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# Contribution of Khat Kellas and the Impacts of its Closure to Ethiopian Economy (the Case of Hararghe Khat Kella)

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employment generation, increase government revenue and decrease local consumption which in turn increases foreign exchange. Even if the government has closed these kellas with the intention of export promotion to increase foreign currency, it was not successful as there is no tax discrimination between khat consumed locally and exported. Tax treatment for both is the same and cannot get what it is intended for. Based on the finding of the study, conclusion and recommendations were forwarded.

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## I. INTRODUCTION

Despite Ethiopia's vast resource of land, water and labor, it remains among the poorest nation of the world. The country has important growth potential, but this potential is not being realized. The key requirement for Ethiopia to emerge from its existing situation of stalled economic growth is to decrease government deficit through the collection of enough revenue. From those sources of government revenue tax

comprises the largest share which includes different tax bases including khat trade. Khat is a natural stimulant from the khata-adulis plant found in the flowering ever green tree or large shrubs which grows in east Africa and southern Arabia. Originating in Ethiopia, where the largest share come, khat now also grows in Somalia, Kenya, Malawi, Uganda, Tanzania, Congo, Zambia, Zimbabwe, Afghanistan, Yemen and Madagascar (Cox and Rampes, 2003). This plant is known by variety of names such as: QAT and GAT in Yemen, QAAD and GAAD in Somalia, CHAT in Ethiopia. It is also known as JIMA in Oromo language. Ethiopian chat has different local names as well such as: Awoday, Beleche,

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*Abomismar, Wondo, Kuda, Faqa, Gelemso, Ye'bahirdar etc...* names taken after the type and place of cultivation.

Khat mostly grows in south and eastern Ethiopia and is a major foreign currency earner. Export quality Khat is packed and sent every day to countries that do not ban the plant of which are Djibouti and UK are the major ones (Gebissa, 2004). The local market for Khat is also very huge. Every day fresh khat is transported to the capital and distributed to various areas using Isuzu trucks rapidly. There are also some deliveries that use air transport like Addis Ababa. In south and eastern Ethiopia khat is a part of the community's culture and is never considered as some kind of drugs.

Khat is Ethiopia's third largest export item next to coffee and gold (national bank of Ethiopia report, 2013). Not only top export earner it also plays a considerable role in the local economy, as it is a source of income for many whole sellers, small scale traders and to those businesses that depends on it indirectly. Khat doesn't drive only external revenue but also internal revenue by using khat kellas to impose tax on khat that passes a particular location. In this regard Oromia region has many kellas like shashame, jimma, guji/negele/, Borena/Yabelo/, Finfinne surrounding special zone/dima, Alemgena and Menagesha/ and east and west Hararghe which comprises lion share both in terms of revenue and quantity of khat. Again both east and west hararghe has many kellas like Awoday, Dengego, Babile, Kombolcha, Chinaksen, Gursum, Diredawa airport under east hararghe and Bedesa, bordode, Michata and Hadas under west hararghe.

Different reports of this time by national bank of Ethiopia (annual report, 2014) shows that, the revenue that has been earned in the past from some cash crops has been decreased over the last four and five years. This is most often associated with the decrease in revenue collected from some tax revenue generating items. One among others is khat whose revenue has decreased over the past four and five years. The reduction in Revenue from khat has associated with the closure of some khat kellas.

Khat is one among the cash crop which generates large share of revenue collected in the country. It has strong demand at local and overseas markets and is sold daily in both markets. From the total production in Ethiopia, only 47000 ton (25 %) made its way to the foreign market, out of the 190,000 ton produced by close to 2.5 million farmers cultivating the crop on the total area of 201,115 hector (Abdi Tsegaye, 2014). In the past all these khat is taxed and the government gets larger revenue. Whether it is sold locally or exported it is taxed. It is known that exporters should get a relief from tax to be competent in international market, but there is no ground that 75% of all khat production that consumed locally is to be tax

free. Now the fact is that, the tax revenue from khat is decreasing, so this research will examine the link between closure of the Harar kellas and reduction in the amount of tax collected; the reason for their closure and its consequence.

