

The Effect of Contraband on Government Revenue: Case of Segen Area People's Zone

Addisu Karafo¹

¹ Jinka University

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Abstract

This study is interested in the owner-manager of the SME and particularly in the analysis of his cognitive schemes concerning CSR. Using cognitive mapping as a technique for representing and analysing cognitive patterns, the results of this study reveal that human resources, consumers and to a lesser extent the community are the stakeholders whose wellbeing is of concern to SME's owners manager. However, their motivations for implementing CSR are not the same. For some, CSR is a lever for achieving strategic objectives, while for others it is an objective in itself, and not a means for achieving other ends.

Index terms— SMEs, CSR, owner-managers, cognitive schemes.

1 Introduction

2 Background of the Study

lobalization is an engine for economic growth and significantly enhances trading activities. It also boosts opportunities for informal business operators in informal economies creating a multidimensional challenge for the administration. Informal economy comprises those economic activities that circumvent costs and excluded from the benefits and rights incorporated in administrative rules and regulations. It is part of an economy that is not taxed, monitored by any form of government or included in any gross national product (GNP).

Illicit trading activities across a border such as contraband are invasive socio-economic perils deeprooted in the global trading system. Their syndicates are drawn by huge profits while benefiting from weak legislation. Enforcement agencies face the formidable task of facilitating the flow of legal trade while dismantling organizations involved in smuggling operations. Smugglings dampen the economy in multidimensional ways. It destabilizes the legal industry, restrains innovation and investments, reduces government revenues, fuels transnational organized crime and hampers the health and safety of consumers (FICCI, 2016).

Ethiopia is a landlocked country and experienced strong, broad-based growth averaging 10.5% a year from 2005/06 to 2015/16, compared to a regional average of 5.4% (World Bank, 2017). This growth brought with it positive trends in poverty reduction in both urban and rural areas. Despite this marvelous change; the tax revenue collection performance of the country is lowest compared to an average tax collection performance of sub-Saharan African countries, (Alemayehu, 2015) and even below its neighboring countries (Tilahun, 2014 cited in Orkinah, 2016). This low performance is an indication of illicit trade activities outside the formal business activities who evade and avoid tax revenue from government. The products on such illicit trading activities are smuggled goods which have no official entry point in the country, do not have customs document or prior approval to enter into or depart from the country. The agents involved in these activities violate the law that govern the import and export procedure and thus avoid the payment of all applicable taxes for the importation or exportation of goods.

3 Statement of the Problem

Products crossing a border in to or out of the country illegally are informal transactions. They remain a great challenge for countries in generating tax revenue for long periods of time. They expand the evader's potential of evading tax revenue from government treasury and disappoint those who operate in legal economy forcing them to shift their activities to illegal markets. Moreover; they kill micro small and medium business enterprises growth shutting their market by providing forbidden and quality products produced with advanced technologies at a low price. By removing revenue from government and demolishing the growth of micro small and medium enterprises, the contrabandist puts the economy of the country at risk. These contraband activity most of the time typifies developing and underdeveloped nations which are characterized by high manpower, lower per capital income and the biggest portion of the economy leading the life by cultivation. These nations have no well-established infrastructures; agriculture covering the largest percentage of GDP and industries that produce products with poor qualities. They are also subject to foreign cultures invasion and dominance of the youngest people losing their identity. Consequently; the individuals in these countries are forced to participate in illegal activities as an agent or direct for themselves.

In Ethiopia, contraband is not a recent phenomenon but existed long periods ago. Since then smugglers did not hesitate to smuggle goods into and out of Ethiopia, and they are still doing it in spite of all laws and regulations

1 ? Why do individuals involve themselves in contraband activities?

. They smuggled products like electronics and electrical goods, garments of various kinds, perfumes, cosmetics, habit-forming drugs, armaments, and others. The products are smuggled from countries like Sudan, Eritrea, Kenya, and Djibouti (Zemzem and Teklu, 2017). These neighboring countries knowingly allow their border for such products to cross Ethiopia to raise illegal activities in the country that will jeopardize the economy of the country at any time.

Thus, it is against the problems stated above that this study tries to investigate the effect that products crossing the border and entering the country unlawfully through Moyale have on the revenue of the Segen area peoples zone tax authority.

In line with the above-stated research problem, the study will answer the following research questions:

? What are the effects of these activities on government revenue? ? What are the measures taken or planned to be taken against activities?

4 Objectives of the Study 1.3.1 General Objective

The general objective of this study is to investigate the effect of contraband on government tax revenue of Segen Area Peoples' Zone.

5 Specific Objectives

? To assess the reasons why individuals engage themselves in contraband activities. ? To assess the effect of this activity on government revenue of the area and ? To examine the measures taken and planned to be taken against the activity.

6 Scope and Limitation

Segen area people zone consists of five Woredas namely Konso, Dirashe, Burjy, Amaharo and Ali. These Woredas are near one another and located in southern region of the country bordering the region with Oromia region. However, the contraband or smuggled 1 www.erca.gov.et/index.php/customs/org products largely enter the area from Oromia region Moyale to Konso and then distributed to the rest of Zone Woredas and other parts of the region and country at large. Thus this study concentrates on Segen Area People's Zone because of the time and cost that it takes to cover the entire country. The targeted business operators also exist outside the formal system, so the owners may refuse to participate and fill the questionnaires appropriately.

7 The Significance of the Study

This study focuses on the effect of contraband which is an illegal activity undertaken against government revenue and the economy at large. So this will have the following benefits:

? It can help tax authority to establish ways that will help them to eradicate if possible or reduce contraband and enhance its tax revenue potential. ? It can also help the government to establish a policy that will reduce the level of informal economy in the country.

? It can also act as a stepping stone for other research on the same area.

