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Understanding the perceptions of taxpayers and traders in Hargeisa: Phase 2 Qualitative report

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Executive Summary

In 2018, Busara conducted qualitative and quantitative research to understand the perceptions of taxpayers in Somaliland. In March 2019, Busara conducted a second phase of qualitative research which aimed to capture changes in perception of the Somaliland tax system over the past 12 months. Busara interviewed 27 businesses in Hargeisa through interviews and focus groups.

Overall:

- Businesses accept a duty to pay tax, and preferred messaging that highlighted this.
- Businesses want greater transparency in the tax payment process.
- There is high demand from businesses for information that demonstrates how tax revenue is being spent by the government.
- Businesses feel that the customs process is more efficient as compared to taxes, however most businesses have perceived an increase in customs duties over the past 12 months.



Introduction to the survey

- The second round of qualitative research expanded on the insights garnered from the qualitative research and taxpayers' perceptions survey conducted in Year 1.
- The aim of this research was to answer the following key research questions:
 - **How have perceptions evolved of the tax system amongst taxpayers and traders in Hargeisa over the past 12 months, and why?**
 - **What are the differences in perceptions between national and municipality level taxation, and why?**
 - **What are the preferred communication channels for receiving information related to taxation?**



How perceptions amongst taxpayers and traders in Hargeisa have evolved

- Businesses feel that the customs department has improved over the past 12 months. The clearing process has become easier and faster. Reasons given for the improvement include:
 - stricter processes;
 - increased confidentiality;
 - greater issuance of receipts.
- Customs duties keep increasing each year; the perception is that customs duties have been unnecessarily increased over the past 12 months.
- Another change in perception over the past 12 months is that the economy has been declining. It is perceived that this is because of inflation, which has caused the local currency to lose value.



Why perceptions amongst taxpayers and traders in Hargeisa may have evolved

From our research, the following changes were highlighted as having influenced perceptions amongst taxpayers and traders over the past 12 months:

1. Introduction of a new government, including the most recent appointment of a new Minister of Finance and Ministry staff. Businesses seem optimistic and open-minded about the change that this government can bring.
2. Implementation of stricter working schedules for government staff at the Ministry of Finance which has resulted in a perception that more is being done to improve the taxation system.
3. Customs Tax clearance procedures were revised to make them more efficient and this has been reflected in improved perceptions towards the customs system from businesses that import/export goods.
4. Depreciation of the local currency (change in exchange rates) over the past 12 months was cited by many business owners to have been a key reason behind higher costs of operating a business.



