

THE EROSIVE IMPACT OF COVID-19 ON CUSTOMS REVENUES IN AFRICA



AFRICAN TAX
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An ATAF Policy Research

Introduction

The COVID-19 pandemic has brought the world to a near standstill, with its devastating impact on health, mortality and the economy. On one hand, this pandemic is expected to bring about a major decline in tax revenue in most countries stemming from overall economic slowdown and from the tax policy and administrative measures taken in response. On the other hand, it is impacting trade as it affects Customs border operations. Ultimately, it would be interesting to know how has this pandemic affected trade flows and consequently customs revenues. This analysis seeks to shed some light on the impact of this pandemic to date on customs revenues in some selected African countries.

In estimating the possible ripple effects of the closure of borders across Africa on customs duty revenues, this analysis uses customs revenue data collected from a sample of 18 African countries who are member states of the African Tax Administration Forum (ATAF). The countries are: The Gambia, South Africa, Rwanda, Tanzania, Mauritius, Zambia, Burundi, Madagascar, Mozambique, Angola, Sierra Leone, Togo, Ghana, Zimbabwe, Côte d'Ivoire, Niger, Eswatini and Malawi; proportionately representative of most countries on the continent. All data were collected in local currency units and converted to Millions of USD for comparative purposes, using official average exchange rates sourced from IMF and World Bank online databases.[1] To ensure data confidentiality, the analysis was aggregated across the 18 countries. Using the findings from the 18 ATAF member states, the analysis extrapolated the estimated revenue loss to the rest of the 54 African countries by attributing similar revenue losses to countries within the same Gross Domestic Product (GDP) ranges derived from quartiles developed for the purposes of the analysis.

For the purposes of this analysis, we designated the period February 2020 to April 2020 as the 1st Wave COVID-19 Period. This period was selected because on the 30th January 2020, the World Health Organization's (WHO) Director-General declared the COVID-19 (by then 2019-nCoV) outbreak, a *Public Health Emergency of International Concern*.^[1] The outbreak was later named COVID-19 on the 11th of February 2020.^[2] Hence, we consider the month of February 2020 as the month which was pivotal in bringing global awareness to the COVID-19 outbreak. Again, in the month of February 2020, major economic activities had started to slow down in China, one of the largest trade partners to a number of countries around the world, especially African countries, even though COVID-19 was officially characterised as a pandemic by the WHO on 11th March 2020.

For comparative purposes, we designate the period prior to February 2020 as the *pre-COVID* era and the period January 2020 to April 2020 as the *1st Wave COVID Period*.

[1] <https://data.worldbank.org/indicator/PA.NUS.FCRF>

[2] [https://www.who.int/news-room/detail/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-\(2005\)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-\(2019-ncov\)](https://www.who.int/news-room/detail/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-(2019-ncov))

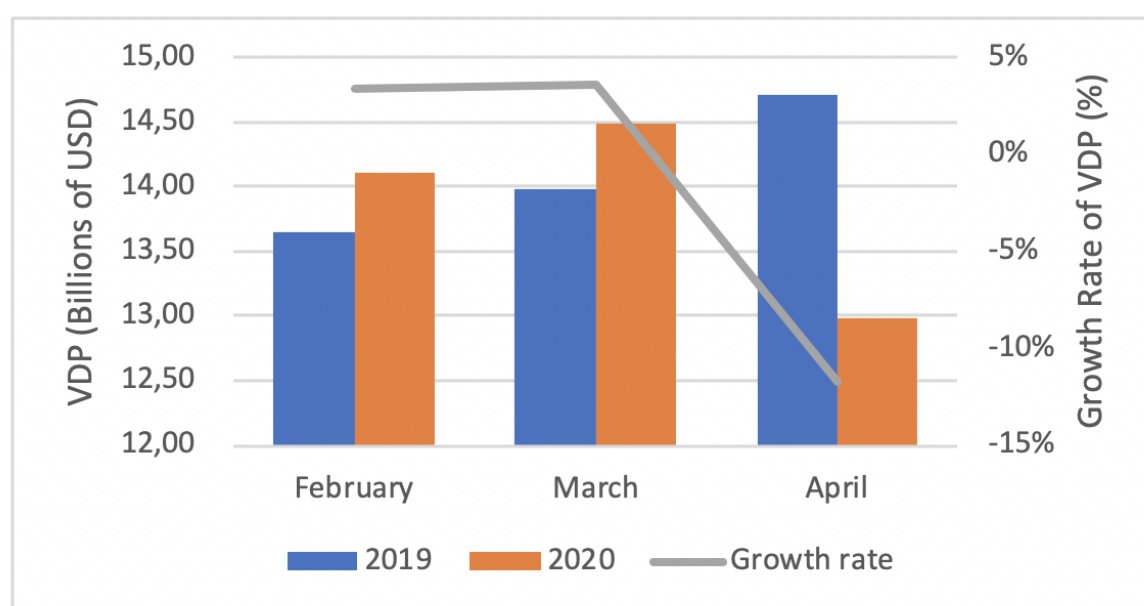
[3] <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen>