The intension of this paper is to assess the contribution made by Harar khat kellas and the consequence of its closure to Ethiopian economy to bring evidence on the level of revenue lost because of its closure. Again, the paper has investigated the intension of government in closing this big amount of revenue and the problems Harar khat kellas faced. At the end, the paper concludes by forwarding some policy recommendations.

Although studies have been done on the area before, it does not include khat tax. Thus, this paper tries to fill gap in literature by extending the issue on specific context of khat kellas. Furthermore, the paper would be an input for government in increasing its tax bases and then revenue by providing guide lines for strategy and policy formulation aimed at improving the operational conditions of the participants in the business. Again it will provide solid evidence on the importance of khat kellas and can be used as a base for further study.

## II. RESEARCH METHODOLOGY

This research is conducted on longitudinal bases in which data collection for the research was made across time. The secondary data were obtained from different sources like records of Ethiopian revenue and custom authority (ERCA), Oromia revenue agency (ORA), and internet, related web site on the issue, different research and other documents that are specifically related to the topic under study. Primary data were obtained from an unstructured interview made with employees of both ERCA and ORA. To analyze those data concerned with khat kellas, different period data were collected and compared. Therefore the current consecutive seven years (2005-2011) data have been taken and interpreted by using time series analysis like ratio, percentage, table and graph.

## III. LITERATURE REVIEW

### a) History of khat

*Khat* is an evergreen perennial shrub plant that belongs to the Celastraceous family. The plant is known with different vernacular names: *Khat* in English and in Arabic, Jimaa in Oromiffaa (language of Oromo people growing the plant extensively in Ethiopia) and *chat* in Amharic (Dechassa, 2001).

Khat has got the status of cash crop in Ethiopia. It is one of the major sources of foreign exchange earnings to the Ethiopian Economy. Khat has a strong demand at local and overseas markets and is sold daily

in both the markets. The Government collects large sum of foreign exchange earnings and revenues from taxes on export transactions and uses that in government's budgetary expenditures. Notwithstanding, the government does not provide any incentive to the exporters of Khat.

Internationalization in Khat export is currently due to the external pull from the importing countries, their internal network, and the price that Khat governs there. Recognizing the fact that Khat is sold largely by the unorganized sector and entails some social repercussions, the tax imposed on Khat is not so pronounced in the domestic market, which otherwise could offer the government an additional source of revenue. Not only taxation, khat can be a good source of job opportunities for the locals, once recognized. (African Journal of Business Management Vol.5 p.3647)

Khat production and its sale have a long-standing history in Ethiopia. Thought to be originated from Harar, it became popular, in due course, to Oromo and other tribal regions of Ethiopia. However, the volume of the exported Chat was small that time due to the lack of rapid means of delivery (Gebissa, 2004). Large quantities of Chat were imported from Ethiopia to Aden only after the air route was setup across the Red Sea in 1949 (Ward, 2000). Following the development of rail and road transport to Djibouti and Somaliland, it attained a significant surge (Gebissa, 2004). In the decade after the Second World War and between 1954 and 1961, a sizeable amount of arable lands was devoted to khat production in Hararghe (Amare mastication Krikorian, 1973 cited by Gebissa, 2004).

#### b) Uses of khat

##### i. Economic use

In Ethiopia, *khat* is an important and potentially lucrative cash crop. The employment opportunity created through the cultivation of *khat* is very high in that large numbers of people are involved in growing, harvesting, sorting, packing, transporting, loading and unloading the commodity. The wood of the plant is commonly used for fuel and due to its resistance to termite it is used in the construction of houses and fencing. It is also used for making rafters, handles of farm tools (hammers and chisels) and handles of household articles such as pots and pans, rolling pins, and to make forks, combs, spoons and for rulers (Dechassa, 2001).

