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Research Article

Benchmarking India's GST for Reforming Ethiopia's Indirect Tax System: A Literature Review

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ABSTRACT

This study examines the feasibility of adopting the One Tax One Nation model of the Indian Goods and Services Tax (GST) framework as a reform tool for Ethiopia's indirect tax system. The study used a literature review technique to identify and retrieve relevant research papers from the SCOPUS database and Google Scholar search engine. "Indian GST" (Goods and Service Tax), "Tax system in Ethiopia," and "Tax revenue growth" were the search terms used in the database during the investigation. Results indicate that India's GST is a workable benchmark for Ethiopia's indirect tax reform if applied appropriately to the Ethiopian context. This study is an essential resource for policymakers, tax authorities, and academics, providing strategic insights for navigating the dynamics of GST in today's digital age.

Keywords: Ethiopian tax system, Indian GST, Goods and Services Tax, and growth in tax revenue.

1. Introduction

Taxation is crucial in enabling governments to generate income and allocate funds to provide public goods and services. An optimally structured and effective tax system has the potential to facilitate economic expansion, mitigate disparities in income distribution, and cultivate societal unity (Wujarso et al., 2023). Taxation is a fundamental financial obligation set as a policy by authorities on individuals, groups, or corporate houses, presenting a significant way to enable funds into the government treasury to fund vital government and public services (Makovicky & Smith, 2020). This revenue source for the government is vital to keep the economy and economic growth through investments in infrastructure, training, healthcare, and critical sectors that otherwise would be difficult to finance as these projects have long gestation periods and require vast amounts of money. Specifically, developing countries heavily depend on taxation to generate finances for social welfare applications, infrastructure improvement, and monetary stability (Griffith-Jones et al., 2020).
Successfully implementing a modern indirect tax system is also crucial for the economic development of developing countries (Ilaboya & Mgbame, 2012). Goods and Services Tax (GST) has been recognized as a game changer in the Indian history of taxation (Deswal, 2019). GST is a consumption-based tax levied in the country where goods or services are consumed as opposed to the tax levied in the country of manufacture (Khurana & Sharma, 2016). GST exemplifies an evolving taxation gadget, fostering an economic boom through green revenue collection and control (Chen, 2019). In 1954, France introduced a taxation system referred to as "Taxe sur la valeur ajoutée" (TVA) in French and often known as Value Added Tax (VAT). France introduced a tax system to modernize the country's tax system and replace the previous one. The main objective of this tax reform was to modernize the existing tax system, simplify, reduce the issue of higher taxes (i.e., taxes on existing taxes), and introduce a more efficient and transparent taxation system (Herbain, 2020). Apart from modernizing, customizing, and contextualizing according to different nations, the foundation for GST was

introduced by the French. The GST concept quickly spread to countries like Germany, Japan, and Canada. In the 1980s, the European Union (EU) adopted VAT as a standard tax system for its member states, further enhancing its popularity. The concept of Value Added Tax (VAT) has been widely adopted and adapted by numerous countries, each incorporating it into their unique contexts and systems. The Indian Goods and Services Tax (GST) represents an extension of this VAT concept, drawing inspiration from its French origins and subsequently undergoing various amendments during its implementation process (Ganderson & Limberg, 2021). It has proven to be an efficient way to reduce consumer tax burden and increase government revenue (Dey & Jena, 2018). Implementing GST in India has successfully improved tax revenue and compliance (Deshmukh et al., 2022). Since implementing GST in 2017, India's tax base has increased by more than 50%, and the tax-to-GDP ratio has improved from 5.9% in 2016 to 11.2% in 2020 (Joseph & Kumary, 2023). Based on research by the Confederation of Indian Industry (CII) about the adoption of the Goods and Services Tax (GST), the implementation of this tax regime has resulted in enhanced operational effectiveness for enterprises, eliminated state barriers, which has subsequently reduced transportation time, mitigating influence on the inflation of retail prices and has a favorable influence on both employment rates and the demand for goods and services (Tanty & Kumar, 2023). However, some developing nations, like Ethiopia, are facing issues with their tax systems (Daba & Mishra, 2014). Most developing nations face informal economy and tax evasion challenges, inefficient and inconsistent tax administration, and inadequate technology infrastructure, which often deter a successful implementation of tax systems (Fjeldstad, 2013).