1. Methodology

2. Findings

3. Recommendations

4. Appendices

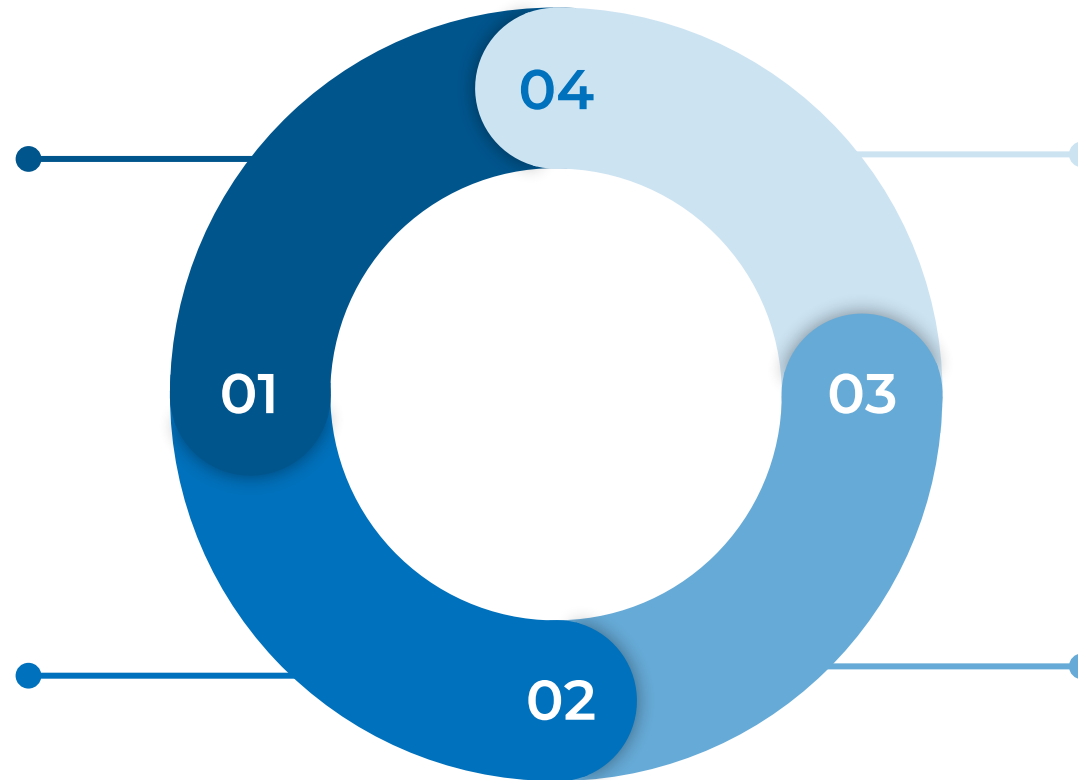
Methodology: 4-step process

Review of qualitative tools

Based on feedback from the PROFR team and key government stakeholders, Busara reviewed the tools for both IDIs and FGDs to be in line with the updated research questions.

Conduct of in-depth interviews (IDIs) and focus group discussions (FGDs)

Busara conducted 20 in depth interviews and 2 focus group discussions between March 4th 2019 and March 14th 2019. They were all conducted with businesses in Hargeisa.



Interpretation and recommendations

The analysis of the qualitative data brought out key findings that then informed the recommendations relevant for PROFR and the Somaliland government.

Analysis of findings

The audio files from the in depth interviews and focus group discussions were translated, transcribed and thereafter analyzed by Busara.



Sampling

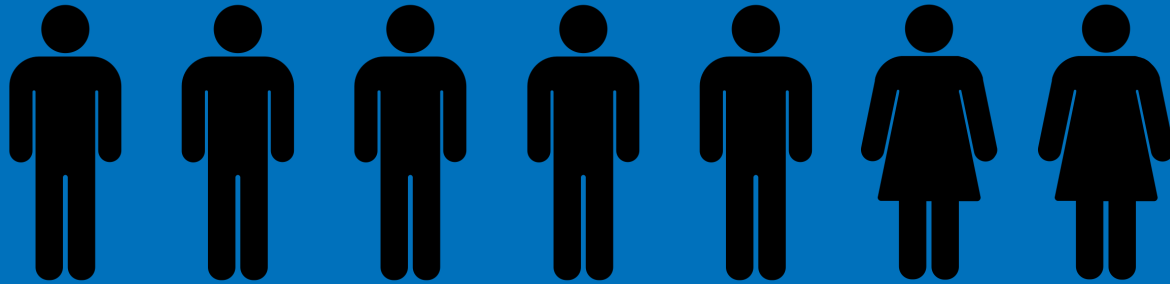
IDIs			FGDs		
Group	Number	Justification	Group	Number	Justification
Businesses that were part of either qualitative or quantitative phase 1	5	Would allow us to understand whether their perceptions have changed in the past 12 months	Businesses that were part of either qualitative or quantitative phase 1	1 FGD (5-6 businesses)	Would allow us to understand whether their perceptions have changed in the past 12 months
Female business owners	5	Small sample in phase 1 work	Businesses that have been exposed to tax reforms in past 12 months	1 FGD (5-6 businesses)	Would allow us to see any impact of recent tax reforms
Large businesses	5	Not sampled in phase 1 work - wanted to understand if perceptions different	Newly registered businesses	1 FGD (5-6 businesses)	These businesses have most likely not been exposed to the tax reforms

N.B. Only two out of the three planned FGDs were carried out because of poor attendance at the third focus group discussion (businesses exposed to tax reforms). Instead, we substituted this focus group discussion with three in depth interviews to capture the perceptions for those who had been exposed.



