



Taxpayer Perception Survey: Report of quantitative survey of taxpayers and traders in Hargeisa

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Summary



Executive Summary

251 businesses were surveyed in Hargeisa during April-May 2018. This builds on the qualitative research phase.

Based on this, Busara recommends:

- Supporting businesses in keeping better records for easier self-assessment
- Giving people the chance to have input through accessible seminars and meetings, supported by messaging on Facebook
- Using optimistic messages that invites businesses to do their part and shows them progress

On the next slides, we list some key findings and headline statistics from this work. A comprehensive appendix contains all the findings from this work.

Summary of Findings

Taxes and Customs

62% say they pay business income tax. Other taxes are less often paid; 40% pay sales tax. That paying taxes is a legal duty is the most compelling reason motivating good tax behaviour. For customs, about half are satisfied, but there are calls for improvement in efficiency and professionalism of customs officials. People spend less than 10 hours a year calculating their taxes, but many still find the process difficult. Responses on many aspects were more positive for customs than for the tax system, though negotiation is slightly more prevalent in the custom system.

Political and Economic Context

There is more frustration and desire for change than was observed in the qualitative phase. Many are open to the argument that the government is underfunded, including the economic optimists. Overall people feel that very large businesses get a better deal from the authorities. Believing that the government and economy are on the right track are associated with more positive perceptions of the tax system.

Summary of Findings - continued

Taxpaying levers

Keeping good records is associated with paying taxes, as well as a desire for a smoother, fairer tax system.

The minority of businesses with access to powerful people and voice get better treatment from the tax system.

People need more information, and online platforms and in-person seminars are good ways of providing it.

Variation

Women are more likely to say that the tax system needs change.

Lessons could be drawn from some tax practices in 26th June, while Ibrahim Koodbuur may need to be targeted with additional communications efforts.

On frustration and desire for change, the quantitative data should take precedence over the qualitative results, as the quantitative data provides more robust evidence due to a much larger and randomly drawn sample.

Headline statistics

Payment

62%

pay business
income tax

40%

pay sales
tax

34%

pay payroll
tax

14%

pay contract
tax

12%

pay rental
tax

32%

paid customs in
last 3 months

Reasons

75%

ranked 'it is legal
requirement' among the
top 2 reasons for paying
tax

79%

ranked 'money will be
stolen or misused'
among the top 2 reasons
for not paying tax

38%

ranked 'more clarity and
information' as among
the top 2 tax system
reform priorities

38%

ranked 'more chance to
have input' as among
the top 2 tax system
reform priorities

65%

ranked health and
peace/security as the
top two most important
services

Headline statistics (continued)

Tax process

55%

say tax collectors are usually not polite and professional

44%

say that the tax payment process is not smooth

52%

say that tax evaders will be caught and sanctioned

23%

say it is not easy to work out what taxes they owe

50%

visited tax office 2 or more times in the past month

Customs

50%

say customs officials are not usually polite and professional

46%

say the current customs process is not smooth

43%

say big businesses get favourable treatment in the customs system

41%

say it is not easy to work out what customs duties they owe

Change

60%

want major change to the tax system

58%

want major change to the customs system

38%

think the government does not currently receive enough funds

54%

think the economy is not heading in the right direction

50%

think that the government is not heading in the right direction

Headline statistics (continued)

Dysfunction

54%

say big businesses get more favourable treatment in the tax system

32%

say the tax system is applied the same way to everybody

44%

have heard of businesses making unlawful payments or bribes

28%

can negotiate their tax burden, and it is not only large businesses that say this

42%

think similar businesses are not taxed similarly

Communication

61%

do not have avenues to speak out for change in the tax system

57%

say it is not easy to access more information about taxes

80%

would be interested in attending a MOF seminar

67%

use the internet at least daily

79%

use smartphones to access the internet

73%

have never accessed the MOF website

Two profiles of surveyed businesses

From the businesses included in the survey, broadly two profiles emerged, each with distinct characteristics and tax perceptions and behaviours:

Large Established Businesses

- They have more than 5 employees, are more likely to be managed by professionals, and are more likely to be owned/operated by men with at least some tertiary education.
- They are in a wide range of sectors and more likely to be maintaining paper-based or electronic records.
- Pay larger amounts of taxes and a more varied range of taxes.
- They are more optimistic about the government and the economy, make them more conscious that the government is underfunded, and more willing to pay.
- They are more content with the current tax processes, though feel that very large businesses get favoured and more likely to want the tax paying process to be smoother.
- More likely to be using internet daily and they access internet either through smart phones or laptops/desktop computers.

Small Individual Businesses

- They have less than 5 employees, are more likely to be managed by the owner, and are owned/operated by both men and women who are less educated.
- They are concentrated in the retail sector and are less likely to be maintaining any business records.
- Pay smaller amounts of taxes, and mostly pay business income tax only. They also have a higher proportion of businesses that do not pay any taxes.
- They are less optimistic about the government and the economy, but are more likely to draw on informal networks.
- They are more frustrated with the current tax processes and have a greater desire for changes in various aspects of the tax system.
- Less likely to be using internet, and those who use internet access it mainly through smartphones.

Method



Supporting PROFR

- PROFR aims to enhance revenue collection in Somaliland.
- Busara first undertook a qualitative study with 27 businesses.
- To gather further evidence from a larger sample, Busara developed a **quantitative survey** that was administered to 251 businesses.
- This report notes the **main findings** from that quantitative study.



Line of inquiry	Qual	Quant	Stakeholder
Tax Conception in Theory	X		
Tax Perceptions in Practice	X	X	
Tax Experiences and Behaviours	X	X	
Tax Morale	X	X	
Communications		X	
Context and Politics of Somaliland			X
Politics of Taxation	X		
Political Psychology: Identities, Networks, Motivations, Threats	X		X
How Change Happens			X
What all this means for our project			X

Topics for this project, and the source of information.

Sampling Strategy and Sample Size



206 businesses were recruited by random walk sampling

Interviewers were assigned starting points within Hargeisa. They were instructed to walk from randomly selected starting points, and interview every third business along the road. Surveyors were instructed to ignore informal street vendors and the very largest businesses were excluded.

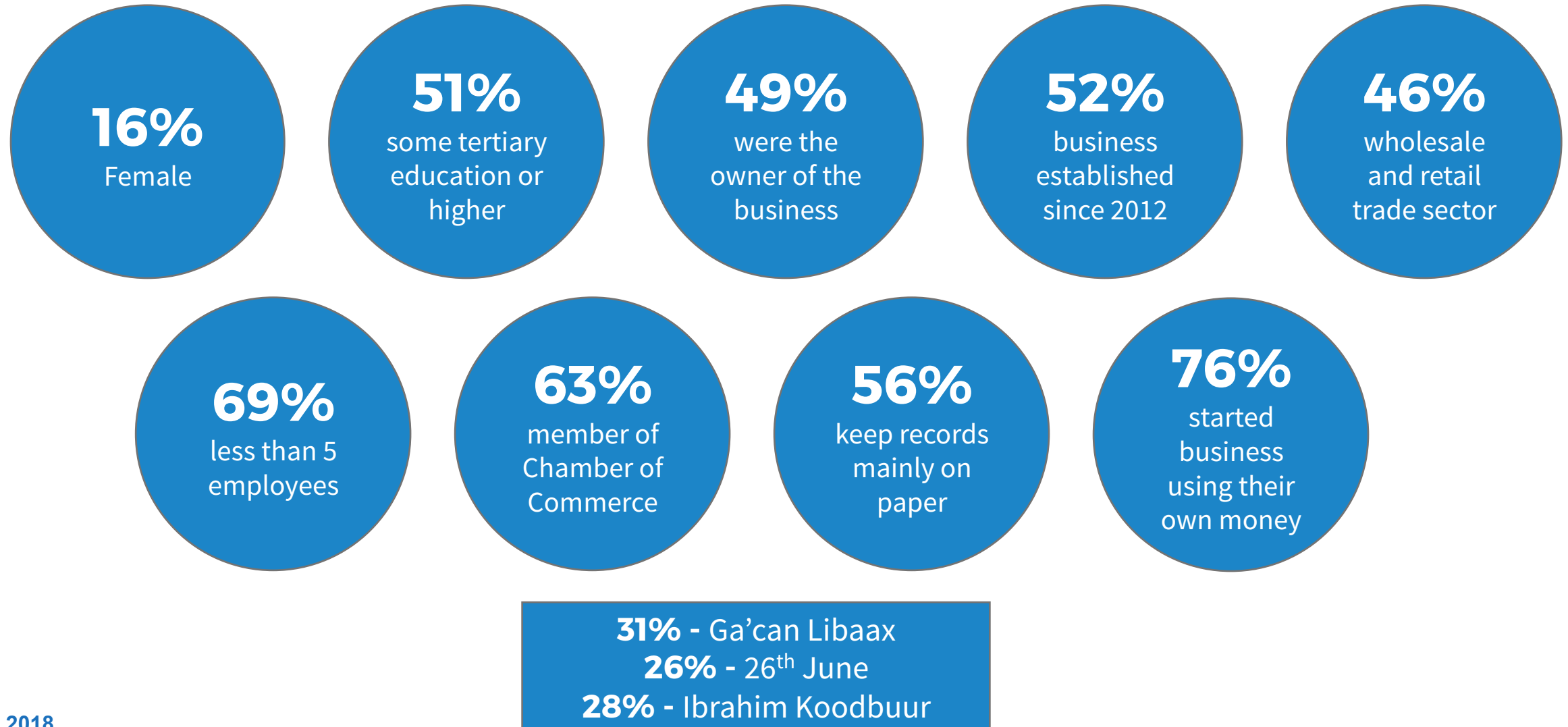


45 extra businesses were recruited by purposive sampling

Forcier, a data collection firm based in Somaliland, selected 45 additional businesses from available databases. This helped boost the number of larger businesses and industries that were underrepresented in the 'random walk' sample.

Sample description

Full demographics charts are provided in the appendix.



Key areas covered



TAXES AND CUSTOMS

What are determinants of tax and customs payment behaviour and perceptions?



POLITICAL AND ECONOMIC CONTEXT

How do these behaviours and perceptions intersect with the wider context?



TAXPAYING LEVERS

What opportunities are there to increase revenue?

VARIATION

How do these findings differ by gender, by district and compared to the qualitative data?

Findings on these topics are provided in the later sections of this report, and yield a number of recommendations.

Findings



Summary of Findings

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62% say they pay business income tax. Other taxes are less often paid; 40% pay sales tax. That paying taxes is a legal duty is the most compelling reason motivating good tax behaviour. For customs, about half are satisfied, but there are calls for improvement in efficiency and professionalism of customs officials. People spend less than 10 hours a year calculating their taxes, but many still find the process difficult. Responses on many aspects were more positive for customs than for the tax system, though negotiation is slightly more prevalent in the custom system.

Political and Economic Context

There is more frustration and desire for change than was observed in the qualitative phase. Many are open to the argument that the government is underfunded, including the economic optimists. Overall people feel that very large businesses get a better deal from the authorities. Believing that the government and economy are on the right track are associated with more positive perceptions of the tax system.

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Keeping good records is associated with paying taxes, as well as a desire for a smoother, fairer tax system.