Based on the findings of Arkale (2020), it is evident that Ethiopia exhibits a relatively low tax-to-GDP ratio of 8.3% when compared to other nations within the sub-Saharan African region. Insufficient tax collection may be ascribed to the constrained tax base and a significant prevalence of informal economic activities. Furthermore, the indirect tax system in Ethiopia is characterized by its complex and fragmented nature, including a range of taxes such as surtax, excise tax, and value-added tax (VAT). A fragmented tax system gives rise to inefficiencies and escalates the compliance expenses borne by taxpayers, resulting in a substantial prevalence of tax evasion and avoidance. As a result, tax system reform has become a pressing issue for policymakers, tax administrators, and taxpayers in many developing countries, specifically Ethiopia (Leykun, 2021). With this background, the research paper aims to understand whether Ethiopia can adopt Indian GST implementation to streamline its taxation system. The paper commences with an introduction to Taxation and the Goods and Services Tax (GST), highlighting its importance. Subsequently, it addresses research inquiries, methodology, and analysis and ultimately presents findings derived from descriptive and textual analyses within the realm of Goods and Services Tax (GST) research. To conclude, a summary and valuable insights are provided to improve Ethiopia's Indirect tax system.

2. Research Questions

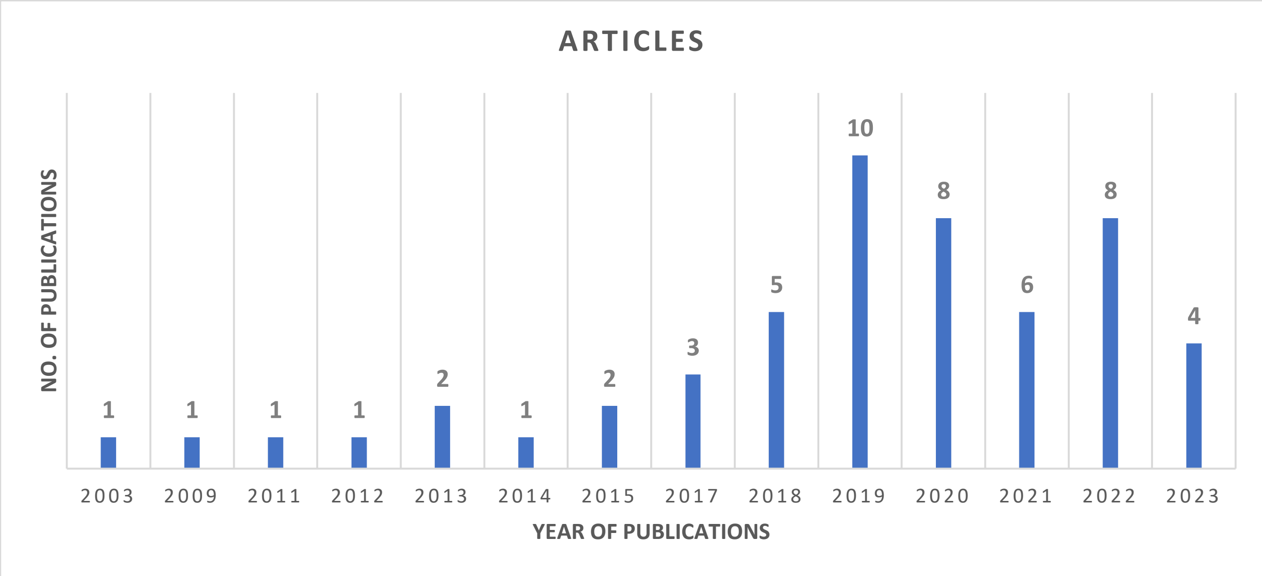
a. What are the shortcomings of existing Ethiopia's indirect tax system?
b. What are the key lessons and best practices from implementing the Indian GST system?
c. How does the Indian GST system inform the reform of the Ethiopian indirect tax system to enhance efficiency, compliance, and revenue generation?