8 Organization of the Paper

This study is concerned with contraband in Segen Area Peoples' Zone and will have five parts. The first part is about the introduction and incorporates background, statement of the problem, objectives, scope and limitation, significance and organization of the paper. The second section was about the literature review related to the study followed by methods used to collect data, select sample and analysis of the collected data. The fourth section presents data analysis and discussion and the fifth section of the study then concludes the study.

97 9 Review of Literature

98 10 Contraband and its Meaning

99 Products produced in or outside a country cross a border to abroad or into the country from outside in two ways.
100 In the first case legally by those who have legal license to do it and pays tax for the government on the income
101 generated from such transactions. They deal with products that are allowed to be imported or exported by rules
102 and regulation of the country and support the economy of that country. On the other hand, there are people
103 who engage themselves in activities that contradict the legal system of the country. They had no state-issued
104 permits, license or registration and did not pay tax on the products. Moreover; the products being imported or
105 exported may be forbidden legally because of the effect that they may have on the socioeconomic and political
106 system of the country. In general word, the products entering or leaving the country in such a way are named as
107 contrabands.

108 The word contraband refers to property that is illegal to possess or transport and may be goods that are illegal
109 to import or export and are attempted to be smuggled into a country. Contraband goods are usually subject
110 to seizure by government officials ([https:// definitions.uslegal.com/c/contraband](https://definitions.uslegal.com/c/contraband)). The products have no official
111 entry point, do not have customs document or prior approval to enter into or depart from a country so, they
112 violate the law that governs the import /export procedure and thus avoid the payment of all applicable taxes
113 for the importation or exportation of goods (www.erca.gov.et/index.php/customs/org) and has harmful effect on
114 the socioeconomic development of a country.

115 In Ethiopia, this contraband enters the country in different directions from neighboring countries namely
116 Kenya, Sudan, Eritrea, Djibouti, and Somalia. The operator brings the products on foot, pack animals, Motor
117 Vehicle and Cars that gives transport service to the public. Moreover, the public office cars that are provided
118 by the government to officials for office purposes like ambulances and those cars that carry oils and gas from
119 the center to different areas of the country also participate in supporting in such evil activities. Some are
120 trafficked hidden within areas such as automobile tires, doors, fenders, bumpers, fuel tanks, and in other secret
121 compartments of trucks, and trains.

122 Even more; some contraband goods are occasionally smuggled into and out of the country stuck in containers
123 with other legal shipments allowed to be imported or exported after fulfilling customs formality. Drivers of trucks
124 which transport legal shipments stop their vehicle en route and load illegal goods in to the container of legal
125 products. Smugglers are also assisted by some dishonest customs officers at check points and local security forces.
126 Smugglers bribe them and enter or take their goods into or out of the country illegally.

127 To convey their goods, smugglers cross the land borders of the country and use routes that are not under
128 the control of the federal police. The large part of the Ethiopian border encompasses extensive lowland areas
129 2 2 which are difficult to fully control by the federal police. As a result, smugglers can easily cross the border
130 with their substantial smuggled goods. The smugglers, experienced in running contraband goods and adept at
131 traversing the country's border, are canny in looking for other devious routes when their way was blocked by
132 federal policemen. They are also violent enough to intimidate or kill anyone standing in their way. As a result,
133 many elements of the Ethiopian law enforcement community have lost their priceless lives in the fight against
134 smugglers. Using the above mentioned devious devices/methods, smugglers deliver contraband goods to their
135 secret stores and make them available for selling and distribution. www.erca.gov.et/index.php/customs/o

136 11 Determinants of Contraband

137 Some of illicit transactions may be carried out across a border between countries by illegal traders or by licensed
138 business owners whose aim was to escape government tax. This was the problem for all countries across a globe
139 for an extensive period of times and still exists regardless of the measures developed and taken by governments.
140 However; what remained an answered by academicians, government and even international organizations was,
141 why do people engage themselves in such illegal activities given its existence outside government control?

142 People participate in contraband activities directly by themselves or assign agents that will act on behalf of
143 them for commission base. They are motivated by various factors may be to avoid taxes and to secure illegal
144 competitive advantage, to avoid customs checkpoints where goods and their documents are examined, to make a
145 living and to escape from the unemployment prevailed in the country ([www.erca.gov. et/index.php/customs/org](http://www.erca.gov.et/index.php/customs/org)).
146 Others involved in the contraband trade as acts of political defiance. Irresponsible and anti-peace elements may
147 smuggle guns and hand grenades into the country to commit a crime, to damage public infrastructure and to
148 create political instability in the country or to cause an atmosphere of social unrest. Moreover; consumer's
149 willingness to buy goods on the black market is the other factor that drives smugglers ([www.erca.gov.et/
150 index.php/customs/org](http://www.erca.gov.et/index.php/customs/org)). Smuggled goods are sold at a low price and this has made thousands of poor people
151 prefer to buy smuggled products than legally imported goods. External factors like political instability, social
152 unrest and economic crisis in the neighboring countries may also contribute to the expansion of contraband trade
153 in a given country.

154 In many parts of the world, the import and export policies usually consider the effect that the products may
155 have on the economy of the country. Accordingly, there are products which are allowed by the import/export
156 policy of the country and also prohibited even if the demand for the products exists in that country taking in
157 to account their effects. In such cases, prohibitions effectively prevent trading in forbidden products on the legal

158 market, but these products continue to be desired, wanted and insisted by consumers. So the absence of legal
159 supply leaves plenty of opportunities for contraband supply to substitute for it. Lack of legal supply to meet this
160 demand for prohibited products (demand gap) may force individuals to engage themselves in illicit activities.