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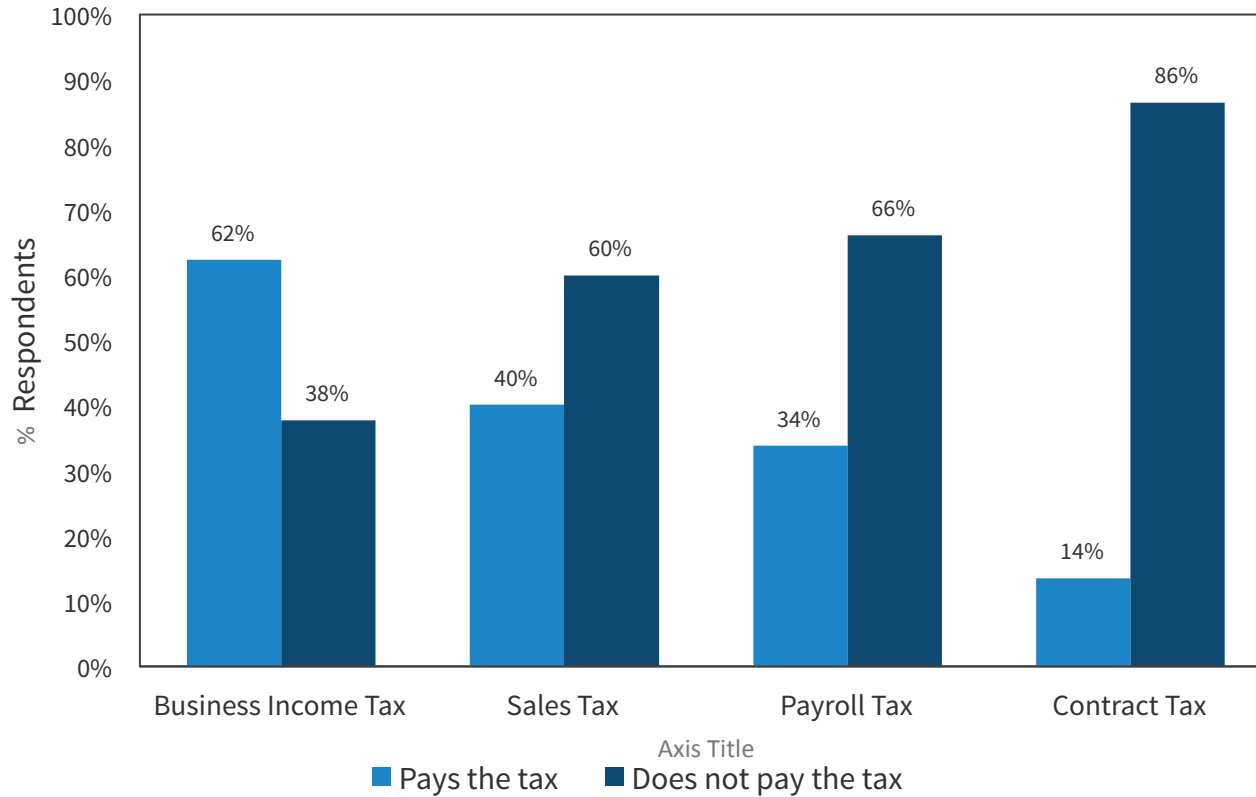
Findings Section 1: Taxes and Customs



62% say they pay business income tax. Other taxes are less often paid; 40% pay sales tax.

- The median amount of tax that was claimed to be paid among the 45% who responded to the question was \$150 in the last 12 months. The mean is \$8,116, due to some very large outliers.
- This is based on 114 businesses (45% of the sample) who were willing to note how much tax they paid. We note that this is only a subsample, and that this is a sensitive question to which there may be some incentive to misreport. The real figure may differ. Means for demographic subgroups are presented on the table below.
- 62% pay business income tax. That makes it the most often-paid tax. It is notable that there is little variation in who pays this tax – in the regressions, there are no significant demographic or perception variables that are associated with greater or lesser likelihood of paying business income tax (full regression tables are provided in the appendix).
- Other taxes are less often paid. 40% of surveyed businesses pay sales tax, while 34% pay payroll tax. Meanwhile 14% pay contract tax and 12% pay rental tax.
- The data does not offer clear explanations for why taxes are paid at different rates. In general, “it is a legal requirement” and “it is the right thing” were the top ranked reasons for paying taxes overall. It is not clear whether the gap between the proportion of businesses paying business income tax and the proportion paying sales tax is explained by genuine differences in the rates of liability, or by deliberate evasion (or lack of awareness, or a range of other competing explanations).

62% say they pay business income tax. Other taxes are less often paid; 40% pay sales tax.



Please note that these figures should be treated with caution given small sample sizes.

Note: "Does not pay the tax" category includes both taxpayers that should pay but have not paid as well as taxpayers who are not required to pay the tax.

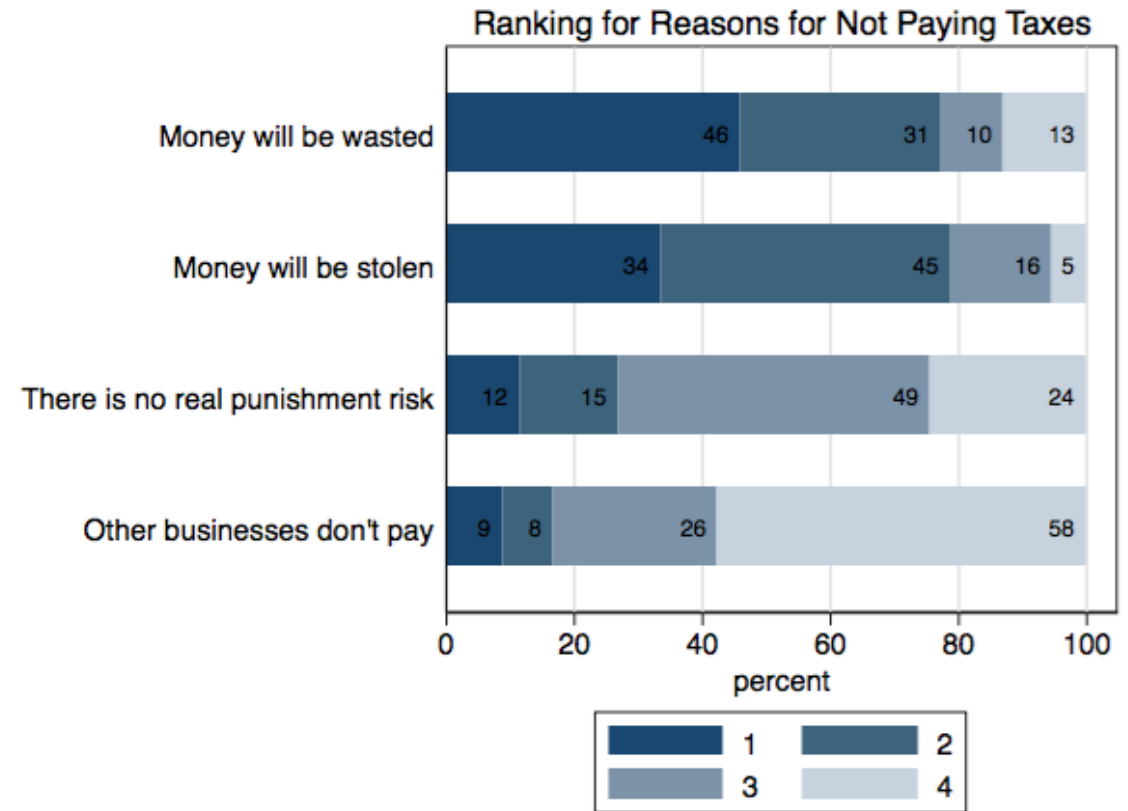
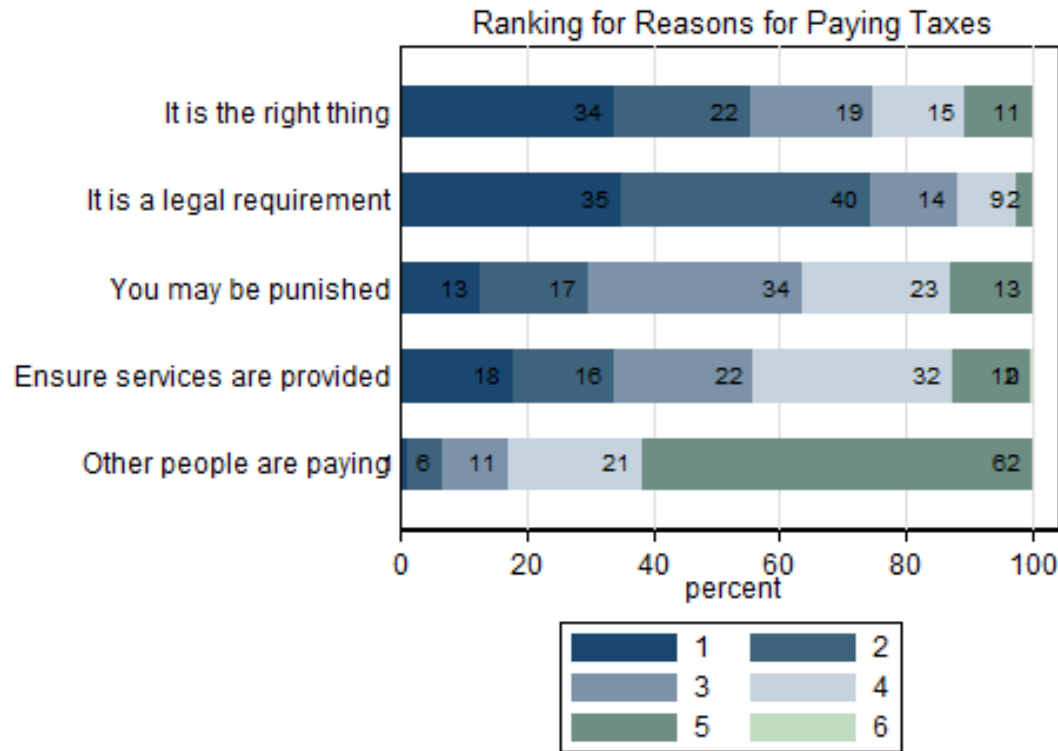
Group	Mean tax paid
Men	\$9,227
Women (16% of total respondents)	\$179
Wholesale and retail sector	\$2,132
'Other' sector	\$14,101
Less than 5 employees	\$820
5-15 employees	\$6,660
More than 15 employees	\$49,266*
26 th June	\$2,994
Ga'can Libaax	\$1,996
Ibrahim Koodbuur	\$3,564

Note: 5 businesses in the 'more than 15 employees' category reported taxes of more than \$50,000, raising this mean considerably.

That paying taxes is a legal duty is the most compelling reason motivating good tax behaviour.

- 53% agree that tax evaders are very likely to be caught, and people say they pay tax because it is a legal duty; when asked to rank the main reasons for paying taxes, 75% ranked 'it is a legal requirement' as the 1st or 2nd most important reason. These reasons might usefully be deployed in messaging and communication campaigns.
- Meanwhile, that other people pay, that taxes allow the government to provide services and that there is a risk of punishment were not considered leading reasons for paying taxes.
- Asked to rank the main reasons for *not* paying tax, respondents said it is because they feel it will be wasted (77% ranked 1 or 2) or stolen (79% ranked 1 or 2). Addressing these concerns will be important to convincing more businesses to pay the proper amount of tax.