3. Research Methodology

In this research, the methodology involved a comprehensive search process to identify relevant literature. The SCOPUS database, known for its extensive collection of peer-reviewed journals, articles, book chapters, conference proceedings, and others, was utilized (Cooper & Nguyen, 2020). Four specific search keywords, namely "Indian GST," "Goods and Service Tax," "Tax system in Ethiopia," and "Tax revenue growth," were employed to extract relevant studies. Google Scholar's search engine was also used for relevant articles to give rigorous insight into the conducted review.

A Literature review is an exacting analytical technique designed to find study evidence to answer research questions and offer guidance for future research projects and policy frameworks (Randolph, 2019). Remarkably, 54 publications were considered for the review process; each article was included in the text's body and listed in the reference section. Figure 1 below provides more information on each of these publications.

Figure – 1: Journal articles used for this review



Source: Authors' Compilation based on SCOPUS database and Google Scholar engine extracted documents.

Table – 1: Summary of the articles used in the Review

R. no.	Focus Point	Number of articles
1	Ethiopian Indirect Tax System	23
2	Indian GST	31
Total		54

The preceding Figure 1 and Table 1 illustrate the yearly count of research papers published between 2003 and 2023. Scholarly attention on reforming the Ethiopian tax system, especially regarding its Indirect tax structure, has been enduring and remains a focal point. The 23 articles published since 2003 offer valuable insights to policymakers and researchers regarding the imperative for reform in Ethiopia's Indirect tax framework. Following the implementation of the Indian Goods and Services Tax (GST) on July 1, 2017, scholarly interest in Indian GST has progressed, shifting from initial explorations to more comprehensive analyses and nuanced understandings of its ramifications. Recent studies have notably highlighted the diverse impacts of GST implementation, encompassing its effects on revenue, economic growth, efficiency, digitalization, and integration within India's federal structure. As scholarly publications persist, researchers are poised to further refine their perspectives, contribute to ongoing policy dialogues, and influence the GST reforms in India.

4. Analysis

This section explores the potential application of India's experience with the Indian GST to Ethiopia's comprehensive taxation system and indirect tax reform. It offers a thorough grasp of Ethiopia's policies to consider while drafting the indirect tax reform by analyzing the advancements, achievements, and difficulties of the Indian GST, notably its contribution to increasing tax revenue.

4.1. The Indirect Tax System in Ethiopia

The taxation systems in developing nations have challenges of complex valuation methods and inadequate and underdeveloped administrative and technical capacity (Hoque, 2019). The same is valid for Ethiopia's tax system. According to Derese and Gashaw (2022), Ethiopia's tax and institutional reform history dates back to the government's tax reforms in the early 1940s, including property tax changes. Tax reforms are among the many liberalization and reform initiatives the government has carried out since the socialist administration was overthrown in 1991 (Legesse, 2019). Two notable tax reforms have been implemented, including the reduction of import tariffs and adjustments to the marginal tax rate. The tax landscape saw significant alterations in 2002, with the sales tax being replaced by the Value Added Tax (VAT) in 2003. As part of the institutional restructuring, the government amalgamated the Ministry of Revenue, the Inland Revenue Authority, and the Ethiopian Customs Authority, leading to the establishment of the Ethiopian Revenue and Customs Authority (ERCA) in 2006 (Gashaw, 2015). Despite ongoing tax reforms in Ethiopia dating back to the 1940s, numerous challenges persist within the Ethiopian tax system. Notably, the indirect tax framework is intricate and diverse, posing difficulties for tax authorities and taxpayers.