Demographics

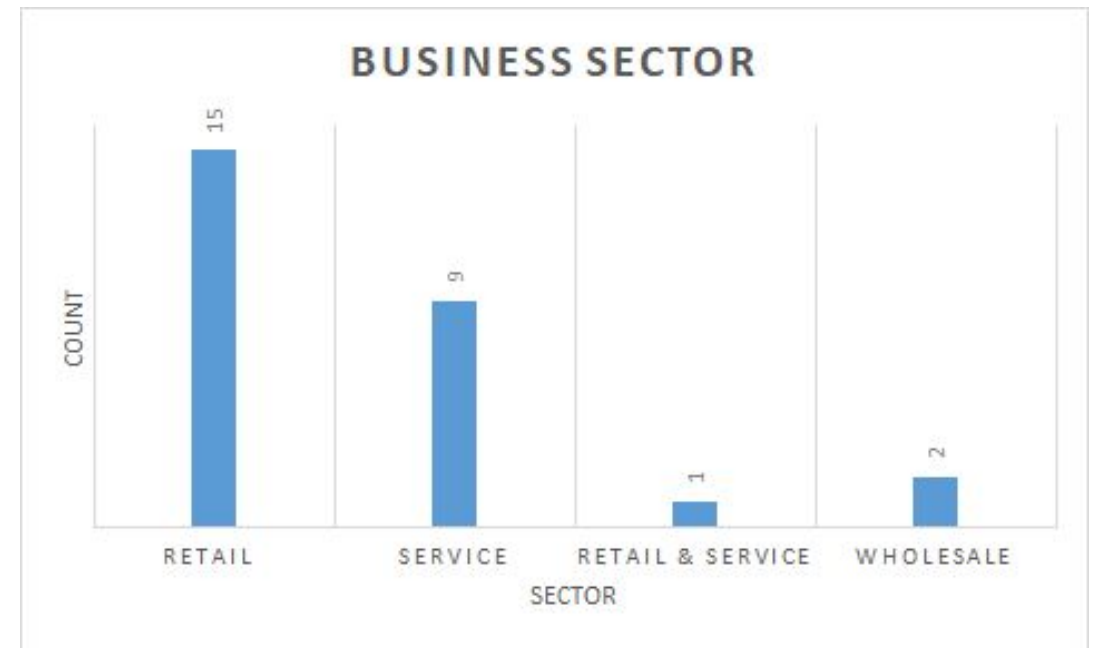
In 2019:



71%

29%

The number of female business owners interviewed for the Phase 2 research was 16 percentage points higher compared to the qualitative study conducted in 2018 (men: 87% vs. women 13%)



In 2018, the qualitative study sampled 7 Micro and 8 Small/medium businesses - no large businesses were interviewed

1. Method

2. Findings

3. Recommendations

4. Appendices

Summary of qualitative findings

Taxes:

Businesses feel a duty to pay tax, but there needs to be greater transparency in the tax collection process.

There is a need for a more efficient national/municipal tax payment process

There is a demand for information about how the government is spending tax revenue

Communication:

There needs to be more direct, frequent and timely communication about taxes between the government and the citizens. This should be done through television, radio and social media.

Economy and Politics:

The economy is declining and politics has influenced tax increases

Customs:

Customs procedures are more efficient as compared to taxes

Customs duties have increased over the past 12 months.