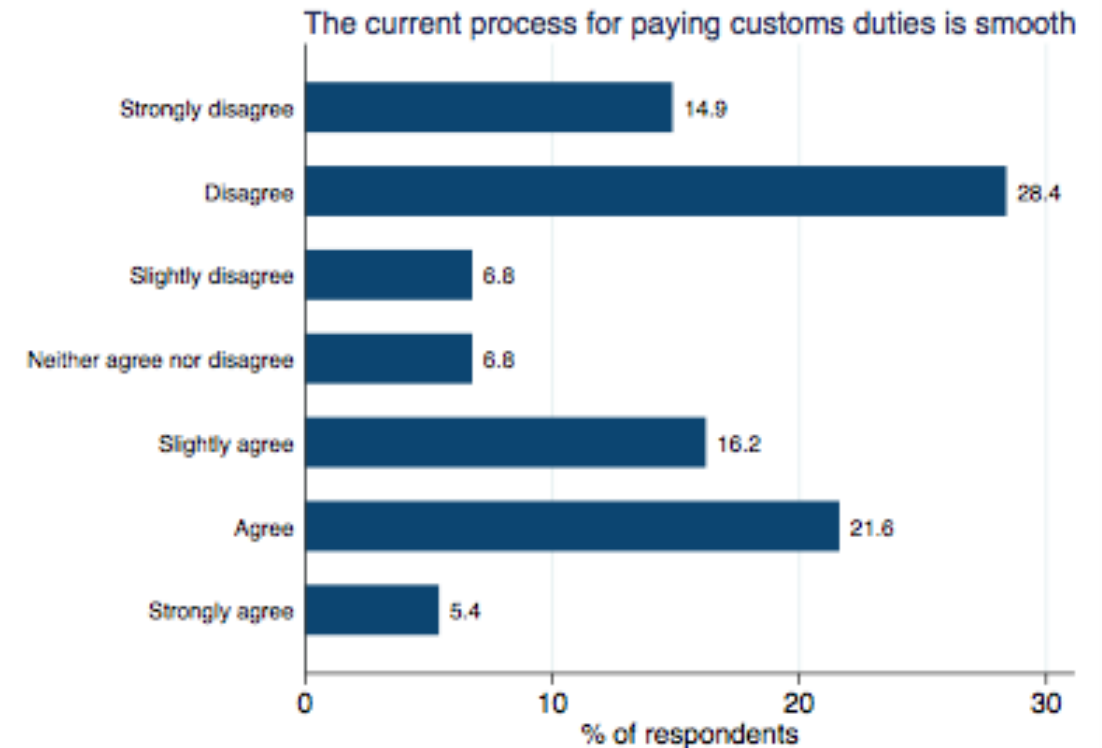
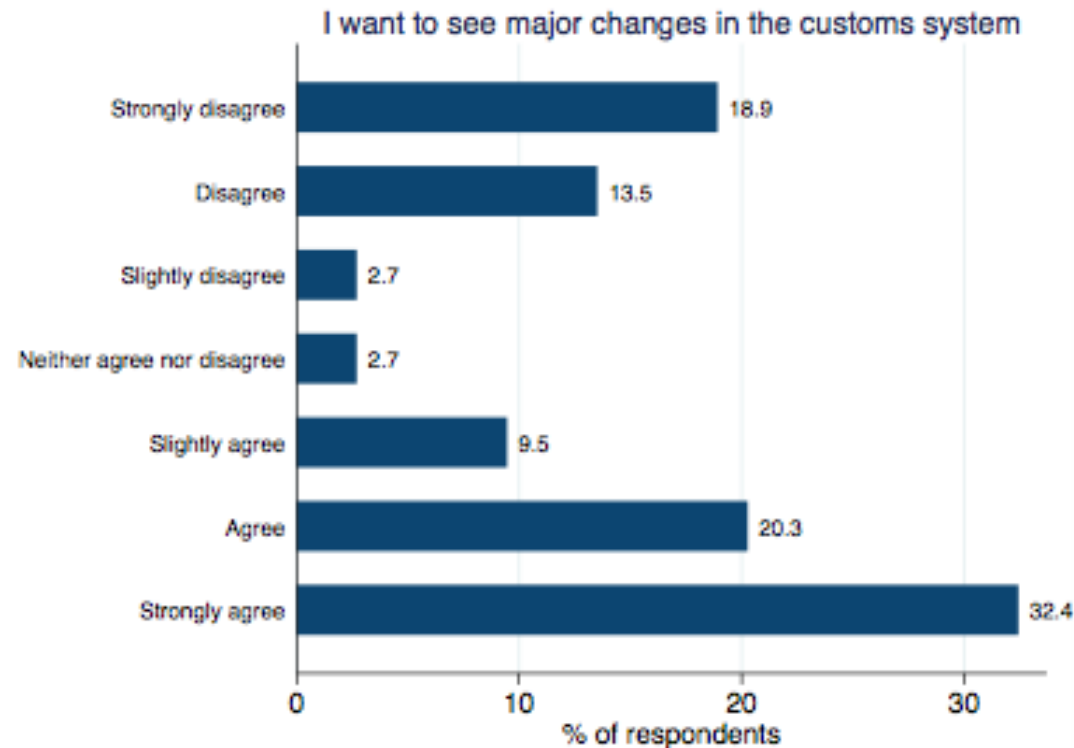
That paying taxes is a legal requirement is the most compelling reason motivating good tax behaviour.



For customs, about half are satisfied, but there are calls for improvements in efficiency and professionalism of customs officials.

- 32% of businesses had paid at least some customs in the last 3 months (only these businesses were asked about other customs perceptions). 69% had paid this at a port, 16% at an airport, and 9% at a land border post.
- Customs payers in our sample were, compared to the general sample, more male (94%), better educated, (56% had at least some tertiary education), and much more likely to come from 26th June district (45%). They were more likely to be in the wholesale and retail sector (55%), and had more employees (full charts are provided in the appendix). There is an association in regression analysis between paying customs and being in wholesale or retail, and an association between paying customs and keeping records; you are more likely to have paid some customs duty if keeping paper records, and more likely if keeping electronic records, compared to not keeping records (regression tables are provided in the appendix).
- Customs payers in our sample say it takes on average 3.5 days to clear goods; the modal result was 2 days. 24% of those who said they paid some customs had paid \$0-1000 (note that this is based on a subsample of 80) - though half (56%) said they don't know or prefer not to say the amount paid.
- Around half are happy with the performance of the customs system as it stands. 48% agree that its easy to figure out the amount they owe, while 42% disagree. 43% agree that the process is smooth, while 50% disagree. 55% say customs staff are not polite, while 36% say they are. Even so, a majority say that major changes are needed in customs. 32% strongly agree, 20% agree and 9% slightly agree that they want to see major changes in the customs system. (A comparison between the performance of tax and customs is provided below, in the finding 'Customs is mostly performing better than the tax system, though negotiation is more prevalent there.')

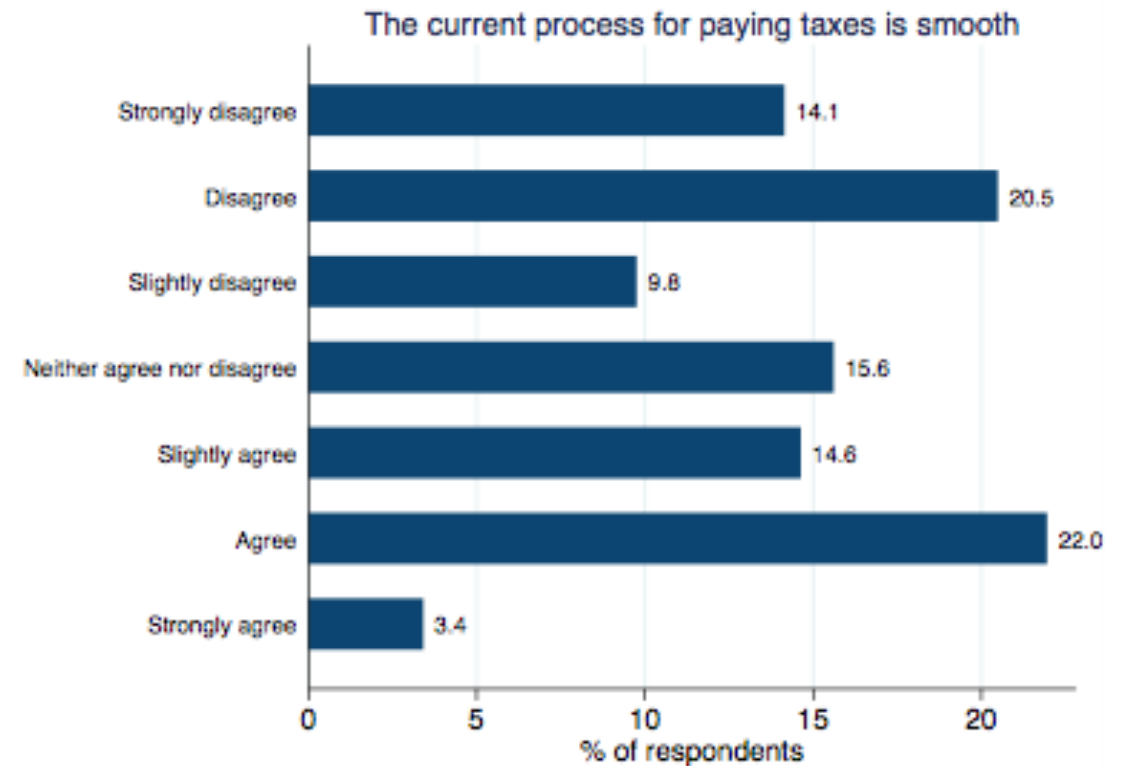
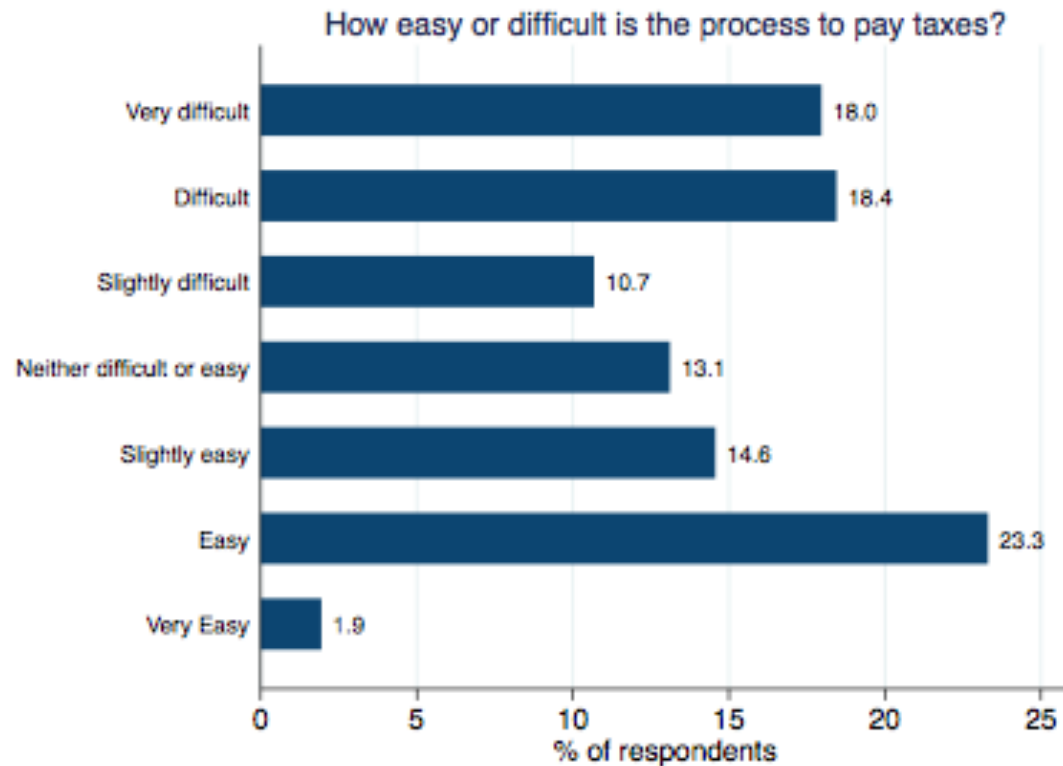
For customs, about half are satisfied, but there are calls for improvements in efficiency and professionalism of customs officials.



People spend less than 10 hours a year calculating their taxes, but many still find the process difficult.

- 92% say they spend 0-10 hours/year on tax payments, while the modal number of times they meet with tax officials in a typical month is 2.
- Criticisms of the tax system were common. 55% say tax collectors are not polite (Views were more positive in 26th June and Ga'can Libaax). A minority (40%) do not feel that the tax payment process is difficult, and 53% say that it is not easy to calculate what they owe (compared to 36% who say it is easy). Qualitative respondents had focused on confusion over rates and calculations as the main barriers in this regard, as well as a lack of feedback opportunities. 43% of people who paid customs also say the customs process is not smooth.
- Those with better records are more likely to be frustrated; businesses with paper records are more likely to say the process is not smooth, and those with electronic records are more likely, compared to businesses who mainly kept transactions in their own head. (The role of record keeping is discussed in the finding below, 'Keeping good records is associated with a desire for a smoother, fairer tax system – and perhaps a willingness to pay for it.')
- Those with greater privilege and who think the government and economy are on the right track have a more positive view of the tax process. In regression analysis, respondents with high political optimism are more likely to think the tax process is smooth. Respondents with high political optimism are more likely to think it is easy to calculate what they owe, and are more likely to think tax collectors are polite. Those who claim access to powerful people are more likely to think the process is smooth (full regression tables are provided in the appendix).

