



# Customs Reform in Somalia

## Lessons related to customs in FCVs

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## Structure of the presentation:

- 1) Why Customs in FCVs countries are important
- 2) An overview of Somalia customs reform
- 3) Some lessons for the way forward



# 1) Why Customs in FCVs are important

- ***Customs a major collector of state revenue***
  - Half or more than half of revenues derive from customs revenue
  - Generally composed of import duties, excises and VAT or sales taxes on import goods
- ***Customs as a state symbol in remote regions***
  - Customs usually one of very few government institutions present on the ground in remote places

# What do we know? (1/2)

## *Customs from a fiscal perspective – a paradox*

- **Large provider of revenues** (because trade is resilient to conflicts)
  - Trade is needed for armed groups supplies and generates revenues for them
- **But** ‘bargain’ with key traders => relatively low level of taxation and usually inequitable with a large burden on consumer goods
- **Customs define empirically an ‘acceptable level of taxation’ by traders** to avoid smuggling and contribute to local economic activities
- **Revenue aspect is usually predominant for central authorities**; may abandon some border posts/locations if revenue potential is low

# What do we know? (2/2)

## *Customs from a state-building perspective*

- Customs play a major role to generate cash to pay civil servants in remote regions  
=> major role in financing state institutions in remote regions
- Ambivalent role of traders that can contribute to militant groups (or not) (Lacher 2012)
- Security options (such as border closures) are usually not sustainable because trade is a major source of revenues in remote regions/port areas
- Customs usually play a large role in intelligence gathering and contributes to security
- Customs can be seen as a facilitator between state security apparatus and traders/populations

## **2) An overview of Somalia customs reform**



# The initial situation in Somalia (1/2)

- Tax morale and legitimacy problems
- Taxation is regressive and mainly impacts the poor
  - Basic necessities are affected by relatively high real tax pressure, compared to high value commodities
- Trade and revenue collection (at least in Mogadishu) is concentrated
  - Half of the revenue collected at the Mogadishu port is paid by 22 traders
  - Implies that a small number of traders have a strong impact on accepting/refusing any increase in tax rates (Cantens 2018)



# The initial situation in Somalia (2/2)

- Only specific duties (taxes based on packaging) and all containers stripped counting packages
  - => no valuation and no HS classification
- Declarations done by customs officers
- Three main ports/customs authorities
  - Customs revenues continue to be collected/generated at federal levels

# What has been done?

- HS classification adopted and a national tariff scheduled with ad valorem rates (using COMESA)
- Declarative system implemented
- Training of data analytics
- High-level meetings with Puntland and Jubbaland authorities
- Customs revenues continue to collect around 50% of total revenues in Somalia and have increased rapidly

# What remains to be done?

- A national valuation database
- The problem of militia taxation
- Implementation of a national IT system
- HR reforms and increased capacity/competencies

### **3) Some lessons for the way forward**

# What can/should be done?

- Information gathering/local impact of customs – a presence is necessary even if revenue potential is low
  - Use of data analytics
- How to improve revenues: focus on capital/on staff behavior/better control of staff
  - Evasion happens mainly in capitals or main port
- Informed dialogue with private sector is key
  - Reform of brokering is usually important
- A (very) long-term endeavor...
  - Political economy of taxation matters a lot...



# Selected References

- Cantens, T. & Raballand G. (2017). “Cross-Border Trade, Insecurity and the Role of Customs: Some Lessons from Six Field Studies in (Post)-Conflict Regions.” *ICTD Working paper 67*.
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Thank you for your attention!