1. Taxes



Respondents understand the taxes they pay as follows:

Payroll tax	This is a new tax according to many of the businesses. It is charged from each worker's salary at a monthly rate of 6%. The tax is paid to the national government.
Profit tax	This is determined by the business profits. The government evaluates annual profit from their income and is paid once per year to the national government.
Customs duties	Customs duties are paid to the national government. The amount to be paid is determined using a tariff book. The tax is imposed each time the business imports goods through the entry points.
Sales tax	This is a tax imposed on all items, and paid to the national government. Many people want the tax increased on non basic items like cigarettes and khat, in order to relieve taxes on basic items.
Property tax	This is paid once a year to the municipal government. Some people indicated that local tax officials harass them on their properties whenever they come to confirm if the property tax has been paid.
License	The types of licence taxes businesses mentioned paying include a trading license paid to the local government; a Ministry of Trade license and a license tax paid to the judiciary. Each license is paid once a year and the amount to be paid is fixed.
Car tax	The car tax is paid every 6 months by car owners to the municipal government. Some car owners mentioned that the tax can either be paid at the local office or on the road to local tax officials.



Tax payment procedure

The payment procedure illustrated below represents that of many businesses that pay either the national or municipal tax. Many businesses mentioned that the municipal officers give notifications by sending officials to the business premise. The payment is mostly done at the cashier's office, however some businesses mentioned that the tax can also be paid to the officials when they come to the business and that the car tax can sometimes be paid at the roadside to tax officials. There is no explicit mention of the option to negotiation in the process, however some businesses did mention that the rate that they pay depends on who they are paying the tax to.



1

Notification

The business is notified a month prior to the tax payment deadline through either phone calls; letters or in person (tax official)



2

Visit the office

Businesses go to the government offices to pay the tax. They present their papers and the officials give an estimate of the amount to be paid.



3

Pay at the cashier

They pay at the cashier's office who then issue them with a receipt.



Finding: Businesses feel a duty to pay tax, but there needs to be greater transparency in the tax collection process

Data

- A large majority of businesses are happy to pay tax at both the national and municipality level; if the taxes are used to provide services and develop the country.
- Businesses feel that without taxes, there would be no government. The national government plays a crucial role in providing security and building of infrastructure through tax revenue. Without this, business owners feel that they would not be able to operate their businesses.
- Whilst many businesses feel that their system for paying tax is easy to understand, it does remain an issue for some businesses who found the collection process complicated and unclear. This tended to be for those businesses who did not pay at a tax office, but instead had a tax official visit their business premises.
- Many businesses feel that the process of assessing tax should be rational. For example, it was mentioned that the tax official just estimates the amount you pay for sales tax and do not look at your records or record books. For profits tax, some tax officials visually assess the items which is unjust, because it can either cost the business or the government money.

Analysis

- Whilst businesses are willing to pay tax, the amount of tax collected by the government could increase if the government works to formalise tax calculation and collection procedures such that businesses consistently pay the correct amount of tax.
- The improved state of security in Somaliland is also a driving force behind people's willingness to pay tax.

Implication: The government should focus messaging around a duty to pay tax. Businesses would consider paying the correct amount of taxes if efforts can be directed towards a) ensuring clear and easy systems to calculate taxes, b) training tax officials in order to standardise tax collection procedures to ensure fairness and c) enhancing accountability of the government with regards to service provision.

“It’s our duty to pay tax so that we access social amenities.”

“Tax is an individual responsibility upon every citizen and the country uses them as revenue.”

“Here people come to you, you don’t even know them, they don’t have any ID, and they would tell you to pay the tax. So you are not sure if these are the right people, or if it will go to the right hands.”



Finding: There is a need for a more efficient national/municipal tax payment process

Data

- Whilst many businesses understood the tax collection system, they believe that there are improvements that can be made in order to make it quicker and easier for businesses to pay the taxes that they owe.
- Many businesses suggest that the system should be made online to allow for electronic payments.
- Other business owners suggested that a database be developed to track payments, calculate the amount of taxation owed and send out reminders. This would make the system more efficient and save time.
- Tax officials need training and education on the tax system and how to professionally interact with people. Local tax officials on many occasions use threats to those who do not pay their taxes immediately e.g. removal of doors from their property.