People spend less than 10 hours a year calculating their taxes, but many still find the process difficult.



Responses on many aspects were more positive for customs than for the tax system, though negotiation is slightly more prevalent in the custom system.

- On a series of directly comparable questions, responses on many aspects were more positive for customs than tax. 54% said that very large businesses are favoured in the current tax system, compared to 43% (of the subsample who had paid customs) who said they were favoured in customs. 44% felt the customs system is applied the same way for everybody, compared to 32% who felt this is true about taxation. 46% found it easy to work out what they owe and how to pay in the customs system. By contrast, 35% felt this about the tax system. 37% felt able to access information about the customs system, whereas only 28% agreed that they could do so about the tax system.
- Customs payers are also much more likely to maintain electronic records than non-customs payers. 54% of customs payers keep electronic records, compared to 32% of the full sample.
- On one question, the customs system performed notably worse than the tax system: 35% of customs respondents said they usually have the chance to negotiate, compared to 28% who said they can usually negotiate over their tax bill.
- Results were similar between taxation and customs in a number of areas. Similar majorities wanted to see major changes in the two systems, while similar minorities felt that the staff are usually polite and professional. An identical number felt that the payment process is smooth, and perceptions did not vary much when asked whether similar businesses paid similar amounts.

Responses on many aspects were more positive for customs than for the tax system, though negotiation is slightly more prevalent in the custom system.

Statement	Tax result	Customs result
I want to see major changes in the tax/customs system	58% agree	60% agree
Tax collectors/customs officials are usually polite and professional	30% agree	33% agree
The current process for paying taxes/customs duties is smooth	40% agree	40% agree
Very large businesses get better treatment than other businesses in the current tax/customs system	54% agree	43% agree
I think businesses with similar income/imports to mine get taxed similarly/pay similar import duties	39% agree	36% agree
The current tax/customs system is applied in the same way for everybody, no matter who you are or who you know	32% agree	44% agree
I find it easy to work out what I owe and how to pay in the current tax/customs system	35% agree	46% agree
If I need more information about the current tax/customs system, it is easy to get that information	28% agree	37% agree
I usually have a chance to negotiate over my tax/customs bill	28% agree	35% agree

Findings Section 2: Political and Economic Context

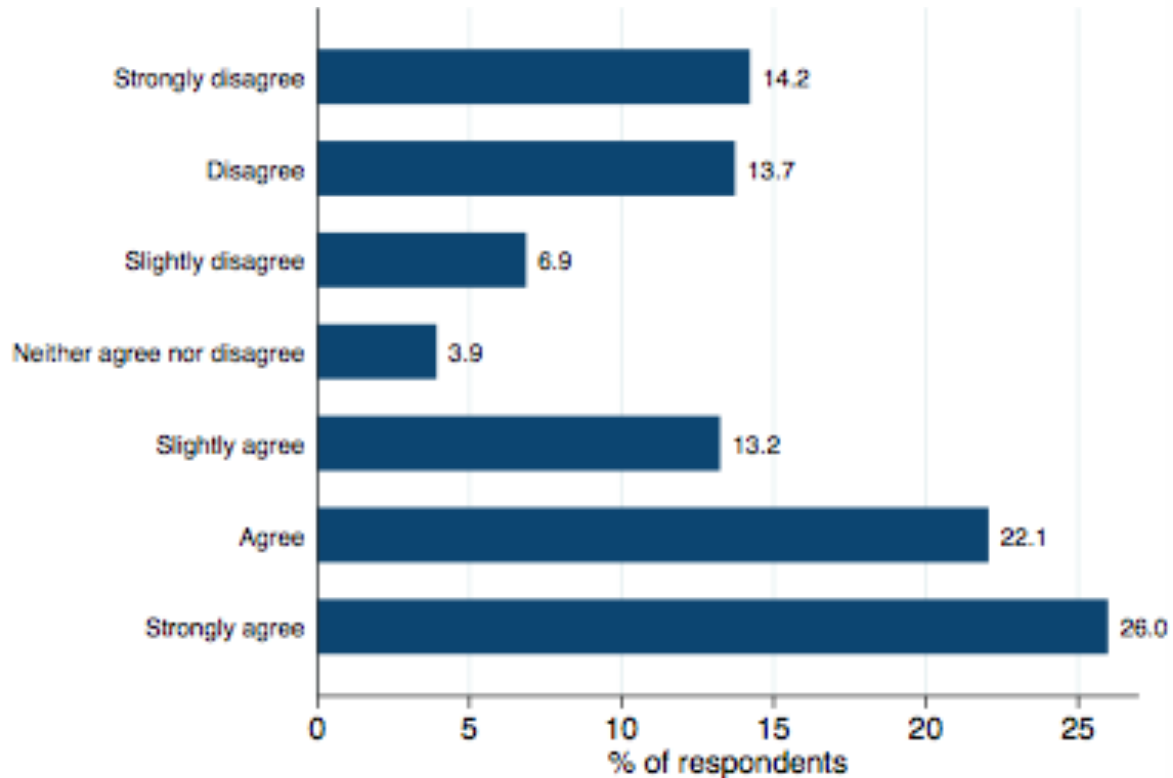


There is more frustration and desire for change than in the qualitative findings.

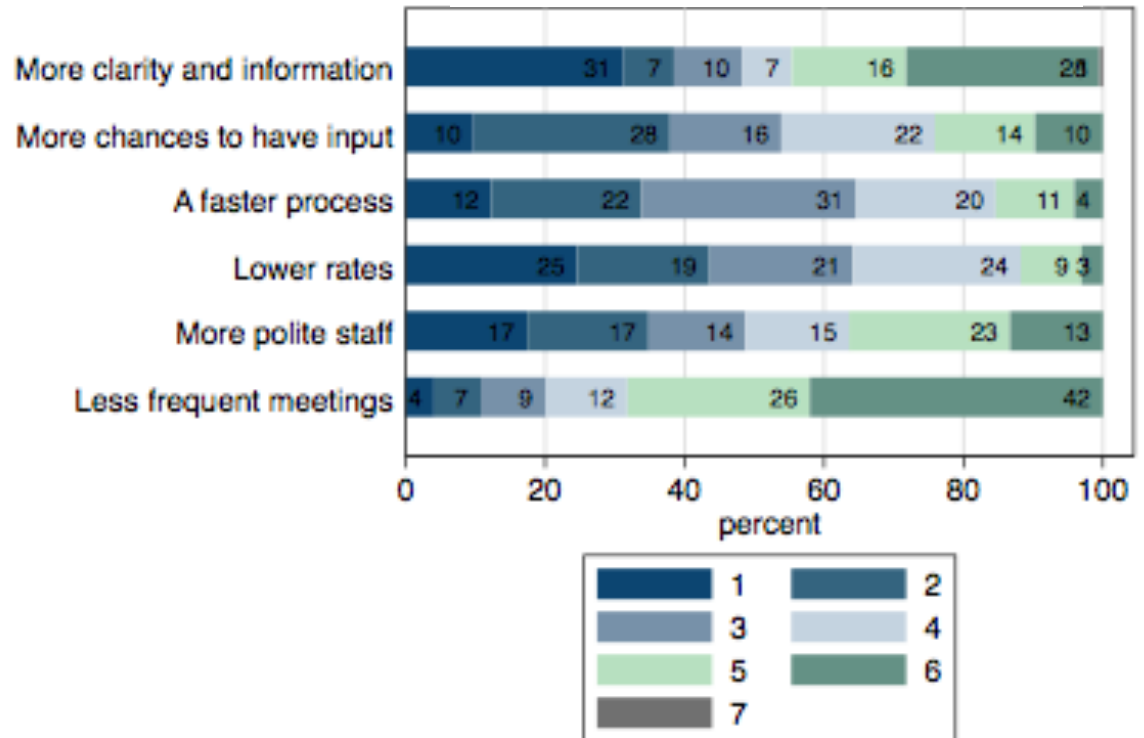
- 54% of businesses say they are sometimes frustrated about the current state of the tax system, with 61% and 62% want major change to tax and custom systems respectively. Indeed just 34% of businesses are economically optimistic (in that they agree that the economy is heading in the right direction) while just 24% are politically optimistic (in that they agree that the government is leading the country in the right direction).
- This was in contrast to the qualitative findings. In the quantitative results, respondents are more likely to say they sometimes feel angry, less optimistic and keener for change than in the qualitative results. We believe that we should rely primarily on the quantitative results, drawn from a larger sample, in this regard. We believe that business owners truly are more frustrated, less optimistic and keener for change than we had previously thought.
- Larger businesses are somewhat less frustrated, while older businesses are slightly more frustrated. Businesses with more than 15 employees are 17% less likely to be frustrated – but they are more likely to be politically pessimistic.
- Desire for changes, a perception that very large businesses are favoured, and the belief that the government collects enough revenue seem to fuel sometimes feeling frustrated. Businesses that want major changes are more likely to be frustrated, those who think similar size businesses are taxed equally and that larger businesses are favoured are also more likely to be frustrated. Those who believe the government is collecting enough revenue are less likely to sometimes feel frustrated.
- Businesses that have heard of unofficial payments being made are more likely to be frustrated.
- 44% of businesses think there is some form of corruption. Among the whole sample, fully 49% of businesses ranked misappropriation of tax resources as the top reason they do not pay taxes.
- The changes that businesses most wanted are: more tax information, lower tax rates, more input, and polite staff. Businesses are not bothered by quantity of meetings.

There is more frustration and desire for change than in the qualitative findings.

I want to see major changes in the tax system



Changes to the tax system people most want to see

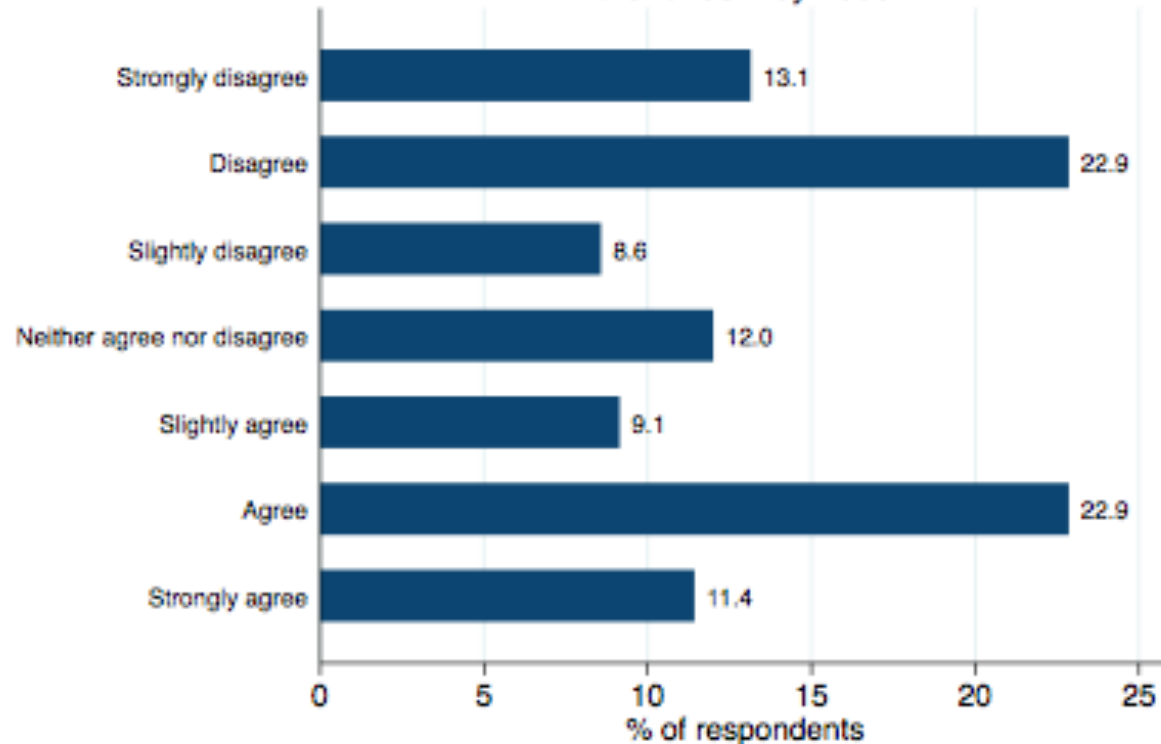


Many are open to the argument that the government is underfunded, including the economic optimists.