##### ii. Medicinal use

Processed leaves and roots are used to treat influenza, cough, gonorrhea, asthma and other chest problems. The root is also used for stomachache and an infusion is taken orally to treat boils. (Cox and Rampes, 2003),

##### iii. Social value

*Khat* has considerable social value. It is served to welcome and entertain guests, in mourning,

weddings and circumcision ceremonies and collective labor works. *Khat* chewing has its own associated ceremonies like smoking of incense, cigarettes and use of drinks (soft drinks, tea and milk). *Khat* chewing is addictive and has negative physical, economical and social connotations. Although non-users both in rural and urban areas condemn the practice of chewing, the number of people chewing is increasing particularly among the youth. In urban areas, chewing *khat* is a common leisure activity, which, combined with the consumption of it, followed by alcohol, is having an adverse effect on family life. Students and a number of staff in higher education institutions and high schools are using *khat* to "increase" their concentration levels and attention span. (Dechassa, 2001)

#### iv. Political use

Even though Ethiopia has been the primary beneficiary of khat export, the government has occasionally shown propensity to use khat for political reasons. During the 1962 Ethio-somali war, for instance, Ethiopian authorities withheld khat from Somalia, in the hope that the lack of the leaves might incite the Somalis against their government. Following the war, the ban was lifted after the commanding military general in the region argued in favor of unrestricted flow of khat in to Somalia. His rationale was that increased khat would turn Somalia in to a country of physically unfit and psychologically incompetent addicts who would not be able to field an effective fighting force and devastate their country's economy by draining money to Ethiopia (Gebissa, 2004, pp.104-105)

#### v. Environmental value

In Hararghe, *khat* is grown in an intensive production system. It is planted in rows on hillsides along terraces in association with different food crops, mainly annuals, and oriented against slopes. As such, khat cultivation plays key role in controlling soil erosion, which is a major threat in the area due to the undulated topography and intensive deforestation for farmland expansion and hence *khat* culture is considered to be the best agro forestry system practiced by farmers. Had it not been for the cultivation of *khat*, the erosion of topsoil would have been severe and possibly disastrous in midland areas of East and West Hararghe zones. (Gemechu, 2002)

#### c) Effects of khat on human health

*Khat* is a stimulant with a mild narcotic effect when taken in moderate quantities. However, little is known of the plant's health effects (Hill, 1996). Hill states that *khat* is not clearly addictive, as it has been observed that abrupt withdrawal of *khat* from the habitual consumer does not necessarily lead to withdrawal symptoms. The plant stimulates or charges human bodies for action due to its alkaloid content. Excessive consumption of *khat* is said to induce symptoms of



hallucination or illusion, intoxication and short energy boosting effect. Extended use is also reported to cause emaciation, may be because of suppressed appetite, and impotence. Generally, chewing *khat* causes constipation. It is not clear what is considered moderate consumption and what would amount to be an over dose leading to health related problems.

#### d) *Forms of consumption*

*Khat* is grown for its tender leaves and twigs/stems, which are chewed for their mild stimulating effect. They taste sweet to bitter when fresh, based on the type of *khat* consumed. Although the most common way of obtaining the stimulating effect of *khat* is by chewing fresh leaves and soft twigs, consuming dried and pounded materials, in the form of tea, infusion and smoking is also seen. As with most other addictions, when a regular *khat* chewer is not getting *khat* he/she feels uncomfortable, becomes restless and aggressive. In Hararghe a person in such a state is locally known as *jazba* (literally meaning inactive or dull) and the condition of an extraordinary desire for *khat* is called *harara*. During this period one cannot be expected to behave well or to respond positively to any query.

However, when a regular chewer gets *khat*, after about one and half to two hours she/he will become calm as the narcotic effect begins to work. This state of quenching the chewing desire is locally known as *mirqana*. According to key informants, the time taken to get the stimulating effect varies based on the body weight of the person, room temperature and type and quality of the material. It is said that a heavy person will sense the feeling late as compared to a person with less body weight while warm room temperature will hasten the narcotic effect or the excitement. (Dechassa, 2001)

#### e) *Processing methods for market*

There are a number of procedures and processes employed to ensure the marketable value of the harvested material of *khat*. The consumable part is harvested and put in shawls or plastic sacks at farm level and taken home for sorting and grading by plucking off the leathery leaves and trimming the long stems.