161 The level of tax burden also plays great role in the economy in expanding the market of contrabandists.
162 Business peoples may join refusing the level tax they are being charged by the government. A well-established
163 tax system considers the ability to pay for the people and also have a pivotal role in inspiring micro small and
164 Year 2018© 2018 Global Journals 1

165 The Effect of Contraband on Government Revenue: Case of Segen Area People's Zone () B medium business
166 enterprises in the economy. However; many countries mainly developing countries charges their peoples without
167 ability consideration to meet the level of tax they have aimed to collect in that fiscal year. They may do this
168 by increasing tax rate or forcefully incorporate the business into tax net. Thus, this moves the business peoples
169 to smuggling creating higher tax evasion in that country. Several studies by Bhagwati, (1964); Fisman and Wei,
170 (2004); Mishra, (2008) and Buehn and Farzanegan (2011), pointed out that tax rate is vital to push factors for
171 smuggling. Moreover; effective law enforcement in the nation is a fundamental element in keeping the people
172 in that tax system and reduce illegal acts. A country that has fine law enforcement experiences less illicit
173 activities. A significant measure for lack of a successful enforcement mechanism is the number of policemen per a
174 population and level of investment in technology and training that support surveillance, which enables proactive
175 and effective enforcement actions possible. The costs of smuggling depend on the probability of being caught
176 and punished by the authorities, so intensifying enforcement increases the costs of smuggling in the form of
177 punishment, confiscation, and detection (Martin and Panagariya, 1984). The study shows a significant negative
178 correlation between effective enforcement and smuggling (Buehn and Farzanegan, 2011). Low risk of the law
179 enforcement with profitability from tax evasion from smuggling enhances the motivation for the illegal act of
180 smuggling.

181 Countries with low innovations and lower level of technology of the domestic industries to produce new products
182 that contend smuggled products in quality and price may experience a higher number of peoples involved
183 in contraband activities. The imported products illegally satisfy the needs of the consumers with emerging
184 technologies, new products with better quality and performance (Bakhtiyari & Salarzaei, 2016). Smuggling of
185 imported goods expands due to enhanced public demand. Ambition value of imported goods with the perceived
186 better quality compared to domestic commodities, coupled with enhances purchasing power tends to provide
187 impetus to smuggling. Findings of the subsequent section on the extent of smuggling show that weakness of
188 domestic industry in producing quality machinery and electronic goods could be one of the causes for smuggling
189 of imported goods.

190 12 Effect of Contraband

191 Regardless of different approaches to definitions of contraband, its effects are numerous and economically
192 significant. It is a serious problem and its impact is far-reaching, affecting various stakeholders including
193 Government, domestic industries and citizens of the country. Most customs, border and law enforcement officials,
194 policymakers, and academicians agree that illegal trans-border trading results in major financial and social costs
195 to economy, and society (FICCI, 2016).

196 13 A Loss of Government Revenues

197 The smuggling of goods or products can be considered as one of the tax violations that attack a country's tax
198 system. It dampens legal imports and drastically decreases the volume of revenues collected from various duties
199 and levies by state agencies. Customs duty forms a significant part of the Central Government revenues, which
200 shows a decreasing trend over the past few years (FICCI, 2016).

201 Illegal trade in contraband products deprives government tax revenue because the product crosses the
202 border illegally without payment of tax. When goods are conveyed secretly or illicitly into or out of the
203 country without the payment of customs duty and taxes, the government loses much revenue ([www.erca.gov.et/
204 index.php/customs/org](http://www.erca.gov.et/index.php/customs/org)). The eventual outcome of the revenue lost is that it hampers development programs.
205 Therefore to make the development programs feasible and to finance them, the government may be forced
206 to increase taxes or adjust other sources of income. The burden of covering these shortages falls on honest
207 taxpayers who in turn lead to higher prices of commodities which in turn can contribute for the growth of
208 black-markets or as the tax increase drive up the price of domestically produced and imported goods, many
209 consumers seek lower-priced products through a variety of alternative venues and channels, many of which are
210 illegal. ([www.erca.gov.et/index.php/customs/ org](http://www.erca.gov.et/index.php/customs/org)).

211 The main objective of taxation is to reduce the income inequality among the people usually using progressive
212 tax system. Through this tax system, highincome earners pay accordingly and the poor as well. However,
213 contraband business violates this and amplifies income disparity or the earnings gap between the rich and poor.
214 They are the main parts of the group who are recognized legally in evading government revenue. The products
215 entering or parting the country by these illicit traders are hidden from the view of government and are sold
216 surreptitiously. They use the poor on a little compensation to carry the smuggled products on foot or other

217 means from the border to their store. They accumulate the wealth while the living standards for many stagnate
218 because they are not paying as formal business peoples.

219 **14 Impact on Domestic Industries and Innovations**

220 The flow of contraband products into a country weakens local industries by distorting the prices of the products.
221 These illegal, illicit traders well know by the act of providing the products at chipper prices which will disappoint
222 and may also remove local producers from the market. Their intension was evading and avoiding tax and
223 regulation, so their chip price may result in the breakdown of domestic industries or force domestic producers
224 into bankruptcies.

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227 **16 B**

228 Micro Small and Medium enterprises are the principal employment generators and exert a strong influence
229 on the economies of all countries. They are the fertile sectors regarding of innovations and quick remedy for
230 unemployment and also increases tax revenue for the government. Moreover; they are the backbone of every
231 economy in raising the economy through the enhancement of import and export of the country. However;
232 contraband operators remained the main hindrance for these entrepreneurs by providing quality products
233 produced by advanced technologies at lower prices. By doing this, they downsize domestic entrepreneurs
234 development and expansions.

235 Innovation in the form of the conception of new ideas for the development of new products or processes and
236 experimentation 3

237 **17 Threat to Society**

238 has been recognized widely as an imperative driver of economic growth. Innovators protect their thoughts through
239 patents, copyrights, design rights and trademarks. Without adequate protection of these intellectual property
240 rights, the incentive to develop new ideas and goods is reduced, thereby weakening the innovation process. In
241 industries where product development requires significant investment and innovation, smuggling of counterfeit
242 product impairs investments and innovation by undermining the efforts of innovators and discouraging them from
243 further research and development, which ultimately hampers overall growth of the economy.