Analysis

- A comprehensive database which increases transparency through the ability to track payments, understand the level of taxation owed and send out reminders when taxes are due is thought to be more effective than the current system.
- An online payment system will make the tax collection process quicker and is actively encouraged by many businesses. If the system is online then it reduces the need for businesses to deal with tax officials in person.
- Professional conduct of tax collectors has remained a concern for some businesses and efforts should be put in place to address this.

Implications: The introduction of an online payment system will reduce the time and effort taken to pay taxes and consequently encourage businesses to pay taxes. Training for tax officials on how to conduct tax collection professionally is also needed in order to improve businesses perceptions of the process.

“If there would be an online platform to process the payment. At least it eases for us and saves time for us.”

“There should be a computerized system where you can get track record of how much you have paid; how the taxation is done; the percentage; how they evaluate this, and they basically give you the final numbers..”

“They are not friendly, and not professional. Sometimes we have conflicts between me and them, at times you get a good person, and it’s different.”



Finding: There is a demand for information about how the government is spending tax revenue

Data

- A large majority of businesses trust the national government more than they trust the local government.
- However, many businesses would like to be informed on how the government spends the tax revenue. There are some businesses that feel they do not know or understand what the government uses taxes for. This was particularly the case at the municipality level. There is a general belief that local tax revenue is not being utilised for its purpose at all.
- Businesses would also like the government to stay accountable to its people by utilizing the taxes well.
- Some businesses also indicated that they are not informed prior to a tax increase.
- Just a few businesses are aware of avenues to raise their voices. They mentioned that they can only do this by physically going to the Ministry of Finance and the chamber of commerce, but access is limited.

“Really no formal communication just hear say that tax has been increased never seen any pamphlets that have been written.”

Analysis

- Transparency by the government makes it possible for citizens to hold them accountable. The government needs to direct its efforts towards communicating its activities to the public. They should ensure the public is aware of all the projects and services provided each year.
- The government currently does not provide communication through channels that the public can utilize.
- There needs to be more channels available for Somaliland taxpayers to raise their grievances regarding taxation and a system in place for feedback on this.

“I can say there is low accountability. That low accountability re-enforces low trust between the government and the citizens.”

Implication: Information regarding tax expenditure through relevant media channels, combined with a responsive feedback mechanism can positively influence taxpayer perceptions.



2. Customs duties



Finding: Customs procedures are more efficient as compared to taxes

Data

- Many businesses feel that the customs department has improved in their collection processes and is more organized than national and local tax offices. They feel that the customs department has better procedures than when paying national and municipal taxes and is stricter in the process of valuing items.
- Some businesses indicated that the processing time has decreased since last year and now takes between 1 and 3 days.
- A majority of the businesses use clearance agents to process their imports. Businesses can also choose to use a self declaration form, however, many of the businesses had not heard of it nor used it. Nonetheless, they do believe that it is a good way of processing goods at the entry points.

Analysis

- An efficient system may encourage payment of taxes and increase the revenue collected by the customs department.
- As many businesses use clearance agents, this may explain the lack of awareness of/use of the self-declaration form
- Over the past 12 months, new interventions have been implemented in the customs department in an attempt to improve tax collection and the data above suggests that the interventions were somewhat effective.

Implications: Further improvements in efficiency within the customs process could be achieved if the self-declaration form becomes fully operational. As clearance agents are used by many businesses, these can also be targeted to improve efficiency of processes

“The customs procedures are very good. Other than the high taxes, the services are great.”

“It’s quicker but more expensive. Before it took 14 days, but now it’s 3 days.”

“..there is the tariff book, so the logistics agents just check the items line and see the percentage of the tariff, they will multiply and prepare the money and deposit. This is very smooth.”