4.2. What are the shortcomings of existing Ethiopia's indirect tax system?

Some of the Weaknesses of the Ethiopian Indirect tax system are listed below based on the literature review:

Limited taxation: The Ethiopian tax system relies heavily on a narrow tax base, with most revenues coming from specific sectors such as manufacturing, telecommunications, and banking. This makes the tax system vulnerable to changes in these industries that limit its ability to generate capital (Gemechu, 2013). ***Tax evasion and fraud:*** Tax evasion and fraud are significant problems in the Ethiopian tax system, with some taxpayers engaging in illegal practices such as substandard income reporting, asset concealment, and false information to tax authorities (Anteneh, 2019). ***Poor Tax Administration:*** The Ethiopian tax administration also faces challenges related to inefficiency and lack of capacity. There are often delays in processing tax returns and refunds, and tax audits can take a long time to complete (Chake, 2019). ***Complex tax laws are*** characterized by complex tax laws and regulations that are difficult to understand and comply with. This can lead to taxpayer confusion and errors, leading to non-compliance and deductions(Addis et al., 2022). it is also very complex, with multiple tax rules, regulations, and procedures making it difficult for businesses to comply. These challenges are for businesses and tiny and medium enterprises (SMEs).) incur high compliance costs to discourage them from entering the formal sector (Mascagni & Mengistu, 2019). Double taxation occurs when the same income or transaction is taxed twice, resulting in a more significant tax burden than is due. This problem is common in Ethiopia's indirect taxation system (Fjeldstad & Rakner, 2003). The cascading effect occurs when taxes are collected at each process stage, accumulating tax burdens throughout the supply chain. The cascading effect is a common problem in Ethiopia, especially in the VAT system, where with businesses paying taxes on their inputs as well as the continuity of the final product, There is an increased tax burden which is ultimately passed on to consumers in the form of higher prices (Hill et al., 2017). ***Multiple taxes on the identical product:*** Another problem with Ethiopia's indirect taxation system is the collection of multiple taxes on the same product or transaction, for example, excise duty, VAT, and taxes. All sales taxes have fallen on one item, creating a huge tax burden for businesses (Sisay et al., 2018a). ***Lack of awareness:*** Ethiopia's indirect tax system faced a challenge from lack of awareness, as taxpayers often do not understand tax laws and procedures; this can lead to non-compliance and incorrect tax reporting, and it has resulted in a loss of revenue to the government (Sisay, 2018b). ***Limited operational capacity:*** The Ethiopian tax sector faces a lack of resources, inadequate staff training, and a lack of modern technology. This has resulted in low tax compliance, high levels of tax evasion, and a large informal economy (Goitom, 2020). ***Lack of Transparency:*** The tax system in Ethiopia is not sufficiently transparent, with vague tax laws and regulations that are not readily available to the public (Bongwa, 2009). ***The burden on businesses:*** The current unfair tax system places a heavy burden on businesses, tiny and medium enterprises (SMEs), as businesses have to collect and file taxes, which can be time-consuming and expensive. Furthermore, the tax system's complexity can discourage investment and hinder economic growth (Pellerin & Söderström, 2022).
Ethiopia's indirect tax system suffers from several problems, such as double taxing, the cascading effect, imposing taxes on a single good, and complex and unclear regulations. These worries lead to a significant tax burden on businesses, higher costs for compliance, and lower government revenue. Ethiopia must simplify the tax code, reduce the tax burden, and improve openness in the tax administration process to address these issues. The concerns above highlight the necessity of reforms to redress Ethiopia's unfair tax system, focusing on improving its effectiveness, fairness, and openness.

4.3. What are the key lessons and best practices from implementing the Indian GST system?

Introducing the Goods and Services Tax (GST) in India has drawn much interest because it will fundamentally alter the country's indirect tax structure. This literature analysis intends to examine the Indian GST and throw light on lessons and insights Ethiopia can learn from India as it works to modernize its tax system. It offers a thorough grasp of Ethiopia's policies to consider while drafting the indirect tax reform by analyzing the advancements, achievements, and difficulties of the Indian GST, notably its contribution to increasing tax revenue.