244 Smugglers involved in clandestine activities also pose a serious threat to society. It affects the internal
245 structure of a society by creating powerful illegal institutions (Dominguez, 1975). It expands the black market
246 and increases convergence between organized crime, terrorist groups and other threat networks available at
247 (<http://www.state.gov/documents/organization/250513.pdf>). Smugglers and their system outwit the national
248 borders imposing security threat and earnings from this illegal activity may be used finance insecurity that
249 increases the policing costs (Burke, 2013).

250 Antisocial behavior is conduct that disrupts society or displays disdain or hostility to it. For instance,
251 committing a crime is antisocial manners. Such kind of behavior can be intensified in society by the body
252 of persons who used smuggled in weapons for violence activities calculated to cause death, robbery, burglary,
253 rape and other crimes. Therefore smuggling armaments into the country weakens the struggle to maintain peace
254 and order in the society available at (www.erca.gov.et/index.php/customs/others/101contraband).

255 **18 A Negative Effect on the Economy**

256 Monetary costs arise from smuggling due to evasion of taxes and tariffs. Smugglers are extra burden for
257 government budget by evading legal duties and taxes/tariffs. A developing country relies more on indirect taxes
258 as compared to direct taxes and low indirect tax collections may have harmful consequences for the government's
259 ability to provide public goods. The provision of public goods increases the productivity of economy (Loayza,
260 1996), and thus not creating such public products has a harmful effect on productivity, development, and economic
261 growth (Norton, 1988).

262 Smuggling may have a negative effect on official indicators such as growth and income distribution. It
263 involves bribery and other forms of corruption and tends to promote criminal behavior in the economy
264 (www.ficci.in/spdocument/20807/final). Smuggling may result in mass fall-down in domestic companies who
265 are unable to counter cheap imports, leading to surging in unemployment in the country.

266 **19 Health and Safety Risks**

267 A contraband operator also carries products that are risky for society. They deal with prohibited goods like
268 narcotics and illicit tobacco which are the serious threat to the life of many citizens of the country (WEF,
269 2012). And pornography materials which display genitals and show sex acts in an offensive way, thereby eroding
270 the moral values of the society. Even although the legal system of the countries prohibit the importation such
271 products, they are entering the border increasingly with the increasing number of users.

272 Habit-forming dangerous drugs debase/ demoralize the moral senses of the youth and others who take illegal
273 drugs for pleasure or because of addiction and it also cause them a wave of sickness when they are unable to
274 continue captivating it. The poor quality smuggled goods can produce health problem in the society. In their
275 attempt to control drug trafficking, federal policemen catch people and travelers who bring illegal drugs into the
276 country ([www.erca.gov. et/index.php/ customs/org](http://www.erca.gov.et/index.php/customs/org)).

277 **20 Measures Against Contraband**

278 Cross-border trade below the radar of government oversight is both a boon, and a curse for many African
279 economies ([www.ictsd.org/bridges-news/ bridges](http://www.ictsd.org/bridges-news/bridges)). However; in many countries particularly Africa the cost of
280 contraband or informal cross-border trade outweighs the benefit because of this governments are standing against
281 this activities. They frame some of measures that they think will reduce or eradicate contraband and other illegal
282 cross border trades and in turn enhance domestic production.

283 Informal cross-border trade touches everybody in the community. So the prevention of contraband needs a
284 wide range of actors including government, both regional and local administrators, and the society at large.
285 The government by itself cannot stop informal trades, so should work together with the community where the
286 contrabandist were located and conceal their Year 2018© 2018 Global Journals 1

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288 products after crossing the border. The Ethiopian government has established a new strategy against
289 contraband and based on this strategy the government has disbanded customs police, the former agent responsible
290 to prevent contraband, and replaced it by the federal police as of July 2008. In addition to this, the government
291 has amended customs and tax laws. This amendment has helped to streamline taxation procedure and to empower
292 the federal police for prevent contraband (www.erca.gov.et/index.php/customs/o). However; federal police only
293 can't carry the burden of averting contraband alone, so they need to work with regional and local administrators,
294 and the community. As a result of the active participation of them in fighting against contraband, the volume
295 of smuggled goods that enter for example into Diredawa via Shinile Zone has decreased (Paper on strategy to
296 prevent contraband, 2009).

297 Information and knowledge gap usually are bases of failing for many individuals, entrepreneurs, and companies.
298 Having awareness and information about the advantage and disadvantages of something gives a clue to accept
299 or reject it. Enlightening the general public and creating awareness about the effects of contraband on the
300 economy of a given country plays a vast role in challenging the increasing informal crossborder trade activities.
301 Contrabandists usually use the harsh economic and financial condition of the public and use them to carry illegal
302 products from the border through challenging ways using motorbikes, animals and human back particularly
303 females or hide the contraband from government officials. They are doing this because of poor understanding
304 about contraband and abet for contrabandists even and abuse the government officials assuming that officials
305 are blocking the business of the people. Therefore, providing education is necessary to infuse into the hearts
306 and minds of citizens the necessity for proper respect traditional law and to let them stand against contraband.
307 Educating the society about the proclamations, regulations, directives and operational systems of customs using
308 various media and customs website awakens the people to stand up for their country.