Finding: Businesses feel that customs duties have increased in the past 12 months

Data

- Most businesses who import/export indicated that the customs duties have increased over the past 12 months.
- Giving very short notice for tax increases is an issue. Businesses feel that they are not consulted by the government before tax increases. This was mentioned with regards to all to taxes, including customs duties specifically. However, as of now, the government has not demonstrated that the current amount of customs duties is not sufficient and hence a tax increase is required.

Analysis

- There is a lack of understanding by business owners as to why customs duties have increased over the past 12 months.
- Businesses would be willing to pay higher taxes if the government can justify why and demonstrate their use. However, tax rates, including customs duties should be clearly documented and communicated.
- Any upcoming increases in customs duties need to be communicated widely and with sufficient time prior to implementation.

Implications: Tax increases should be communicated to the public through mass media and social media, so that all taxpayers are aware of upcoming changes ahead of time and understand why they are happening.

“It keeps increasing; for the past 3 years it wasn’t increasing, but lately it has gotten higher.”

“..their systems are good. But their problem, day after day they are increasing their rates as the last year they have increased by 40%.”

“..no formal communication, just hear-say that tax has been increased; never seen any pamphlets that have been written”

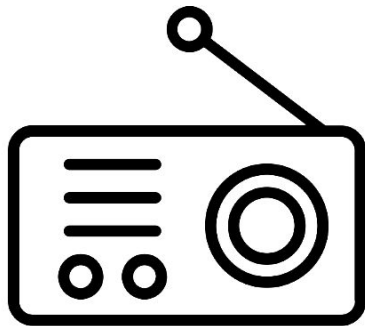


3. Communication

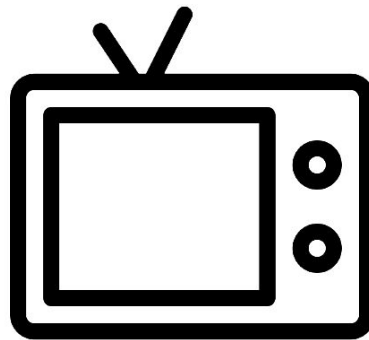


Preferred methods of communication

- ❑ Most business people use phone calls and social media for their personal communication.
- ❑ Businesses in Somaliland feel that the best way to communicate public information to the general public is through (as ranked):



1 Radio



2 Television



3 Social media



Preferred messaging

Five messages were presented (in Somali) to the respondents in both the IDIs and FGDs and asked to select which message they felt resonated most with them/would be most effective.

Most businesses preferred the following message that was presented:

“If we do our duty and pay our taxes, the state can keep delivering the essential services we need – like electricity.”

This message was preferred because:

- It communicated that the government can only provide services through the taxes that people pay and so clearly demonstrated the reason to pay taxes
- The message was short and precise

The other messages presented to the respondents can be found in the appendices.



4. The Economy and Politics



Finding: The economy is declining and politics has influenced tax increases

Data

- Many businesses believe that the economy is currently declining because of inflation.
- Few businesses allude to the fact that exchange rate changes have caused the local currency to lose value.
- Some businesses indicated that the cost of operating their businesses has increased over the past 12 months, however only a few stated that this was due to increases in taxation. The cost of living has also increased over the past 12 months
- The government is not being judged too harshly because many businesses feel that the state of the country was already bad and the government needs more time to improve it.

Analysis

- The perception of the taxpayers is that it has become more difficult to operate a business over the past 12 months. This has been primarily due to inflation, which has been the key challenge.
- However, despite this perceptions towards the new government remain optimistic

Implications: The public should be kept updated about the policies and achievements of the new government. This will help to maintain their belief that the government can improve the country's situation if people continue to pay tax.

“The biggest change was brought the inflation that caused the local currency to lose value. which has caused that many people cannot afford much.”