4.3.1. The Rationale for Implementing GST in India's Tax System

The Central Government of India was able to impose service tax on service supply and excise duty on manufacturing under the complex framework of the country's previous tax system. State governments could also levy value-added taxes (VAT) or sales taxes on products sold concurrently. Because of this arrangement, the country had several indirect taxes. These include entrance taxes on imports and central sales tax (CST) on interstate transactions (Gupta & Tondon, 2018). Because there were no consistent tax rates and a "tax on tax," the previous tax system had latent costs for business and trade. This made it impossible for traders to settle state-level sales tax or VAT using excise duty and service tax credits earned during production and vice versa.
Additionally, traders could not offset state taxes paid in one state against another, leading to an artificial price increase for goods and services (Roy, 2018).
The study of Nayyar & Singh's (2018) inquiry envisaged the introduction of Goods and Services Tax (GST) as follows: A notable simplification and harmonization of India's indirect tax system. The dual GST would empower Central and State Governments to levy taxes on the same taxable event—the supply of goods and services—across the entire value chain. This ensures that GST input credits at each value addition stage can be applied to offset GST liabilities on the output, effectively eliminating the 'tax on tax' predicament. Also, Sharma and Dhingra's (2019) investigation anticipated the introduction of the new tax system in the following manner: GST is projected to curtail production costs and inflation in the Indian economy, rendering domestic and

international trade and industry more competitive. The creation of a seamless Indian market is anticipated, stimulating economic growth. Moreover, GST will expand the tax base and foster improved compliance through its robust IT infrastructure. Traders will be encouraged to adhere to the tax system due to the effortless transfer of input tax credits throughout the value-addition chain.

4.3.2. *GST as an Essential Tax System Reform Tool in India*

The Goods and Services Tax (GST) is India's long overdue tax reform (Deshmukh et al, 2022). Initially slated for implementation in April 2010, political intricacies and conflicting interests of various stakeholders hindered its execution. However, it emerges as a comprehensive tax system with the potential to amalgamate the indirect taxes of both state and central governments, transforming the fragmented economy into a unified national market. Expected to iron out the wrinkles of the existing indirect tax structure, GST assumes a critical role in India's growth trajectory (Sehrawat & Dhanda, 2015).

Conclusively, the discourse above affirms that GST extends relief to producers and consumers through an expansive coverage of input tax credit set-offs, service tax adjustments, and the assimilation of diverse taxes. As efficiently constructed, GST will continue to yield resource and revenue gains for both the Central and State Governments by expanding the tax base and elevating tax compliance. Further, GST exerts a positive influence across diverse sectors and industries. However, its progress necessitates concerted efforts from all stakeholders, including the Central and State Governments, trade, and industry, to ensure that necessary steps are undertaken (Khurana & Sharma, 2016b). GST epitomizes a transformative leap for India's tax landscape, poised to reshape economic contours and drive sustainable progress.

4.3.3. *Benefits of Implementing GST in* India.

In the country where products or services are consumed, as opposed to their origin or destination, the goods and Services Tax (GST) is imposed (Khurana & Sharma, 2016). The "one country, one tax, one market" idea is embodied in the Goods and Services Tax (GST) to promote economic progress. The tax on products and services from the producer to the customer is the goods and Services Tax (GST), an integrated tax. According to Patil and Kumar (2017), this tax structure makes the tax system more practical and effective by offering investment tax incentives at any value-added level. Modernizing India's tax system has progressed significantly with the introduction of the Goods and Services Tax (GST). The complex system of excise duty, consumption tax, value-added tax (VAT), and domestic taxes imposed by the federal and state governments, along with exemptions from other governing bodies' taxes, resulted in a plethora of taxes in place prior to the establishment of the Goods and Services Tax (GST). Implementing the Goods and Services Tax (GST) simplified the prevailing situation by alleviating the burden of indirect taxes and promoting the development of a single market. Implementing this extensive indirect tax integrates Central and State levies into a consolidated GST, thus facilitating the establishment of a unified market within the country. Including GST alleviates the proliferation of taxes and decreases the expenses associated with compliance. It also signifies the gradual elimination of the burden imposed by the Central Sales Tax (Sherpa, 2022). Benjamin and Singh's (2020) study highlights the impact of the Goods and Services Tax (GST) on the Indian economy, mainly focusing on how it affects micro, small, and medium-sized businesses and the banking industry. Administrative efficiency is improved by the Goods and Services Tax's (GST) self-regulatory feature (Sanusi et al., 2018). Krishnan et al. (2018) state that the revenue generation of the banking industry has been significantly affected by the implementation of the Goods and Services Tax (GST). This tax change has improved the sector's contribution to economic development and streamlined the tax system.