309 Also; to reduce the size of smuggling in the country it is necessary to strengthen the deterrence mechanism
310 for committing the crime. In Ethiopia, sub article 1 of article 92 stipulated in proclamation no.622/ 2009 any
311 person who, in contravention of this proclamation or the other laws enforced by ERCA, including regulations
312 and directives issued there under, imports or exports prohibited or restricted goods or without customs clearance
313 or illegally imports dully exported goods, without prejudice to the forfeiture of the goods and equipments used
314 in the commission of the offence and the proceeds thereof, be punishable with fine equivalent to the amount of
315 the customs duties and taxes payable on the goods and with rigorous imprisonment from 7 to 15 years (Customs
316 Proclamations No.622/2009) 4 The World Bank findings show that political support for customs reforms is
317 essential, together with . According to sub article 2 of the same article, any person who transports, stores, offers
318 for sale or buys goods referred to in sub article 1 of this article while being or ought to have been aware of the
319 illegality of their acquisition shall without prejudice to the forfeiture of the goods and equipments used in the
320 commission of the offence and the proceeds thereof without affecting the right of third parties who transacted in
321 good faith, be punishable with a fine equivalent to the amount of the customs duties and taxes payable on the
322 goods and with rigorous imprisonment from 7 to 15 years. According to sub-article 3 of article 92 stipulated in
323 proclamation 622/2009, where the offense is committed by the use of force or by an organized group with the
324 offender of the punishment shall be, without prejudice to the forfeiture of the goods seized and fine from 15 to
325 20 years, rigorous imprisonment.

326 The other approach connected with the strategy to prevent contraband is allowing border trade. By making
327 border trade with the neighboring countries: Somalia, Sudan, Kenya and Djibouti, the government has tried to
328 collect taxes. The border trade has been carried out by the directives issued in 2000 and 2001 by the Ministry
329 of Trade and Industries. The objectives of the border trade are to let the residents in the border area fulfill
330 their demand for consumption goods, to let them use border trade as a means of securing the necessities of life,
331 to decrease the activities of contraband and to promote legal trade. By opening the door to border trade, the
332 government anticipates some smugglers will abandon their vicious practice and turn into productive citizens of
333 the country. Export items for border trade are typically consisted of a pulse, livestock such as goats, sheep,

334 camel, and others. Import items are mainly food items, clothing that are usually dressed by the residents of the
335 border area.

336 Moreover; the simplification of the procedures and creation of a system which allows fewer contacts between the
337 staff and the traders was implemented by some countries, while others upgraded information technology system
338 and even introduced custom software to improve service delivery, increase transparency and shorten customs
339 clearance time. In their reforms, Countries like Uganda and Peru on the other hand employed measures such as
340 cooperation with other authorities, private entities and police, expanded audits and preventative inspections to
341 increase enforcement. Though these efforts may have reduced the clearance time, increased seizures (especially
342 in Mozambique) and a decline in smuggling, corruption is still high (especially in developing countries), which
343 compromises these efforts. One measure has been the establishment of simplified trade regimes, which simplify
344 the rules and procedures for small traders and provide tax incentives for trading within the formal sector. Some
345 countries cater expressly for the needs of small-scale traders at their borders, by providing information officers
346 to assist with the correct procedures. Equally, these economic communities promote engagement with informal
347 crossborder trade representatives, to ensure their needs are considered when policies and legislation are developed
348 5 3. Research Methodology .

349 **21 Research Design**

350 The study was descriptive, describing the effect of contraband on government revenue of Segen Area People's
351 Zone. This is because it depicts the participants in accurately and allows insight into life experiences due to its
352 unique approach.

353 **22 Data Source and Collection Methods**

354 The core objective of this study was to investigate the effect of contraband on government revenue of Segen Area
355 people's zone. Contraband is informal business operating outside the formal rule and regulation and has no legal
356 records, so it is difficult to measure the amount of revenue loosed by the government through contraband. An
357 estimate made by different experts is used to know the extent of the contraband effect.

358 This study used only primary data obtained from revenue authority employees and contraband business
359 operators. The study used only primary data because of the illegal nature of the area of investigation, lack
360 of formal records about the revenues of the operators and actual revenue loss of government because of this
361 informal business (contraband).

362 Primary data were collected through structured questionnaires that contain both open and closedended
363 questions distributed to the employees and business operators. Also; Lickert scale was used to generate the
364 perception of various study respondents on the magnitude of contraband. Secondary data were collected through
365 reviewing written documents, articles and journals.

366 **23 Sampling Design**

367 The target population of this study was tax authority employees and formal business operators as well as those
368 illicit traders. Segen Area Peoples Zone was composed of five Woredas (Konso, Dirashe, Amharo, Burji, and Ali).
369 Accordingly, the study utilized all data obtained from the employees of the revenue authority and contraband
370 business operators. The tax authority offices were located in Zone city and Zone center in addition to five
371 Woredas.

372 Collecting enough data from the targeted population is essential for the realization of the research objectives
373 and to arrive at the needed conclusion. The area of investigation lacks formal records about revenue and expense,
374 operates outside the official system of operation and mysterious in number to select the representative sample for
375 the study. Also; they may perceive divulging them for the government for punishment at the time the researcher
376 met them and might refuse to give the data hence their business was informal by nature. Therefore; the researcher
377 picked 50 contraband business operators using judgmental sampling technique considering the ability to fill the
378 questionnaire properly, uniformity of their business and their objectives of preferring illegal business than formal
379 business.

380 The total numbers of employees in revenue authority are known so; the researcher used simple random
381 sampling. Currently, there are about 178 numbers of employees in the zone tax authority (35 in Konso, 31
382 in Amharo, 25 in Gidole, 15 in Ali, 22 in Burji, 16 in Segen city and 34 in Zone center). Using simple random
383 sampling technique, the researcher took 75 numbers of employees (15 from Konso, Amharo and Zone city, 10
384 from Burji and Gidole. The remaining ten were from Ali and Segen city).