The selected material and the unfit/unmarketable portion, locally called *garaba*, are separated. The unfit part is set aside for animal feed and as compost material for later use as manure. The selected and marketable part is tied into *haqara*/bundle (40-60 selected slender twigs) and splashed with water to keep the product wet and fresh and then wrapped with fresh leaves and twigs of different plants and grasses. The bundles of the commodity will finally be placed in burlap or plastic bag, sack or shawl ready for transport to market for sale. The way the commodity is packed varies depending on the distance to the final

destination and the purpose it is sent for (local consumption or export) (Dechassa, 2001).

#### f) *Marketing: volume and earnings*

In Ethiopia, *khat* is used for direct consumption, local sale and for export. The quality, prices and taxation rate of export *khat* are quite high as compared to that used for local consumption. For example, the tax for locally used *khat* is Birr 3 per kg while the levy for exportable *khat* is Birr 6 per kg. *Khat* appears to make a significant contribution to the foreign currency earnings of Ethiopia.

It is exported to various parts of the world including Djibouti, UK (London), Somalia, and a number of Arab Countries. Exports have increased dramatically. In 1999/2000 Birr 0.464 billion worth of *khat* was exported to different countries and ranked second replacing hides and skins in export revenue (The Reporter, 2000). The above figures do not, however, include the huge volume of *khat* smuggled to different countries. Despite the economic benefits drawn from *khat*, some countries, including the Ethiopian government, have repeatedly attempted to limit the production and export of *khat* and forced replacement of the crop with coffee, in accordance with proposals made by the United Nations Commission on Narcotic Drugs (Huffnagel, 1961 cited by dechassa).

Farmers generally sell their *khat* to buyers who directly come to the field and negotiate a price with the producer. When farmers take the commodity to local wholesale markets they mostly do not sell it directly to traders, rather they sell through regular brokers (locally known as *qaqabi*) who negotiate on the price on behalf of the farmer/owner. Each trader has a number of brokers and operates through them. After negotiation on the price with the buyer, if the farmer agrees to the offer by the buyer, the broker sells the material to the buyer and receives a 10% commission from the farmer/seller but allegedly not from the buyer.

## IV. DATA PRESENTATION AND ANALYSIS

*Khat* production and sale have a long standing history in Ethiopia. Millions of farmers in Ethiopia drive their income from the production and sale of *khat* leaves. This is partly true for the distributors and retailers in urban centers of Ethiopia-particularly in Harar, Direedawa and Addis Ababa, who are involved in distributing the product in the domestic and international markets (Gebbis, 2004).

Farmers generally sell *khat* to buyers or brokers who visit their farm in search of the produce. Some big and experienced farmers access the exporters of *khat* directly and negotiate for the best possible price, while others either sell their products either on site or approach brokers in their local market. Those brokers are known as *dalala* or *qaqabi* and they do not take title of the goods. Usually, *khat* traders and exporters

operate through a number of brokers involved in different markets. The brokers work on commission basis, which they receive from the seller of the product.

Most of the exporters to Somali deal at their own, by making an outright purchase in Ethiopia and its sale in Somalia (Hargessa, Mogadisho, Bosaso markets); Whereas the exporters of Djibouti deliver khat through the importers agent who are stationed in Ethiopia. (African Journal of Business Management Vol.5 p.3647).

The difference in the price of khat to different parts of the world can be attributed to the quality of khat that is consumed in these markets. When khat is sold even if quantity will be considered, what matter most is its quality. This depends on the nature of khat itself. Oromo people in Hararghe recognize three types/traditional "varieties" of *khat* plants classified physically based on the color of the young shoots of the plant. These identified types are *Dima*/red, *dalota* (*Dalacha*)/whitish and *Hamarcot*; the latter being in between *dima* and *dalota* in color.