“The cost of living has not increased much but due to inflation the prices of items have increased”

“It feels like livelihood is getting more expensive which has the most effect on the poor people. This has been totally caused by in my opinion the depreciation that has come on the shilling which will mess many things”



1. Method

2. Findings

3. Recommendations

4. Appendices

Summary of recommendations

Based on our findings, we have a number of recommendations in the following areas:

- Leveraging continuing optimism about the government
- Clarifying and publicising how taxes are being spent
- Increasing transparency through information and feedback
- Improving tax collection processes



Leveraging continuing optimism about the government

- It would be effective to communicate positive changes that the government plans to make in the near future through the preferred communication channels i.e. radio, television, and social media campaigns. Communication should happen regularly, up to and beyond the date of the change.
- Messages from the government should remain upbeat regarding taxation and any upcoming changes should be framed in terms of further benefits to the population.
- The government should consider holding public consultations on the revenue collection process so that taxpayers and traders feel part of the process.



Clarifying and publicising how taxes are being spent

Overall, taxpayers and traders are willing to pay taxes. This should be leveraged upon by:

- Highlighting existing examples of what tax revenue has been used for i.e. providing security, or paying civil servants.
- Communicating progress updates to the public frequently - the Ministry of Finance should organise regular information campaigns as well as the opportunity for public Q&A sessions.
- Carrying out community awareness campaigns to increase public understanding of the types of taxes they are paying and to which arm of the government. This can include public forums and televised Q&A sessions.



Increasing transparency through information and feedback

- Campaigns to increase awareness of the availability of important documents on the Ministry of Finance website should be used, as well as sharing of key documents through the preferred communication channels (such as the budget, list of all national taxes and their payable rates as well as any projects (new and completed) funded through taxes).
- The work to introduce an online complaints mechanism for registering and resolving complaints should continue. Once launched, this should be widely advertised using the identified preferred communication channels i.e. radio, TV advertisements and social media.



Improving tax collection processes

There is demand for improvement in the tax collection system, both at the national and local levels. This could be achieved through:

- (Refresher) training of tax officials on collection processes and professional conduct. This could be supported by spot-checks of tax collection officials in order to give feedback on levels of professionalism and adherence to proper procedures.
- Clear protocols for tax payment including standard timelines and guidance over who the payments should be made to. SMS reminders of payment deadlines can be utilised.
- Creation of an online system for easier payment of taxes which can draw on the successful introduction of mobile money (ZAAD).
- Creation of an online interface which would enable all information regarding taxes to be available in one place: payment dates, payment amounts, outstanding balances as well as a platform to pay.*



* Whilst this was a key finding from the research, this is a longer term, more expensive intervention which may not be currently feasible if the technology platforms do not exist

1. Method

2. Findings

3. Recommendations

- 4. Appendices**

Appendix

Table of contents

- Interview summaries
- Ranked Messages
- About Busara

Interview summaries

Per Interview demographics [1/2]

Interview code	Date conducted	Gender	Sector	Year founded	Size of business
IDI 1	4th March 2019	Male	Retail	2001	15-16
IDI 2	4th March 2019	Male	Retail	2009	1
IDI 3	5th March 2019	Male	Retail	2016	2
IDI 4	5th March 2019	Female	Retail	2015	2
IDI 5	5th March 2019	Female	Service	2014	15
IDI 6	6th March 2019	Female	Service	2016	5
IDI 7	6th March 2019	Male	Service	2016	16
IDI 8	6th March 2019	Male	Service	2013	4
IDI 9	7th March 2019	Female	Retail	2014	5
IDI 10	7th March 2019	Male	Retail	2007	2



Per Interview demographics [2/2]