385 **24 Data Analysis**

386 After collecting all necessary data from respondents; they were examined for detection of Year 2018© 2018 Global
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389 errors and omissions through careful scrutiny of the completed questionnaires and put into a limited number
390 of categories. The data collected through questionnaire were quantifiable, so were organized systematically and
391 analyzed statistically with statistical software (SPSS 20.0). 1 above presents the demographic characteristics of

392 the revenue authority employees used to collect data for the study. As was seen from the table, the majority
393 of the participants were male and also diploma and first-degree holders. This has its own effect on contraband
394 controlling process. Holding the high number of employees that have a lower educational level or completed their
395 education through distance process will affect the revenue of the zone negatively. Not only can this but from the
396 table one can also conclude that the majority of the selected employees were accountant and management field
397 of study. More over; the table reveals that the selected employees have a work experience of between two to ten
398 years.

399 **25 Data Analysis and Presentation**

400 **26 Demographic characteristics of the respondents**

401 **27 Factors Motivating Peoples to Engage in Contraband**

402 Contraband activities are illegal business activities violating the law of the country or performed against the
403 rules and regulations that govern the export and import activities of the countries. Different methods are being
404 designed to cut this illegal business, but instead of dimensioning it is raising and even attracting many young
405 generations including those which are in formal business sectors. Individuals may be involved for the suck of
406 their benefit or serve other on commission bases. The motivating factors are various among the participants like
407 personal financial problems, increasing family responsibility or even lack of a formal job as a source of income
408 and other. The following table presents the factors that motivate peoples to engage themselves in illegal business
409 activities. Moreover; other joins it as a response to overly cumbersome, rigid, timeconsuming and inefficient
410 bureaucratic export/import procedures and regulations. The Effect of Contraband on Government Revenue:
411 Case of Segen Area People's Zone () B decreasing or zero income pushes the family member into activities that
412 will help them to get income for their families expenses particularly contraband. From the table, 32% stated
413 that they are being motivated by lack of the job that will serve as a source of income. We are in situations
414 where young generations stop their schools early because of family support or graduates wait for the hands of
415 government all raising the level of the unemployment rate of the country. So this group has a high probability
416 of participating in contraband activities. Moreover; the demand and supply gap in formal sectors also pushed
417 individuals (20%) into informal sector (contraband). If the formal system cannot meet the demand of the people
418 in the formal system, it is clear that that gap will be filled by informal sectors through products smuggled illegally
419 into the country.

420 The respondents were also asked who has led them into contraband activities as shown in Table 3. The table
421 reveals that the majority of the contrabandists were directed by their situations (64%) which may be lack of
422 income, job or increasing family responsibility, and other personal problems. On the other hand friend initiation
423 also plays a big role in moving individuals into contraband as was shown in the table (30%). By looking and
424 comparing the revenue that the friend in illegal business sector is generating with the revenue that he/she is
425 obtaining in formal business sector discourage them to leave that formal sector and join informal business sectors
426 or friend pushes to form informal partnership business or advise them about the benefits that they and other are
427 getting by involving themselves in contraband business.

428 **28 Knowledge of the Respondents about Contraband**

429 The awareness or knowledge that one has about any activity that he/she wants to do has effect on its outcome.
430 Business peoples usually conduct SWOT analysis before direct starting the business. On the other hand, there
431 are people who engage themselves in a business or other transactions unknowingly or without the idea about the
432 cost and benefit of that activity. There are also other who start a trade activities by looking at the success of
433 other people or do it because other have done it before and became successful in it. The same is true in case of
434 contraband.

435 Contrabandists run their business violating the law of the country may be by knowing of about the existence of
436 the business outside the government regulation or unknowingly. They merely run it by looking their benefit, but
437 they did not analysis the effect that it has on the society and the economy of the country at large. Accordingly,
438 the response of the respondents about their knowledge regarding the illegality of their business is presented in
439 Table 4: From the above table the response, the majority of the contraband operators indicates lack of knowledge
440 about the existence of their business outside the rule and regulation of the country. They are running it as a
441 normal business like formal operators, but they did not have awareness about the illegality of their business and
442 its effect on formal business operators and other locally produced products and even innovations.

443 **29 Benefits and Effects of Contraband**

444 Although contraband exists outside formal system, it benefits the economy of a country in various ways. For
445 instance, it enables people to meet the education, housing, and other basic needs, employs people in their home
446 countries and in the countries where they source their goods and it is also a supplementary source of family
447 income to people who are under-employed. It also benefits consumers through lower prices of the informally

448 imported products. Table 5 and 6 below show the results of the contrabandist regarding the benefits of their
449 informal business.

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451 The Effect of Contraband on Government Revenue: Case of Segen Area People's Zone () B According to the
452 result of the table, their business has a contribution or benefits the economy of the country (82%). In line with
453 the above response, they were also asked in what way illegal activity can benefit the economy of the country.
454 The benefit of the contraband business according to the operators, through giving ability for the operators and
455 small entrepreneurs to escape poverty (36%), also allows others who have no formal source of income to meet
456 the education, housing and other basic needs for their families (30%) and even acts as a supplementary source
457 of family income to people who are paid low salary (20%).

458 The illicit transactions that is being conducted in the country outside the formal system or government
459 regulation has harmful effects as well starting from the expansion of crimes to going down in government revenue
460 to distortion of the formal economy of the country. It even promotes anti-social behavior and violation of the
461 rules and norms in the formal economy and also regarded as the cause of low GDP growth. Such illicit activities
462 also have benefits to society in the form of employment, a source of income, and as a means to escape poverty.
463 Table 7 above presents the effect of contraband and as was seen contraband undermines the government revenue
464 the highest response (100%) with a mean of 1.12 and standard deviation of 0.327 because the operators are
465 outside formal system and also are difficult to be taxed. By allowing products illegally to enter the country and
466 sold informally causes the government revenue to fall. It also increase tax burden on formal business operators
467 as was shown on the table (77%) with a mean and standard deviation of 1.76 and 0.836 in such a way that two
468 of them (contrabandist and formal business operators) are selling the products in the same country for similar
469 customers, but one is paying tax on the returns, but the other one didn't pay tax. This expansion of nontax
470 paying business lowers revenue of the government, and in need of revenue to Year 2018© 2018 Global Journals

471 The Effect of Contraband on Government Revenue: Case of Segen Area People's Zone () B cover its
472 expenditures, government tries to raise it through growth of tax bases or raising tax rate which will fall only on
473 formal operators. This, also, may remove official business operators from legal system to join informal nontax
474 paying system (79%) with a mean of 2.01 and standard deviation of 1.133.