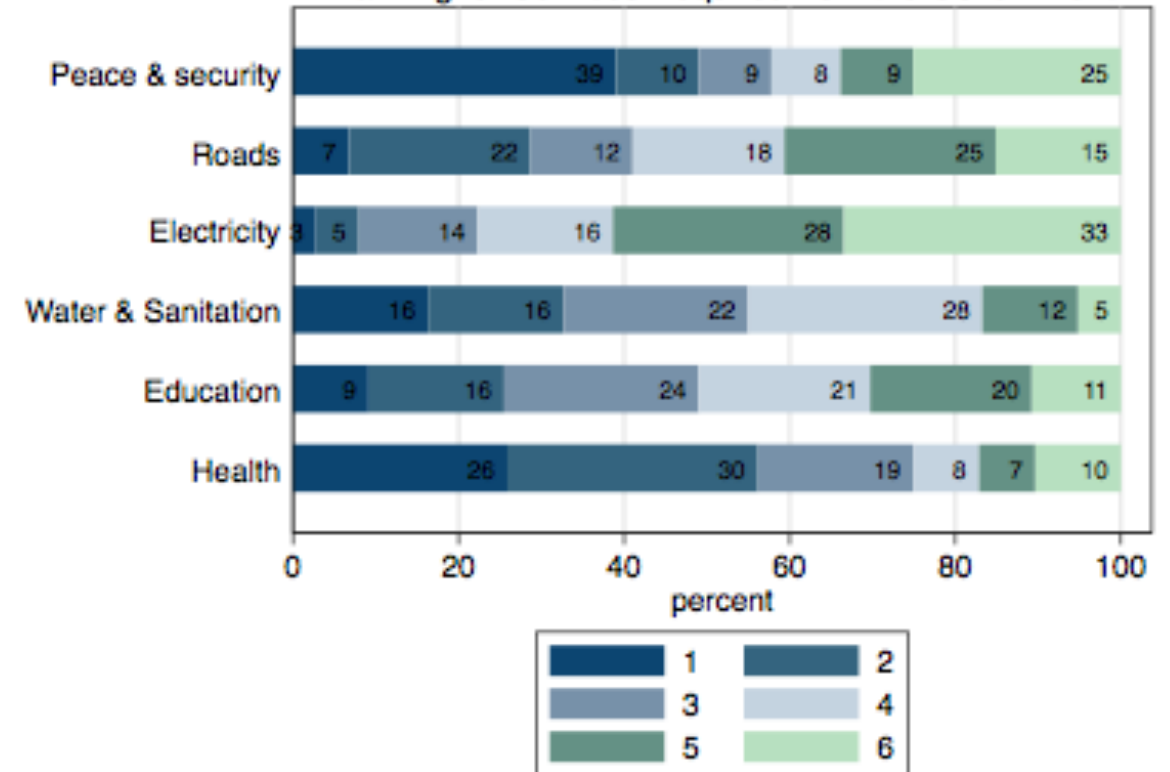
- Respondents were split on whether the government collects enough revenue. 44% of businesses think the government collects enough revenue while 38% disagree. This may point to an openness among many businesses to increased taxes. Most qualitative respondents were happy to identify taxes that could be raised.
- Businesses in Ibrahim Koodbuur are particularly likely to say that the government does not collect enough revenue. Many women preferred not to answer this, with men are a little more likely to say that the government does not collect enough revenue. Businesses with more employees are more likely to say that the government is underfunded.
- Keeping good records drives a sense that the government may need to collect more revenue. Businesses that keep electronic records are less likely to think the government has enough revenue. (The role of record keeping is discussed in more detail in the finding below, ‘Keeping good records is associated with a desire for a smoother, fairer tax system – and perhaps a willingness to pay for it.’)
- Believing that the government gets enough revenue is correlated with access to informal networks, and frustration is also associated with this perception. Those with access to informal networks are more likely to think the government gets enough revenue. Businesses that are angry are more likely to think that the government gets enough revenue.
- To justify any funding increases, there is a need for the state to demonstrate the value it delivers by showing the link between paying taxes and the availability of infrastructure and services. Provision of peace/security and health services were considered to be the most important public services. This contrasted somewhat with qualitative findings, where peace and security and roads were most often mentioned.

Many are open to the argument that the government is underfunded, including the economic optimists.

The current tax and customs system gives the government the funds they need



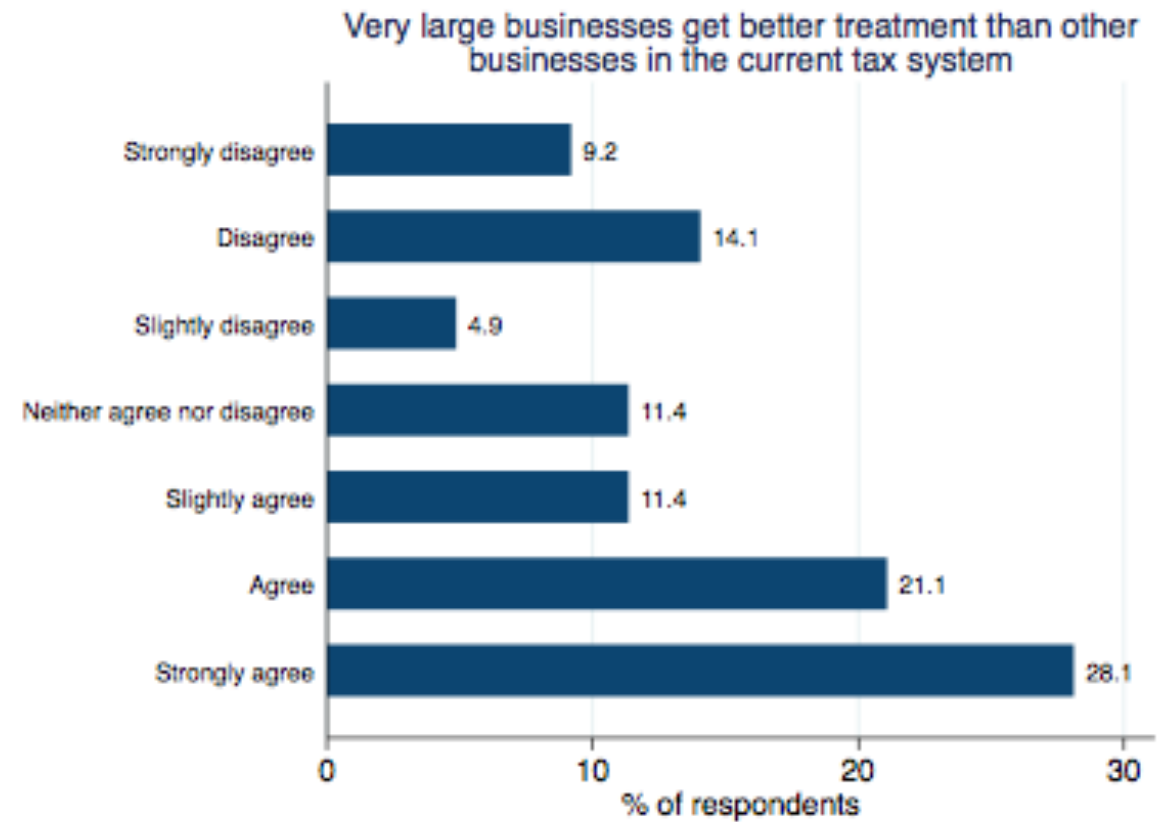
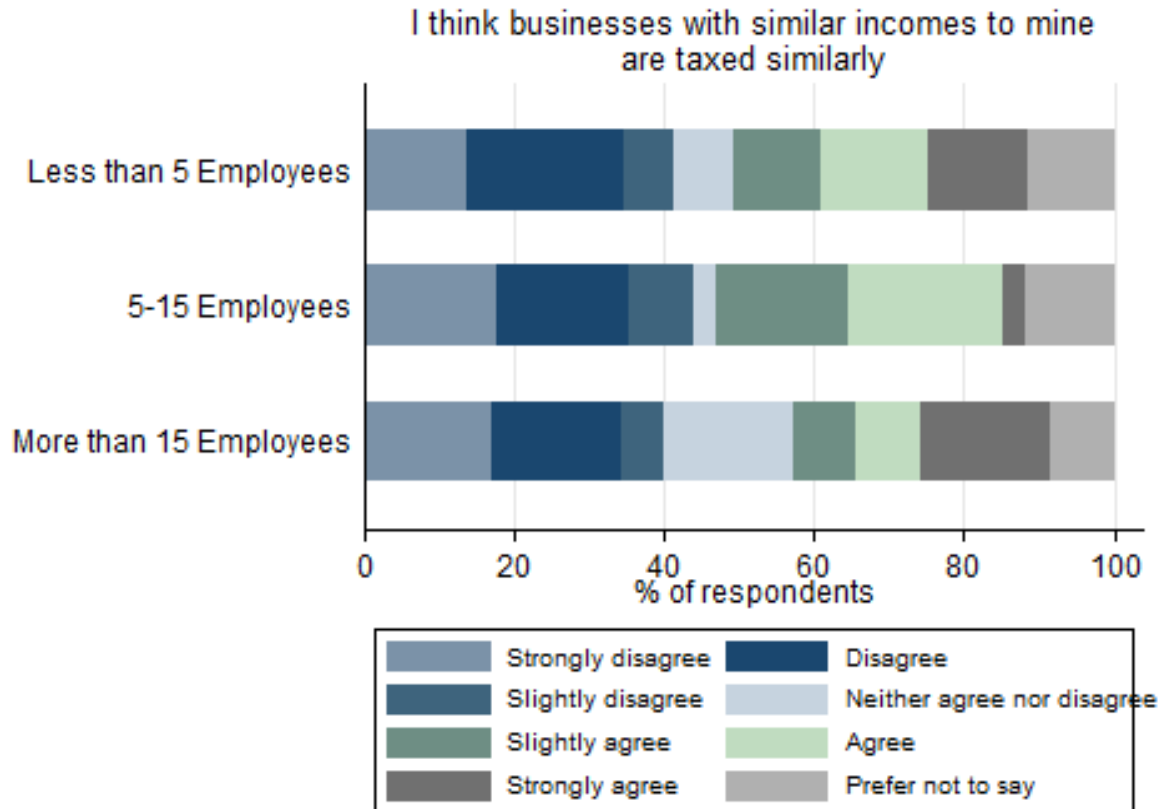
Ranking for Services Required from the Government



Overall people feel that very large businesses get a better deal from the authorities.

- Businesses with more employees pay a wider range of taxes. 49% of businesses with 15 or more employees pay 3 or more different taxes, compared to 25% for businesses with 5-15 employees and 11% for businesses with fewer than 5 employees. For instance, they are much more likely to pay payroll tax; 71% of businesses with more than 15 employees pay payroll tax, compared to just 20% among those who had fewer than 5 employees.
- Those businesses with more employees may be more comfortable with the status quo. They are less angry and more likely to say the government is taking us in the right direction; in regression analysis, businesses with more than 15 employees are less likely to be angry with the tax system and are more likely to say that the government is taking us in the right direction, compared to businesses with fewer than 5 employees (full regression tables are provided in the appendix).
- Even though they pay this wider range of taxes, the perception by the overall sample is that very large businesses are favoured – and this correlates with anger. 61% of the sample say that very large businesses get better treatment than other businesses in the current tax system. Those businesses that believe very large businesses are favoured are 30% more likely to be angry, compared to those who do not feel that very large businesses are favoured. Businesses with more employees are more likely to say that large businesses are favoured – while businesses in 26th June are somewhat less likely to believe this.