5. Why India's GST to Reform Ethiopia's Indirect Tax?

The rationale for proposing the Indian GST tax system as a role model for improving Ethiopia's indirect tax system derives from the main features of comparative studies between the two countries. Despite the differences, both countries have a federal political system and similar governmental structures. India's vast experience administering 28 states and eight unions and Ethiopia's 12 states and two chartered cities' administration gives lessons to one another (Abbink, 2011). In this specific study, India's GST proposed for Ethiopia's Indirect tax system reform suggestion. Getting used to the new system is incredibly educational. Furthermore, Ethiopia's developing IT landscape and the advancement of minority taxpayers can learn significantly from India, which boasts a taxpayer population of over 100 million and a robust IT infrastructure. Ethiopia's efforts to reform indirect taxes can be guided by the GST tax system in India, considering these and other relevant considerations.

The following comparative analysis compares Ethiopia and India, focusing on various factors pertinent to their respective tax systems, particularly in the context of the Goods and Services Tax (GST). This examination aims to illuminate the reason why the authors chose India's GST as a benchmark for present Ethiopia's Indirect tax based on the similarities and disparities between the two nations across critical dimensions such as political structure, federalism, geographical parameters, demographic considerations, economic status, IT infrastructure, taxation complexities, and the impact of GST implementation. By scrutinizing these factors, the analysis provides insights into the potential implications and challenges of adopting and adapting GST frameworks within different national contexts.

Table 2: Comparison between India and Ethiopia

Factors	**Ethiopia**	**India**
Political Structure	Federal Republic	Federal Republic
Federalism	Yes	Yes
Number of States	12 States + two Chartered City administrations	28 States + 8 Union Territories
Land Mass	1.1 million sq km	3.3 million sq km
Population	Approximately 120 million	Approximately 1.4 billion
Economic Status	Developing	Developing
IT Infrastructure	Developing	Developed
Double Taxation	Exists due to multiple indirect taxes	It sometimes exists due to overlapping taxes, but GST reduced the number of taxes, resulting in decreased double taxation.
Cascading Effect	Present due to multiple layers of Indirect taxation	Present But much better after GST implementation
Complexity	The tax system is complex and fragmented	GST combines many indirect taxes into one
One Tax, One Nation, One Market	Not currently applicable	Implemented with GST introduction

Source: Authors' Compilation based on the literature review and the official government websites of the two nations. [1]

Based on this analysis, India's GST tax system seems well suited to adopting Ethiopia's current indirect tax system. The potential of the GST regime to simplify tax payments, eliminate double taxation and leaks, simplify tax administration, and create an integrated national market is Ethiopia's need for a sound tax system efficiency and effectiveness. In addition, the experience of Indian government policies and GST implementation can provide valuable insights and lessons to Ethiopia in adopting and adapting the GST model. However, Ethiopia will need to invest in upgrading its IT infrastructure and capacity to implement and manage the GST effectively.

6. How does India's GST system inform the reform of Ethiopia's indirect tax system to enhance efficiency, compliance, and revenue generation?