475 Moreover; hence contrabandists bring products at a lower price with higher quality causes the local producers.
476 The country in need of raising its economy takes many measures to attract foreign investors and also local
477 investors to invest capital in different projects. As an investment made in developing country, the products face
478 big challenges in the market if there are quality products imported informally from the developed nation. This
479 kills the need for the investments and innovations in the country as shown in the table (79%) with a mean and
480 standard deviation of 1.84 and 0.754. Such illegal business also wipes out foreign currency that a country may
481 earn from formal import-export activities (77%) with a mean and standard deviation of 1.89 and 1.203 and also
482 can create unfair competition in the market (79%).

483 30 Contraband Controlling and Challenges Faced in the Con- 484 trolling Process

485 Contraband goods have no official entry point in Ethiopia, do not have customs document or prior approval to
486 enter into or depart from the country according to ERCA report. The smuggler's traffic goods of various kinds
487 into and out of the country illegally without having state-issued permits, license or registration. They violate
488 the law that governs the import /export procedure and thus avoid the payment of all applicable taxes for the
489 importation or exportation of goods.

490 Because of the negative effect that it has on the economy of the country, revenue authority is framing different
491 means to stop it as much as possible. The prevention strategy involves a wide range of actorsgovernment, regional
492 and local administrators, and the society at large. The government has disbanded customs police and replaced
493 them by federal police who will work with regional and local administrators and the community and even mended
494 customs and tax laws. According to the report, as a result of the active participation of them in fighting against
495 contraband, the volume of contraband goods that enters has decreased.

496 The government starts to take serious measures by removing the existing government regulatory bodies assigned
497 to control contraband and even amend the rules that govern that activity. The government takes such actions
498 because that illicit activity was growing from time to time negatively affecting the tax revenue of the country.
499 Accordingly, the controlling process to some extent was effective in decreasing the volume of the contraband
500 products entering the country. The response of the contrabandist was presented in Table 8 whether they have
501 ever caught by the government or not. The result of the contrabandist for this study shows that 54% have never
502 been caught by the controlling units where as 46% were trapped by the controlling unit. From this one can
503 conclude that the controlling process was to some extent not effective.

504 The contrabandist operators who have been caught by controlling unit were asked about what happens if they
505 were trapped by the government units which are assigned for that illegal activity. The result shows that their
506 products were confiscated by the controlling units 44%. In addition, 48% stated that nothing was happened to
507 them (see Table 9). This group may be caught by government unit, but they may have methods that they are
508 using to escape confiscation or penalty. The groups from the respondents that escape confiscation as well as

509 penalty were asked how they are dodging and their answers were presented in table 11. As was revealed in the
510 table, the majority of the respondents (50%) stated that their main means of escaping confiscation and penalty
511 is bribery. They are running a large amount of capital so instead of losing that hug amount of money they prefer
512 paying a bribe for the controlling units informally. They have the ability to pay and also how to pay, so after
513 paying the area, they carry the products publicly without any fear. In addition to this, they offer them the most
514 expensive products that they lacked the ability to buying on the legal market. By giving them those products
515 that the controlling units need, they can escape controlling point easily.

516 In addition to the above problem in controlling contraband process i.e. bribe and provision of expensive
517 products, the tax authority employees were also asked about the challenges that the tax authority is facing in
518 dealing with contraband. The existence of the business outside the government regulation by its nature was hard
519 to control for the controlling authority. They have no formal license for that business, inter the border illegally,
520 and sold illegally without government permission. This and other problems associated with that illicit business
521 makes the controlling process difficult. Table 12 provides responds to the tax authority employees regarding the
522 challenges associated with controlling contraband.

523 31 Challenges in controlling contraband

524 32 Measures to Reduce Contraband

525 Contraband business in a given country has different socio-economic, political and cultural effects. It was explored
526 by policy developers as well as academicians at many periods, but the issue was continued to grow instead of
527 diminishing. To protect their country from negative outcomes of that activity and even to secure their tax revenue
528 continuously, it is necessary for governments to reduce the effect. Ethiopia like other African countries is affected
529 by contraband trade, so the government has taken many measures like banning the existing government units
530 assigned on that area, create awareness for the general public, amending tax and customs laws, enhancing public
531 education and enlightenment, allowing border trade and other.)

532 Contraband business is to some extent the result of the demand and supply gap in the formal system. The
533 official business operators in a country like Ethiopia provide products with low quality. This supply gap pushes
534 not only those who are not participating in authorized business, but also those that have business to fill that
535 gap. It is so essential for a government to raise domestic innovations and manufacturing as was seen in the
536 above table (91%) and human resource capacity development (98%) with a mean of 1.55 and standard deviation
537 of 0.55. In addition to this, according to the response of the official's poor enforcements and implementation
538 of the existing rules and regulations expand illegal activities, so it is better for the tax authority to strengthen
539 strong enforcement of the rules and punishments (88%). Even more; the tax authority with federal police officers
540 cannot mitigate that illegal activity unless they collaboratively work with the general public. They must create
541 a conducive environment for effective coordination and communication among controlling unit and the general
542 public (84%).

543 33 Conclusion

544 The objective of this paper was to assess the effect that contraband business has on government revenue of the
545 Segen Area People Zone. Contraband incorporates those transactions from which the operators generate huge
546 amount of returns but pay no tax for the government. Some of factors push or motivates peoples to engage in such
547 illegal activity according to the result of the study like lack of formal income to meet their family responsibilities
548 (42%), lack of job (32%) and the demand and supply gap in the formal sectors (20%). According to the result,
549 the selected contrabandists were led into such activity by their situations (64%) and friend initiation (30%).

