delivery standards such as proper complaint handling systems, devising of employee incentive mechanisms and adequate resource management should be given enough attention among all service providers to the private sectors to ensure quality of service delivery
- 4.4. There is also a need to conduct periodic customer satisfaction survey and take subsequent measures that can enhance the service delivery in a way to optimize users' satisfaction
- 4.5. Effective communication and exchange of information among service providers and their customers/clients is critical for effective customer handling. In this regard, the use of official language policy in the region warrants serious attention. In this regard, there is a need to ensure that service delivery should also conform to the region's language policy and should not in any way create inconvenience to any group of clients. To this end, measures should be taken to ensure that basic information sharing, announcements and key written communications be made in two languages (the official language of the region – Afaan Oromoo, followed by Amharic as needed).

5. Problems of coordination among stakeholders working with the business community

- 5.1. Lack of coordination among the various actors (government and otherwise) is a serious problem observed affecting all areas of focus studied in general and service delivery and illegal trade practices in particular. Such problems would in turn negatively affect the competitiveness of the private sector/business community in the region. Thus, designing of effective system to strengthen the capacities of each to individually better deliver their services and jointly also improve coordination of their joint actions is critical. Government and regional bodies (regional governments, Regional Chambers and

Relevant bureaus working with the business community) should exert their utmost efforts in this regards.

- 5.2. Oromia region and city tax authorities' should develop operating modalities under which the later could provide operational support in the administration of VAT and other taxes in the areas of the region that the Oromia revenue authority is unable to provide the mentioned services with least cost and high efficiency
- 5.3. In view of the highly interrelated and sequential functions of tax clearance and issuance/renewal of trade licenses and the commonly observed difficulties faced by the business community¹⁵, the region may consider the issue of bringing these two functions under one office rather than hosting them separately as is done now. This idea came up during the KII held with Jimma city custom and revenue authority and may prove a viable option to consider with careful further study for feasibility.

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¹⁵ in terms of penalty for late renewals by trade offices due to delays in getting tax clearance from revenue offices

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ANNEX A: Additional Results from Quantitative Analysis

Custom and revenue authority, trade and market development office and chamber of commerce are working together on different activities to make conducive environment for the business community. In principle, the three bodies in collaboration with many organizations including municipalities, banks, and police collaborate in advancing the development of the private sector in the region. However, participants have affirmed that there is lack of coordination in their joint activities in most cases. In particular, the type of activity that these bodies mostly cooperate is on organization of bazaar and/ trade fairs, licensing traders, creating tax awareness, tax collection, tax estimation and other related activities. However, the level of cooperation is not satisfactory and full of irregularities and ineffectiveness. Actual we have observed and communicated on how they work and handled their customers with capable efficiency. Each office faces various problems to handle and satisfy their customers. Commonly in each office there is a lack of or gap in terms of human resources (expertise), infrastructure like office space and facilities, consumable materials, internet connectivity, electricity power, system problems etc. This will directly impact on the level of service delivery each office is supposed to provide to the private sector.

Custom and revenue authority and trade and market development office work relatively highly integrated and in line with each other even though the extent of relationships with the city chamber of commerce is not that much strong, except that they mostly work when there is event organized by the city chamber of commerce like trade fair and bazaar, to collect revenues and to settle the places of bazaar. The two office namely city custom and revenue authority and trade and market development office are working in line with each other to meet the business community need, as license renewal and sometimes legalization efforts of unregistered traders and informal operators in the region in cooperation with many other bodies such as city administrators, police and other related bodies. The trade and market development provides the business licenses for the business community after the business community obtained the tax clearances from city custom and revenue authority. The following are major problems identified from the qualitative analysis (mainly from KIIs).

Problems related to Tax administration

- Irregularities in the tax estimation procedure particularly in daily income estimation, estimation of taxable income, and tax audits
- Complex and lengthy procedures in the tax administration paving the way to corruption
- Lack of knowledge and skill of tax officers
- Problems related the supply, distribution, maintenance of cash register machines and penalties associated with its implementation despite gaps on the administrators of the law
- Problems related to VAT registration and collection

Problems related to Illegal Trade

- ✓ Conducting business using without any registration and licenses, multiple licenses, other illegalities
- ✓ Wide-spread practice of not issuing receipts (VAT invoices in particular)
- ✓ Considerable flooding of the market with poor-quality, fake/forged products contributing towards business distortions, the legal businesses, consumers and the public at large
- ✓ Weaknesses in the government system in enforcing legalization/formalization of businesses as well as curbing illegal trade practices

Effects of the tax related problems

- ✓ Tax burden drives the business owners to illegal trade, improper/corrupt practices (corruption) with regard to their daily income estimation and in some cases some of the businesses are forced to get out of business.
- ✓ Some business owners return/terminate their licenses (or change to their spouse) or even abandon it to migrate to other places or even abroad due to reportedly excessive taxes/tax rates
- ✓ Some license owners change their license to the name of their spouses or in some cases completely to names of their relatives. There is a loophole when the taxpayer shift their money to other persons account there is no way in which you can force the tax payer to pay taxes as long as there is no money on their account and no fixed asset in their name this is short coming of the law. This is the extent to which some taxpayers go to evade taxes when they consider taxes are so high and unrealistic

Issues concerning Chambers

- ✓ The main problem for chamber of Commerce to give the right service in line with the organizations objective for its member businesses include lack of qualified employees with adequate level expertise, experience and exposure. Chambers don't have separate place to prepare the trade fair and bazaar events and they often hold such events in stadiums which is under the municipality. To have permission from the municipality they are required to not only go through a bureaucratic system but also have to pay fees. In addition, event organization needs the collaboration of different offices such as town's trade and market development offices (who collects the entrance fee and deposits in the account of the chambers).
- ✓ Even if the core objective of chamber of commerce is to make sure business to business integration (B2B) and promote manufacturers product, most often, however, such events are becoming scenes of only consumers goods and that the participants are selected by the promotion companies which make it hard for management. The participants of the bazaar are picked by the promotion companies and thus are loyal only to these companies. These companies are everywhere in the region and the country (the same known promotional companies working throughout the country, recruit the participants for events everywhere using the same criteria of loyalty). Such is a problem common in

all places in the country (i.e., it's a country-wide problem facing chambers of commerce. Moreover, these promotion companies are getting up to 50 % the total income from the bazaar which minimizes the income of the city chambers.