The red/*dima* type has a reddish tinge, withstands harsh conditions, tolerates poor management, extensive harvest (exhaustion) and gives reasonable harvest even with less care compared with the other varieties. However, it is of inferior quality, is less preferred by consumers, and has low market value as compared to the other two varieties. *Hamarcot* has broad leaves and is less branched out; it is superior in quality and hence has better market value. *Dalota* is white or light in color, has narrow leaves and more branches compared to *hamarcot*. Unlike the other two varieties, *hamarcot* does not have clear distinguishing characteristics for easy identification. However, through experience it is possible to distinguish it easily. Some of the criteria farmers' use to grade the quality of khat are; exciting rate or narcotic effect, taste, physical appearance, demand and market value. According to farmers and *khat* users in Hararghe *hamarcot*, *dalacha* and *dima khat* are ranked as first, second and third, respectively, using the above criteria interims of the market value.

When it is sold in the market just like any other products, there are many intermediaries between the farmer and the end consumer. Sometimes the exporter may directly purchase from the farmer or they may purchase through *dalala*. After the products are purchased, since it is perishable, it should reach the market for end consumer immediately using different means of transport. In Harar when khat is prepared for sale, first the unnecessary part, called *garaba* will be removed by the farmers themselves and sold. In the past, if khat prepared for sale passes khat *kellas* it will be taxed. Khat *kellas* that are found in Awoday, Babile, Dhangago, Kombolcha, Chinaksen, Diredawa airport, Gursum, Bedesa, Hades, bordode, michata and others are responsible for the collection of khat tax.

The tax imposed on khat is unit tax. It does not consider the value and quality of khat. Quality and purchase price is not the issue. Only what is considered is its weight. The amount of tax will be determined based on the kilogram transported. Quality is considered only at the time of purchase and sale. When it reaches *kellas*, its weight is measured and the amount of tax to be paid will be determined based on that weight. The government has assigned the specific unit and the amount of the tax is computed by using that unit rate. However, what is surprising is, the government has assigned three (3) birr per kilogram for domestic consumption and six (6) birr per kilogram for export. This is not in line with the government's policy of export promotion. Undoubtedly, this will encourage domestic consumption.

Again, *Khat kellas* has loose internal control in which the employees and the tax authority have far relation. This opens a room for corruption. To avoid this and for export promotion the government closes all these *Khat kellas*, which is actually a base for government revenue in the past. At this time, except two khat *kellas* left in west Hararghe, all *khat kellas* are closed and the government has lost all the revenues from this source.

The closure of *khat kellas* makes the price of khat low, which in turn increases local consumption. In the past, khat has been the third largest exported items next to coffee and oil seeds. But starting from 2011, it changes its rank to fourth position. Export promotion by using tax does not mean that all taxes should be removed. For export promotion we should impose tax on one activity and remove for the other. Unless there is partial treatment we cannot say, we are using tax for export promotion. As it is clearly evidenced, the closure of khat *kellas* will decrease the price of khat and in turn increases local consumption; because it is easily available with low price. This will affect the working force of the country and the economy.

The late Prime Minister Meles Zenawi, once discussing with the country's youth said that the government would take sever measures on houses that allow khat chewing and shisha smoking. Following the Prime minister's remark, officials of the city have taken measures on some places of the city sporadically. The city authority is also given written warning to khat retailers that the retailers should cease allowing chewing in their shop in the coming seven days.

However, still what is done is clear to all of us. All of these houses are on their function. Still they are serving the chewers. The possible solution for this is easy. Using tax as instrument, if unit tax let say six(6) birr per kilogram is levied on khat reaching the city, undoubtedly, the local khat consumption will decrease. Even, if we want to decrease local consumption of khat to the minimum level, only imposing a combination of tax on khat is enough and there is no need to take

coercive measure on the side of government. As khat has many social effects because of its direct relation with alcohol most of the time, it may harm the society from different angle. Even if, it is government's responsibility to keep the societies well being by taking measures; it is not expected on the side of government to use coercive action. What is expected is only the imposition of a combination of taxes on khat. On one side, this measure will increase government's revenue and employment creation and again decrease local consumption.

In the export market, the major problems witnessed are tax charged on the gross weight of khat that includes the packaging and other accessories, and lack of standard for the quality and type of khat for export, absence of tax refund policy. As it is perishable product, the government does not allow tax refund for the expired product. Khat exporters do not get any benefit as enjoyed by the exporters of other commodities.