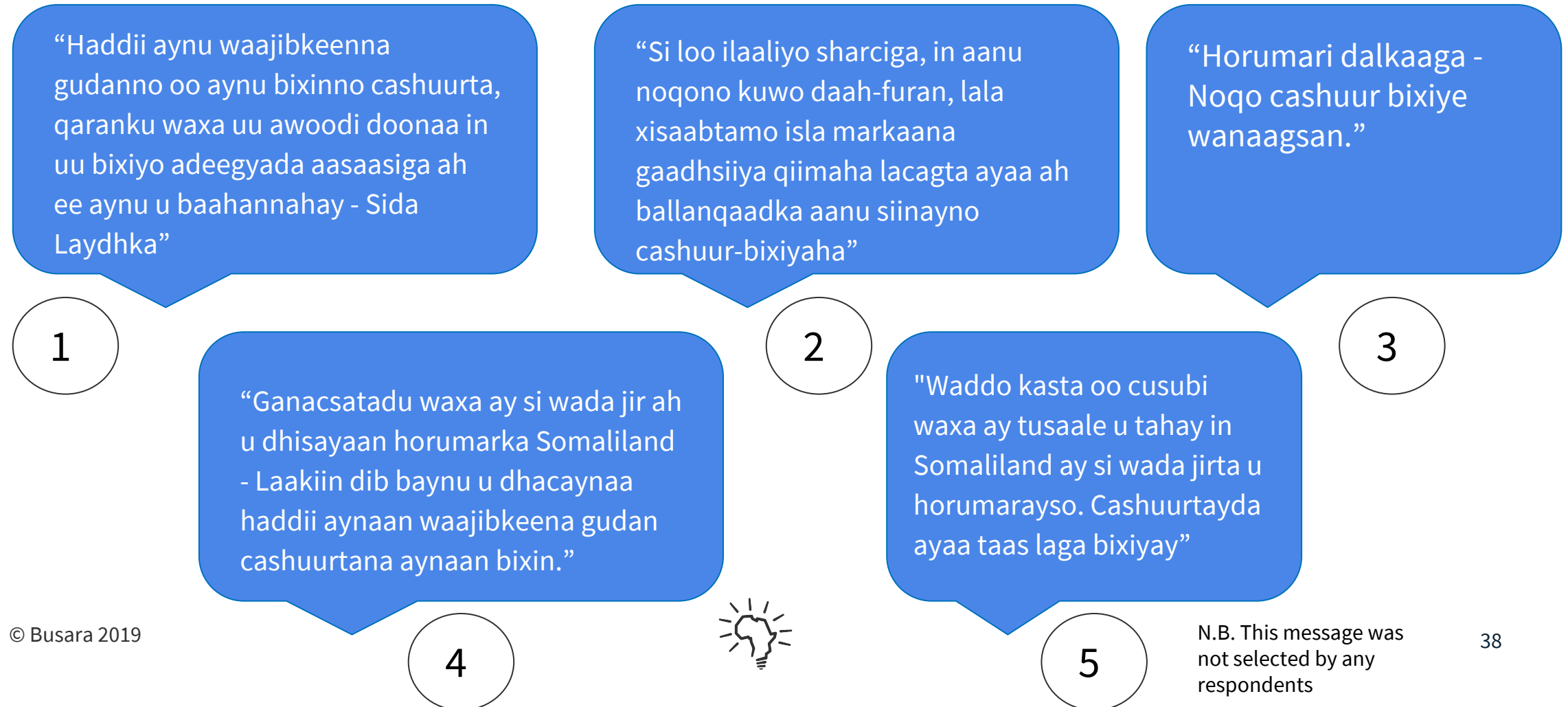
Interview code	Date conducted	Gender	Sector	Year founded	Size of business
IDI 11	7th March 2019	Female	Retail/Service	2011	40
IDI 12	9th March 2019	Male	Service	2016	3
IDI 13	9th March 2019	Male	Retail	2016	5
IDI 14	10th March 2019	Male	Service	1997	~300
IDI 15	10th March 2019	Male	Retail	1993	32
IDI 16	13th March 2019	Male	Retail	1980	–
IDI 17	14th March 2019	Male	Retail	2008	6
IDI 18	14th March 2019	Male	Retail	2016	35
IDI 19	14th March 2019	Male	Retail	2001	6
IDI 20	11th March 2019	Male	Service	2002	–



Messages

Messages

These are the five messages that were presented to the respondents. They were ranked as follows:





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information!**

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