550 The majority of the contraband operators have no knowledge about the existence of their business outside
551 government regulation. They are running it as a normal business like legal operators, but they did not have
552 awareness about the illegality of their business and its effect on formal operators and other locally produced
553 products and even innovations. Accordingly, their business will support the economy through giving the ability
554 for the operators and small entrepreneurs to escape poverty, allows other who have no formal source of income
555 to meet the education, housing and other basic needs for their families and even acts as a supplementary source
556 of family income to people who are under employed. It directly undermines the government revenue, increase
557 the tax burden on official business operators and may remove formal business operators from formal system to
558 join the informal nontax paying system. Moreover; kills the need for the investments and innovations in the
559 country, wipes out foreign currency that a country may earn from formal import-export and also create unfair
560 competition in the market.

561 The process of controlling contraband faces a great challenge like the bribe, insufficient skilled, and competent
562 human resource, lack of ongoing trainings, low salary of the workers, corruption, and coalition, inadequate
563 enforcement and penalties and ineffective respond to tax evasion in the area. According to the ^{1 2 3}

¹www.ficci.in/spdocument/20807/final.

²Proclamations No.622/2009, Customs Proclamation.

³<https://www.trademarka.com/news/east-africa-has-a-lesson-for-sadc-in-formalising-cross-border-trade/>

1

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	48	64	64	64
	Female	27	36	36	100
	Total	75	100	100	
Educational Level	Certificate	13	17.3	17.3	17.3
	Diploma	29	38.7	38.7	56
	BA	30	40	40	96
	Masters	3	4	4	100
	Total	75	100	100	
Field of Study	Accounting	31	41.3	41.3	41.3
	Management	27	36	36	77.3
	Economics	14	18.7	18.7	96
	Other	3	4	4	100
	Total	75	100	100	
	Work Experience	less than 2 years	10	13.3	13.3
	2-5 years	34	45.3	45.3	58.7
	5-10 years	24	32	32	90.7
	Above 10 years	7	9.3	9.3	100
	Total	75	100	100	

Source: Survey (2018)

Table

Figure 1: Table 1 :

2

Frequency	Percent	Valid Percent	Cumulative Percent
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Figure 2: Table 2 :

3

	Frequency	Percent	Valid Percent	Cumulative Percent
My own personal situations	32	64.0	64.0	64.0
My families push	3	6.0	6.0	70.0
My friend's initiation	15	30.0	30.0	100.0
Total	50	100.0	100.0	

Source: Survey (2018)

Figure 3: Table 3 :

4

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	17	34.0	34.0	34.0
Valid No	33	66.0	66.0	100.0
Total	50	100.0	100.0	

Source: Survey (2018)

Figure 4: Table 4 :

5

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	41	82.0	82.0	82.0
Valid No	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Source: Survey (2018)

Figure 5: Table 5 :

6

Frequency	Percent	Valid Percent	Cumulative Percent
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Figure 6: Table 6 :

7

Statement	SA	Employee Perception	A	N	D	SD	Mean	SD
Undermines government tax revenues	88%	12%	0%	0%	0%	0%	1.12	.327
Increases tax burden on formal business operators	48%	29%	21%	2%	0%	0%	1.76	0.836
Discourage formal operators	39%	40%	8%	8%	5%	5%	2.01	1.133
Distorts competition in the market	18%	42%	21%	10%	9%	9%	2.53	1.178
Foster the development of additional criminal activities	10%	12%	64%	8%	6%	6%	2.85	0.911
Undermines investment, innovation and distribution	37%	42%	21%	0%	0%	0%	1.84	0.754
Foreign currency loose	53%	22%	10%	9%	6%	6%	1.89	1.203
Creates unfair competition for official traders	40%	37%	14%	6%	3%	3%	1.93	1.004

Source: Survey (2018)

Figure 7: Table 7 :

8

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	23	46.0	46.0	46.0
Valid No	27	54.0	54.0	100.0
Total	50	100.0	100.0	

Source: (2018)

Figure 8: Table 8 :

9

	Frequency	Percent	Valid Percent	Cumulative Percent
My products were confiscated	22	50.0	50.0	50.0
Valid have been penalized Nothing was happen to me	4 24	28.0 22.0	28.0 22.0	78.0 100.0
Total	50	100.0	100.0	

Source: Survey (2018)

Figure 9: Table 9 :

10

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	31	62.0	62.0	62.0
Valid No	19	38.0	38.0	100.0
Total	50	100.0	100.0	

Source: Survey (2018)

Figure 10: Table 10 :

11

Frequency	Percent	Valid Percent	Cumulative Percent
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Figure 11: Table 11 :

12

Statement	SA	Employee Perception A N D	SD	Mean SD
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Figure 12: Table 12 :

13

Statement	SA	Employee Perception	A	N	D	SD	Mean	SD
Create conducive environment for effective coordination and communication among controlling unit and the general public	50%	34%	8%	8%		0%	1.8	0.9
Human resource capacity development	58%	40%	2%	0%		0%	1.43	0.5
Strong enforcement of the rules and punishments	42%	48%	6%	4%		0%	1.69	0.7
Strengthen domestic innovations and manufacturing to fill demand supply gap	55%	36%	9%	0%		0%	1.55	0.6
Introduce and enhance information technology infrastructure	12%	21%	55%	8%		4%	2.69	0.9

Source: Survey (

Figure 13: Table 13 :

564 .1 Source: Survey (2018)

565 Hence the issue that was being tried to control was the challenging one so need a well trained skilled and
566 committed employees that work in collaboration with the general public. Opposite to this however, the obstacle
567 in controlling process was insufficient human resource that have skill and competent (91%) with a

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