It can be said that the internationalization of khat has not gained from the external factor such as export promotion program. However, the conducive

environment, demand for khat could be some external factors for its internationalization. While tobacco, bear and other products can be given recognition and support within the export policy on some pretext, treating khat half- heartedly for export marketing does not seem logical to the exporters and farmers. The Ethiopian government did not give any recognition for khat. As it is cash crop, it is helping itself by its own income. Even if Ethiopian government's main attention is development of agriculture in which different policies are made concerning agriculture, if there is one thing puzzling about the cultivation and trade of this plant; in Ethiopian history, no government has an extension policy for khat. Khat will support itself without any help from government. However, as one of the employees of Oromia revenue agency says, in this year (2014), the government has extension policy for khat. The assertion is, therefore, if extension policy is developed for khat, our country will become main foreign export earner.

In east and west Hararghe the amount of khat tax collected by those kellas are too large. Let see the amount of tax collected by each zone from khat per year:

Table 3.1 : Revenue collected in each year from khat tax in Hararghe

Kellas	2005/1997	2006/1998	2007/1999	2008/2000	2009/2001	2010/2002	2011
East Hararghe	106,816,811	97,127,604.5	99,662,807	77,176,720.4	14,862,412	0	0
West Hararghe	39,247,413.31	39,341,523	30,881,979	28,024,705	16,783,759	14,114,928	16,312,169
Total	146,064,224.3	136,469,127.5	130,544,786	105,201,425.4	31,646,171	14,114,928	16,312,169

Source:-Oromia revenue bureau

As you can see from the above table the amount of khat tax collected in each year is higher in east Hararghe than west Hararghe. Because, the number of kellas in east Hararghe is many in number than kellas in west Hararghe.

Again from the total cash collected starting from 2005-2009, the 2009 is small both in east Hararghe and west Hararghe. The reason is that, the khat kellas are operating only for two (2) months of the year 2009 i.e. for the month of *Hamle* and *Nehsie*.

The table shows that in west Hararghe the collection continues until now, even if the amount is small. Two kellas are functioning in west Hararghe i.e. *bordode* and *michata*. Before their closure, the kellas are contributing all those amounts of revenue to Oromia regional states; but not now. The reason is that there is no kellas at this time except the two kellas left in west Hararghe.

Currently, for export promotion, khat exported is not taxed even in these two kellas. But even if many of them are passing these kellas in the name of exporter, most of these traders do not export the product; they sale it locally. Nobody controls whether these products

are really exported or sold locally. This shows us there is loose coordination between the tax authority and khat kellas.

Currently, just like any businesses, khat exporters are paying income tax. But, the problem is, these exporters does not maintain accounting records and difficult to determine the amount of tax. Federal government of Ethiopia has tried to search solution for this. The exported amount will be taken from letter of credit/LC/ which is issued by bank. Depending on this letter of credit, they will calculate the amount of export and then the amount of tax that should be paid.

Again, another problem arises on the side of Oromia regional state. First, some of the exporters are private limited companies (plc) and as per the Ethiopian government law, PLCs are federal tax payers. Nevertheless, now they agree to share the revenue on 50-50 basis. Still the problem is not solved for Oromia regional state as from the total 50% remitted, the federal government will not specifically state that this amount is from khat exporters and this amount is from other sources. The federal government will determine the amount by itself and will share 50% to Oromia regional

states. Second, some of the exporters are in other regions like Somali. From the exporters, only two of them are Oromia tax payers. Oromia regional state does not know whether these tax payers are even really paying tax to their respective regions or not. Nobody knows. As there is no coordination between Oromia regional state and other regions on this issue, the information is not clear for those regions. Even Oromia regional state, where products are transported from, does not have any information about what amount is transported by those traders. Again, this closure of khat

kellas has opened a road for illegal trade, as there is no control. By this, large amount of khat is exported to Djibouti and Somalia illegally.