- ✓ On other hand it is even very hard for the chamber of commerce to organize bazaars independently because; business owners trust the promoters more, the promoters have more capacity to influence and motivate the business community to participate on bazaar and trade fair.
- ✓ Other objective of city chamber is that whenever business communities come up with the complaints related to tax problem the office make some mini research related to the problem and present it for the revenue and custom authority. They are committee that handles the complaints. The composition of the committee are; the selected representative from the business community, from Revenue and custom authority and trade and market development office too. Here the problem is that the representative from the business community don't have the knowledge policy legislation and producer for business operation and the other is that the Revenue and custom authority is still member even if the committee is expected to be independent so, still their might be a bias.
- ✓ The relationship between the national and regional chamber of Commerce is basically on training (capacity building) and town level chambers are expected to share fee for regional one and the regional chambers are expected to share their fee for the national chambers.

Issues concerning revenues and custom authority

- ✓ The decision making process is not participatory. Even on small issues decision, employees of tax administration offices do not participate (in most case).
- ✓ According to the interviews conducted from the chamber of commerce the tax compliances raised from different circumstances and from the different levels of tax payer that is the groups of A, B and C. In most of the time the government didn't trust the tax payers and even for the tax systems that what were settled by governments. The cause of the tax problems raised due to tax estimation especially for the group "A" taxpayers, the government may not believe on the system that were used by these groups like cash register and financial statements reports presented by the taxpayers groups. The

government estimates the amounts of tax that were paid by such groups without the knowledge of tax payers and made the estimation also with the unskilled tax officials and tax audit is another tax compliance problem for the tax payers.

- ✓ The government in some extent used the different measures to settle the tax compliances problems that were raised in behave of the tax payers. Within the revenue and custom authority (ERCA) there is the established committee and within the committee the tax payers' act as members of the committee even though the tax payers may not exercise their rights and responsibilities properly within the committee due to the tax payers' were not well awarded on the different tax policy, rules and regulations whereas the decisions of the committee is highly dominated by the decisions of the tax officials groups.
- ✓ The main problem between Revenue and custom authority and chamber of Commerce is sources from bazaar. The office collect the rent of the bazaar place but still the chamber of commerce don't pay the rent on time sometimes they don't even pay.
- ✓ The relationship between the Revenue and custom authority and trade and market development is that up on tax clearance from the Revenue and custom authority they give a Business license.
- ✓ Distrust between the government and Business community while collecting the tax. From the business owner side, at the time of supervision they move their products to other place and shut down their shops on purpose especially C category tax payers. Regards A and B category tax payers they under state their daily income and overstate their expense on the financial statement. Because this all problem the Revenue and custom authority are forced to get information from third party such as from whole sellers, distributors and sales record of different company through TIN number of the business owner these, things are not disclosed for the business community.
- ✓ Tax burden and tax complaints raised from poor financial record since the report is not prepared by the professional accountants, lack of knowledge related to policy, procedure and legislation of Business operation, poor estimation mechanism because human element such as judgment is involved, lack of expertise, dalliance tax audit.
- ✓ Category A' tax payers which is VAT registered tax payer problem is that; they don't issue the receipt for the buyer even if they are VAT registered. The tax collectors know this problem but unable to manage it and they are forced to go for the daily income

estimation such kinds of work create grievance among the business community, from the buyer of the product side they don't have the culture of receiving the receipt on buying the product.

- ✓ For the tax payer 'C' category the estimation is done on the interval of three years which is not correct since there is a change always in Business environment. In addition tax estimation work is led by municipality Mayor so make it open for corruption and good governance (no check and balance) in addition the supervisors are same face always

Issues concerning trade and market development

- ✓ The main job of this office is just giving license by making sure that the necessary documents such as; TIN, ID card, map and plan, different license (medical license), house rent agreement
- ✓ Because of different reason the business community face problem getting license from the revenue and custom authority this problem causes punishment to the business owner this is still not the problem of the owner it is the problem of RCA.
- ✓ According to the interviews obtained from the two offices, Jimma city custom and revenue authority and trade and market development office, in some situations they creates gaps and raise compliancy from the business community. The Jimma city custom and revenue authority may be lag to estimate tax amounts for group "C" tax payers and tax audit for "A" and "B" groups of tax payer. The office lacks human resources and capable skilled human resources to perform their duties on time and according to the needs of the business community.
- ✓ The business community sacrificed problems to get the tax clearances from the tax authority and also face problems to get renew or new licenses from the trade and development office. The trade and development office penalized the business community if not the business community renewed their licenses within the schedule of the office.
- ✓ According to the expert provides an interviews from trade and market development office the proclamation No.980/2016 issued for Commercial registration and business licensing proclamation creates a gap and faces difficulty for the good governance of the business community. When the office penalized the business owners those who didn't renewed their licenses within the schedule of the office they penalizes even though the levels penalty treats all business in an equal manners.



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