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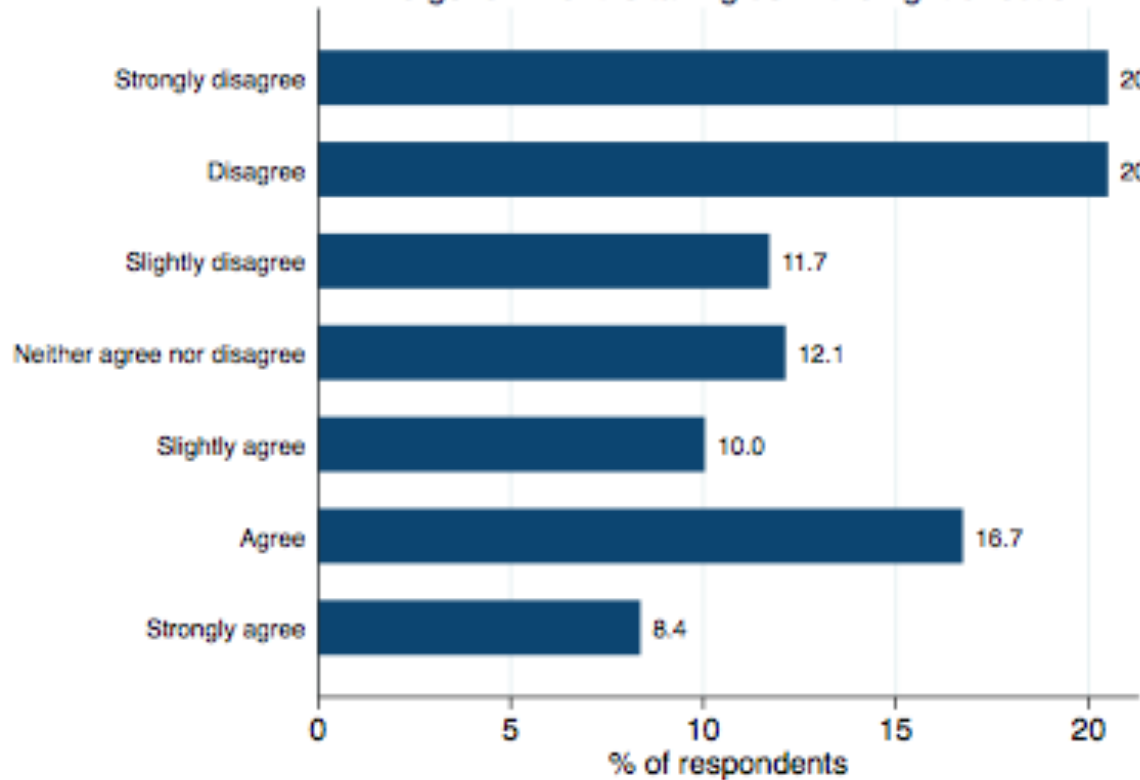


Believing that the government and economy are on the right track are associated with more positive perceptions of the tax system.

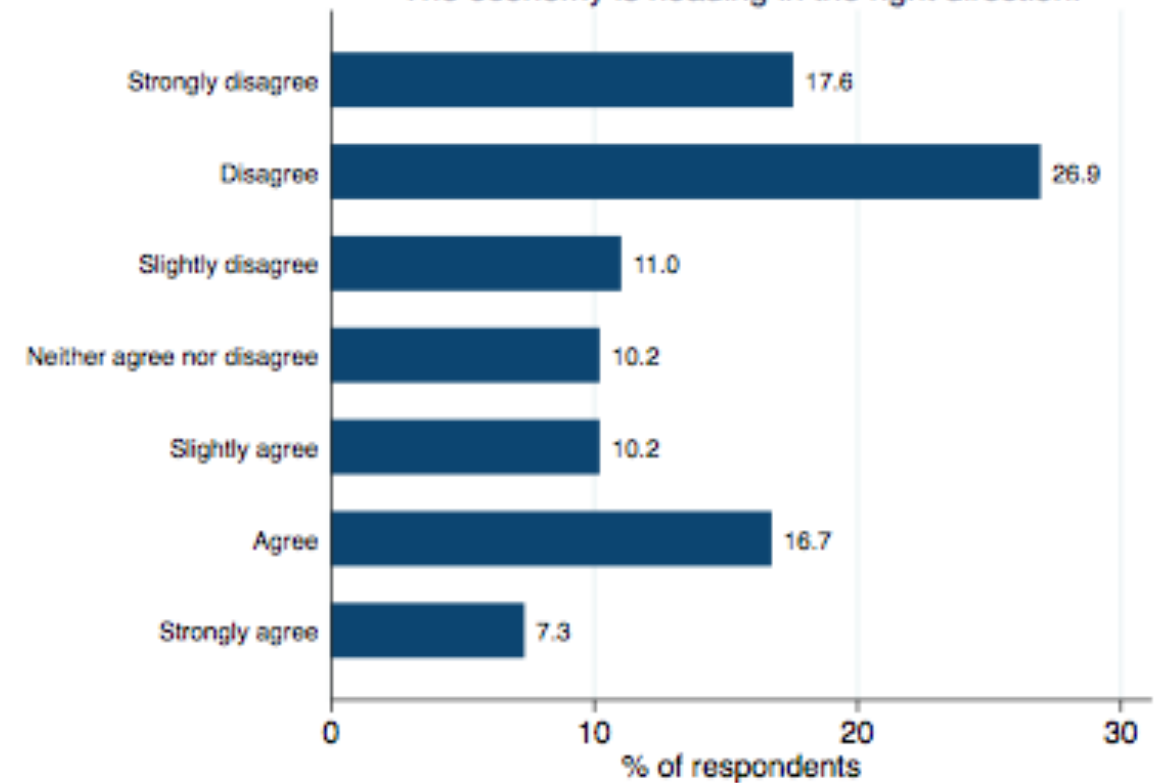
- Many feel that the economy is heading in the wrong direction, and that the government is not taking Somaliland in the right direction. 34% of businesses are economically optimistic (in that they agree that the economy is heading in the right direction) while only 24% are politically optimistic (in that they agree that the government is leading the country in the right direction).
- These levels of optimism are lower than had been observed in the qualitative data; we believe in this case that the lower levels of optimism in the quantitative survey are most likely to be the correct result. At least when asked directly, most businesses are not optimistic about the direction of travel for the economy or the government.
- Some groups are more optimistic than others. Businesses with more than 15 employees and women express higher political and economic optimism while non-retail businesses are more likely to be economically optimistic compared to retail and wholesale businesses.
- Political optimism is associated with a range of positive perceptions of the tax system. Businesses that have high political optimism are also more likely to think that it is easy to calculate their taxes, that the tax process is smooth, that there is equal tax treatment, and that tax collectors are polite. On the other hand, businesses that are frustrated with the tax system are less likely to feel that the economy is on the right track. Anger about the tax system is not significantly associated with political optimism. There is a strong association between economic and political optimism; businesses with high political optimism are more likely to have high economic optimism.

Believing that the government and economy are on the right track are associated with more positive perceptions of the tax system.

The government is taking us in the right direction.



The economy is heading in the right direction.



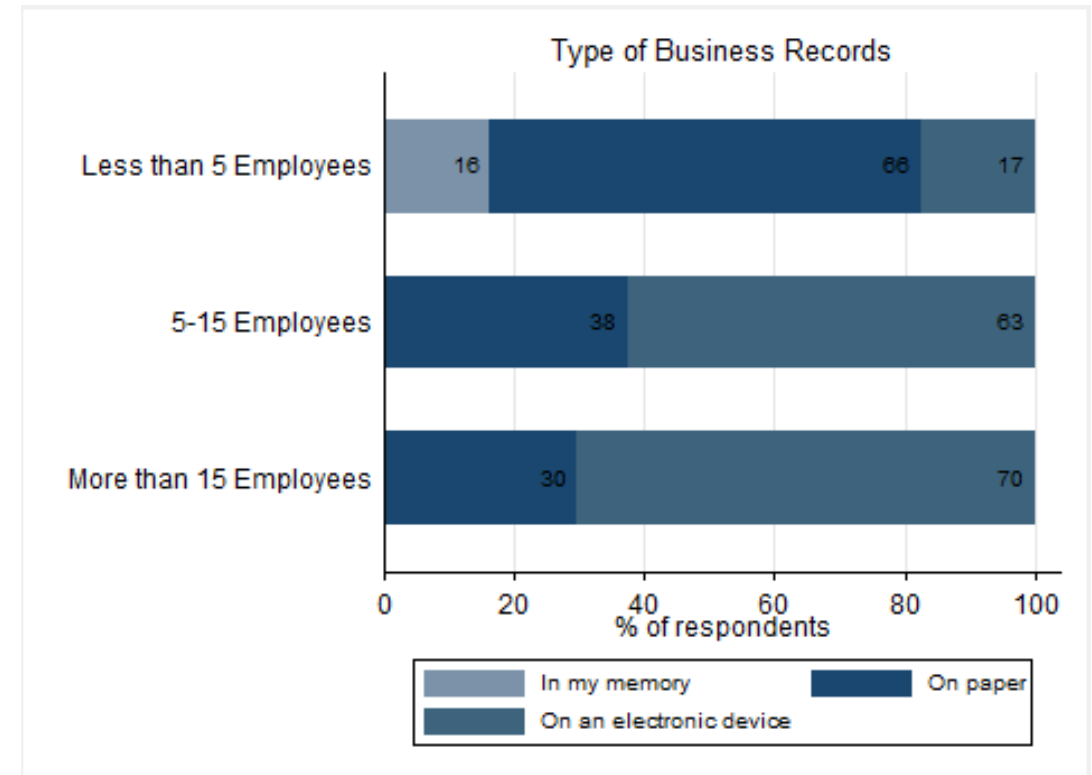
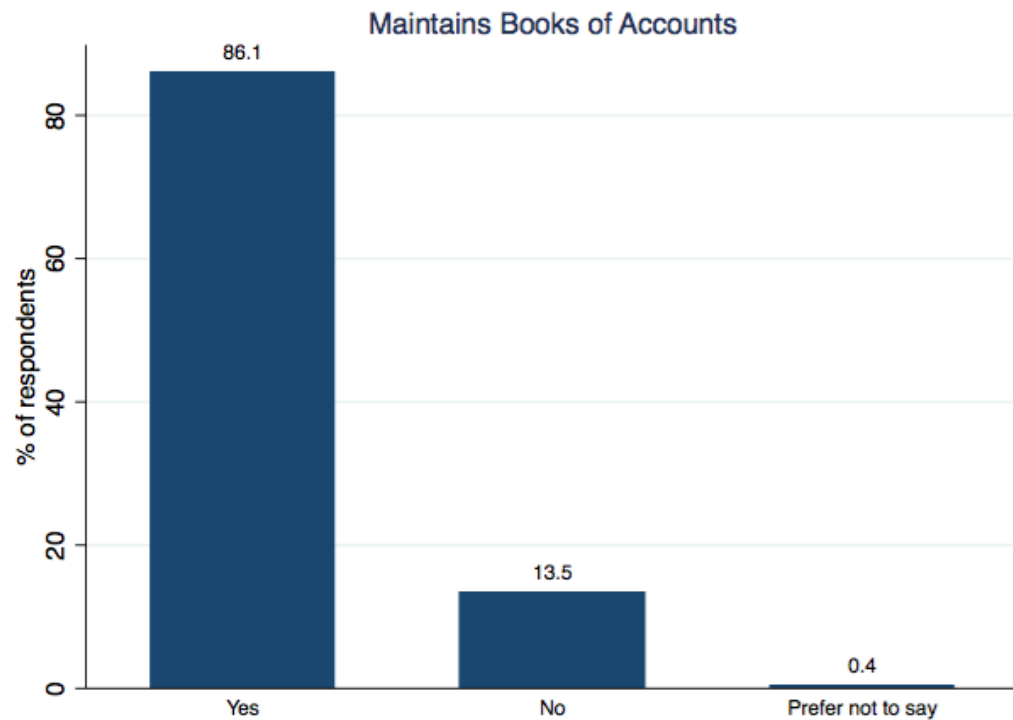
Findings Section 3: Taxpaying levers



Keeping good records is associated with paying taxes, as well as a desire for a smoother, fairer tax system.