The total amount of cash collected by other kellas like Jimma, Shashamane, Guji, Wondogenet, Borena and Finfinne surrounding special zone are far less than the amount collected by the two (east and west hararghe). Let see the following table which shows the total amount of khat tax collected by khat kellas in hararghe and others.

Table 3.2 : Total revenue collected from khat tax of all kellas

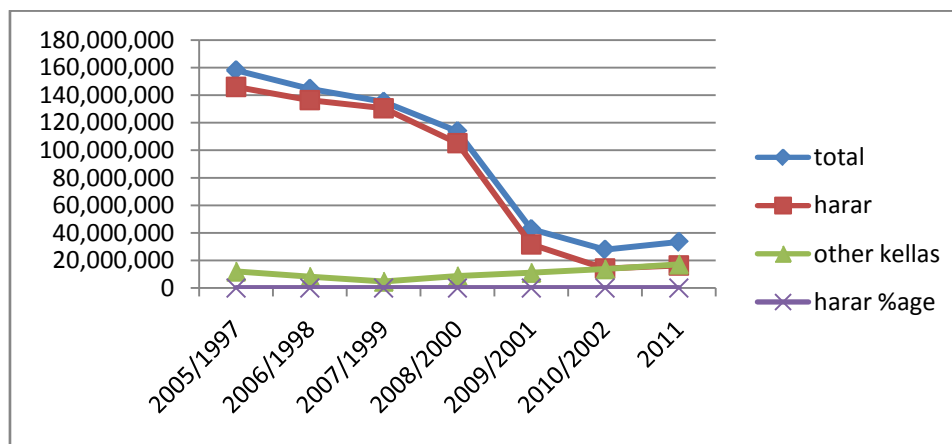
Year	2005/1997	2006/1998	2007/1999	2008/2000	2009/2001	2010/2002	2011/2003
Total	158,090,701	144,672,475	135,240,214	113,844,953	42,790,277	27,873,674	33,505,597
Minus hararghe	146,064,224.3	136,469,127.5	130,544,786	105,201,425.4	31,646,171	14,114,928	16,312,169
Other kellas	12,026,476.70	8,203,347.50	265,785,000	8,643,527.60	11,144,106	13,758,746	17,193,428
%age of Harar kellas	0.923926729	0.94329711	0.96528083	0.924076322	0.739564528	0.506389219	0.486849078

Source: - computed using data gained from Oromia revenue bureau

As one can see from the above table, the total tax collected from all other kellas are very much less than that of Harar. The rest only contribute small amount to the total revenue. This shows that, the closure of those kellas erodes the revenue obtained from this source as the largest part of revenue come from them. So if these kellas are closed, we can say that the revenue obtained from this source will decrease by more than 90 % ( More than 90% of khat tax revenue is collected from Harar khat kellas and only small amount

is collected from other sources). Even after its closure, the two khat kellas left to function in west hararghe contribute around 50% of khat tax revenue. The main reason is that, khat production is larger in Harar than any other place in Ethiopia. In Harar khat is the livelihood for many people. Not only farmers but also, many others get their daily income from this source. So to change the economic standard of these people, government should give attention to this crop.

Graph 3.1 : Total revenue collected in each year from Harar, other kellas and its total



Source:-calculated from data of Oromia revenue bureau



As one can see from the above graph, the total revenue collected from both Harar and other khat kellas is decreasing from time to time. This is because of less attention given from government and the increase in corruption on this activity. Due to less coordination between regional tax authority and these employees, it is open for corruption. In Harar it is known that if somebody works in Harar khat kellas, he/she has to be rich. Everybody knows and it is common in that area.

Diredawa has also one khat kella to the entrance of the town at the place called Manafasha. It is still there. Diredawa imposes tax for the purpose of cleaning the town from khat leaf (Garaba). The municipality imposes one birr per kg on khat that to pass the location specified. But the intention is not to earn revenue to use for other purpose or to decrease khat consumption; it is for cleaning the town from garaba/by product/. The researcher doesn't know clearly the amount of khat tax collected from Diredawa khat kella. I have seen when considerable amount of revenue is generated from this tax. I did my practical attachment in Diredawa finance bureau. During that time, the investigator witnessed that large amount of money were remitted to the office. What should be known here is that the intention is not to decrease khat consumption through tax but, to clean garaba from the city.