Trends in Volume of Imports

Using Value for Duty Purposes (VDP) to estimate the size of imports, we observed the trends in the pre-COVID era compared to the 1st Wave COVID period. *Ceteris paribus*, trade volume would be expected to increase due to growth in the economic activity of any African economy. Alongside this expected increase is seasonality, a special characteristic of trade pattern which means that imports generally fluctuate at different times of the year; for instance, we would expect to see a rise in imports during festive seasons. Taking seasonality into consideration, the analysis compares the trends in VDP for the period February-April 2019 to the period February-April 2020, each covering 3 months. Figure 1 below shows the trends in aggregate VDP for the 18 countries and compares year-on-year growth in the size of imports based on VDP.



Figure 1: Trends in size of imports based on the aggregated VDP for 18 African Countries



From figure 1, VDP registered growth when comparing on the one hand, the months of February 2019 and February 2020; and March 2019 and March 2020 on the other hand. However, the month of April 2020 registered a sharp decline in nominal VDP compared to April of the previous year. In terms of growth rates, the months of February and March registered only a one percentage point increase in year-on-year growth as evidenced by the nearly horizontal growth line above these months. On the other hand, the month of April registered a year-on-year nominal decline in size of imports of approximately 12 percent. This sharp decline is contrary to *a priori* expectation of an annual increase in the size of imports as earlier postulated. In addition, due to limited transportation options during the pandemic, the transportation cost of imports is anticipated to rise, thereby contributing to a higher Cost-Insurance-Freight (CIF) and subsequently a higher VDP (WTO, 2020). However, this is not the case as the VDP has declined, which clearly coincides with the closure of economic activities and lockdowns in several African countries, on account of the COVID-19 pandemic. Since the base of customs duties calculation is the VDP, such a decline may have likely resulted in a decline in customs revenues.

The customs revenue loss on account of COVID-19 constitutes a compounded loss on two accounts. Firstly, the reduction in trade volume, which is the base of customs revenues, due to slowdown in economic activities of trade partners as well as closure of borders. Secondly, a reduction in the dutiable Value for Duty Purposes (VDP) regardless of the volume of trade.

Thus, while the trade volume may be the same as previous months or higher, there could be a huge proportion of duty free goods benefitting from existing Customs Procedure Codes (CPCs) and special CPCs with a provision for COVID19-related goods such as masks, hand sanitizers, ventilators and handwashing soaps, etc. Collectively, the two factors could explain the total customs revenue loss. In the forthcoming section, we estimate the size of the total customs revenue loss.

Estimation of Potential Customs Revenue Loss

In estimating the potential customs revenue lost during the period February-April 2020, we ask the question “What would have been the Customs revenues during the above-mentioned period if there was no COVID-19 pandemic?” The analysis used two methods to estimate the potential customs revenue loss on account of COVID-19. Firstly, the analysis applied February to April 2019 month-on-month growth rates to January 2020 customs tax revenue to obtain projected estimates for February 2020 to April 2020, then compared these estimates to actual figures for the same period in 2020.[4]

[4] The broad technique has been recommended by the United Nations Conference on Trade and Development (UNCTAD) (2020) as one of the ways Tax Administrations can utilise trade data from Automated System for Customs Data (ASYCUDA) to analyze the impact of COVID19 on trade in their April 2020 article “Adapting the use of Asycuda World to the Covid-19 Situation: Guidelines to Customs Administrations”. However, the actual formula drew inspiration from the Laspeyres Price Index proposed by a German economist and Statistician Ernst Louis Etienne Laspeyres (1834-1913).