- 86% keep some sort of books. 55% keep paper records, while 32% keep electronic records. Record keeping is associated with a range of perceptions. Those who keep records are less likely to believe that similar businesses are taxed at the same rates. These perceptions may possibly be because businesses that keep records are able to calculate their own liability and dispute amounts.
- Keeping good records (i.e. keeping records on paper or electronically, rather than mainly in the business owner's head) and paying other taxes are closely associated. Those who keep electronic records and paper records are more likely to pay sales tax (full regression tables are provided in the appendix; the role of records and how this varies across subgroups is described in the finding below, 'Keeping good records is associated with a desire for a smoother, fairer tax system').
- The evidence suggests that businesses that keep records might be more willing to pay more for the improvements they hope for. Those that keep paper records are less likely to think the government receives enough revenue, compared to those that keep no records. Those who keep records are more likely to pay sales tax – more than 3 times more likely if kept on paper. (It is possible that the relationship works the other way around; those who pay sales tax therefore have a greater need to keep records). Those who keep records are also much more likely to have paid customs duty, though we do not speculate on the causal direction of this relationship.
- This evidence would suggest that enabling businesses to start keeping better records can serve to help businesses deal with self-assessment.
- Some businesses will need help to keep records. Record keeping practices varied strongly by gender – just 8% of men kept records mainly in their head, whereas of 29% of women do. Businesses run by women, by the less educated, those with fewer employees, non-retail businesses, and those based beyond the main commercial districts are all less likely to keep electronic or paper records.

Keeping good records is associated with paying taxes, as well as a desire for a smoother, fairer tax system.



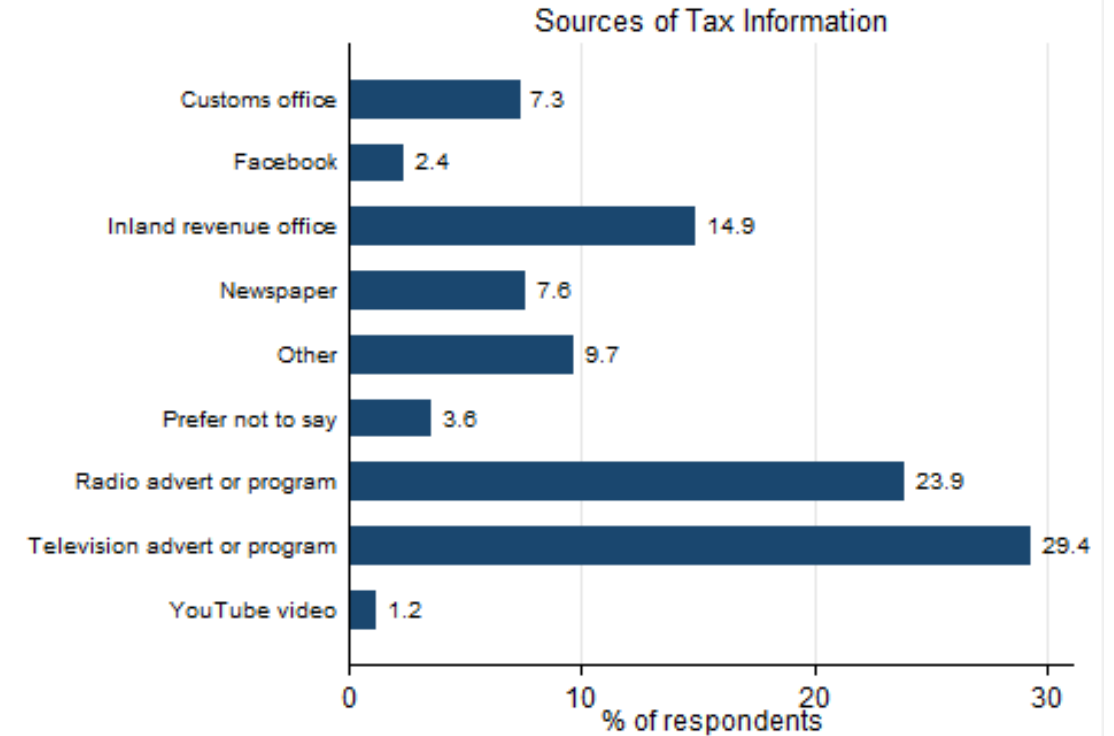
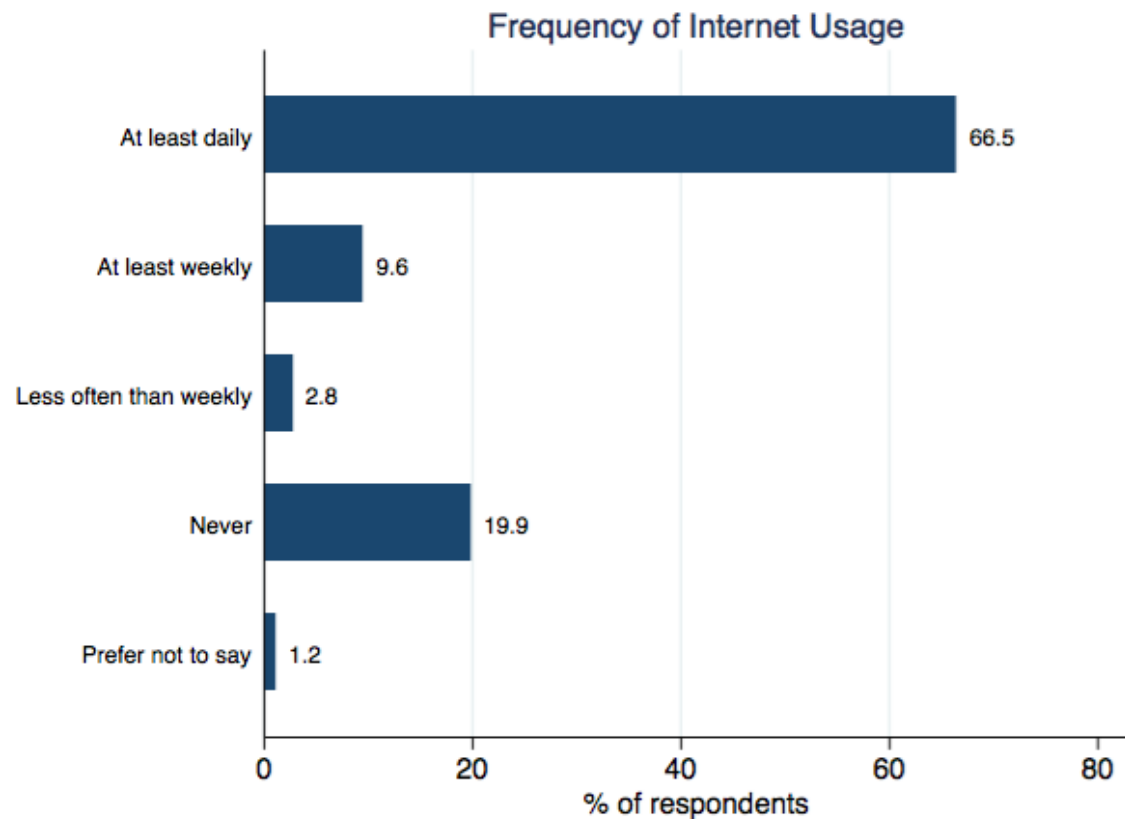
The minority of businesses with access to powerful people and voice get better treatment from the tax system.

- Many do not have access to informal networks. Asked whether there are powerful people they can call if they face a problem and need assistance, 19% strongly disagreed and 29% disagreed. Overall 52% do not think they have access to help from powerful people, compared to 33% who say they do. Those in Ibrahim Koodbuur district were particularly likely to say they do not have such access. Women were slightly more emphatic in saying they do not have such access, with a greater proportion answering ‘strongly disagree’.
- Those who have access to informal networks get an easier ride. They are more likely to feel they can negotiate, more likely to feel the tax process is smooth, and more likely to feel the government has enough revenue already.
- A majority report they cannot negotiate: 25% strongly disagree and 30% disagree with the suggestion that they usually get the chance to negotiate over their taxes. This was in contrast to the qualitative evidence; it may be the case that respondents were less willing to admit to this irregular procedure in the formal context of a quantitative survey. Surprisingly, educated people are less likely to say they get the chance to negotiate.
- For those who do not have informal networks, there are few formal routes that replace them. Most feel they do not have a voice. 20% strongly disagreed and 35% disagreed with the suggestion that if they want to see a change in the tax system there are ways they can speak out. 38% felt more chances to have input is one of the top 2 reform priorities for the system.

People need more information, and online platforms and in-person seminars are good ways of providing it.

- There are a range of current channels for seeking information. 53% say they get tax information from TV or radio; this could be explained by the heavily publicised registration launch on radio and TV just before the fieldwork. 56% could name at least one person they could ask for more information.
- People do not have easy access to information. 20% strongly disagree and 30% disagree with the idea that it is easy to get more information if they need it. More people said the top priority for reforming the tax system was increased clarity and information than for any other reform option, including lowered rates.
- 73% have never accessed the MoF website, which is reportedly not very accessible by mobile. 79% have smartphones, while 67% access the internet at least daily. Facebook could be a sensible route for promoting the MoF website, as would be to enhance the mobile-friendliness of the website.
- In-person seminars are also a very promising route for information dissemination, and it does not matter much who hosts it. 66% would be very interested in attending an MoF seminar, while 68% would be very interested in a Chamber of Commerce seminar. This interest was slightly lower in districts where access to information is easier, and slightly lower among women, though it was still high among these groups. Seminars might therefore be best as one part of a communications strategy that works through multiple channels to maximize inclusiveness.
- Having access to tax information is associated with a greater likelihood of paying sales tax, as well as greater economic optimism. This might be taken as a hint that access to information could therefore be rewarded with higher tax morale and possibly higher tax receipts.

People need more information, and online platforms and in-person seminars are good ways of providing it.



Note: daily internet use increases with business size. Among businesses with less than 5 employees, 60% access it daily, compared to 87% among those with more than 5 employees.