One remarkable example of how the GST has enhanced the tax system is India's 2017 implementation, which led to simpler processes, reduced tax evasion, and more tax collections (Poojary, 2021). Ethiopia can take encouragement from these experiences when it thinks about reforming its indirect tax structure. There are numerous possible benefits to implementing GST in Ethiopia. First, it aims to increase collections by rigorously prohibiting tax evasion and upholding compliance. According to studies, endorsing a GST can result in a 49.9% growth in revenue collection (Shukla et al., 2022a). Moreover, GST can increase overall tax administration, lessen business compliance burden, and simplify the tax system. Apart from these commercial benefits, GST could speed up Ethiopia's economic expansion by enhancing investment, improving infrastructure, and streamlining the implementation process. It can help minimize corruption in the tax system and advance transparency and accountability.

According to this paper's literature review, Ethiopia's indirect tax can be subsidized using the Indian GST tax system prototype and customized for the nation's needs in the following areas.
Increased Revenue: The Goods and Services Tax (GST) system is a capable and dynamic tax framework that can enhance the government's tax income. It can increase compliance and decrease tax evasion, which will advance revenue. According to an investigation of the Indian GST execution process, revenue collection has increased over time (Shukla et al., 2022b). Ethiopia can improve income, decrease leakages, and modernize tax administration by implementing an integrated GST system.
Streamlined tax system: GST is a flat tax that applies to all suppliers, which makes it modest for stakeholders to abide by tax regulations. This can advance tax management and lessen SMEs' compliance burden (Verma, 2019). ***Increased economic growth:*** By lowering taxpayers' taxes and raising their level of competitiveness, GST can boost economic growth. Jobs and investment may result from this (Deshmukh et al., 2022b). ***Accountability and Transparency:*** The GST is a transparent tax system that has the potential

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[1] Central Statistical Agency of Ethiopia official statistics including population, GDP, inflation, and other economic indicators taken from this site, National Bank of Ethiopia economic and financial indicators used from this site for the above information regarding Ethiopia and Ministry of Statistics and Programme Implementation, and Reserve Bank of India for the information of India side.

to reduce corruption and enhance accountability. GST results in a more streamlined and effective tax administration system (Rani, 2022). ***Reduce tax evasion and fraud: Indian experience shows that affecting*** GST encouraged greater tax compliance due to transparency and simplified procedures (Kumar et al., 2019). Even so, it is crucial to consider Ethiopia's exceptional economic circumstances and the determinants that may affect compliance practices.

7. Conclusions

It is encouraging for the indirect tax reform of Ethiopia to suggest the Goods and Services Tax (GST) regime as a substitute for its existing indirect tax system, prompted by India's assessment of the successful implementation of GST. A thorough examination of the available literature review data shows several essential concepts and discoveries that help to clarify the subject. The successful implementation of the GST in India is a benchmark for tax reform, demonstrating the advantages of streamlining and integrating intricate tax administration. While some initial issues have been gradually overcome, the transformational impact of GST on revenue, tax compliance, and economic growth is evident. This highlights Ethiopia's ability to exploit the same benefits by focusing on the simplification of its unnecessarily complicated indirect tax structure. Nevertheless, a crucial takeaway from the Indian experience is the necessity of in-depth contextualization. While Ethiopia's distinctive economic, business, and social context necessitates a solution catered to its particular difficulties and opportunities, India's GST framework offers insightful information. For an effective transition, the study emphasizes the importance of addressing stakeholder participation, business capacity, technical preparation, and public awareness.

Authors' Contributions

- **Adinew Erkeno:** Working on his Ph. D Dissertation as a Full-Time Research Scholar, the corresponding author substantially contributed to the conceptual development and collection of the articles, developing this as a research article.
- **Dr. K. Lubza Nihar:** Contributed to reviewing and revising the research article as one of the research supervisors for the First author.
- **Dr. B. Padma Narayan:** Contributed to guiding, preparing the figures and table of the paper, editing, and finally reviewing as one of the research supervisors of the First author.

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