## V. CONCLUSION AND RECOMMENDATION

It is not expected to be prophet to know the problem of Ethiopian tax system which is evidenced by small tax bases. Based on the analysis of the information obtained from the study, the following findings were obtained.

Even if the efficiency of the countries tax system is increasing from time to time, still it needs a resistive effort from the government and all stake holders to make the system all inclusive, because for efficient collection of tax, the tax base should be increased. Khat kellas was used to be a valuable portion of government revenue. But the government has closed these kellas found in east and west hararghe with the intention of export promotion and to increase foreign currency. Khat kellas are considered as a tackle when exporters are stopped on all khat kellas they face. As a result khat kellas are removed for the intention of promoting export.

A unit rate of 3 birr per kilogram for local consumption and 6 birr per kilogram on exports has been used in the past. As the tax imposed on khat is unit tax it lacks some consideration which have direct effect on khat export i.e. quality and type. The unit tax does not consider khat quality as there is no standard. So it is imposed irrespective of the quality and type of khat even if these things have direct effect on profit.

Even if the government takes those measures with the intension of export promotion, it cannot hit its intended objectives that khat ranked on the fourth

places in foreign exchange earnings. This is as a result of misinterpretation of export promotion by the government. Export promotion does not mean the removal of all taxes from the item in all conditions. There should be partial treatment for the item in order to call it as export promotion by using tax. If there is no tax for both khat locally consumed and exported, we cannot say it is export promotion. Khat kellas not only decrease local consumption, and sources of revenue but also used for employment creation.

As a result of removal of khat kellas, the government has imposed business profit taxes on the exporter of khat just like any other businesses. But it is complicated by less record keeping habit of khat exporters in which government use letter of credit as a solution to this problem.

Oromia regional states has also the authority to collect khat tax, but ordered by federal government to close these kellas. As a result of this closure Oromia lost all the revenue from these sources and couldn't even get business profit taxes collected by others. Because some of the exporter are private limited companies which are federal tax payers where as some of them are other region tax payers like Somali. As there is no coordination between Oromia and other tax authority, they cannot know what amount those tax payers should pay. Even not only the amount they should pay, nobody knows whether they are really paying tax or not.

West and east hararghe comprises the largest portion of khat tax revenue. They comprise more than 90% of khat tax revenue. Even after their closure, the two khat kellas left in west hararghe i.e. michata and bordode comprise almost 50% of khat tax revenue.

### a) Recommendation

Based on the finding summarized, the study provides the following possible suggestion to recommendable findings.

✚ The removal of khat kellas increase local consumption and decrease export earnings from khat. For these reason tax should be imposed on khat consumed locally. As the prevalence of local consumption open road for other illegal activities, it should be decreased by using tax, not coercive measures as the government is doing. Just impose a combination of taxes on khat consumed locally and make export free. This will increase export and discourage local consumption.

✚ The existence of kellas does not only decrease local consumption and increase government revenue, but also it promotes employment. On this regard just like a VAT department in tax authority, khat tax department should be there in order to directly monitor the activities of khat kellas so as to decrease corruption. Even it should be administered by federal revenue authority. The qualified

employees should be employed and directly administered by large tax payer organization.

✚ Again government should give attention to this crop. Extension policies should be implemented in an extensive manner. It is good that in 2014/15 the government has developed extension policies for khat even if it is not yet implemented. Agricultural atomization policy of the government should also include khat plant too.

✚ When locally consumed khat is taxed and that exported is free of tax, there should be coordination between federal and regional tax authorities. As has been noted, export should be kept free of tax. During this, some of the traders pass khat kellas as it is for export and sale it locally. This fraudulent activity should be avoided by the coordination of federal and regional government. The trader should bring verification to khat kellas that shows whether the specific amount and quality of khat that is expected to be exported was really exported. Otherwise, it is impossible to control if there is unequal treatment between what is locally consumed and exported. This coordination should be not only between federal and regional government but also between regions in order to prevent tax evasion.

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