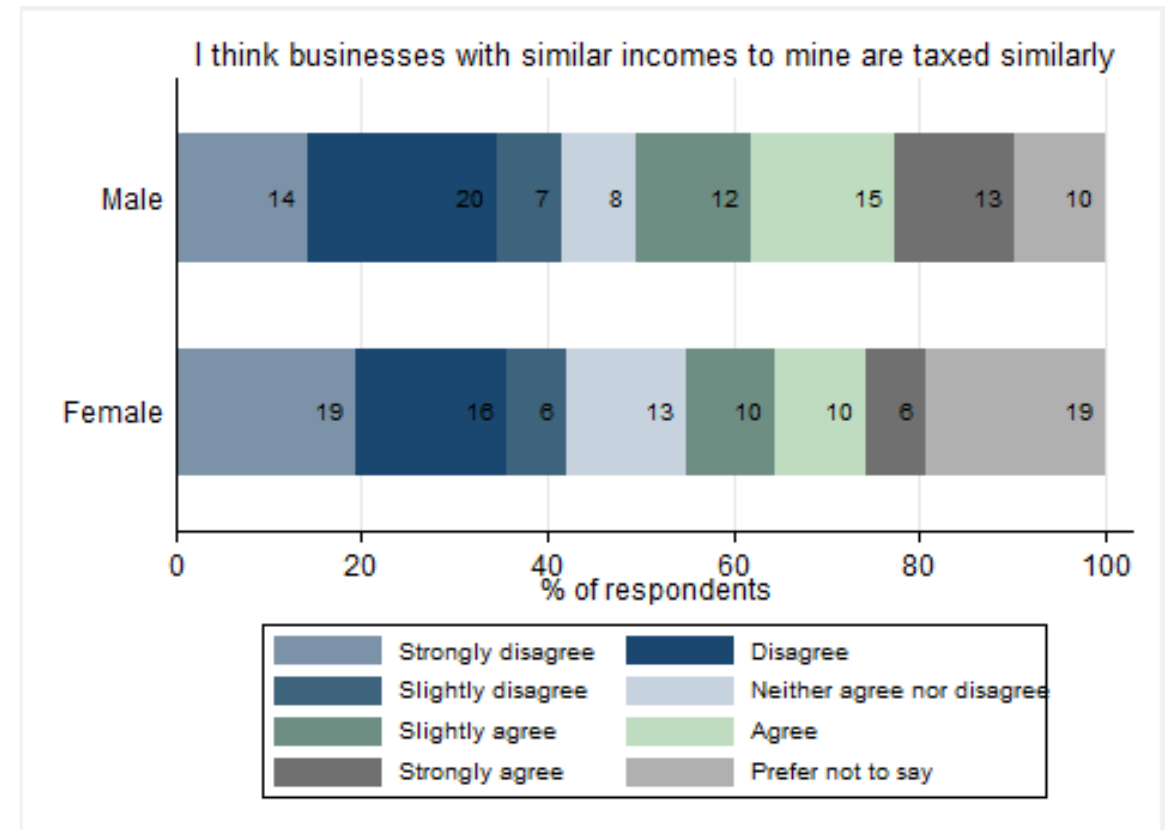
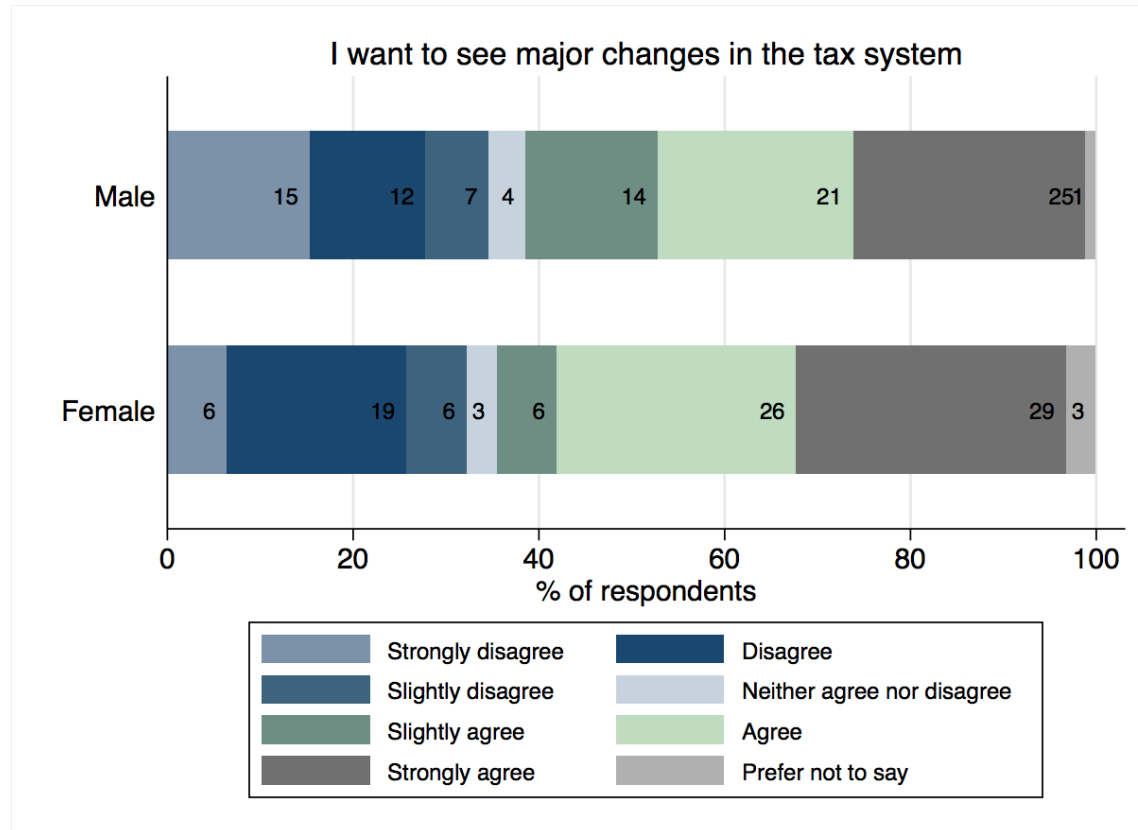
Findings Section 4: Variation



Women are more likely to say that the tax system needs change.

- More women than men express a strong desire for major changes in the tax system; 55% of women agree or strongly agree that they want to see such change, compared to 44% of men. Many women pointed to ways in which they felt the current tax system is unfair and difficult to navigate. Women are much less likely say that it is easy to work out how to pay in the current tax system – just 23% of women agreed, compared to 38% of men. Women tend to think that tax evaders will not be caught and that large businesses are favoured, and they are less likely than men to say that businesses are taxed equitably. They are less likely to say that they get the chance to negotiate their tax bill, and are more likely to say there is corruption in the tax system – 55% of women said they had heard of business owners making unofficial payments, compared to 44% of men. Women are less likely to keep good records.
- Women seemed to find it harder to gain information about the tax system. Women were a little more likely to say it is hard to access tax information, were less likely to visit the inland revenue office for information, and were somewhat less enthusiastic about attending seminars. They are far less likely to access the internet daily; 44% of women do so, compared to 71% of men. However, women were just as likely as men to say that there are ways to speak out if they need to. It was notable that more women answered ‘prefer not to say’ in response to a range of questions; for instance, 19% preferred not to answer whether businesses with similar incomes are taxed similarly. Therefore, gender-inclusive communication efforts may be necessary.
- Despite these disadvantages, women are somewhat more likely than men to say that the current government is taking Somaliland in the right direction – 20% strongly agreed, compared to just 6% of men. Women are just as likely as men to think that the economy is heading in the right direction, and are slightly less likely to report being frustrated about the tax system.

Women are more likely to say that the tax system needs change.



Lessons could be drawn from some tax practices in 26th June, while Ibrahim Koodbuur may need to be targeted with additional communications efforts.

- 26th June businesses were particularly likely to say that tax collectors are regarded as polite and professional – a contrast with views in Ibrahim Koodbuur district. Desire for change is lowest in 26th June; 43% disagreed that they wanted to see major change, compared to 28% in Ga’can Libaax. Businesses in 26th June were less likely to say they are angry – 50% disagreed that they even sometimes felt angry, compared to 40% in Ibrahim Koodbuur. 26th June businesses are also a little more emphatic in expressing their political optimism.
- This was in contrast to the situation in Ibrahim Koodbuur district. There, the lowest proportion felt the tax process is smooth. There is a strong perception in Ibrahim Koodbuur that similar businesses are not taxed equitably, with 47% disagreeing that ‘businesses with a similar income to mine are taxed similarly’. Few thought tax evaders would be caught and sanctioned. This district also had the highest proportion of businesses who feel that the government does not collect enough revenue.
- Ibrahim Koodbuur district businesses may need specific supporting efforts to gain access to information. All districts report equally that it is hard to access information, and similar views are held across districts about the difficulty of calculating taxes owed. However, businesses in Ibrahim Koodbuur were particularly likely to feel that they cannot speak out for change – just 19% agreed that they could do so - and they are particularly keen on a Ministry of Finance seminar, though all locations support the idea of seminars. By contrast, businesses in 26th June are more likely to seek information from inland revenue or customs offices, and from independent tax experts.

Note: in some districts, the sample size is small. We surveyed 30 businesses with head offices in Ahmed Dhagax, and 8 businesses with head offices in Mahamoud Haybe. Interpret results for these districts with caution.

On frustration and desire for change, the quantitative data should take precedence over the qualitative results, as the quantitative data provides more robust evidence due to a much larger and randomly drawn sample.

- Qualitative and quantitative conclusions were complementary on most points. Quantitative research confirmed the initial finding that some businesses have a chance to negotiate over their taxes, and that legal duty is considered a leading reason for paying tax. There are few avenues for lobbying and complaints, and this was clear in both qualitative and quantitative phases.
- There was a sharp difference in the desire for change and levels of frustration exhibited between the two phases. Quantitative respondents were more frustrated, less optimistic and more likely to call for change, than were qualitative respondents. There were some initial signs of this in the qualitative focus groups, in which respondents expressed some impatience.
- The quantitative results should take precedence in this case. They are based on a larger and randomly drawn sample, and there is consequently less likelihood that the results are subject to selection bias. We note also that qualitative respondents were interviewed by a member of Busara staff through a translator, and this may have led to greater reticence.
- Quantitative research was conducted a few weeks after the qualitative research. During this time, the registration launch took place and received considerable media coverage. Attitudes may have changed over this period.

Recommendations



Support businesses in keeping better records for easier self-assessment

Keeping records for easier self-assessment should be a strong focus, particularly for small individual businesses or entrepreneurs. It may foster a clearer-eyed view of what government needs, and how the revenue system is currently functioning.

IMPLEMENTATION

- Alongside existing tax notice letters, provide: a 1 page guide to the tax system and where the money goes; 1 page of tips and instructions on better record keeping; an extremely simple and short self-assessment form.
- Make all of these more widely accessible by ensuring spare copies are carried by tax collectors and available for pickup at district and regional tax payment offices.
- Focusing communication for this and other recommendations around tax deadlines will help create a predictable rhythm to the year that can be built upon later.
- Co-design and pre-test the pages to make certain they are accessible and comprehensible to all businesses.

JUSTIFICATION

More people said the top priority for reforming the tax system was increased clarity and information than for any other reform option, including lower rates.

Those who keep paper or electronic records are less likely to think the government gets enough revenue. Record keeping is associated with a range of views that are consistent with good taxpaying behaviour.

Give people the chance to have input through accessible seminars and meetings

Somaliland has an oral culture, and the tax system needs to reflect this. People need voice and feedback loops if they are to pay. Accessible meetings at tax and customs offices and high profile seminars can greatly increase chances to learn.

IMPLEMENTATION

- Hold a couple of the suggested high profile seminars, which will be welcomed – but know that not everyone can attend, and women-owned, smaller or more marginalized businesses are likely to be most nervous of doing so.
- To widen accessibility, reserve time in those seminars in which a senior Ministry of Finance official will review and respond to concerns and questions submitted in advance by Facebook or from a pre-advertised toll-free SMS number.
- Advertise the seminar on multiple platforms including Facebook.
- Complement this with a series of open information meetings at particular tax and customs offices. Ibrahim Koodbuur district might be prioritized, since businesses have less access to information here.

JUSTIFICATION

38% felt more chances to have input is one of the top 2 reform priorities for the system.

80% would be interested in attending an MOF seminar.

Access to tax information is associated with a 0.52 times greater likelihood of paying sales tax, as well as 0.25 times greater economic optimism.

78% use smartphones to access the internet. 66% access the internet at least daily.

Future development ideas

As capacity increases, there are other ways the revenue system could be strengthened further in the future.

The tax system may not be ready for these changes yet. But as capacity grows, there will be an opportunity to take this work further. Busara believes these five ideas are strong candidates for PROFR Y2 or for work beyond that.

A formalized tax appeal mechanism for registering and resolving complaints.

SMS or e-mail reminders of payment deadlines as they approach.

A USSD shortcode to allow access to FAQs and to advertise upcoming changes.

Incentive mechanism in revenue collecting agencies that supports professional behaviour.

Electronic tools to assist with self-assessment and record keeping.

Messaging Principles

Keep messaging cautiously optimistic: Somaliland is moving steadily forward economically and politically.

Show that by paying taxes, people can ensure this process is not derailed.

Show that taxes are yielding identifiable progress, by noting the new roads built or other improvements to services.

Ask people to do their bit by keeping good records – which is good for them too.

Principles for continued messaging

Throughout this project, MOF and PROFR will be undertaking communications activities. The above suggested principles may help ensure those activities are as persuasive as they can be.

Next Steps



- Busara on hand to provide support to the PROFR team in understanding and summarising these findings.
- Discussions regarding further Busara support to the consortium, potentially including:
 - **Behavioural design** to develop innovations to the system such as the self-assessment form.
 - **Testing** messaging and recommendations to determine impact.

Source: Icon by John Winowiecki, The Noun Project

About Busara

The Busara Center for Behavioral Economics is a research and advisory organisation headquartered in Nairobi, with projects across Africa and beyond.

Our mission:

Busara works with researchers and organisations to advance and apply behavioural science in pursuit of poverty alleviation.

